

# Tax on Intoxicating Liquor

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*(73) H.W. J. 1*

## JOINT HEARINGS

BEFORE THE

## COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

AND THE

## COMMITTEE ON FINANCE UNITED STATES SENATE

SEVENTY-THIRD CONGRESS  
INTERIM, FIRST AND SECOND SESSIONS

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# TAX ON INTOXICATING LIQUOR

MONDAY, DECEMBER 11, 1933

HOUSE COMMITTEE ON WAYS AND MEANS  
AND SENATE COMMITTEE ON FINANCE,  
*Washington, D.C.*

## JOINT HEARINGS ON REVISION OF THE EXISTING INTERNAL REVENUE AND CUSTOMS LAWS DEALING WITH INTOXICATING LIQUORS

The committees met in joint session at 10:30 a.m., Hon. Robert L. Doughton presiding.

The CHAIRMAN. The committees will be in order.

This is a joint hearing by the Senate Finance Committee and the Committee on Ways and Means of the House of Representatives, held in pursuance of a resolution passed by the Committee on Ways and Means some days ago, and in accordance with an understanding reached by Senator Harrison, Chairman of the Senate Finance Committee, and the Chairman of the Ways and Means Committee, relating to legislation made necessary by the repeal of the eighteenth amendment and the imposing of taxes on liquor.

It was understood, and our calendar was so prepared, that representatives of the executive departments would appear first; that a representative of the Treasury Department would appear this morning, perhaps the Acting Secretary of the Treasury. Within the last few minutes we have received information that the Treasury Department and other executive departments request additional time in which to make further preparations for the hearing. There seems to have been some misunderstanding or some conflict with respect to this hearing and the hearing on revenue measures to be conducted on the 15th of December. So that is the situation at the present moment.

Senator Harrison, have you any statement you would like to make?

Senator HARRISON. Mr. Chairman, in behalf of the Finance Committee I desire to express to the committee our appreciation of the invitation to sit in with the Ways and Means Committee in the consideration of this very important question. Of course, we desire to have the record show that the Ways and Means Committee is not in any way deviating from the time-honored precedent of initiating revenue measures. We understand we are here at sufferance, and that we are merely sitting in, and so forth, without any right to consider the subject jointly with the Ways and Means Committee.

The chairman stated that the Treasury was not ready. The information I get is that the Treasury will be ready about tomorrow. They did have a very exhaustive investigation up there upon the part of certain people representing the executive units of the Govern-

ment, that is, to ascertain the opinion of these people who were appointed. The Treasury is not ready with its recommendations, but I think they will be ready tomorrow.

I will suggest, therefore, if it meets with the approval of the Ways and Means Committee, if there are any other persons who desire to be heard, that we proceed with them first, giving the Treasury some time, until tomorrow; and that if they are not ready, Mr. Parker, who represents the Joint Committee on Internal Revenue Taxation, may be heard.

Mr. TREADWAY. Mr. Chairman, I think I may be pardoned for just a word previous to such procedure as the majority of the committee may see fit to take.

The subcommittee of the Ways and Means Committee were called together on the 23d of October. It was expected at that time that the first subject taken up would be that of the possibilities of the enactment of some form of legislation as the result of the expected repeal of the eighteenth amendment. We very soon found that it was impossible to secure witnesses representing the Government. A representative of the Tariff Commission was the only one we had before us. So we went on to other work by this subcommittee, and considered certain revisions of the main tax laws.

For some time we have been awaiting the pleasure of the administration in reference to the repeal of the eighteenth amendment and such legislation as the administration might see fit to recommend. This hearing was set at the request of the joint chairmen, I think, at least a week ago. Now, I submit, Mr. Chairman, that the time has arrived when we ought to know "where we are at", and whether or not it is the intention of the Treasury to lay its recommendations before this committee.

I can see no object, Mr. Chairman, in having subordinate witnesses here before the actual proposition of the Treasury is put before us. I realize that there has been a change in the personnel of the Treasury, and quite likely it may have been inconvenient for them to prepare their case before this time. If Senator Harrison has the assurance, rather than the probable fact as he stated it, that the Treasury will be ready tomorrow, I am glad to hear that, because it is the first intimation as to when the Treasury intended to present their case to the Ways and Means Committee and to Congress.

Personally, I do not think we should hear subordinate witnesses; and I move the adjournment of the committee until the pleasure of the administration or the Treasury Department makes itself known as to when they desire to place the case before us.

I make such a motion.

Mr. HILL. Mr. Chairman, as a substitute for the motion made by the gentleman from Massachusetts, Mr. Treadway, and in view of the situation as it has been revealed here—that the Treasury Department is not ready this morning to present its views to this joint sitting of the two committees—I move that the committees proceed to hear today, and at this time, other witnesses who may be here and ready to testify before the committee on the question of liquor taxation.

Mr. TREADWAY. Mr. Chairman—

The CHAIRMAN. Does the gentleman yield?

Mr. HILL. I do.

Mr. TREADWAY. May I ask the gentleman from Washington the nature of the testimony he desires to secure, or who he expects will appear as witnesses?

Mr. HILL. Mr. Chairman, I see that there are a number of witnesses listed on the calendar.

Mr. TREADWAY. Not for Monday.

Mr. HILL. And those witnesses may be ready at this time. No doubt they are. It was, of course, the intention of the committees, sitting in joint session, to hear not only the administration representatives but other witnesses who might have views to express to the committees on this question of liquor taxation. We can certainly conserve the time of the committees by proceeding at this time to the hearing of such witnesses as may be here and ready to present their testimony this morning; and I have no doubt that there are such witnesses.

So I make my motion as a substitute for that of the gentleman from Massachusetts.

Mr. BACHARACH. Mr. Chairman, it seems to me we are putting the cart before the horse in this entire matter.

We came here with the distinct understanding that we were to hear from the Treasury Department. It seems to me that it is at least desirable, and I think it is a courtesy due us, that we should have been notified in advance that the Treasury Department officials were not going to be present. I think it is very unfair to bring other witnesses here, delaying this matter.

What I had in my own mind was exactly as stated by Mr. Treadway. I think we should hear first from the Treasury Department. We have never, during the time I have been on this committee, started a hearing without hearing first from the interested parties connected with the Government. If we now should hear people who are connected with this industry, we know just as well before we hear them as afterward that they are going to ask for just as low a tax as they can get.

Mr. VINSON. Will the gentlemen yield?

Mr. BACHARACH. Of course I yield.

Mr. VINSON. The gentlemen will certainly admit that heretofore, when others were in charge of the Treasury, in other administrations, we have oft-times acceded to their request for a day or two of delay in the presentation of their views.

Mr. BACHARACH. I agree exactly with what the gentleman states, and I want to say for that reason that I am in favor of Mr. Treadway's motion that we do adjourn until such time as we can hear from the Treasury Department.

Mr. FREAR. Mr. Chairman, I do not want to criticize anything that has occurred; but it seems to me there should not be overlooked the presence of Senators who have come here on our invitation to hear whatever is to be offered. I do not believe this hearing ought to be put over. I hope, therefore, both colleagues will withdraw their motions and that we proceed to business with the witnesses we have here.

Mr. TREADWAY. Mr. Chairman, as far as I am concerned, I am perfectly willing to comply with the request of my colleague. I agree with Mr. Bacharach fully that we are putting the cart before the

horse. There is absolutely no name appearing on the sheet here as a witness today.

If we are to hear witnesses today, let us know who they are before we start in. I do not see any occasion to hear the representatives of the interests involved here. If there are any officials of the Government who can speak, either officially or for themselves, that is one thing; but to come here and carry out the suggestion that we hear our own employees does not seem to me to get us anywhere. So why should we not have an orderly kind of a hearing, and go about it in the proper manner, hearing the officials first, so that we will have a basis to work on? If there are other witnesses available, I will withdraw my motion, if the gentleman from Washington desires to withdraw his, and let the chairman call whom he wishes.

Can we find out who are here? I do not agree with the gentleman's motion that we call anybody indiscriminately. Let us know who our witnesses are before we get going.

Mr. HILL. Certainly; my motion was made simply as a substitute for that of the gentleman from Massachusetts, and if he will withdraw his motion mine will, of course, be withdrawn.

I suggest that the chairman ascertain what witnesses are here today who are scheduled probably for appearance tomorrow, and see if some of them are ready to present their views today.

I suggest, Mr. Chairman, that you ascertain that fact now.

Mr. TREADWAY. Just one moment before we agree to that, Mr. Chairman. Of course, I will agree to it, but I should like to be assured that we are to hear the Treasury tomorrow.

Mr. COOPER. Mr. Chairman, I agree heartily with the suggestion offered by the gentleman from Wisconsin, Mr. Frear. I think undoubtedly that is the course for us to take.

We have present here an official of this committee and of the Finance Committee, Mr. Parker who is prepared and ready to give us information on this question. Others doubtless are present who are prepared to do likewise. It is nothing unheard of here to postpone for a day the hearing of witnesses from a department of the Government. It has frequently been done. I think that is the proper course for us to take—to proceed now to hear Mr. Parker and others present today who have been listed for tomorrow and some other days, and let it be understood that tomorrow will be assigned to the Treasury Department.

The CHAIRMAN. The Chair is very hopeful that the matter will go on without any discord or disagreement. The request of the Treasury Department to be given additional time is one that certainly should have our courteous consideration, and the Chair thinks we should consent to it. We have no reason to believe it is not made in good faith—the request for an additional day. I have no doubt they will be ready to be heard tomorrow. The Chair can assure the committees that they will be ready tomorrow.

Do you accede to that, Senator Harrison?

Senator HARRISON. Mr. Chairman, of course, I do not see any reason to criticize the Treasury Department. I talked to Mr. Morgenthau this morning, and he had an impression that he was asked to come before the committee on Friday. I understood that he was to appear before some other subcommittee Friday, and it is per-

rectly natural that he might have gotten the matter confused in his mind.

The Treasury, of course, want to appear before the joint committee. They will have their recommendations; and it does not seem to me that it is anything unusual to give them some time. As a matter of fact, the President's recommendations usually do not come before the Congress until the Congress convenes. We are merely trying to expedite the consideration of this very important question so that we will all be ready, when Congress meets, to present the bill and pass it expeditiously.

So I am sure the Treasury Department officials are very anxious to come before the committee; but they are trying to determine just which ones and in what order they want them to come.

I do not think, therefore, there will be any undue delay about this matter.

The CHAIRMAN. The Chair will call the names of the witnesses scheduled to be heard tomorrow, and in the order in which they are listed on the calendar. If they are ready as their names are called, I will ask them to come forward and give their names and addresses, whom they represent, and the other necessary information.

Mr. CROWTHER. Mr. Chairman, with all the motions withdrawn, I suggest that the first witness we hear on this occasion be Mr. Parker, of the Joint Committee on Internal Revenue Taxation.

The CHAIRMAN. If the minority agree to that, I am sure the majority will assent. Mr. Treadway has suggested however—

Mr. CROWTHER. I presumed those motions have been voluntarily withdrawn. I understood so.

The CHAIRMAN. Mr. Treadway seems to object to hearing Mr. Parker.

Mr. TREADWAY. I am delighted to hear Mr. Parker. I have heard him for 2 months, and nobody else; but may I ask Dr. Crowther or the chairman why we start with one of our own experts? Why not do as you have already started to do—call the witnesses on your list here? I do not see what information we will get, starting with Mr. Parker.

The CHAIRMAN. I am sure the majority has no preference.

Mr. TREADWAY. I have no preference.

The CHAIRMAN. Do you insist, Dr. Crowther?

Mr. CROWTHER. I think it would be interesting and valuable to have the general statement that has been prepared by Mr. Parker, who is the chief of staff of the Joint Committee on Internal Revenue Taxation. I think that would be at least an orderly proceeding, and worthwhile to all the members.

The CHAIRMAN. If it is agreeable to the committees, before Mr. Parker is called the Chair will read the names listed for tomorrow on the calendar, and those who are present will please stand up, so that the clerk of the committee may take note of any witnesses who are here and ready to testify today who were scheduled for tomorrow. The Chairman will call the roll.

Professor Yandell Henderson, Yale University. Is he present?  
(There was no response.)

The CHAIRMAN. Benjamin Miller, Federal Bar Association. Is he present?

(There was no response.)

The CHAIRMAN. William L. Cauffman, representing Philadelphia Liquor Dealers. Is he present?

(There was no response.)

The CHAIRMAN. Francis W. Brown. He is to speak on the liquor tax, but the calendar does not say whom he represents.

(There was no response.)

The CHAIRMAN. George H. Burnette, Flavoring Extract Manufacturing Association.

Mr. BURNETTE. Present.

The CHAIRMAN. Are you ready to testify today?

Mr. BURNETTE. No, sir; I am not ready to speak today.

The CHAIRMAN. All right. J. M. Woodard, on Wine. The calendar does not say where he is from.

(There was no response.)

The CHAIRMAN. Hon. M. De Vries, Wine Producers' Association and Grape Growers' League of California.

Mr. DE VRIES. Present, Mr. Chairman, but not prepared to go on today.

The CHAIRMAN. All right. Paul Garrett, Garrett & Company, on Wine.

(There was no response.)

The CHAIRMAN. Munson G. Shaw, Wine and Spirits Importers.

(There was no response.)

The CHAIRMAN. Joseph Garneau Ringwalt, the Joseph Garneau Company.

(There was no response.)

The CHAIRMAN. Eugene R. Pickrell, Importers of Beer and Wine Association.

Mr. PICKRELL. Here, but I prefer to go on tomorrow.

The CHAIRMAN. All right.

George K. Black, on the beer tax and alcoholic content.

(There was no response.)

The CHAIRMAN. Those who have been listed on the calendar to testify tomorrow will take note of the fact that tomorrow, the day they were scheduled to testify, will be given to the Treasury Department. If the Treasury Department gets through, and there is time to hear them tomorrow, all right. Otherwise, their testimony will have to go over until the day following.

I will now call on Mr. Parker, chief of staff of the Joint Committee on Internal Revenue Taxation.

#### **STATEMENT OF LOVELL H. PARKER, CHIEF OF STAFF, JOINT COMMITTEE ON INTERNAL REVENUE TAXATION**

Mr. PARKER. Mr. Chairman, it will be best for me to confine my remarks entirely to the facts in regard to intoxicating liquors, the facts or possibly estimates as to revenues, and the volume of the production.

At first sight it might seem to be a very simple matter to provide for the taxation of liquors which are now salable since the repeal of the eighteenth amendment. The old laws dealing with the taxes on

liquor are still in force. They provide for taxation. Also, we have a great number of old laws dealing with the administration of the liquor taxes.

It is believed, however, that this is by no means the only question that should be considered in connection with this subject. In addition to the matter of rates and tariffs, it appears that past revenues should be studied, that estimates of possible future revenues should be made, that a curb on profiteering in these commodities should be considered, that means of reducing bootlegging to a minimum should be provided, that reasonable protection should be afforded the public from injurious elements in these products, and that probable duplication of Federal, State, and local taxes should not be overlooked.

The subject should be classified into three parts, both as to the facts and as to recommendations; the first part dealing with taxes and tariffs on distilled spirits such as whisky, brandy, gin, rum, alcohol, and the like; the second with taxes and tariffs on still and sparkling wines; the third with taxes and tariffs on malt liquors such as beer, ale, porter, and similar products. A fourth part might be added dealing with the license or occupational taxes.

I should like first to take up the principal facts in connection with distilled spirits.

What are the taxes on distilled spirits under existing laws?

These are as follows: \$1.10 per proof gallon on all distilled spirits produced in or imported into the United States; 30 cents per proof gallon on all rectified spirits in addition to the \$1.10 tax; 10 cents per proof gallon on grape brandy or wine spirits used in the fortification of wines.

The tariff is \$5 per proof gallon on all distilled spirits and cordials imported into the United States in addition to the internal-revenue tax thereon.

So that in connection with the imported distilled spirits we have a tax of \$6.10 per gallon. All of these taxes apply to a proof gallon. A proof gallon consists of 231 cubic inches of liquor containing one half of its volume of alcohol of a specified specific gravity at 60 degrees Fahrenheit—that is, speaking generally—when we say “\$1.10 per proof gallon”, it means that we get a tax of \$1.10 on whisky which is 50 percent alcohol and 50 percent water.

All the taxes are the same, whether it is whisky, rum, brandy, or alcohol.

The revenue from distilled spirits, including wines and beers, is very important. That can be seen from the fact that in 1913, 67 percent of our internal-revenue receipts came from the tax on intoxicating liquors. So that we have here a new source of revenue which will be very welcome.

It might be interesting to give a few figures as to the receipts from the distilled-spirits tax in the past: In 1913 we received \$157,000,000; in 1917 we received \$181,000,000; in 1918 we received \$186,000,000, plus \$113,000,000 floor tax, making a total of \$299,000,000.

Senator HARRISON. What do you mean by a floor tax?

Mr. PARKER. A floor tax is a tax placed on the spirits which have left the manufacturer's warehouse but which have not passed into the hands of the consumer; that is, a tax on the spirits held for sale by the wholesaler or retailer.

That comes about in this way :

The past practice was, when we raised the rate on distilled spirits, to put a floor tax on the distilled spirits manufactured and removed from the manufacturer's warehouse, prior to the date of the new law, if they had not reached the consumer. Otherwise, the increased tax rate could be easily avoided by having the distiller sell his spirits to the wholesaler or retailer before the effective date of the new rates.

For instance, if the tax was raised, as in the past, from \$1.10 to \$6.40—first raised from \$1.10 to \$2.20, and then from \$2.20 to \$6.40 a gallon—a lot of whisky had paid the \$1.10 or the \$2.20 tax. The stamps had already been put on the bottles. The dealers holding such spirits for sale had to put on additional stamps to make up the other \$4.20; so that the Government got its full revenue from the date of the passage of the act on all the whisky that had not reached the consumer.

Of course after 1920 our tax revenue from distilled spirits was practically negligible.

Senator GORE. Mr. Parker, can you give me the number of gallons taxed in the 3 years there for which you gave the period of revenue?

Mr. PARKER. I can give you the withdrawals from the warehouses in gallons for those years; yes, sir.

Senator GORE. What I was trying to get at was this: The tax went up very considerably, and I infer that the gallonage went down, perhaps.

Mr. PARKER. I will give you the gallons, Senator Gore, for all of these years, because that is important, too, in estimating the tax that we might receive today.

Mr. VINSON. It occurs to me that it might be well to give the rate for each year at this point, so as to get all of the picture before us at one place.

Mr. PARKER. I will do that.

In 1913 the withdrawals from the warehouse were 143,000,000 gallons. The tax was \$1.10.

Senator GORE. The revenue was \$157,000,000, putting all three together?

Mr. PARKER. The revenue was \$157,000,000; yes, sir.

In 1914 the withdrawals from the warehouse were 139,000,000 gallons. The tax revenue was \$153,000,000, and the rate of tax \$1.10.

Mr. LEWIS. Do you have the per capita consumption figures there?

Mr. PARKER. I think I can supply you those a little later, Mr. Lewis.

In 1915 the withdrawals were 124,000,000 gallons, the tax revenue \$136,000,000, the rate of tax \$1.10.

You will note that there was a decline in those 3 years in the withdrawals. They dropped from 143,000,000 gallons to 124,000,000 gallons.

In 1916 there was an increase in withdrawals. That year withdrawals were 136,000,000 gallons, the tax revenue \$149,000,000, and the rate still \$1.10 per gallon.

In 1917 the withdrawals again increased to 164,000,000 gallons; the tax revenue went to \$181,000,000; the rate was still \$1.10.

These are fiscal-year figures.

In the first part of the fiscal year 1918 there was an increase in rate.

Senator HARRISON. What is the explanation for that increase?

Mr. PARKER. The war. During the fiscal year 1918, starting on July 1, 1917 and ending June 30, 1918, we had substantial changes in rates. Many of our young men had gone abroad, and war-time prohibition was in force. So that for the fiscal year 1918 withdrawals from the warehouses dropped to 90,000,000 gallons; the combined revenue, both the manufacturer's tax and the floor tax, was \$299,000,000; and the following rates were applicable to distilled spirits: \$1.10, \$2.20, and \$3.20.

Therefore I can give you the average rate of tax on withdrawals for that year, which is \$2.06 per gallon. That is not a statutory rate. It is merely the average tax paid on the amount of withdrawals which I have just given.

In the fiscal year 1919 we had withdrawals of 83,000,000 gallons, and a total tax of \$343,000,000, with the following tax rates in force: \$2.20, \$3.20, and \$6.40. The \$6.40 rate was the war-time rate, and is still on the books today; but it has been held to be a penalty rate, and is not enforceable at the present time, because of the repeal of the eighteenth amendment.

The average tax paid during 1919 was \$3.61 a gallon.

Senator GORE. How much of that fiscal year was this \$6.40 tax in force; do you know?

Mr. PARKER. The \$6.40 tax applied from February 25, 1919—

Senator GORE. To the end of the fiscal year?

Mr. PARKER. No; that tax really applied from that date up to the repeal of the eighteenth amendment. It was held, however, to be a penalty tax, and therefore it came off with the repeal of the eighteenth amendment.

Senator GORE. But it applied from February 1919 through the fiscal years beyond that. Have you the withdrawals during that part of the fiscal year?

Mr. PARKER. Of course, a lot of this whisky did pay the \$6.40 floor tax. That is one reason why we had such large receipts from the floor tax. I am unable to furnish the withdrawals since 1920.

Senator GORE. If it involves the floor tax you could not tell much about it anyway.

Mr. PARKER. Mr. Lourie, you have not that figure, either, have you, from the Tariff Commission—the withdrawals at the \$6.40 rate?

Mr. LOURIE. No.

Mr. PARKER. I do not believe we could have that broken down, Senator.

Importations of distilled spirits were comparatively small during this entire period. As compared with withdrawals from the warehouses in this country, averaging around 140,000,000 gallons annually, the importations averaged only around three and a half million gallons annually, which gave us an average receipt from customs at the duty of \$2.60 per gallon of around five or six million dollars.

Senator HARRISON. Mr. Parker, I notice you left out the 1920 tax, which showed a big drop from 1919.

Mr. PARKER. Yes.

Senator HARRISON. In 1919 the revenue was \$343,000,000, while in 1920 it appears to be about \$90,000,000.

Mr. PARKER. For 1920—I omitted that because I thought it might be confusing to give those figures, but we might put them in the record—in 1920 withdrawals from the warehouse dropped to 24,000,000 gallons. The total tax collected was approximately \$90,000,000. The rates of tax applicable were \$2.20 and \$6.40 per gallon, and the average rate of tax on the withdrawals was \$2.80.

I might say for that year of course this \$2.20 rate applied to non-beverage liquor. The \$6.40 rate was a beverage rate.

Senator GORE. That tax ended on January 16, 1920?

Mr. PARKER. The \$6.40 rate began on February 25, 1919, with the passage of the Revenue Act of 1918. That was the title of the act—the Revenue Act of 1918.

Senator GORE. I mean, most of these taxes ended on January 16, 1920. Was not that the date prohibition became effective?

Mr. PARKER. I have not before me the exact date when the eighteenth amendment became effective.

Senator GORE. I think that was it.

Mr. KNUTSON. Mr. Parker, have you any information as to the quantity of liquor now in storage in this country and available at the present time?

Mr. PARKER. Yes; we have some information on that.

Mr. KNUTSON. Give the approximate amount. It is not necessary to give the exact amount.

Mr. PARKER. The total at the present time, according to the last information I have, is about 23,000,000 gallons, including alcohol, whisky, rum, and in fact all distilled spirits. I think that has probably increased. Have you a figure on that, Mr. Lourie? It is about 23,000,000 gallons.

Mr. KNUTSON. We are not interested in alcohol; but how about whisky and brandy?

Mr. PARKER. The old whisky amounted to about 5,000,000 gallons in round figures.

Mr. KNUTSON. That is going to necessitate large importations, then, for the next three or four years?

Mr. PARKER. Not necessarily.

Mr. KNUTSON. Do you want the people to continue drinking moonshine?

Mr. PARKER. No. I would suggest to the committee on that point that possibly Mr. Lourie, of the Tariff Commission, who has made a study of that matter, could give you better information. Perfectly good whisky probably can be made under present methods in a short period. It will not have the flavor that the old whisky had, but it will be equally healthful.

Mr. KNUTSON. Will it be as beneficial to the health? -

Mr. PARKER. Probably about the same. What they do, of course, to give the new whisky the desired flavor, is to add some old whisky—that is, what they call cutting it. They rectify whisky; they add some of the old whisky; and it has been estimated that from the four or five million gallons of old, aged whisky, they could make perhaps 40,000,000 gallons.

Mr. KNUTSON. Would that be called "blended"? That would not be sold as rye or bourbon?

Mr. PARKER. It could not be sold as bottled-in-bond whisky, but it probably could be sold as blended whisky.

Mr. KNUTSON. How would that compare in quality to good moonshine?

Mr. PARKER. You had better ask that of one of the other witnesses. [Laughter.] I am not competent on that point.

Mr. McCLINTIC. Mr. Parker, during the time that whisky was being sold in this country and had the war-time penalty of about \$6 a gallon, did we import any liquor? And if we did, what was the total tax during that period?

Mr. PARKER. The tariff was \$2.60 per gallon up to the time of the eighteenth amendment.

Mr. McCLINTIC. Did the imported liquor carry any penalty tax so as to equalize it with the amount that was charged those who produced liquor in this country?

Mr. PARKER. There never was a penalty tax as such on imported liquor. That was not necessary, because the imported liquor bears, in addition to the tariff, the internal-revenue tax. So that imported liquor, if used as a beverage, in addition to the \$2.60 tax later changed to \$5 per gallon had to pay the \$6.40 per gallon internal-revenue rate.

Mr. KNUTSON. What is the present import rate on whisky, Mr. Parker?

Mr. PARKER. \$5 per proof gallon.

Mr. KNUTSON. Have you any information as to what it costs to manufacture whisky? I have heard that it costs 30 cents a gallon.

Mr. PARKER. I believe that whisky probably in the old days may have been manufactured as low as 30 cents a gallon. I do not believe that whisky could be made for that at present, and there is no estimate that I know of going that low.

Mr. KNUTSON. Why could it not be made as cheaply now as it ever could be? Corn and rye prices are low. Labor is cheap. There is nothing that is any higher now than before the war.

Mr. PARKER. If we are talking really about a good product, a good whisky, I do not believe that it can be made anywhere near that cheaply. Very likely you might make a poor whisky for that price. I could not say; but a whisky that would be 100 proof, and would be of proper quality, I do not think could be made for anywhere near that figure. Estimates on the cost of production at this time by those who ought to know, run much higher than that. In fact, they average at least a dollar a gallon.

Mr. KNUTSON. Assuming that it is a dollar a gallon, an import tax of \$5 is a 500 percent ad valorem tax, is it not? That is pretty high.

Mr. PARKER. That is right. That is a very high tax. Of course, all these luxury taxes are likely to be high. A tax on tobacco products may also reach at least 200 percent ad valorem—that is, not on the retail price, but on the cost of manufacture, it would be easily two or three hundred percent.

The CHAIRMAN. In addition to the \$5 import duty on liquor, it is also subject to \$1.10 internal-revenue tax?

Mr. PARKER. That is correct.

Mr. SHALLENBERGER. Mr. Parker, I should like to have you explain a little more the returns in 1919, when they reached the large amount of \$343,000,000. The normal tax was \$2.20 a gallon, was it?

Mr. PARKER. In the fiscal year 1919?

Mr. SHALLENBERGER. Yes.

Mr. PARKER. It was \$2.20; yes, sir; that is, the non-beverage rate.

Mr. SHALLENBERGER. Now, what was the \$3.20 for, and the \$6.40?

Mr. PARKER. The \$3.20 rate is the beverage rate under the 1917 act. The \$6.40 was put on in the Revenue Act of 1918, which passed in February 1919. At that time the eighteenth amendment, of course, was a foregone conclusion. The eighteenth amendment had been passed in January 1919 to become effective 1 year later; but we had during that period practical prohibition under the proclamation of the President. I think we all recall when it was thought that there would be an interval between war-time prohibition and the time that the eighteenth amendment would become effective, during which they could buy all the liquor they wanted. I recall that almost everybody thought there would be such a period; but it never materialized.

Therefore, the \$6.40 rate was put on after the eighteenth amendment was enacted, but before it became effective; so that it was strictly a penalty rate. This traffic in liquor for beverage purposes was an illegal traffic, and that \$6.40 rate was to apply if they could find any liquor in that illegal traffic.

Mr. SHALLENBERGER. What I was anxious to know was your judgment as to the reason for that large amount of receipts. Was it because of the high tax at that time that we received more tax than in any other year, or was it because of the large consumption of liquor?

Mr. PARKER. No; I think we received our high revenue in 1918 and 1919 largely because of the floor tax. You see, with our method of manufacturing whisky and ageing whisky, it means that the inventory of liquor in the warehouse consists of nearly 4 years' supply, or used to in the old days. The distillers had to have about 4 years' supply of liquor on hand. That is inevitable if you are going to age whisky at least 4 years; and when you put an added tax on the whisky, a floor tax, that produces substantial revenue.

Mr. SHALLENBERGER. There is some dispute, as you know, about the effect of the tax on the amount of revenue to be finally derived from it. Do those figures show that the higher the tax, the more money we get into the Treasury?

Mr. PARKER. We have studied those figures, but it is very difficult to draw any conclusion, because of the fact that prohibition was really in force when the \$6.40 rate applied, and there are so many factors entering into it that it is almost impossible to draw any conclusion. Conclusions as to the point at which diminishing returns would be reached are better drawn by taking some other product than whisky. We know from dealing with other excise taxes, of course, that if you raise your tax too high, consumption will drop off. That has been proved a sufficient number of times so that I think that principle undoubtedly applies to whisky. Just where that rate would be, of course, is a difficult matter to determine.

Senator GORE. There was a good deal of buying then in anticipation of prohibition—people buying liquor and putting it in their cellars—was there not?

Mr. PARKER. Yes; that is true, Senator Gore, but I think the important part of these figures is this:

In 1913, 1914, 1915, and 1916 our withdrawals from the warehouse were averaging around 140,000,000 gallons a year. That seems to have been our average consumption before the war; and I think that is the best and safest starting point in estimating how much might be consumed now.

As I say, it is very difficult to find out the effect of the \$6.40 rate. We have to dismiss that. We do know that in the case of many other of our taxes on luxuries there has been a great increase in consumption since that pre-war period, 1913 to 1916.

For instance, take the tax on small cigarettes: In 1915 the receipts from the cigarette tax were \$20,000,000. In 1933 the receipts were \$328,000,000. Our tax was lower in 1915, so that in number of packs of cigarettes in 1915 the consumption of cigarettes was 837,000,000 packs, and in 1933 it was 5,473,000,000 packs.

Senator CLARK. What was the difference in rate?

Mr. PARKER. The rate in 1915 was 2½ cents per pack. Today it is 6 cents per pack. So even under a higher rate we have an increased consumption of cigarettes of 554 percent. Now, of course, no one predicts anywhere near that increase in the consumption of alcohol, but it does raise the issue of whether or not the consumption of alcohol will increase.

Of course the population has increased, that we know, and we could expect some increase in consumption. I have estimated, under present conditions, that there should be a demand in this country for around 200,000,000 gallons of distilled spirits instead of the 140,000,000 gallons. I think it would be reasonable to expect the demand to increase to that extent. That is to say, I estimate that demand at our present rate of tax.

If, however, the tax is increased and the price is high, I doubt that we will reach that consumption in the first year of operation. However, I think it is pretty safe to estimate that we might expect that during the first year of operation, the consumption of distilled spirits in the United States will be about 140,000,000 gallons, just the same as it was before the war, and that the normal increase in consumption that we would expect, will be cut down and off-set by the greater price for which the product will sell.

Senator GORE. At what date did this floor tax take effect?

Mr. PARKER. The floor tax took effect at the date of the passage of the act.

Senator GORE. Do you know when, I want to get the date.

Mr. PARKER. One of them took effect February 25, 1919.

Senator GORE. And how much was that?

Mr. PARKER. Well, the floor tax is the difference between the \$6.40 rate and the rate previously paid.

Senator GORE. What I am trying to get at is the way in which we can break that down. I have not been quite able to follow you as to what the floor tax was, when it went into effect, and what the other taxes were on withdrawals.

Mr. PARKER. The floor tax only applies to liquor which has paid the preceding rate of tax. If new liquor was manufactured it paid the \$6.40 rate and that was all there was to it; but here is a lot of liquor already manufactured that has already paid the \$2.20 tax and the stamp has been put on the bottle, or the tax has been paid on the barrel of whisky, and if that tax was \$2.20 per gallon, and it is now to be sold to a consumer, they have to pay an additional tax of \$4.20, so that the total tax is brought up to \$6.40.

The floor tax is the additional tax between the tax paid at the old rate and the new rate specified in the act, and that rate must be paid on all liquors that have not reached the consumer at the date of the passage of the act.

Senator WALSH. We will not be able to collect the floor tax until the passage of the new act?

Mr. PARKER. No, Senator Walsh; that is the idea, the attempt was made to get all of a floor tax from all of the liquor, but after the liquor had left the retailer, of course, we would not attempt to go into a home and collect the floor tax. We collect the tax from the manufacturer, the wholesaler, or the retailer and that is as far as we could go.

Senator WALSH. Then all who start up between now and the passage of the floor tax will not have any floor tax to pay?

Mr. PARKER. Just what is that question; I didn't get it.

Senator WALSH. All individuals who stock up on liquor between now and the time of the passage of the floor tax, will not have to pay any floor tax?

Mr. PARKER. That is correct, and I understand the Supreme Court has passed on that question, and we could not go into the home and collect that tax.

Senator WALSH. So that it is important to pass the law as soon as possible?

Mr. PARKER. It is very important to provide at least for the rate of tax. The subcommittee of the Ways and Means Committee which studied this question gave a lot of thought to our existing liquor laws and the administration of them.

There are in the United States Code provisions dealing with the administration of the liquor taxes; they are very complicated and voluminous. Probably if time permits they should be rewritten entirely, but that has not been done. I forget just how many pages of them there are, but I think somewhere around 30 pages; but the rates should probably be adjusted first.

Senator COUZENS. During all of the years you have been reviewing, was there any State tax of any kind?

Mr. PARKER. Any tax by the States?

Senator COUZENS. Yes.

Mr. PARKER. Practically none of the States had a tax on volume; they practically all had license taxes.

Senator COUZENS. But not as applying to per gallon or unit of liquor?

Mr. PARKER. There may have been one or two States that had such a tax, but the great majority of the States had no gallonage tax.

Senator COUZENS. I understand they had an analysis of that kind.

Mr. PARKER. As to State taxes?

Senator COUZENS. Yes.

Mr. PARKER. We analyzed it to this extent, we had recognized the danger of all of the States putting on a high tax and bringing about a price for liquor which would materially interfere, not only with the revenue, but also with eliminating the bootlegger.

Senator WALSH. But there is no State tax now in operation that you know of?

Mr. PARKER. There is a State tax now; yes. They are being enacted every day, but I referred to the old system we had, where the Federal Government had the gallonage, and the State had the license taxes.

Senator WALSH. Have the States enacted laws levying gallon taxes?

Mr. PARKER. Yes, sir.

Senator WALSH. That is since the repeal of prohibition?

Mr. PARKER. Yes, sir. Many of the States are now putting on a gallonage tax.

Senator WALSH. That is a new step?

Mr. PARKER. Yes; that is a new step; and, of course, the committee should have the latest information on that, but I haven't had opportunity to compile the new State taxes proposed. I think that is very important, and will try to have it done.

Senator WALSH. Yes; it is very important.

Senator KING. In the consideration of the question of double taxation, to which you have devoted a great deal of time, did you figure there ought to be an effort made not to include wines and liquors in the scheme of double taxation; that is to say, we ought to leave the field open to the Federal Government or the States, or did you assume there would be double taxation?

Mr. PARKER. Well, the old system was not objectionable from the double taxation standpoint, but unfortunately it is feared we are not going back to the old system, and that the States will insist on a gallonage tax, which results, of course, in double taxation.

The old system was that the Federal Government imposed the gallonage tax and the States, cities, and towns the license taxes.

Now, the Federal Government has license taxes, it is true, but those license taxes are very low. They are merely for regulatory purposes so that we can keep track of the liquor. They are not important at all from a revenue standpoint.

In fact, under the law today the distiller pays no license tax, and I think the retailer's tax under the existing law is \$25, whereas in New York City, I think, the license tax is somewhere around \$1,500, greatly beyond anything that the Federal Government ever imposed. Of course, those license taxes did bring the cities large amounts of revenue.

I remember in studying double taxation, going back into the history of taxes, that, just as we found in 1913, 67 percent of our internal revenue came from these liquor taxes; the States also received a large proportion of their revenue from this source—that is, States that were wet, States like New York, and those States have had to go to other sources of taxation just as we have.

Senator WALSH. Have you observed that the States in levying license taxes have greatly reduced them over the old days, on the theory that the business may not be as profitable?

Mr. PARKER. I think that is the tendency. The new laws I have examined seem to indicate a tendency to reduce the license tax and go to the volume tax. Why that is I cannot tell you.

Senator WALSH. That is my observation as well.

Mr. PARKER. It has a bad effect in that it is double taxation.

Now, I had estimated that we might expect a consumption of 140,000,000 gallons of distilled liquor in the first year. Of course, some of that will come from local sources and undoubtedly some will be imported.

Personally I should expect a much greater volume of imported liquor than we have ever had in the past. Our revenue from importations in the past was negligible, but I don't think it will be so now.

Mr. KNUTSON. You believe the importations will be large with the present rate of \$5 a gallon?

Mr. PARKER. I think they will be large even with the \$5 rate. It is true they would be much larger with a lower rate.

Senator WALSH. That is probably in order to have sufficient whisky in the country to make this blended liquor you speak of, it is necessary to have large amounts to mix with the new whisky to form a blend for salable purposes.

Mr. PARKER. I think, whereas in the past we imported somewhere around three and a half million gallons of liquor, we can expect for the first year at least twenty or twenty-five million gallons.

Senator HARRISON. Where will that be imported from?

Mr. PARKER. Undoubtedly some will come from Canada, some from Great Britain, and of course we will get some Scotch whisky, which will not be used for blending but which will be used direct. Of course, what counts in consumption is not what the millionaire will want, but what the ordinary man is going to be able to buy.

Mr. HILL. The source of importing whisky would be principally from Canada?

Mr. PARKER. I should think Canada would at this time be the principal source, because Canadian distillers have been producing since prohibition in this country a very large amount of what we might call the American type of whisky.

Mr. CROWTHER. I think the Tariff Commission gave us the information there was probably 20,000,000 gallons of what is known as the American type of whisky that would probably come in from Canada.

Mr. PARKER. Mr. Lourie, could you tell about the supply in Canada?

Mr. LOURIE. I understand the estimate is roughly between twenty and twenty-five million gallons of the American type of whisky there.

Mr. McCLINTIC. Mr. Parker, what is the true definition of the American type of whisky?

Mr. PARKER. The American type of whisky, I think, you might describe as a little heavier whisky, generally a little darker in color and a little different in taste; that is all.

Mr. McCLINTIC. Is it any different as to the alcohol?

Mr. PARKER. No; not different as to alcohol, but just a little different as to flavor.

Mr. McCLINTIC. How does the flavor compare with the Canadian whisky?

Mr. PARKER. You may remember the Canadian Club whisky, which is a little lighter whisky, and the Canadian whiskies all seem to be a little different.

Senator KING. I noticed in the paper a statement to the effect there was a large quantity of smuggled whisky in the United States, aggregating millions of gallons, and 90 percent of that was controlled by a very limited number of individuals.

Did your organization or the subcommittee make any investigation into that matter and, if so, what were the results?

Mr. PARKER. No, we were not equipped to make such investigation. It is perfectly obvious from the situation prior to repeal that there must be a tremendous inventory of illegal liquor in this country, otherwise business would not go on. It is very likely that there are at least 40 or 50 million gallons of illegal liquor in the country. In fact, I cannot see any escape from assuming some such figure, because if there was not that much, then the sales would not have been going on as everybody knows they were going on. It takes that much to conduct the business.

That, of course, is very important in respect to arriving at and determining at what rate you will fix the tax, because this 40 or 50 million gallons of illegal liquor seek to find a market, and that liquor will be sold at a very low price before it will be thrown down the gutter.

So that is a real problem, especially at the start, and in fixing your tax rate that supply of illegal liquor must be considered, because if it is still sold illegally on every gallon of that sold we lose the tax.

Senator KING. Did you ascertain whether there was any considerable quantity in the hands of representatives of the Government, marshals and court officials? I ask that question in view of the fact I learned a short time ago a large number of cases was sold by the marshal in one of the large cities at \$16.50 a case. Did you ascertain whether there was any considerable amount in the hands of Government officials which had been confiscated?

Mr. PARKER. I saw something in the paper about some of that confiscated liquor being for sale, but we have no first-hand information on it.

Mr. KNUTSON. What percentage of the whisky consumed before the war was cut or blended?

Mr. PARKER. There was a considerable amount of blended whisky sold. Of course, the bottled-in-bond whisky could be sold at a fairly reasonable price. Sufficient aged whisky was on hand and the problem was entirely different but it was rumored that a large amount of the cutting was in the back room of the saloon.

I don't know whether that is true or not, I don't know whether the retailer cut his good whisky with alcohol and water. That has been stated but I couldn't say it is a fact.

Mr. KNUTSON. It is my information that bottled-in-bond goods were sold for about \$15 a case before the war. Have you any information on that?

Mr. PARKER. Yes, of course the different grades of bottled in bond whisky could be bought from \$12 a case up, rarely over \$18—\$12 to \$18. Cognac would bring \$1.75 and some times \$2 a quart, which would be \$24 a case. That is about as high as any liquor went, \$2

a quart. Perfectly good bottled in bond whisky could be bought before the war as low as \$1 a quart.

The present prices being quoted in the newspapers of old whisky have been running somewhere around \$65 to \$70 a case. That is probably above what the bootlegger would charge. Of course, all of that newspaper advertisement is merely on this 16-year-old whisky, which, as I understand, the distillers do not want to sell, but which they want to keep to flavor the blended whisky with.

Mr. KNUTSON. What are the American people going to do for medicinal whisky?

Mr. PARKER. It makes a difference how they take it as a medicine. The price can be pretty high if you are going to take medicine by the teaspoonful.

Mr. KNUTSON. Will it be higher than it is now?

Mr. PARKER. That all depends, of course, on the tax you gentlemen put on.

Mr. KNUTSON. I understand that.

Mr. CROWTHER. I would like to ask Mr. Parker if it is not a fact medicinal whisky is almost double in price since Congress has permitted the indeterminate number of certificates that a physician could issue and taken the limit off that?

Mr. PARKER. The price of medicinal whisky has almost doubled in the last 2 months. Whether that was in anticipation of repeal I don't know, but I think a good deal of that increase has been due to that fact you state.

Mr. CROWTHER. I think you could lay it to the same reason as you said a while ago, that holders of this whisky do not want to sell it, and jumped the price up, and I think it was because of the tremendous demand following the removal of any limit on prescriptions that might be written. I think they ask as high as \$3 or \$4.50 a pint on prescription.

Mr. PARKER. The subject of double taxation is going to be a very important one, and it is going to be a new one. We have talked something about that, and I want to read here what I have in a report, that contains some facts on this subject, as follows:

It is almost certain in these times of scanty revenues, the States, counties, cities, and towns, as well as the Federal Government, will hasten to impose a sales tax on liquors and license taxes on manufacturers and dealers. It is appropriate to consider whether duplicate taxation on these products should be minimized. The writer has received the following statement on this question by Hon. Mark Graves, President of the New York State Tax Commission:

"I am constrained to believe that substantial Federal taxes on all liquors manufactured or imported into this country should be enacted, and that the Federal Government should share with the States 25 percent of the revenue so obtained. This would save the taxpayers the expense of 48 bureaus in the 48 States, which would be very considerable, and the dealers the expense and bother and trouble of making returns to State authorities. I believe if this is done the States should content themselves with the revenues received from the Federal Government and reasonable license fees imposed by the States upon those establishments authorized to sell intoxicating liquors. Double taxation will be thereby avoided."

Of course, this is just one of the suggestions made on this point. That is not a suggestion or recommendation on the part of the subcommittee.

Senator HARRISON. That statement of Mr. Graves, does that go back to the States, whether they are dry or wet, or does it apply to all of the States of the Union?

Mr. PARKER. In the communication I received from him, he did not go into that point. That is a serious question, the question of allocation. It would be easy if it were not for allocation. If we wanted to give the States a share of this revenue, at first sight it might seem it should be allocated on consumption, but some might say it ought to be allocated on population.

Mr. VINSON. What about production?

Mr. PARKER. There might be some who would take such a view, but, of course, that would put all of the revenue in a few States.

Mr. VINSON. Wouldn't it be well to say that production should be a factor in the allocation?

Mr. PARKER. That is probably one factor.

Mr. VINSON. Have you compiled the State taxes that have been paid in any of the years next preceding prohibition enforcement?

Mr. PARKER. I think I have the figures at my office on the other States.

Mr. VINSON. Have you totaled the State taxes?

Mr. PARKER. No; I have not.

Mr. VINSON. Don't you think that would be a very interesting piece of evidence?

Mr. PARKER. Yes, I think that is important, although I don't think it is going to be very controlling at this time, because I don't think the States are going to be bound by their past taxes.

Senator WALSH. Didn't you say a very few States imposed such a tax?

Mr. PARKER. In the past, yes.

Senator KING. Mr. Parker, you don't think the Ways and Means Committee or the Finance Committee should enact a law now along the lines indicated without knowing what the situation would be? Suppose Congress should enact a law by which there would be a division of the taxes received and allocation to some of the States and the States should reject that proposition, you couldn't force on them the obligation that they would not exercise their power vested in them to impose taxes upon those manufacturing and selling liquor within their territorial boundaries?

Mr. PARKER. It is very difficult to arrange for a proper system of allocation. As you say, you could not very well coerce the States, they have the sovereign power. That is one of the arguments raised against our present 80 percent credit on inheritance taxes. I have some information that has been handed to me as to the gallonage taxes that have been recently enacted by the States, and it might be well to put that in the record at this point.

Senator GORE. Have you assembled any data with reference to the operation of those State taxes?

Mr. PARKER. The 80 percent tax credit?

Senator GORE. Yes.

Mr. PARKER. This worked out very well in connection with the estate tax. Some of the States have objected to it on the ground it does coerce them to enact a tax that they do not want to enact.

Mr. VINSON. Have any of the States refused to accept benefit under it?

Mr. PARKER. Some of the States do not take advantage of that credit, but there are comparatively few out of the 47 States that have inheritance taxes that do not take advantage of it. No doubt in 10 or 12 instances their rates are not sufficiently high to take full advantage of the 80 percent credit.

Senator GORE. Florida has a constitutional amendment against inheritance taxes.

Mr. PARKER. Florida has repealed that, and Florida now has an estate tax which they will enforce as long as we have such a tax.

Now, as to some of the recent taxes imposed by States on the gallonage basis, Arizona has a tax of 10 cents a pint or 80 cents a gallon.

Senator WALSH. Paid by the retailer?

Mr. PARKER. I haven't got the information on that. I assume it would have to be paid by the retailer in a State like Arizona.

Colorado has a tax of 80 cents a gallon.

Delaware has a tax on alcohol of \$2 a gallon, and on wine 40 cents a gallon.

Indiana has a tax of \$2 a gallon.

New York has a tax on still wines of 10 cents a gallon, on sparkling wines of 40 cents a gallon, and on distilled spirits of \$1 a gallon.

West Virginia has a tax of \$4 a gallon which would probably apply, although it is on medicinal liquors.

There are a number of other States here mentioned which are expected to have taxes, namely, California, Connecticut, Nevada, Maryland, Montana, and New Mexico.

Pennsylvania has a floor tax of \$2 a gallon on liquor stored in Pennsylvania between November 22, 1933, and the date of ratification.

Mr. McCORMACK. Mr. Parker, isn't that all passed on to the consumer?

Mr. PARKER. Yes; I don't think there is any doubt it will be passed to the consumer.

Mr. McCORMACK. The only tax that cannot be passed very well is the income tax?

Mr. PARKER. Yes.

Mr. McCORMACK. The excise taxes could be passed on, and they usually are passed on, particularly in normal times.

Mr. PARKER. I don't think there is any doubt but that the whole gallonage tax would be passed on to the consumer.

Senator GORE. Don't you think that would depend upon whether other States enforced a smaller tax, and in one State they would absorb the difference?

Mr. PARKER. You might have a tax that would cause bootlegging between the States in liquor the same as we have now in bootlegging between States in gasoline.

Senator GORE. Take two States adjoining each other, Ohio and Pennsylvania—if Ohio had a \$1 a gallon tax and Pennsylvania \$2, I think the Pennsylvanian would have to absorb that in order to compete.

Mr. PARKER. He certainly will; at least in the border towns.

Mr. CROWTHER. In view of those rates suggested by the States up to the present time, don't you think that increases the difficulty of getting any agreement with the States on their part to merely avail themselves of the occupational tax as in the past, and in view of the great necessity for revenue, not only in the Government, but also in the individual States, at the present time, that is almost out of the picture? I doubt if we could get any agreement from the States at the present, under the circumstances, to take just the occupational tax and let the Federal Government avail itself of the gallonage tax.

Mr. PARKER. My opinion is we have got to have something like a credit, like we do in the estate tax, to make that effective.

The CHAIRMAN. Mr. Parker, ought not the law to be so enacted that it would be optional with the States whether they would avail themselves of the revenue from the Federal Government, or levy taxes of their own, so that those States that do not impose a gallonage tax might participate, and if they did impose such a tax they would not participate?

Mr. PARKER. Of course it has been proposed in connection with the allocation of those taxes that if the States want their 25 percent, or whatever the amount to the State might be, that such amount would be given to them only in the event that they did not put on a tax.

There is a constitutional question involved even in that problem, however.

Mr. CROWTHER. Even if that was so, the difficulty of a method of allocation is still before us, and that is one of the most difficult things, the basis upon which the allocation should be made.

Mr. PARKER. It is very difficult to find a basis of the allocation, but it is not impossible, and the committee will undoubtedly want to hear plans on that point.

Senator KING. Wouldn't there be another difficulty, that not knowing the States, if any, that would want to avail themselves of this allocation, would it not be impossible for the committee to determine just what the practice would be? We wouldn't know how much would go to Pennsylvania or to California or to any State, and we would not know how much of the total amount collected would be allocated, and therefore we would not know how much revenue would be retained for the Government.

It seems to me the objections are almost insuperable to the consummation of that plan, unless we would have a conference of all of the States and the Federal Government and a treaty entered into by which this whole question would be determined, and the amount allocated to each State determined by that treaty.

Mr. PARKER. I believe that is correct, Senator King.

Mr. McCORMACK. If we should consider the 20 percent or 25 percent to the States, are there any opinions as to what tax should be imposed on the number of gallons, so far as the Federal Government itself is concerned?

Mr. PARKER. Of course, I have a personal opinion, but that is something the committee will have to determine after it gets all of the facts before it.

Mr. McCORMACK. I would like to get your state of mind on that.

Mr. PARKER. My personal opinion is that the tax should be somewhere between \$2 and \$3 a gallon, but I might want to change

my mind in light of more facts. Undoubtedly the department will present a great number of very important facts on this subject, but the main thing in stating the rate from my point of view is to get the most revenue and not make the price so unreasonable that the legal business could not compete with the bootlegger.

Mr. McCORMACK. So we are again also involved in the question of taxes, and the important social question is to eliminate the organized bootlegger; and in order to do that taxes have got to be such that the price of legally produced and legally taxed alcoholic beverages would be able to compete with that which is illegally produced and attempted to be illegally disposed of. The question of taxation is very important from a social angle, also. Have you given that consideration?

Mr. PARKER. Yes; and the facts seem to point to this, that if legal liquor cannot be sold for as low as \$2.00 a quart there will be serious competition from the bootlegger.

Mr. CROWTHER. Will the gentleman from Massachusetts yield to me for a moment?

Mr. McCORMACK. Yes.

Mr. CROWTHER. I want to say that the subcommittee as far as it went into this matter—and the information came from Mr. Lourie—was of the opinion that the rate ought not to be higher than would permit the sale of a quart of good legal whisky for \$1.50; we thought that was the highest price that could be authorized without giving the business to the bootlegger, and I think I speak for the committee.

Mr. JENKINS. Mr. Parker, when you fix the price at \$2 or \$3, you mean as a tax exclusive of duties?

Mr. PARKER. The tax on the gallon, yes. I was not speaking of imports in connection with the tax. As to the imports, we are going to have a certain amount of high grade liquor that some people will be able to buy at the price, and then we are going to have another part of that importation for the purpose of blending. We can make plenty of alcohol in this country. Alcohol does not have to be aged, and Mr. Lourie of the Tariff Commission tells me there is a potential capacity of pure alcohol in this country which probably amounts to two hundred million gallons annually. We can make all of the pure alcohol we need for blending, but we haven't got the aged whisky.

Mr. JENKINS. In most of your discussion, I take it whenever you are talking about imported liquor you are considering the \$5 tax as a reasonable duty?

Mr. PARKER. No; I do not go that far. I think the tariff rate should receive the consideration of the committee.

Mr. KNUTSON. Whisky should be aged in order to remove the impurities as far as possible, isn't that true?

Mr. PARKER. That is true under the old method. It is claimed, however, that there are methods which have been perfected to purify whisky without aging. I have no personal knowledge, but I have been informed that is the case.

Mr. KNUTSON. That is by electricity?

Mr. PARKER. I understand there are half a dozen methods of very quickly ageing whisky or purifying it.

Mr. KNUTSON. You are talking about whether the new method will reduce the fusil oil content?

Mr. PARKER. Of course that gets into another angle of this subject which the committee may want to investigate, that is, whether the Pure Food laws will need to be strengthened in this connection so that the public will be better protected.

Mr. KNUTSON. Absolutely you are right.

Mr. PARKER. That is another important phase of this subject, but I do not know much about it. I deal with the revenue, but it is certainly true that the public is entitled to protection, and probably some legislation in connection with labeling and the advertising of whisky would be wise. It seems to me that the consumer is entitled to know just what he is buying in connection with these intoxicating liquors.

I am through with the distilled spirits if there are no more questions. There are a few facts perhaps the committee might want to have on wines.

Senator KING. Mr. Chairman, I should be glad, if it meet with your approval, to hear Mr. Parker further upon wines and beers.

The CHAIRMAN. All right; we will proceed with the examination as to wines.

Mr. PARKER. The rates of tax and tariff on still and sparkling wines which will become immediately effective under prior laws are as follows:

On still wines containing not more than 14 percent of alcohol by volume, 4 cents per wine gallon.

On still wines containing more than 14 percent and not more than 21 percent of alcohol by volume, 10 cents per gallon.

These are the present rates.

On still wines containing more than 21 percent and not more than 24 percent of alcohol by volume, 25 cents per wine gallon.

On still wines containing more than 24 percent of alcohol by volume, \$1.10 per wine gallon.

On champagne or sparkling wines, 12 cents per half pint, which is equal to \$1.92 per gallon.

On artificial carbonated wines, 6 cents per half pint;

On liqueurs, cordials, and so forth, 6 cents per half pint, which is equal to 96 cents per gallon.

Then, because of the beer bill passed last spring, we have this modification on nonintoxicating wines containing not less than one half of 1 percent of alcohol by volume, and not more than 3.2 percent by weight, a tax of \$5 per barrel of 31 gallons, which is equal to about 16 cents per gallon.

So, at the start, we have an inconsistency here. Under the beer bill we put a tax of 16 cents per gallon on wine if it contains less than 3.2 percent of alcohol by weight, when under the previous law the tax is only 4 cents per gallon, when it contains more than 3.2 percent of alcohol, so that a change in those tax rates is imperative, because it is entirely inconsistent at present.

Now, the tariffs on these wines are as follows:

On still wines containing no more than 24 percent of alcohol, \$1.25 per wine gallon. On still wines containing more than 24 percent of alcohol, \$5.00 per gallon. On champagne or sparkling wines, \$6.00 per wine gallon.

Now, the revenues from those sources have not been very great in past years. In 1915 the production of these wines in the United

States was about 32,000,000 gallons, and the revenue \$2,300,000, at which time the average rate of tax per gallon on all grades of wine was 7 cents.

In 1918, however, the production of wine had increased to 51,000,000 gallons and the revenue amounted to \$9,000,000. The maximum receipts before the war averaged nearly \$5,000,000 per annum. Our old tax on wine was about 16 cents per gallon for the light wine containing less than 14 per centum of alcohol and now it is 4 cents.

I think the reason for that change was on account of allowing wine to be brought in more for medicinal purposes.

The problem in respect to wine as to bootlegging and so forth, of course is not so important as it is in the case of distilled spirits.

Now, that is all I have on wine, and to conclude, it might be well to point out in respect to malt liquors and beer, that under the existing law our tax is \$5 per barrel if the beer contains no more than 3.2 percent of alcohol by weight, and if it contains more than that, then the tax is \$6 per barrel under the previous law.

Our revenues from the beer bill of last Spring have been very satisfactory and are somewhat exceeding the Treasury's estimate made at the time the bill was passed.

Mr. LEWIS. How does beer consumption compare now with pre-war consumption?

Mr. PARKER. It has not yet reached the pre-war level.

Senator GORE. Have you got the figures as to the revenue receipts for wine and beer?

Mr. PARKER. I think I can give you those; yes. The pre-war high for beer consumption was 66,000,000 barrels, and the present rate of consumption seems to be somewhere around 27,000,000 to 30,000,000 barrels, so that we are not anywhere near up to our pre-war level of beer consumption.

However, the monthly revenues from beer, which I have before me, are as follows: April 1933, the 1st month, and not a complete month, \$8,000,000; May, \$11,172,000; June, \$12,937,000; July, \$13,924,000; August, \$15,344,000; September, \$13,296,000.

So that we will somewhat exceed the \$125,000,000 to \$150,000,000 I think, as originally estimated.

Mr. McCLINTIC. What was the rate of taxation on beer prior to prohibition?

Mr. PARKER. The rate on beer, as provided in the Revenue Act of 1918, was \$6 per barrel. Our beer bill enacted last spring provided for a tax of \$5 per barrel.

The CHAIRMAN. He means before that.

Mr. McCLINTIC. I mean prior to prohibition.

Mr. PARKER. Prior to the 1918 revenue act?

Mr. KNUTSON. It was \$1.50.

Mr. PARKER. From 1902 to 1914 it was \$1 per barrel. From 1914 to 1916 the tax was \$1.50 per barrel. From 1916 to October 2, 1917, it was \$1.50 per barrel. From October 3, 1917, to February 24, 1919, it was \$3 per barrel. From then on it was \$6 per barrel.

Mr. McCLINTIC. In view of the repeal of the eighteenth amendment, would the brewery have to pay the increased rate per barrel if it increased the alcoholic content?

Mr. PARKER. If a brewery today wanted to make beer of more than 3.2 percent alcoholic content they would have to pay \$6 per barrel.

Mr. McCLINTIC. That is the old rate?

Mr. PARKER. Yes.

Mr. McCLINTIC. Then they can add as much alcohol as they desire, provided they pay the \$6 per barrel?

Mr. PARKER. I think, in connection with the manufacture of beer, it has never been found satisfactory to really add alcohol to it. I think it has to be made at that strength.

Mr. McCLINTIC. Up to a certain maximum, yes; but they could carry it up to about 5 or 10 percent.

Mr. PARKER. They could, and might take the alcohol out, but I never knew them to have a process by which they could add alcohol.

Mr. McCLINTIC. They can manufacture it with a greater alcoholic content?

Mr. PARKER. Yes, they can manufacture it with a greater alcoholic content.

Senator GORE. You say prior to the war the consumption was 55,000,000 barrels?

Mr. PARKER. 66,000,000.

Senator GORE. How much now? 27,000,000 barrels?

Mr. PARKER. About 27,000,000 to 30,000,000 barrels.

Senator GORE. Do you know how many States permit sale now and how many permitted sale when your figure of 66,000,000 was shown?

Mr. PARKER. I can get that information for you but I cannot tell you offhand.

The CHAIRMAN. Are there any further questions?

Mr. HILL. I move the committee now adjourn to 10 o'clock tomorrow morning.

The CHAIRMAN. The hearing is adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 12:30 p.m., the hearing was adjourned until Tuesday, December 12, 1933, at 10 a.m.)

# TAX ON INTOXICATING LIQUORS

TUESDAY, DECEMBER 12, 1933

HOUSE COMMITTEE ON WAYS AND MEANS  
AND SENATE COMMITTEE ON FINANCE,  
*Washington, D.C.*

## JOINT HEARINGS ON REVISION OF THE EXISTING INTERNAL REVENUE AND CUSTOMS LAWS DEALING WITH INTOXICATING LIQUORS

The committee met in joint session at 10 a.m., Hon. Robert L. Doughton presiding.

The CHAIRMAN. The meeting will come to order. The first witness this morning is Hon. Joseph H. Choate, Jr., of the Federal Alcohol Control Administration, and after he testifies the next witness will be the Hon. Edward G. Lowry, Jr., special assistant to the Secretary of the Treasury and a member of the Alcohol Control Administration and a member of the interdepartmental committee on the question of taxes on alcoholic spirits.

Mr. Choate, will you come forward?

### STATEMENT OF HON. JOSEPH H. CHOATE, JR., OF THE FEDERAL ALCOHOL CONTROL ADMINISTRATION

Mr. CHOATE. Gentlemen, I am here without a prepared statement, merely because you asked me to come, and I am here to do anything for you that I or the Federal Alcohol Control Administration can do, but I don't think it will be much.

We have been in existence only about a week, and we have been overwhelmed since then with the task of organization, and particularly with the task of issuing allocation permits to the importers, which was not originally intended to be a part of our task.

We have not yet got our information section working so that we have not the information as to the facts which I know you gentlemen desire. We have not, as such, any real considered opinions on these questions of taxation, except the opinion which I know we all fear that taxation has got to be kept low enough to help keep out the bootlegger.

If you have any particular questions which you would like to ask me, I should be only too enchanted to do what I can.

Mr. BACHARACH. You say you have only been connected with the Government for a week; what is your thought about the tax that should be put on whisky?

Mr. CHOATE. I think the report of the informal interdepartmental committee which investigated the subject, and made a report, which I understand you are to have mimeographed copies of today,

and which will be explained by Mr. Lowry, one of the committee which prepared that report, contains by far the most valuable information on the subject I have yet seen, and I think its recommendations are entitled to great respect.

I am myself impressed by the desirability of working toward an ideal end of this question; that the United States should primarily collect the volume tax and the States the occupational tax, and that while it is necessary to do so, as it probably is in the present emergency, the United States should, if possible, collect the whole volume tax and distribute some of it among the States. I think that can be done, and it would have immense advantages. That is merely my off-hand opinion as a citizen.

Mr. BACHARACH. That is practically impossible.

Mr. CHOATE. I think not. I think the suggestion as worked out in that report can be done.

Mr. BACHARACH. Some of the States are charging \$1 tax and others \$2, and I understand one is charging about \$2.50 or \$2.60. I don't see how you are going to get the States to give up their particular rights.

Mr. CHOATE. As I understand the plan—and perhaps I really should not be dealing with this subject at all—but as I understand the plan, if the United States was to levy perhaps a \$2.60 tax, the State volume taxes would be on top of that, and the inhabitants of those States which levied larger taxes would therefore have to pay very much more for their drink than the inhabitants of other States. The manufacturers within the States which levied such taxes would be at a great disadvantage to the other manufacturers, and the understanding is those State taxes would be very quickly removed, because, of course, those States which levied such taxes would not share in the tax collected by the Federal Government.

Mr. BACHARACH. I think I can safely state for a couple of the Eastern States that they would not agree to such a proposition.

Mr. CHOATE. That is a matter, of course, of which I know nothing.

Mr. BACHARACH. I am speaking about the legislative end of it. It has been given a great deal of consideration. For instance, in New Jersey they have been working on this matter for about 9 months. They have a liquor commission which is agreeable to both political parties, and, I think, the people of the State.

The CHAIRMAN. Right in that connection, if you are through, Mr. Bacharach.

Mr. BACHARACH. No; I was not quite through, but you go right ahead.

The CHAIRMAN. No; you may proceed, Mr. Bacharach.

Mr. BACHARACH. For instance, in Pennsylvania they have agreed by a very decisive vote on a dollar to two dollar floor tax, and New Jersey has \$1. They hope it will work out very satisfactorily.

Mr. CHOATE. One thing I think should be borne in mind, it may not be a matter with which Congress can deal at all, but it is certainly an important feature, and that is the curious reflex action which a high State volume tax may have. In the case of one State which has laid a high floor tax the representatives of some of the distillers in that State came to me the other day and said this is what had happened, as a consequence of the high State floor tax they found

themselves unable to sell in any other State except their own, except at a loss. Their representations as to that situation had led the State to apply the prevailing taxes on whisky manufactured in other States, equal to the floor tax practically, with the result they could still sell in their own State, but the necessity of selling in that State only the very large product that they had, drove them into an intensive selling campaign, which was probably the worst thing for pure temperance that has happened in the United States since election day, I would say.

Mr. TREADWAY. Mr. Choate, provided the idea Mr. Bacharach has suggested is correct, and it would be difficult to establish an agreement between the Federal Government and the States as to the apportionment of the taxation, what would be your views as to a proper tax for the Federal Government to assess in order to protect the Government or the people that want liquor, as far as practical, from the continuation of the bottlegging system?

Mr. CHOATE. I almost hesitate to give my personal views there, because they are vague, and because they are based on no more information than the man in the street has.

I was impressed by the recommendation in the interdepartmental report for the figure of \$2.60, but I am perfectly prepared to find that is a little too high or a little too low, but certainly somewhere between two and three dollars.

Mr. TREADWAY. The \$2.60 is on the basis of apportioning part of that to the States.

Mr. CHOATE. That is true.

Mr. TREADWAY. And if you remove that possibility of apportionment, you reduce the tax, of course.

Mr. CHOATE. That is correct.

Mr. TREADWAY. Then how much do you think would be a proper tax?

Mr. CHOATE. These figures say less 20 percent, because they were assuming that 20 percent would go to the States.

Mr. TREADWAY. So that would be about \$2.10 or \$2.20?

Mr. CHOATE. Yes; something like that, but I hope you will not give much weight to the view I expressed.

Mr. TREADWAY. Yes, but we must have your position.

Mr. CHOATE. If you were conducting this inquiry in 2 months I would say yes.

Mr. TREADWAY. We would have to do it all over again. I wish to proceed along another line for a moment.

You say you are pursued at the present time by importers asking for a quota permit from you?

Mr. CHOATE. Yes.

Mr. TREADWAY. That is under your authority, I understand.

Mr. CHOATE. I ought to explain that. When the Federal Alcohol Control Administration was first designed, it was intended that the work of allocation of these quotas should, until the new organization was well started, that is until February 1, be carried on by a committee of two, one designated by the Secretary of Agriculture and one designated by the Secretary of the Treasury.

They started the work, and it was then realized that it had so close a connection with the Federal Alcohol Control Administration work

that it was not safe to have it done by a separate body, and accordingly it was dumped on the administration—on the Federal Alcohol Control Administration, the F.A.C.A.

That has been a considerable task. I suppose people have allotted quotas before among an industry, but they never have been called upon before to allot quotas among an industry which did not exist. We had nine hundred or a thousand applicants, many of them purely speculators, in fact, with no connection with the importing business, with no resources, no means of distribution, and no responsibility, all clamoring to get into the importing business.

If we had simply distributed the quotas among them all on anything like an even basis, nobody would have got enough to do business with, and the whole thing would have been disorganized.

Accordingly, a system had to be worked out and each application considered separately on its merits, and I had to deal with each of those. The amount of time required has simply left almost no time to the accumulation of facts or the consideration of those facts which would help you in your undertaking.

Mr. TREADWAY. Now, Mr. Choate, that question preceded one I wanted to follow up in this way, having to do with the tariff. This interdepartmental committee recommends consideration of two definite methods there, a trading tariff, so-called, or a permanent tariff. Which of those two methods would, in your judgment, be preferable for the Government to adopt?

Mr. CHOATE. That depends entirely on how long the quota system is continued, and that again, from my point of view, would depend upon the recommendations of the State Department, which is charged with the duty of negotiation.

Mr. TREADWAY. You consider negotiations with other governments for reciprocal favors a desirable procedure, and for tariff rates to be made accordingly?

Mr. CHOATE. It seems to me it has great advantages which ought not to be thrown away.

Mr. TREADWAY. What are its disadvantages?

Mr. CHOATE. Only the general disadvantage of imposing trade values, which we do not like to do any more than we can help.

Mr. TREADWAY. Would there be any objection from the viewpoint of lack of permanency, that it was a make-shift procedure and we don't know from day to day where we stand in our relations with other governments; in other words, that it is purely a New England proposition of horse trading?

Mr. CHOATE. I consider that is so.

Mr. TREADWAY. You would consider the oldtime New England horse trader would be doing about the same thing it is suggested the Government do now?

Mr. CHOATE. That is probably true, but I don't know as I should express any opinion on that. That whole thing is a matter of foreign policy which is not within my province.

Mr. TREADWAY. Isn't that foreign policy subject to Congressional action?

Mr. CHOATE. Of course.

Mr. TREADWAY. You would not overlook the fact that Congressional action in that foreign policy is desirable?

Mr. CHOATE. God forbid.

Senator WALSH. Of course, the New England horse traders have done pretty well?

Mr. TREADWAX. Yes; but on that we had Jamaica rum instead of high-priced champagne.

Mr. HILL. Mr. Choate, referring to the suggestion of fixing import rates for bargaining purposes, how could that be accomplished; it is your thought that, for instance, on what we call hard liquors you might fix one rate for one country's exports to this country, and a different rate on another country's exports here?

Mr. CHOATE. I am not very familiar with the plan, and I realize you might have difficulty in such a scheme with the most-favored-nation's treaties. That is really a matter for the State Department to work out, but I understand the theory is if you have flexible taxes under which the President can in return for favors granted by a foreign nation reduce the tariff, that it can be done along that line without infringing on the most-favored-nation's treaties.

However, you are getting me far from my bailiwick, and I am afraid you will get me into trouble if you keep on along those lines.

Mr. HILL. Perhaps we had better have some representative of the State Department on that question.

Mr. CHOATE. I think in the course of time you will have to.

Mr. HILL. It seems to me it would be a rather embarrassing situation from an international standpoint if you have one rate on liquors from Great Britain, for instance, and another on the same kind of liquors from France, or some other country.

Mr. CHOATE. I can see your difficulty clearly.

Mr. HILL. Of course, you might work it out through classifications and make it general.

Mr. CHOATE. Yes; a great deal can be done through classifications.

Mr. HILL. I want to ask a question or two on the suggestion as to the Federal Government levying the entire volume tax and then allocating to the States a portion of that tax. It has been brought out here that some of the States already have what we call a gallonage or volume tax.

Mr. CHOATE. Yes; that is correct.

Mr. HILL. I assume that under the Wilson Act of 1890 a State could levy a volume tax on liquor—not only those liquors produced within the particular State but on all liquors brought into that State from outside production.

Now, it seems to me that gives them a very effective leverage to protect themselves in their volume or gallonage tax. In other words, if the State of New Jersey, with a volume tax of \$1, levies that tax on whisky that comes in from Delaware, we will say, which had no volume tax, they could force Delaware producers to meet the competition of the New Jersey producers on a uniform basis so far as taxes are concerned.

Mr. CHOATE. I understand that is true, and that is what has already been done in Pennsylvania, and that is exactly the situation that had the unfortunate tried result of giving the distillers in that State no other markets, practically speaking, except in that State, and so compelling them to force sales.

Mr. BACHRACH. I think I can straighten that out; I don't think the Pennsylvania proposition has been quite correctly stated.

Mr. CHOATE. I am merely stating that as it was stated to me.

Mr. BACHRACH. As a matter of fact, Pennsylvania, I understand, passed a \$2 floor tax and if a person had whisky on hand prior to prohibition, or just recently manufactured, then within 90 days you have to pay the State \$2 a gallon. Of course, that is an entirely different proposition than if you had to pay \$2 a gallon when you were disposing of the whisky. That is the reason four distilleries in Philadelphia closed down.

Mr. HILL. What I am getting at, is how you are going to get these States having a volume tax to abandon that and accept the proposition that the Federal Government will have the volume tax and allocate a part of that tax to the State.

Mr. CHOATE. I don't think there can be any forcing about it, but I do think if the Federal Government levied a definite tax of which a share should only go to those States which levy none of their own, that it would be found so disadvantageous for the States and the citizens of those States that do levy a volume tax, that they would cease to do so. That is the only way in which I understand the Federal Government can control the situation.

Mr. HILL. That is the economical situation, but I don't see how you can even create that situation when a State having a volume tax can force the importers into that State to pay such tax, thereby bringing more revenue to the State than that proposed by the allocated method.

Mr. CHOATE. Only that liquor in that State becomes that much more expensive and the bootleggers that much more active.

Mr. HILL. Of course if they have a gallon tax they would probably expect to gather in a great more revenue from that source than if the State took 20 percent of the \$2.60 per gallon levied by the Federal Government.

Mr. CHOATE. Perhaps I can express my idea best by reducing it to an absurdity. Supposing that in some State which was wet, but which had fallen into the hands of a dry legislature, the legislature should levy \$20.00 a gallon volume tax on top of your Federal \$2.60 tax, doing it deliberately as a freak attempt to reestablish prohibition in that State. Of course legitimate whisky would become so expensive that nobody could drink it, and incidentally bootleggers would become active in that State and the law-abiding would begin to protest. It would seem to me that in that State you would then have a situation where the legislature would have to reverse its action and come down to reason.

That is an example of how long the thing would work. I don't say it would work that way on all taxes that would actually be levied by any State legislature, but the tendency seems to be there.

Mr. HILL. I understand you haven't any facts to present to the Committee as to the cost of production of liquor and wine?

Mr. CHOATE. No; but those were taken into very careful consideration by the informal interdepartmental committee of which Mr. Lowry was a member and he can give you considerable information along those lines. I hope you will do your asking for information from him, because he has got it and I have not.

The CHAIRMAN. Would this not be a fact, if you should leave the entire allocation of taxes to the States that cooperate, then would not those States which fail to cooperate—in those States wouldn't the purchasers of liquor have to pay not only the State tax, but the Federal tax, and consequently they would pay that tax and not get any benefit from the Federal tax whatever, or share in the distribution of that tax, and would not that create a resentment, the effect of which would be to have the State law repealed?

Mr. McCLINTIC. That is my idea.

Mr. CHOATE. I should think so.

Mr. McCLINTIC. In the plan submitted by your department, as to those States that do not pass laws and allow whisky to be sold, would they receive a contribution of the supposed \$2.60 tax?

Mr. CHOATE. In the first place, let me say my department has submitted no plan, and cannot submit a plan. It does not know anything yet. As I understand your question, it is, in substance, whether the dry States are going to get anything out of this tax.

Mr. McCLINTIC. Yes; any contribution.

Mr. CHOATE. I should say no, because the whole tax is paid by the wet States, and I would say certainly the contributions ought to be limited to those States from which the tax income arises.

Mr. McCLINTIC. Do I understand you to say no such plan had been submitted?

Mr. CHOATE. No such plan has been submitted by the Federal Alcohol Control Administration. Such a plan was prepared by the informal interdepartmental committee which has been studying the question for the last month, a committee of which Mr. Lowry, of my department, was a member, and which he can tell you all about when he comes on the stand after me.

Mr. McCLINTIC. The reason I asked that question, I understood the proposed \$2.60 tax carried with it a contribution to the States.

Mr. CHOATE. It did.

Mr. McCLINTIC. So that contribution would not apply to the so-called "dry" States?

Mr. CHOATE. No; and that, you see, is very logical, because if the States were paying those taxes themselves, the dry States could not possibly get any money out of it, because there would be nothing for them to tax.

Senator HARRISON. Let me get your reaction on this. I think it is generally understood that we have not enough distilled spirits in this country to supply the demand for the present, and that some will have to be imported if the consumers are taken care of, and that which is imported will have to pay a higher price than that manufactured in the United States, due to the tariff and the Federal tax. What is your idea, during the first year, that the tax might be somewhat smaller, and possibly in the second year, in order to give these people time to adjust themselves to the changed situation?

Mr. CHOATE. I haven't much doubt that is what will happen. I think some care will have to be exercised to keep the taxes lower than later on. But, if I were in Congress, I would not attempt to prophesy, and above all I would not give the bootlegger assurance that the taxes will be higher next year, because if you do, it might lead him to hivy up his accumulated stocks on the theory that against a higher tax he can sell a stock better than he can sell them now.

Senator HARRISON. Of course we have got to consider that the Federal tax on the second year is not to be so high as to perpetuate bootlegging.

Mr. CHOATE. Yes, but I would not try to set it now, because many considerations may enter into it between now and next year which would change all of your views.

The CHAIRMAN. Are there any further questions? Have you concluded your statement, Mr. Choate?

Mr. CHOATE. I have concluded all I want to say and rather more.

The CHAIRMAN. We thank you for your appearance and your testimony.

Mr. CHOATE. You won't want me any more today?

The CHAIRMAN. Not that I know of, and we thank you very much for your attendance.

The next witness will be Hon. Edward G. Lowry, Jr. Mr. Lowry, please state your official connection and the capacity in which you appear.

**STATEMENT OF HON. EDWARD G. LOWRY, JR., SPECIAL ASSISTANT TO THE SECRETARY OF THE TREASURY**

Mr. LOWRY. My name is Edward G. Lowry, Jr., special assistant to the Secretary of the Treasury of the United States and a member of the Federal Alcohol Control Administration.

Mr. TREADWAY. Would you mind repeating that for me?

Mr. LOWRY. I am special assistant to the Secretary of the Treasury and a member of the Federal Alcohol Control Administration.

Senator HARRISON. You are one of those who worked on this report to the President, I understand?

Mr. LOWRY. I was, Senator.

Mr. HILL. You were chairman of that committee, were you not?

Mr. LOWRY. I was.

The CHAIRMAN. You may proceed, Mr. Lowry.

Mr. LOWRY. Mr. Chairman, with your permission, I am available to answer any questions the Committee desire to ask. I don't believe I have any prepared statement to make.

The CHAIRMAN. Are there any questions to be asked of Mr. Lowry?

Senator KING. Mr. Lowry, in your examination of this question preliminary to the submission of the report, you must have reached some conclusion as to the amount of tax that would be imposed by the Federal Government, first for the purpose of revenue, and secondly for the purpose of preventing bootlegging, or reversing it, as some might want to say, first for the purpose of preventing bootlegging and next for the purpose of revenue, and then, secondly, as to whether there can be an allocation of any part of the tax to the States in order to prevent them from imposing volume or gallonage taxes, and speaking for myself, I would be glad to have you discuss this proposition.

Mr. LOWRY. Senator, of course, we started out with the proposition that we wanted to find a tax rate which would not permit the illegal competitor to sell his product in the same market with the legally-taxed distilled spirits.

We took as a basis to start from the best estimate of what it would cost the legal producer to sell his product ex-tax to the retailer, and what it would cost the illegal producer to sell his product.

The best figures that we could get were based on a study made by the investigators for the Rockefeller report. They indicated a substantial spread between the cost of production and distribution for legal spirits and for illegal spirits. The estimated cost of placing legal spirits ex-tax in the hands of the retailer, including reasonable profit, overhead and everything else, was \$1.20 a gallon. The estimated cost of putting illegal spirits in the hands of an illegal retailer was \$4.20 a gallon.

That high figure for the illegal spirits, of course, included protection, bribery, gunmen, and everything down the line in the cost of production, and particularly the cost of distribution appeared to be high for the illegal producer.

That figure was based upon the large scale operation, and not the man who goes around with a couple of quarts in a satchel. We considered it was probably impossible for the legal producer to compete with that latter type of person on a price basis, because his costs of production were not much higher than the legal cost of production, and his cost of distribution practically nothing but shoe leather.

Senator GORE. I understood you to say the cost of illegal liquor was \$1.20 and that of legal was \$4.20, or was it the other way around?

Mr. LOWRY. It is the other way around, \$4.20 for the illegal and \$1.20 a gallon for the legal spirits.

Senator GORE. \$4.20 for the bootleg liquor?

Mr. LOWRY. Yes; on the large scale operation.

Senator GORE. Do those figures cover the cost of distribution?

Mr. LOWRY. Yes.

Mr. VINSON. In arriving at those figures, did you take illegal whisky and legal whisky of comparable quality?

Mr. LOWRY. In each case we were assuming rather a low quality of liquor, and we were not considering the high-priced aged spirits.

Mr. VINSON. I mean they were of comparable quality, and not what is ordinarily called bootlegging liquor.

Mr. LOWRY. That is correct.

Senator HARRISON. Will you for the benefit of the record, tell us who were on this interdepartmental committee, so that we might give such weight to it in the consideration of its findings as it may be entitled to?

Mr. LOWRY. I have the names here appearing on the last page of this report, and I will submit it to the clerk to be included in the record.

(The names referred to are as follows:)

Edward G. Lowry, special assistant to the Secretary, Treasury Department; J. M. Doran, Commissioner of Industrial Alcohol, Treasury Department; D. Spencer Bliss, head of Sales Tax Division, Miscellaneous Tax Unit, Bureau of Internal Revenue, Treasury Department; J. D. Nevius, general counsel, Customs, Treasury Department; Herbert Feis, economic adviser of the State Department; John C. Wilen, counselor of embassy; Harry L. Lourie, chief economic analyst, Tariff Commission; South Trimble, Jr., solicitor, Department of Commerce; Willard L. Thorp, Director of Bureau of Foreign and Domestic Commerce, Department of Commerce; W. A. Tarver, chief counsel, Division of Investigation, Department of Justice (Unit of Prohibition); and Harris E. Willingham, chief, beverages section, Agricultural Adjustment Administration, Department of Agriculture.

Mr. VINSON. Would you break down this \$1.20 figure, please?

Mr. LOWRY. I can only do so in a very rough manner. We considered a cost of production of approximately 50 cents, the balance of that being the cost of distribution and the profit to both the producer and the wholesaler and the retail distributor—no; not the retailer, but I mean the wholesale distributor.

Mr. VINSON. Did you divide the profit between the manufacturer and the wholesaler?

Mr. LOWRY. We did not make any specific division between the two.

Mr. VINSON. In other words, you took 50 cents as the cost to manufacture?

Mr. LOWRY. A little less than 50 cents, say 50 cents as a cost of production and the rest of the \$1.20 being the profit, and the handling, including the bottling and whatnot.

Mr. VINSON. Do you have any idea as to what percentage of that goes to the handling?

Mr. LOWRY. No; we did not attempt to break it down any further than that. We simply took the general experience figures as we found them, and we found a certain amount of disability in getting any specific breakdown of the figures from the industry itself. We tried to get that and we could not.

Mr. VINSON. If you take the 50 cents per gallon cost basis, and \$1.20 per gallon price to the retailer, then you have the profits and the cost of distribution between them, of 70 cents per gallon, or 140 percent, as compared to your 50 cents per gallon basic cost?

Mr. LOWRY. That is true, and there is an additional figure in there of bottling, of course, and that is a considerable item, I believe.

Mr. VINSON. What age whisky are you laying down to the retailer at \$1.20 a gallon?

Mr. LOWRY. It is a rectified whisky on which you can place no age, because it has many ages in it.

The CHAIRMAN. Suppose it should be determined that \$1.50 a quart, or \$6 a gallon, would be a reasonable price for the consumer to pay for the liquor, then take into consideration the fact that the first-cost manufacturer would receive a reasonable profit, as well as all hands through which it will necessarily pass, then what difference would that leave for taxes—what would be the difference between the cost and the \$1.50 a quart, or what figure would you fill in there for the taxes, if I make myself clear?

For instance, if we determine liquor should be sold at a fair price of \$1.50 a quart or \$6 a gallon, then putting in all other costs necessary, what would be the difference, or the amount left, to be covered with taxes?

Mr. LOWRY. I am not entirely sure that I get your question. Perhaps I can clear that up by stating the next step in which we arrive at the figures.

The CHAIRMAN. What would be the highest tax that could be levied, to sell the liquor at \$1.50 a quart or \$6 a gallon?

Mr. LOWRY. It was our belief that it could be a \$2.60 tax if there were no additional State volume taxes. We felt that when the

industry has worked out its initial distribution and production problems that \$1.50 whisky could be sold with this tax. That would probably not be possible in the first few months, but it is our belief that when the present production capacity really got under way, and when a distribution system adequate to the consumptive demands was set up, it would be possible to have \$1.50 whisky with that tax.

The CHAIRMAN. That could bear a total tax of \$2.60 and sell the whisky at \$1.50 a quart?

Mr. LOWRY. Yes; and the interdepartmental committee regarded that figure as being the total burden that the spirits were to carry, because it tied in this recommendation, that a scheme be adopted which would persuade the States not to levy taxes of their own on the same liquor.

Senator HARRISON. On that point was the interdepartmental committee unanimous, that is, on the \$2.60 tax?

Mr. LOWRY. I should say it represented, Senator, rather a compromise of views than a unanimous decision, that that was the exact figure, being an average like.

Senator HARRISON. Some thought it might go a little higher than \$2.60 and some a little lower?

Mr. LOWRY. Yes, sir.

Mr. HILL. What margin of profit did you allow in arriving at that figure?

Mr. LOWRY. We did not know, because we have been unable to get accurate accountants' figures as to just exactly what this industry can make, and what its real costs of production are. We tried to get that, and did not succeed.

Mr. HILL. Were you sure there would be a margin of profit?

Mr. LOWRY. We were reasonably sure there would be a margin of profit.

Mr. HILL. But you do not know what that would be?

Mr. LOWRY. We have had no accountants' figures on that and no real reliable figures that we could go on, but we have given more or less an estimate.

Mr. HILL. In arriving at that figure you necessarily have to consider the cost of production and distribution and add what you feel is a reasonable margin of profit?

Mr. LOWRY. That would be the only way in which you could get a figure on which you could rely, but in the absence of an actual working basis we had to do the best we could.

Senator GORE. Can you tell us what the tax in Canada is?

Mr. LOWRY. I haven't got those figures.

Senator GORE. Did you have any report as to their system of taxes and what the taxes were?

Mr. LOWRY. We made no exhaustive study of that. The Treasury Department made an estimate of revenues based upon various tax rates, and they made in connection with that estimate a study of the effect of the tax rate in Great Britain. That was not done, though, as a part of the work of our committee.

Senator GORE. Is that available?

Mr. Lowry. It is available and it is attached to the interdepartmental committee report.

Senator HARRISON. Was that investigation made by the Rockefeller Foundation?

Mr. Lowry. I think they made a similar investigation, but this investigation was made by our Bureau of Economic Research.

Senator HARRISON. Mr. Lowry, did the interdepartmental committee confer personally with any member of the Rockefeller Foundation in connection with this matter, or merely studied the report of that situation?

Mr. Lowry. We studied the report, and some of us had informal conferences with Mr. Harrison who worked on the Rockefeller report, and had some informal conferences with Professor Gulick who worked on the tax phase.

Senator HARRISON. Who seemed to be the head man in that Rockefeller investigation?

Mr. Lowry. I would not be qualified to say, I don't know.

Senator HARRISON. It would seem to me, Mr. Chairman, if we could get the head man of that organization, if they made that investigation, it would be very well to have him before the committee?

The CHAIRMAN. The Committee will take a note of that and communicate with the proper authority. Do you have anyone in mind, Senator Harrison?

Senator HARRISON. No; I thought Mr. Lowry would know the best man for us to get, or two or more of them, who made this exhaustive investigation.

The CHAIRMAN. The Committee will communicate with the Rockefeller authority and see if they can send someone to give that information.

Mr. TREADWAY. Mr. Lowry, provided the arrangement suggested, that there should be one tax apportioned between the Federal Government and the States, is not acceptable, what would be your recommendation as to the rate? You set a rate at \$2.60 under that arrangement, but what would you consider the proper differential for the Federal Government in case that arrangement was not adopted?

Mr. Lowry. I would think, sir, that one could turn back to the \$2.20 rate which was in effect prior to prohibition.

Mr. TREADWAY. You would recommend that as a suitable rate both for revenue to the Government and for protection against bootlegging?

Mr. Lowry. I would say that was the thought.

Mr. TREADWAY. You almost answer it in your report when you say that about 20 percent should be distributed.

Mr. Lowry. That was the basis on which I made my answer.

Mr. TREADWAY. So that between \$2 and \$2.20 would probably be your recommendation to Congress?

Mr. Lowry. If there would be no attempt made to keep the States out of the gallonage field, and, of course, my information is it is desirable to make that attempt.

Mr. TREADWAY. Please give us a little more detail about the interdepartmental committee; as I understand it, that was an informal group designated by the President.

Mr. LOWRY. Not precisely. The President, I believe, asked the Secretary of the Treasury to make a certain study that was made, or to have it made, and the Secretary of the Treasury requested the various departments to indicate some one or two persons to collaborate in that study.

Mr. TREADWAY. How long was it on the job?

Mr. LOWRY. I should say, speaking from hazy memory now, about 2½ months.

Mr. TREADWAY. About 10 weeks?

Mr. LOWRY. About; yes.

Mr. TREADWAY. Previous to its organization, may I ask your duties as special assistant to the Secretary?

Mr. LOWRY. My duties were to do whatever jobs were allotted to me in the nature of unroutine matters that came across the Secretary's desk, that he wanted done, or wanted assistance on.

Mr. TREADWAY. How long have you been in the Department?

Mr. LOWRY. Since July.

Mr. TREADWAY. Your work, then, had not previously had any connection with this subject?

Mr. LOWRY. It had not.

Mr. TREADWAY. Of course Dr. Doran, whose name comes next to yours, is no longer a Government official?

Mr. LOWRY. That is true.

Mr. TREADWAY. He had had previous experience?

Mr. LOWRY. Probably more than any man in the Department.

Mr. TREADWAY. Now, tell us about those other gentlemen. Mr. D. Spencer Bliss is next, and is head of the Sales Tax Division, Miscellaneous Tax Unit, Bureau of Internal Revenue, Treasury Department—quite a long title—what direct connection did he have with this; did he have anything to do with liquor?

Mr. LOWRY. If I will be forgiven in advance for inaccuracies, because I am not completely familiar with the careers of the various persons on the committee, I will state it is my understanding that Captain Bliss has been with the Treasury a great many years, and that he has been in charge a great many years of all matters relating to liquor taxation.

Mr. TREADWAY. So you consider him an expert on the subject with Dr. Doran?

Mr. LOWRY. Unqualifiedly.

Mr. TREADWAY. Now, Mr. Nevius, General Counsel of Customs, that would have to do with importations?

Mr. LOWRY. That would have to do with importations and duties. I also understand Mr. Nevius has been with the department many years and is thoroughly qualified as a customs expert.

Mr. TREADWAY. Mr. Feis, economic advisor of the State Department, has he had any technical experience along those lines?

Mr. LOWRY. I don't know Dr. Feis's career.

Mr. TREADWAY. Has he been connected with the department for some time?

Mr. LOWRY. I don't know.

Mr. TREADWAY. Mr. John C. Wilen, counsellor of the embassy; first, what is that position?

Mr. LOWRY. I understand Mr. Wilen has been in the diplomatic service for years and has made studies for the State Department of aspects of foreign trade in distilled spirits.

Mr. TREADWAY. So probably he would have been an expert so far as this swapping program of reciprocity is concerned?

Mr. LOWRY. I would hesitate to say, because I don't know.

Mr. TREADWAY. We know Mr. Lourie because he has been before us, and is very efficient. Now, Mr. Trimble, Solicitor of the Department of Commerce, does he qualify as an expert on this proposition?

Mr. LOWRY. There again I do not know Mr. Trimble's experience before he worked on the committee.

Mr. TREADWAY. I assume from his name he is a son of the Clerk of the House.

Mr. LOWRY. That is true.

Mr. VINSON. He is a very capable lawyer.

Mr. TREADWAY. I am glad to know that. Next is Willard L. Thorp, Director of the Bureau of Foreign and Domestic Commerce, Department of Commerce. His work would not lead to expert knowledge on this at all?

Mr. LOWRY. There again I don't know his duties.

Mr. TREADWAY. Then I will not trouble you with the other gentlemen, Mr. Tarver and Mr. Willingham; probably you lack information as to those.

Mr. LOWRY. Judge Tarver was Chief Counsel for the prohibition enforcement unit in the Department of Justice and as such has had considerable experience.

Mr. TREADWAY. So there are several gentlemen on this committee who had previously had experience having to do with this subject?

Mr. LOWRY. I would say, sir, we made an attempt to get together the best experience there was available within the Government departments, in forming that committee.

Mr. TREADWAY. One further question, that has to do with the subject of the tariff, you favor this reciprocal method of an indefinite tariff?

Mr. LOWRY. May I say, sir, that, of course, bears upon whether you want to embark upon a policy of making what you have already referred to as a horse trade. If it is desired to embark upon such a commercial policy, I do favor such a plan.

The plan is calculated to forward such a policy and it is not calculated to operate for any other purpose. If it is not desired to adopt that policy, I would feel that a two-column tariff is unnecessary.

Mr. TREADWAY. Do you feel that under the existing law, particularly the emergency legislation of last spring, the President already has authority of that nature?

Mr. LOWRY. I would doubt whether he had such authority to do the thing which you could do by such a two-column tariff.

Mr. BOEHNE. Mr. Lowry, has the Treasury Department an ultimate goal in view as to the amount of revenue to be derived from the tax on liquor?

Mr. LOWRY. If it has I have not been so informed.

Mr. BOEHNE. Are you in a position to state what the proposed approximately \$2.20 tax would bring?

Mr. LOWRY. I can give you the estimate which the Bureau of Economic Research in the Treasury Department made on that. It is the estimate which the committee used in its investigation. The bureau estimated that a \$2 tax, assuming that the duty remains constant, which, of course, we could not assume, would bring a total revenue of \$265,00,000, of which \$170,000,000 would be excise.

Now, that excise figure itself would be affected by the duty, because, of course, if the duty were raised, there would be less importations, and those imports would pay less excise, so that we cannot isolate any figure.

Assuming a constant duty, the Treasury estimated \$170,000,000 internal revenue at \$2 tax, or \$218,000,000 at \$3 tax. There is no estimate made for a \$2.20 tax.

Mr. BOEHNE. Is that based on a certain particular gallowage production or consumption in this country?

Mr. LOWRY. Yes; it is based, of course, on an estimated consumption.

Mr. BOEHNE. How does that particular figure compare with the figures of the last 2 or 3 years before prohibition?

Mr. LOWRY. Materially below.

Mr. BOEHNE. In other words, if the gallowage produced and consumed would reach the figure of 2 or 3 years before prohibition, we could still have a much less tax and receive the same or more revenue than is proposed in the report?

Mr. LOWRY. That is true. Of course, the estimated revenue is estimated on consumption, and the determination of the amount of revenue is purely a mathematical process.

Senator GORE. Did you attempt to estimate the point at which it would turn?

Mr. LOWRY. The study made by the Bureau indicated that that point had not been reached at \$5 excise, so that they stopped there, assuming that anything beyond that was academic.

Senator GORE. So that in passing upon the question of \$2 or \$5, you would have to be governed by the period at which your consumption would fall off?

Mr. LOWRY. Yes; of course as the consumption would fall off the revenue would decrease.

Mr. COOPER. I would like to secure a little further information as to the basis upon which the estimate was made by your committee. I would like to ask one or two questions. You found that \$1.20 a gallon was about the cost of legal production without the tax, and in that was considered or included what you consider to be the fair profit to the producer and the wholesaler, as I understood a moment ago.

Mr. LOWRY. Yes; everything.

Mr. COOPER. That is all included in the \$1.20 per gallon. I understood you also to state that upon that basis it was thought that liquor could retail at \$1.50 a quart or \$6 a gallon. That is correct, isn't it?

Mr. LOWRY. Not in the initial period, but within a reasonable short period, when production facilities and distribution facilities had been a little more fully developed than they are now.

Mr. COOPER. Now this figure of \$1.20 cost of production, taking the suggested rate as incorporated in your report of \$2.60 per gallon for

tax. would amount to \$3.80 per gallon—that would be the cost to the retailer?

Mr. LOWRY. That is not quite correct, because the wholesaler in figuring his profit and his costs, figures them on the basis of the cost of the liquor plus the tax, because of course the tax is an item of cost to him, since he is dealing in tax-paid liquor, and you will have to pyramid in your costs in the wholesaler's part of handling it.

Mr. COOPER. Of course that would be a comparatively small item.

Mr. LOWRY. No; it is substantial.

Mr. COOPER. You mean the wholesaler's profit on the tax paid item?

Mr. LOWRY. Precisely.

Mr. COOPER. What in your opinion would be the percentage of that?

Mr. LOWRY. It is my understanding from such information we could get that your wholesaler in purchasing distilled spirits makes no differential between the cost of the spirits and the amount of tax, because when he pays your bill as presented it includes taxes, so that he has to figure his profit, his interest, and carrying charges on the basis of the cost of the liquor plus taxes.

Mr. COOPER. On the basis of the cost laid down to him?

Mr. LOWRY. Correct, so that would put the same surcharge, the same interest charge and the same profit on the taxes as it would put on the cost of the liquor itself.

Mr. COOPER. Aside from the pyramiding phase of the matter, of course the \$3.80 would be the cost to the retailer, not considering the pyramiding mentioned by you?

Mr. LOWRY. That is true.

Mr. COOPER. Now, then, of course that \$3.80 from the \$6.00 estimate given by you would leave \$2.20 as profit for the retailer. That would be correct?

Mr. LOWRY. That would be correct, except that there is the additional item of pyramiding on the tax, so that that figure is not correct.

Mr. COOPER. With the exception of the pyramiding it is correct?

Mr. LOWRY. If you disregard the pyramiding it would be true, but I want to make it clear that is only an academic figure.

Mr. COOPER. I understand, but that was the basis of the estimate when this report was made by you.

Mr. McCORMACK. In your departmental report you indicated we might reasonably expect a 3-year war with competition from the organized violators under the prohibition law. Is that correct?

Mr. LOWRY. My memory of it is otherwise. We indicated in 3 years on a reasonable tax program, and taking the other measures suggested by the committee, we would have gotten rid of the bootlegging industry.

Mr. McCORMACK. Of course, it is a question of interpretation. In other words, for 3 years we will have the social problem of the elimination of the organized bootlegger.

Mr. LOWRY. My recollection is it would take 3 years to do that job.

Mr. McCORMACK. And your point, of course, is that the imposition of the tax should be with the view of the accomplishment of

that primary purpose. You say the \$2.60 tax imposed by the Government alone might possibly permit of the sale of \$1.50 a quart whisky to the consumer, but you are quite doubtful whether or not that will bring about the result.

Mr. Lowry. One has to be doubtful.

Mr. McCORMACK. Wouldn't it be much better to have a tax of about \$1.75 at most for the Federal Government and you would then be certain to be adopting a tax policy which would be completely consistent with our primary social purpose of the elimination of the continuance of the bootlegger under repeal?

Mr. Lowry. We felt that about the best we could do was to take the best estimate we could get. We tried to get actual costs and we did not succeed. We did not feel that it was necessary or desirable to cut below the estimate that we believe to be about right.

Mr. McCORMACK. Of course, your estimate, taking your \$2.60, with the 20 percent allocation to the States, would bring the basic Federal tax down to \$2.08 a gallon, wouldn't it?

Mr. Lowry. Approximately.

Mr. McCORMACK. In considering that, did you weigh very closely the line of demarcation between the maximum tax and the elimination of the immediate social problem of organized bootlegging?

Mr. Lowry. That is true; we computed the tax as high as we thought practical and at the same time permit the legal industry to compete with the bootlegger.

Mr. McCORMACK. You also agree that the immediate objective would be the elimination of the organized violator of the law?

Mr. Lowry. We were entirely in accord on that.

Mr. McCORMACK. It would be for the best interests of the country for a tax to be imposed which would assure the accomplishment of that objective rather than one which would leave it in a field of uncertainty?

Mr. Lowry. We agree on that. We simply felt it was our job to find a tax which would yield the maximum in revenue, consistent with the policy in this line, without straying too close to the line. We would agree we do not want to place the tax too high.

Mr. McCORMACK. If it is a question of fifty or seventy-five million dollars in taxes, or the establishment for the time being of a tax system which would prevent competition by the illegal producer and seller, it is far better to have brought into the treasury fifty or seventy-five million dollars less, and try to have a tax schedule which would be certain as to whether we could accomplish our main social objective. Is that correct?

Mr. Lowry. That, I believe, was the unanimous feeling of the committee. May I say, in measuring this tax, we not only took into consideration the estimated cost that the illegal producer had to face, but we took into consideration two other factors that I believe are important. First, we thought the general public, or believed they would rather buy legal than illegal distilled spirits, they would rather buy it from a store they could go back to and kick if there was something wrong, and where they knew what they were getting. We also believed that the illegal operator has got to make a considerably wider margin of profit than the legal operator, because it is only in that wider margin that there lies the incentive in violation of the law.

Mr. McCORMACK. Of course that margin would have to be wider if the illegal operator was trying to establish a new enterprise, than carrying on one pretty well established for 14 years?

Mr. LOWRY. That is true, but there has still got to be that margin there.

Senator GORE. You discount the lure of forbidden fruit, do you not?

Mr. LOWRY. I doubt if there was any lure in that particular forbidden fruit.

Senator GORE. Will you estimate the revenue on the basis of the \$3.00 tax and the \$2.00 tax?

Mr. LOWRY. On the basis of the \$2.00 a gallon excise tax, \$170,000,000; and on the basis of the \$3.00 a gallon excise tax, \$218,000,000.

Senator GORE. It would be about the same volume?

Mr. LOWRY. No, the volume would fall off.

Senator HARRISON. On the basis of consumption in gallons what is it?

Senator GORE. Eighty-five in one and about seventy in the other.

Mr. LOWRY. I don't believe those sheets were attached to this report, and the only consumption estimate which was given was 105,000,000 gallons, of which 80,000,000 gallons would be domestically produced.

Senator GORE. On the basis of \$2 there would be 85,000,000 gallons, and on the basis of \$3 there would be about 70,000,000 gallons. I did not get the odd figures.

Mr. LOWRY. The actual proof sheets are not attached here.

Mr. BACHARACH. Mr. Lowry, I understood you to agree with Mr. Cooper's figures as to the cost of whisky and other distilled liquors—\$3.60. In that you did not take into consideration any State tax or municipal tax?

Mr. LOWRY. No. These were entirely ex-tax figures.

Mr. BACHARACH. But in answer to Mr. Cooper you did.

Mr. COOPER. Will the gentleman yield?

Mr. BACHARACH. Yes; I yield.

Mr. COOPER. In that connection, though, you did figure the distribution of 20 percent of the \$2.60 to the States?

Mr. LOWRY. No. I wonder if I understand the question. As I understand, the question was whether the \$1.20 rate, plus the excise, which was then placed on for the purpose of asking the question, had in it any State taxes. It did not. The \$1.20 rate from which we began to build was ex all taxes.

Mr. BACHARACH. Of course, your \$1.20 did not have any State taxes in it. I realize that.

Mr. LOWRY. No.

Mr. BACHARACH. But in your national tax you assume that the States are going to relinquish their rights in the liquor problem and take their money from the National Government.

Mr. LOWRY. That is true; and it was only on the basis of that that we recommended \$2.60.

Mr. BACHARACH. In other words, your idea is that we might just as well quit working as State governments and just let the National Government run us in everything. I do not believe that the people in our section are going to stand for any such proposition. In addi-

tion to that, I think you should figure in a municipal or county tax. Of course, every one of them puts on a license tax, or whatever you may call it.

It seems to me we should face the facts. I question whether you are going to be able to sell your whisky at a dollar and a half a quart unless the Government reduces its tax.

Mr. LOWRY. If that whisky has got to bear the burden of State volume taxes, the committee agrees with you. This figure was based upon the assumption that a plan could be worked out under which there would be only a single volume tax on that whisky.

Mr. BACHARACH. How old would the whisky be that cost \$1.20? What would be the age of it?

Mr. LOWRY. It would be a rectified or blended product, and would be made up of whiskies of varying ages, so that you really could not tell.

Mr. BACHARACH. In other words, it would probably be what we call "shook-up" stuff. [Laughter.] They would make it overnight with some alcohol and some aged whisky. It seems to me there should be some reference made to that, because, as you know, in the whisky business whisky which is aged will sell for a great deal more than whisky that is not aged.

Mr. LOWRY. In all our figures we went on the basis that we would take what would be a more or less standard product in the initial year or two. There will be very little straight aged whisky in that period.

Mr. VINSON. In order to keep the record straight, in the \$3.80 figure that we have been using, in any event, there would be 52 cents of that amount that could be credited against volume taxes in the States if the allocation method proposed by your committee were not put into effect?

Mr. LOWRY. I am not sure, sir, that I see exactly the point.

Mr. VINSON. You have \$1.20 as the price per gallon laid down to the retailer. You have \$2.60 tax recommended by the interdepartmental committee.

Mr. LOWRY. Yes.

Mr. VINSON. That makes a total of \$3.80. Now, in that \$2.60, and consequently in the \$3.80, you have a 52-cent tax that would be credited against any volume tax levied out in the States if the allocation method proposed by you were not put into effect?

Mr. LOWRY. Yes; that is true, on the assumption that the committee's recommendation would involve knocking 52 cents off that rate.

Mr. VINSON. Now, I should like to ask you, as a matter of business practice and as a matter of fair accounting, what rule in business or economics is there that justifies a profit to be figured on the tax paid, other than taking into consideration the interest charge for the money involved in the payment of the taxes?

Mr. LOWRY. I should hesitate to go into the fairness or otherwise of such a procedure, because we did not study the matter from that point of view. We simply took the facts as we found them; and we understood that a wholesaler dealing in liquor simply regarded the tax which had to be paid before he could get the liquor as a part of the cost of the liquor.

Mr. VINSON. I can understand that that would be a very pleasing way to take the base in arriving at the profit. If you figured on a 20 percent profit or a 25 percent profit, you would have a larger base. But other than the interest charge for the money used, wherein has he the right to figure the tax in the cost of the article sold?

Mr. LOWRY. There again, sir, I do not feel qualified to speak. I should think that some member of the industry should be called upon to justify that practice, if you feel that it needs justifying. I just do not know. We understand that it is done.

Mr. VINSON. When you get down to the cost of a product in the absolute, do you think that it is proper to figure in the tax?

Mr. LOWRY. I had not given the matter any consideration, but it does seem to me that your wholesaler does not greatly care why he has to put his money out. The fact remains that he has had to put his money out. He has had to go to his bank. He has had to have a larger investment.

Mr. VINSON. I realize the question of interest charges.

Mr. LOWRY. Is it not perhaps a little more than interest charges? I mean, that is the burden of his overhead.

Mr. VINSON. Let us take an example. For instance, you have a plant that cost you \$100,000. What do you pay dividends on? Do you pay dividends on the amount of money you borrowed to pay the tax, or do you pay dividends—I am speaking now of a fair return—upon the investment?

Mr. LOWRY. I assume, sir, that you pay it on the investment. As I say, this is wholly outside my field.

Mr. CROWTHER. Mr. Lowry, of course you have two problems that you have been considering, tied together—the social and the economic problems. Of course the main thing that you have had in view, out in front of you all the time, has been revenue. That is one of the things; is it not?

Mr. LOWRY. That is one of the factors.

Mr. CROWTHER. The very important necessity of revenue at this time. In connection with the suggestion that a part of the revenue be given to the States, have not the States all through this period been notified, at least by implication, led to believe that they would have an opportunity, with the passage of the repeal amendment, to tap a great new source of revenue, and relieve them of taxation? That has been the general argument during these last few months; has it not?

Mr. LOWRY. That has been my understanding.

Mr. CROWTHER. Of course it resolves itself into this simple proposition in my mind: If the tax is too high, the bootlegger is going to continue to exist. He will still be in the picture. If the tax is too low, the revenue is going to be intensely disappointing to the Treasury and to the people of the country.

For instance, you say here that at \$2 the revenue would be \$170,000,000. That is correct, is it?

Mr. LOWRY. The excise revenue; yes.

Mr. CROWTHER. Yes; that is the excise tax, \$170,000,000. Of course, we were told for a long time that beer would bring a revenue of a half-billion. Of course that never was a correct statement, but it looks now as though it would bring about \$135,000,000. Mr. Lourie, of the Tariff Commission, testified that there

would be about 27,000,000 barrels made this year, at \$5 a barrel, which amounts to \$135,000,000. Now, \$135,000,000 for beer, plus \$170,000,000 for spirits, figures up about \$305,000,000.

From that you must subtract \$227,000,000 in taxes that are to be repealed, or for which the proclamation has been made now—taxes that were laid for the amortization of the \$8,300,000,000 in the N.R.A. Act. They do not all go off immediately. Some go off in January, some in July, and some at the end of such fiscal year as the corporations elect to take, as I understand. Two of them go off in January, one in July, and the other one some time during next year. Now, \$227,000,000 subtracted from \$305,000,000 leaves a very small sum in revenue.

Mr. LOWRY. That is true, sir. There are two other items of revenue on the credit side that you have omitted.

Mr. CROWTHER. Yes; wines and imports.

Mr. LOWRY. There are the wines, and there are the import duties, which will be substantial.

Mr. CROWTHER. How much, roughly, would they figure, do you think?

Mr. LOWRY. On the basis of the present excise rate and the present import rate, \$5 and \$1.10, the Treasury estimated imports of about 20,000,000 gallons of distilled spirits, which would be \$120,000,000 plus there.

Mr. CROWTHER. And how much on wines?

Mr. LOWRY. A total customs and internal revenue of about an additional \$30,000,000.

Mr. CROWTHER. That would make about \$210,000,000 after you take out the \$227,000,000 that is no longer a source of revenue. I am afraid that will be very disappointing. I saw the statement made yesterday that the tax of \$2.20, or some similar tax, would bring \$400,000,000; but I am afraid they forgot to subtract the \$227,000,000 that will go off automatically, and have gone off now by proclamation of the President.

Mr. LOWRY. A great many people estimate the consumption materially in excess of the Treasury estimate.

Mr. CROWTHER. In excess of it?

Mr. LOWRY. Yes; so that it may be that that higher figure postulates a greater consumption than the Treasury and the committee thought would probably take place. I may say that some members of the committee thought that our estimates of consumption were low.

Mr. CROWTHER. I am glad that they are on the safe side. I think the Treasury have always tried to make conservative estimates when they have been before us, and I am glad these estimates are conservative. If they are not conservative we are going to be immensely disappointed as to the amount of revenue received.

It is a very delicate question. I think it resolves into that one proposition: If the tax is a bit too high, you have the problem of the bootlegger still with you. He is still in the picture. If it is too low, the revenue is going to be very disappointing to the people of this country, who have been led to believe—I have seen it in the press time and time again—that the total revenue would be around a billion dollars. Half a billion dollars has been used frequently.

Senator HARRISON. Mr Lowry, so that we may remove any confusion about this revenue, it is natural to suppose that the consumption will not be as great in the year 1934 as in 1935. The committee took that into consideration; did they not?

Mr. LOWRY. We did; yes.

Senator HARRISON. Mr. Parker—who testified yesterday, and who has worked up with his staff some figures—states that in 1935 it is his opinion, and that of those who worked with him, that the consumption would be around 140,000,000 gallons. Is that far off, in the opinion of the committee?

Mr. LOWRY. We did not, as a committee, make any estimate beyond the first year.

Senator HARRISON. If it is 140,000,000 gallons, and 100,000,000 gallons of that is produced in this country, at a \$2.20 rate, say, that would be \$220,000,000; would it not?

Mr. LOWRY. Yes; it would. I may say that if it were 140,000,000 gallons next year, substantially in excess of 100,000,000 gallons probably would be produced in this country.

Senator HARRISON. I was talking about 1935, not 1934. Now, if it was 140,000,000 gallons, and we produced 100,000,000 gallons in this country, that would leave 40,000,000 to be imported; and if we kept the tariff at \$5, and it paid \$2.20 in addition to that, that would be \$7.20 times 40,000,000; would it not?

Mr. LOWRY. It would.

Senator HARRISON. Somewhere around about \$220,000,000 or \$240,000,000?

Mr. LOWRY. I did not make the calculation.

Senator HARRISON. About \$280,000,000 plus. That would be about \$500,000,000 on that item if those facts are right, not taking into consideration the wine item. Is that right?

Mr. LOWRY. That is right.

Senator HARRISON. So if that were true, and \$227,000,000 comes off by virtue of the proclamation of the President in pursuance of the law on capital-stock tax, and half a cent a gallon on gasoline, and the dividend tax, you would have remaining then somewhere around \$275,000,000 on those figures to reduce taxes, would you not, on the \$2.20 basis, if those figures are correct?

Mr. LOWRY. Assuming all the figures—the consumption figures and the tax figures.

Mr. CROWTHER. If I may interrupt, the only difference between those figures and mine is the fact that I have taken Mr. Lowry's base of \$170,000,000, as against the much larger figures that Senator Harrison has taken on the presumption of increase up to 1934.

Mr. FREAR. Mr. Lowry, I understand that two of the important elements you have been suggesting to the committee in determining the amount of money that is to be received are consumption and bootleggers; that is, consumption on one side as to the amount to be received, and bootlegging competition that may result. That is true; is it not?

Mr. LOWRY. That is true.

Mr. FREAR. You may have made it clear to the committee—I am not sure; it is not clear to me—what elements go into that bootlegging proposition that run it up to \$4.20, according to figures you gave us.

Mr. LOWRY. That figure is based upon the best investigation that confidential agents of the people making the Rockefeller report could get at. It is admittedly, of course, guesswork to a considerable extent. It is a figure which would vary with localities. It would probably be low for New York. It would be high for Chicago and Detroit.

Mr. FREAR. Would you expect the committee to take it blindly, or can you give some elements that go into this? You speak of bribery as one of the elements. You speak of gunmen as another. Have they made some estimate you can submit to show how this bootlegging competition figures just exactly \$4.20?

Mr. LOWRY. No, sir; that is frankly an estimate.

Mr. FREAR. That is, it is a guess—purely a guess?

Mr. LOWRY. It is a guess based upon such data as is available, which, of course, is bound to be more or less unreliable, and is bound to be more or less patchwork.

Mr. FREAR. What is it to be in New York State?

Mr. LOWRY. We have no figures on that.

Mr. FREAR. None at all?

Mr. LOWRY. No. They took a reasonable average.

Mr. FREAR. This bootlegging proposition, of course, would be in competition with all those who are licensed, and who would seek to put it out of business?

Mr. LOWRY. That is true.

Mr. FREAR. That has been considered in making that basis?

Mr. LOWRY. That has been considered in making the basis. We considered that given a legal product which could be offered at a comparable price for a comparable product, the large illegal industry would go out of existence because of the additional factors, the merchandising factors, in favor of the legal product.

Mr. FREAR. With the uncertainty that exists, how can you figure so definitely, between \$1.40 and \$2.60, figures you have been giving us, with that element purely a guess as to the competition of the bootleggers?

Mr. LOWRY. Of course you cannot figure with certainty, and we realize that we are not figuring with certainty. We simply took the best information that was available and recognized its imperfections.

Senator WALSH. Mr. Lowry, I understood you to say that your committee favors allocating 20 percent of the revenue to the States.

Mr. LOWRY. That is the recommendation.

Senator WALSH. On what basis is that allocation to be made—population, wealth, or consumption?

Mr. LOWRY. It is to be made on the basis of a formula taking into account the relation between total production plus consumption in the individual State, and total production plus consumption for the entire country.

Senator WALSH. Can you illustrate that?

Mr. LOWRY. Yes.

Take any State. Take a State which is a high producer. That State would figure its entire production in gallons and its entire consumption in gallons. You would add the two together. You

would then take the entire production for the country and the entire consumption for the country and add those two together. The percentage that the one bore to the other would be the percentage which that State was entitled to of the 20 percent allocated to all the States.

We weighted that factor somewhat to take cognizance of the fact that distilled spirits could bear a higher tax and had greater tax potentialities than wine and beer, and we figured the relative tax potentialities on the basis of the proposed Federal rates. So the actual formula read:

The production plus consumption of wine and beer, plus 16 times total production plus consumption of spirits, as compared to comparable figures for the entire country.

Senator WALSH. In other words, the State that drinks the most will get the most?

Mr. LOWRY. No; not necessarily—the State which on the record shows that it could have received for itself a higher tax either on the basis of production or consumption. We used both factors, sir, to take cognizance of the fact that some States were high producers and some were high consumers. We recognized that the formula was rough, but it worked a certain rough justice in favor of both.

Senator GORE. I did not get your point where you stated "16 times the distilled spirits." Please restate that part of your formula.

Mr. LOWRY. The share of an individual State would be calculated on the basis of the total production plus the total consumption of beer and wine in that State—

Senator GORE. Now, wait. That is the production of distilled spirits?

Mr. LOWRY. No; beer and wine—the total production plus the total consumption of beer and wine.

Senator WALSH. You separate those from distilled spirits?

Mr. LOWRY. We separate them.

Senator GORE. Do you separate both the production and the consumption?

Mr. LOWRY. Yes. Take the total production of wine and beer, plus the total consumption of wine and beer, plus 16 times the total consumption of distilled spirits, plus 16 times the total production of distilled spirits, for the State and for the country. It is 16 to 1 because we recommended a 16-cent beer tax and a 16-cent wine tax and a \$2.60 distilled-spirits tax.

Senator HARRISON. Mr. Lowry, I am somewhat interested in the State of Mississippi. Suppose Mississippi did not produce any liquor and did not consume any liquor, which, of course, it does not: What would it get back out of this proposition? [Laughter.]

Mr. LOWRY. Nothing, Senator.

Senator GORE. Just what it produced and consumed. It would come out even.

Senator KING. Mr. Lowry, in the figures which you submitted did you take into account the revenue derived from 3.2 beer?

Mr. LOWRY. We did.

Senator KING. And you returned to the States 20 percent of that?

Mr. LOWRY. Yes.

Mr. EVANS. Mr. Lowry, how many dry States are there now, since the repeal?

Mr. LOWRY. I believe that at the moment there are only 19 wet States.

Mr. EVANS. Only 19 wet States. These other States that are now dry get nothing on production at the present time; do they?

Mr. LOWRY. They would get nothing on production unless they in fact produced. I believe there is some possibility that in some States distilleries will be allowed to operate and ship out under bond.

Senator GORE. Have you computed the total census population in the 19 States as compared with the whole country?

Mr. LOWRY. I have not. I believe it is very high, though.

Senator GORE. I supposed so.

Mr. EVANS. What would those dry States get on consumption, if anything?

Mr. LOWRY. Nothing.

Mr. EVANS. Now, with reference to this distribution of 20 percent, what about the States that permit municipalities to tax? All of them except very few—probably one, I understand—permit that.

Mr. LOWRY. It is my understanding that most municipal taxes take the form of a license tax and not the form of a volume tax.

Mr. EVANS. They may or they may not. Is not that true?

Mr. LOWRY. That is true. We assumed that the necessary steps would have to be taken by the State to see to it that no political subdivision of the State levied a volume tax; that this offer to the States is based upon the fundamental proposition that the liquor in question bears only one volume tax, however imposed or by whom imposed.

Mr. EVANS. That is a thing that no State could guarantee except through an amendment to its constitution. For example, the State of California has just voted all the power of taxing and control over to the State; so in the State of California no municipality or other subdivision of the State has any power whatever now touching this problem. I understand that is probably the only State in the Union in that status. The other States and municipalities would have the power to tax for any purpose for which the State had power to tax; would they not?

Mr. LOWRY. We did not explore the State law of all the States. It is my vague understanding that in a great many States the State has power by legislation to determine what the municipalities may or may not do; and in those States it could, of course, be taken care of by legislation. We might find some constitutional difficulties in some States.

Mr. EVANS. In any event, this proposal to distribute 20 percent to the States involves a great many complications; does it not?

Mr. LOWRY. It does, and we frankly said so in the report.

Mr. EVANS. And, really, it may prove to be impracticable because of the varying conditions in the States and their attitude?

Mr. LOWRY. We did not so believe. We saw the difficulties and recognized them and stated them; but we thought the end to be achieved was so desirable, and that the benefits to the States were so substantial, that probably, as a practical proposition, it could be worked out.

In the first place, the State is relieved from the expensive job of collecting a liquor tax; and it is an expensive job. It requires a great deal of supervision.

In the second place, the State is relieved of the difficulty of imposing a tax on producers within the State in order to raise revenue and having those producers move to some other State that does not impose a tax.

In the third place, the State gets the advantage of the lower price for liquors arising out of such a scheme, and the consequent greater ease in putting down the illegal industry.

Mr. EVANS. Can you state whether any other State than California has voted the control over exclusively to the State?

Mr. LOWRY. I do not know.

Senator KING. Mr. Evans, may I ask you a question?

Mr. EVANS. Yes.

Senator KING. In view of the recent constitutional amendment, I assume, to which you referred—

Mr. EVANS. Yes.

Senator KING (continuing). Are municipalities denied the power to license the vending of liquors, wines, or beers?

Mr. EVANS. That is my understanding, Mr. Senator; yes. There is no power at all now in California except in the State legislature, as I understand. I am quite sure that is correct.

Senator KING. I think it is vital that we take cognizance of the fact that prior to prohibition there was no gallonage tax imposed in any State.

Mr. EVANS. I do not know what the facts were about that.

Senator KING. And I think the talk we are indulging in here will encourage the States to resort to that plan for the purpose of obtaining revenue.

Mr. EVANS. I might state, in that connection, that my understanding is that one of the reasons why this thing was proposed in California was the threat, or rather the anticipation, that in the event of repeal all these smaller communities and varied sections would undertake really to effect prohibition by attempted legislation; so I assume that is a thing which is probably quite general throughout the country.

Senator KING. Then you would not have local option in your State?

Mr. EVANS. We cannot have any more local option in our State.

Mr. McCORMACK. Mr. Lowry, I was very much interested in your reply to Senator Harrison's question, and I sympathize with the Senator very much if any such plan should go into operation; but this thought entered my mind: There are some States in the Union that produce liquor but do not consume it under their law. Why should they get any money and Mississippi not get any at all?

Mr. LOWRY. Because they have the power.

Mr. McCORMACK. But they do not consume.

Mr. LOWRY. But they have a tax potentiality there by virtue of the fact that they can levy a production tax.

Mr. McCORMACK. Offhand, let me say that I am thinking of a State such as Kentucky, for example.

Mr. VINSON. We manufacture medicinal liquor down there. [Laughter.]

Mr. McCORMACK. Why should a State that produces, and then prohibits the consumption, receive any of this rebate?

Mr. LOWRY. Because it is purely practical.

Mr. McCORMACK. Why do we not go a step further, then? Why would not the fair proposition be for a period of 2 years to let all of the States of the Union have an opportunity to pass on this question? In many States the legislatures do not meet, and there are constitutional prohibitions which take time to submit to the people. Why would not a fair proposition be—if any such plan was to be considered—to provide for 20 percent for a 2-year period, based on population, to let every State have an opportunity then of considering this question, and give them an opportunity of changing either their constitution or their local law? Why would not that be a fair proposition for at least a period of 2 years?

Mr. LOWRY. We used the other basis, sir, because it seemed to us that it came closer to achieving the thing which we wanted to do, which was to persuade the individual State not to levy a volume tax.

Take the specific case which you put—a State in which by law distilled spirits cannot be sold, but in which they can be manufactured and shipped out in bond. That State has the power to levy a substantial production tax on that liquor before it lets it out. It is a condition and not a theory.

Mr. McCORMACK. True, but—

Mr. LOWRY. It will levy that tax unless it is given a better offer. A better offer would be one which gave it a share in the general revenues more comparable to what it could collect for itself, and which did not give to States which did not have that taxing power a share of the revenue.

Mr. McCORMACK. Of course, on the other hand, if you have any scheme like this, it might be well to have a refund to the States on population without regard to production or consumption. Then the dry States would let the wet States alone, and they would not start a demand for any more prohibition in the future, and they would then be getting some revenue from the Federal Government. So, from a practical angle, that might be a better solution for the whole country.

Mr. LOWRY. I should fear you would then find you had not enough left to offer to the States which could impose their own taxes to persuade them not to do it.

Mr. VINSON. I think, Mr. Lowry, that when the distinguished gentleman from Massachusetts thinks the thing through, his sense of fairness will show him, as it did the interdepartmental committee, that the State that produces the thing to be taxed certainly is in the picture.

Mr. LOWRY. That was what we felt—not only from the point of view of fairness, but from the practical proposition that you had to offer them something.

Mr. McCORMACK. There is no controversy between my friend from Kentucky and myself in that respect; but I have a feeling that there are a lot of other States that do not produce and do not consume that might demand a little consideration. It is a practical question.

Mr. KNUTSON. Mr. Lowry, would not the plan advanced by the interdepartmental committee, proposing to allocate a proportion of

the receipts to the States, based upon production, amount to a premium to produce?

In other words, take the State of Kentucky, with numerous distilleries: Kentucky would receive a certain amount based upon the production of those distilleries, whereas the State of Utah, where they are all law-abiding, a State which produces nothing, would receive nothing upon that basis.

Mr. LOWRY. If you mean, sir, to ask whether such an offer would be an incentive to States desiring revenue to repeal their dry laws in order to get that revenue, I assume that it might be some incentive, although I do not know how large an amount the State would get. If you mean to ask whether it would speed upon the actual volume of production in States which permitted production, I should doubt it, because the person who is determining the volume of production is the distiller himself and not the State; and the distiller himself is not particularly interested in the amount of the tax that the State gets back.

Mr. KNUTSON. Would you not, in effect, place a premium on production, and encourage every State to produce?

Mr. LOWRY. Bearing in mind that distinction, a premium on the right to produce, perhaps. A premium on the volume of production I should doubt.

Senator KING. Mr. Lowry, did you consider the question arising from the fact that prior to prohibition no State did impose a gallonage tax, the wisdom of paying no attention at all to that feature of this question, letting the Federal Government impose such tax as it sees fit, assuming that the States may not impose a gallonage tax, and awaiting the result? If, at the end of a year or two, we found that the States had imposed heavy gallonage taxes which interfered materially with the amount which the Government might have, or at least there was such a heavy burden of double taxation as to cause a revision of any legislation by Congress, it might then be taken up; but did you consider the question or eliminate the question of the States imposing a gallonage tax, and just submit a bald proposition for a Federal tax?

Mr. LOWRY. Senator, we considered that; but, based upon such developments as we had been able to observe at the time the report was submitted, the indications were that the States would not in fact refrain from entering the gallonage field; that the need for revenue, and what some of the States had already done, indicated a probable intention to enter into that field. We felt that if there was a widespread entrance into that field, and if the State taxes were substantial, the problem of coping with the illegal industry and of having an orderly post-repeal period for the development of the legitimate industry was seriously endangered; and we recommended this plan because we considered the emergency great, knowing, as I have said, that the plan had imperfections, and that it had difficulties in it, but we believed it was practical and could be worked.

Mr. COOPER. In that connection, Mr. Lowry, did the experience of the Government with reference to the revenue from beer, which is already legal, give any material assistance in considering that question?

Mr. LOWRY. No material assistance, because, so far as we could find out, with the advent of three and two tenths percent beer the previous substantial traffic in illegal beer more or less stopped.

Mr. COOPER. What I had in mind was this: Prior to prohibition, of course, on beer along with spirits and other beverages a gallonage tax was levied by the Federal Government. That is true; is it not?

Mr. LOWRY. Yes; a very low gallonage tax.

Mr. COOPER. Now, then, we have had a limited experience since beer has been legalized. What does the study of your committee reflect with reference to the attitude of the States toward still allowing the gallonage tax to the Federal Government, or whether the States have come along now and levied a State beer tax?

Mr. LOWRY. A substantial number of the States have levied a beer tax. I cannot tell you how many, although we did have the figures at one time. But the problem is not comparable, because the tax which is levied on beer by the Federal Government or by the State governments is not high enough to make a differential under which it is profitable to operate illegally.

Mr. COOPER. But in that connection the fact remains that the recent experience of the Federal Government with the beer tax rather indicates that the States are going to levy their taxes?

Mr. LOWRY. It does; and the same thing is true with regard to distilled spirits insofar as the States have acted.

Mr. McCLINTIC. Mr. Lowry, I should like to know if your committee gave consideration to the question as to whether or not Congress had the absolute power to pass an estate tax because the States accepted that plan, thus providing a revenue to the States?

Mr. LOWRY. There is no proposal here, sir, to force the States to adopt the plan. It is a free offer.

Mr. McCLINTIC. What would be the result if 75 percent of the States accepted it, and the other 25 percent did not?

Mr. LOWRY. The 75 percent which accepted would get their share. The 25 percent which did not accept would not get their share.

Mr. HILL. It would remain in the Federal Treasury.

Mr. McCLINTIC. I should like to ask you another question. Assuming that if you put into effect the Government's plan you would naturally bring about a large reduction in personnel in the various States which would have to be employed if necessary to levy State taxes, the amount of profit that goes to the State tax has been figured out here as approximately 52 cents per gallon. Did the committee take into consideration whether a State would profit or lose thereby in that computation?

Mr. LOWRY. We did. May I say, first of all, you said that it would necessitate a reduction of personnel.

Mr. McCLINTIC. Yes.

Mr. LOWRY. It would, of course, in those States which have already imposed gallonage taxes and set up a personnel to collect them. In those States which have not, it would not. We did take into consideration whether this would be enough of a share to persuade a State not to levy a tax of its own.

Mr. McCLINTIC. The point I was trying to get at was this: Would the 52 cents per gallon pay a State net as much as a State that levied

a floor tax and another form of tax, taking into consideration the fact that the State that received the contribution from the Government would have practically no expense in the way of supervision?

Mr. LOWRY. We did take that into consideration. The figure of 20 percent was more or less roughly arrived at. It could be made higher or lower if the Congress were interested in such a proposal. We thought it was necessary to get a figure high enough to give the State as much or almost as much as it could reasonably expect to get for itself. Now, of course a 52-cent share with no expense is equivalent to a substantially larger gallonage tax if the State has to go to the expense of collecting. We considered that if a State got much above 50 cents on a gallonage tax it was getting to the point where, for social and economic reasons, it would find it undesirable to impose and collect such a tax, and that various factors that could not be escaped would tend to keep down the State tax. They may start off high.

Mr. McCLINTIC. Did the committee take into consideration the interest that would be taken by a State in respect to enforcement where they levied a tax, as compared with a State that did not levy any tax and received this contribution from the Government? In other words, would the States make a greater effort to enforce the law and to do away with the illegal production of liquor where they levied their own tax in comparison with a State that received its contribution wholly from the Federal Government?

Mr. LOWRY. We did not consider that. My own feeling on that subject would be that the reasons which impel a State to enforce laws regulating the traffic in distilled spirits would be largely otherwise than the question of a few million dollars' of revenue.

Mr. TREADWAY. Mr. Lowry, this possible scheme of one tax for the Federal Government and the States has been known for some little time. It did not await the announcement of this confidential report that we have here. It has been in the press, has it not, for a week or two weeks, or something of the kind—reference to it?

Mr. LOWRY. I believe there has been some reference; I am not sure how much.

Mr. TREADWAY. During that period, have you or your associates received any reaction from State officials as to the likelihood of its acceptance by the States?

Mr. LOWRY. I have received no such reaction. Some time ago—approximately a month ago, I believe—I had some conferences with the Interstate Committee on Conflicting Taxation, which I believe is a committee of the American Legislators' Association.

Mr. TREADWAY. Is that an official body?

Mr. LOWRY. It is a semiofficial body. I do not know its exact status. I assumed this committee would be more familiar with it than I am.

Mr. VINSON. It is made up of State legislators.

Mr. TREADWAY. Are they appointed by the governors, or by what officials?

Mr. VINSON. Some of them possibly are appointed by the governor, and some of them are not.

Mr. LOWRY. I believe they are appointed by the governor. That committee met in Washington and considered independently this same question.

Senator GORE. When?

Mr. LOWRY. Approximately a month ago, I should say; and it submitted an almost identical recommendation with a somewhat different formula for computing the State's share.

Mr. TREADWAY. That is, accepting the general principle of one tax laid by the Federal Government, and a division of it with the States?

Mr. LOWRY. Accepting the principle; that is correct.

Mr. TREADWAY. Do you know whether that body was sufficiently official to represent the governors of those States, or the States as such?

Mr. LOWRY. I do not know the exact official position of that body, sir; no.

Mr. VINSON. I am certain that they are not.

Mr. TREADWAY. That they could not?

Mr. VINSON. That they could not. This theory that is advanced might be termed the nationalization theory in the fight against double taxation.

Mr. TREADWAY. Yes.

Mr. VINSON. And it had been considered for several months as one of the methods of meeting conflicting taxation.

Mr. TREADWAY. So far as you know, then, Mr. Lowry, through official channels such as the governor or the Secretary of State of any State, any official body, no word has come to the Federal authorities as to the reaction to this proposition of one tax covering the Federal and State Governments?

Mr. LOWRY. So far as I know, sir, there has not; but my knowledge on that subject would be limited.

Mr. TREADWAY. Would that have reached you if it had come to Washington?

Mr. LOWRY. Not necessarily.

Mr. TREADWAY. Where would it be?

Mr. LOWRY. I do not know: It depends upon where it is sent and how it is gotten into the works. I personally have heard of none.

Mr. TREADWAY. Do you not think it would probably in some way have reached you if any such word had come?

Mr. LOWRY. I should hesitate to say about that, sir.

Senator WALSH. Of course, several States already have acted upon this question and have not imposed a tax. They have that knowledge, of course.

Mr. TREADWAY. Let me get that.

Senator WALSH. Several States have already acted and have set up a license system, and have not imposed any tax, such as our own State of Massachusetts. We have no tax at all on volume.

Mr. TREADWAY. We have gone back to our old division, wherein the internal-revenue tax was a Federal tax, and a local license for the State.

Senator WALSH. Exactly; and many States follow that course. Am I correct? Only a few States have levied a gallonage tax?

Mr. LOWRY. I have not got up-to-date information showing which States have done what.

Senator WALSH. Will you print in connection with your statement the formula submitted by this Association of State Legislators?

Mr. LOWRY. It is printed. It is set forth in the report, and for the sake of clarity it is set forth in the form of an algebraic formula connected with the report.

Senator GORE. Do you know of anybody anywhere who could interpret that algebraic formula? [Laughter.]

Mr. LOWRY. I think this one is susceptible of interpretation, Senator.

Senator GORE. I have in mind the hog logarithm.

Mr. EVANS. No State could accept or accede to this proposition of 20 percent except through the action of its legislatures; could it?

Mr. LOWRY. I should think so, sir. It would automatically be entitled to its share if it failed to levy a gallage tax.

Mr. EVANS. Could a State accept a gift or whatever you may call it, of that kind, without formal action? Who would accept it for the State? What would they do with it?

Mr. LOWRY. We did not go into the question of State law. Of course it involves 48 questions.

Mr. EVANS. That is fundamental, is it not—that no State can accept any benefit, gift, or otherwise, except through its proper authority, which is the legislature?

Mr. LOWRY. There again that would require a knowledge of the laws of 48 States. I just do not know.

Mr. EVANS. That authority is the legislature, you see.

Mr. FREAR. In that same study, Mr. Lowry, what would be the effect—or was that matter given any consideration—of inducing the other States to increase their production of alcohol without getting any special benefit from it?

Let me give an illustration of what I have in mind.

For the purpose of compelling all the States to adopt an estate tax, we adopted a plan of giving to the various States 25 percent of the receipts. That was a credit by the Federal Government. The effect of that was to drive all States, with one exception, I believe, into an estate tax. Now, the first result of that was that we gave them 25 percent. The States subsequently insisted, through Congress, on an 80 percent share, which they have today. In other words, the Federal Government is only getting 20 percent of the estate tax, excepting in the recent act which the Governmnet takes all of it above a certain amount that is put in.

What would be the effect there? Would not the natural tendency be for the States to insist that they have the majority? How are you going to confine it to the 20 percent which you have adopted here?

Mr. LOWRY. I would, of course, assume that if such a plan were put into effect there would be a constant—

Mr. FREAR. Pressure from the States?

Mr. LOWRY (continuing). Constant bargaining on both sides as to who was going to get how much.

Mr. FREAR. Not bargaining; constant pressure from the States. Is that a good thing to invite with this question of liquor income, would you say? Was that given consideration by this interdepartmental committee?

Mr. LOWRY. I think, sir, we were fully cognizant of the fact that there would be a pressure by the States to increase their share.

Mr. FREAR. How would you protect the Federal Government, then, in the 80 percent Federal share that you start out with? Would there not be an immediate pressure to get a very large percentage for the States through Congress?

Mr. LOWRY. I should think that that would be entirely up to the Congress, as to how far it would accede to that request.

Mr. FREAR. Yes; but the Congress is made up of Representatives from every State, and pressure comes from the States themselves. Was that given consideration by your committee when you came to this result of recommending turning over 20 percent to the States that produce?

Mr. LOWRY. I should doubt, sir, if we considered it to the extent of regarding it as a major factor in the situation.

Mr. FREAR. Did you regard it as any factor at all? I mean, do your proceedings show that you did?

Mr. LOWRY. Our proceedings would not show, because our proceedings were wholly informal.

Mr. FREAR. Did you individually take that into consideration? If so, what was the result in your own mind?

Mr. LOWRY. I did not take it into consideration in the sense of regarding it as an important factor against such a plan.

Mr. FREAR. You did not? But you knew at the time about the estate tax, and the result that the Federal Government had had in that case; did you not?

Mr. LOWRY. I was not familiar with that.

Mr. FREAR. But with that knowledge now, would that affect your judgment as to this question of allocating 20 percent to the States?

Mr. LOWRY. It would not, sir; because I believe that the thing to be accomplished here is so much more important than the question of the strife that might arise over who is going to get the money.

Mr. FREAR. Your familiarity with Congress is not sufficient to form a judgment as to that?

Mr. LOWRY. I have practically none, sir.

Mr. HILL. Will the gentleman yield?

Mr. FREAR. Certainly.

Mr. HILL. On the question of the estate tax, the argument on that matter was made largely on the basis that that was, or ought to be, the exclusive field of the States. Now, nobody has ever recognized or considered, as I believe, that a tax on liquor is at all an exclusive proposition. That has usually been considered, so far as the excise feature is concerned, the province of the Federal Government.

Mr. FREAR. I have never before understood that that was an exclusive field, because the Federal Government started out with the idea of having an estate tax, and originally took the entire amount, 100 percent; and eventually, for the purpose of securing compulsion on the other States where people were drifting for the purpose of establishing a residence, we gave them 25 percent. Afterward, as I said, the States, when they arose in their might in Congress, took 80 percent.

Mr. VINSON. Will the gentleman yield there?

Mr. FREAR. Yes.

Mr. VINSON. I may be wrong about it, but my recollection is that the increase of the 25 percent credit to the 80 percent credit was not brought about through pressure from the States in regard to the increase itself. As I recall it, the fight there was as to whether there would be a Federal estate tax at all; and a compromise was reached that brought about the increase from the 25 percent credit to the 80 percent credit in order that Congress would not kill the estate tax.

Mr. FREAR. No; the estate tax was put through, and I happen to know about the 25 percent, because it was my amendment that was accepted. At first they took it all.

Mr. VINSON. I am talking about the increase from 25 to 80 percent. As I recall, special trains came to Washington from Iowa, the State of Mr. Green, then chairman of this committee, and a special train came from Texas aimed at the Democratic leader at that time, Mr. Garner, now Vice President. The fight then, in that Congress, was as to whether or not there would be a Federal estate tax; and the compromise was reached at 80 percent in order to keep the estate tax as part of the Federal system of taxation.

Mr. FREAR. Let me suggest that so far as the present Vice President is concerned, I am sure he had no fears at that time of the estate tax. He was very courageous at that time, as was Mr. Green, because they certainly were bombarded in those days.

Mr. HILL. I should like to ask one further question on this suggested double rate for trading purposes as to customs duties. Have the committee formulated any plan by which you can establish one rate for trade advantages with one country and a different rate on the same commodity with some other country?

Mr. LOWRY. We believe that is practical, sir; that it can be done in one of two ways. You can do it by a classification system, classifying your exports—

Mr. HILL. Will you explain that to the committee, please? We should like to have some light on that.

Mr. LOWRY. To put it perfectly simply, it is a plan under which you look at the exports of a particular country, and you find a description for those exports a little different from the description of exports from any other country, and then you lower the rate or you adjust the rate as to exports of that description. That is putting it bluntly. We believe that alcoholic beverages, particularly wines, are susceptible of such classification. Scotch whisky is susceptible of a classification and a definition which would pretty well mean that it came from Great Britain. You can make classifications of wines—classifications of port, sherry, Maderia—which would bring about the same result.

The system could also be worked in connection with a quota system, under which the Executive, upon making certain findings of fact, is enabled to apply certain quotas to certain countries.

Mr. HILL. That would not involve a change in the rate, would it?

Mr. LOWRY. They would work together. Working it in conjunction with a change of rate, you could bring about the flexible treatment that you wanted.

If you have countries A and B, both exporting the same commodity not susceptible of a different classification, you could lower the

rate on that commodity in connection with a bargain that you made with country A, and then you could put such a small quota on country B that the effect would be the same.

Mr. HILL. Have we statutes on our books now that permit this quota system, or would that have to be embodied in this proposed legislation?

Mr. LOWRY. In conjunction with a tariff of this sort it should be embodied in the legislation. Of course, under the Agricultural Adjustment Act and under the National Industrial Recovery Act there are emergency powers to establish quotas—I believe in the National Recovery Act in express language, and by inference in the other.

Mr. HILL. Limited to the life of the act.

Mr. LOWRY. Limited to the life of the act.

Mr. HILL. You have not made any special recommendation on the subject of quotas in this report, have you?

Mr. LOWRY. The recommendation is that in connection with this 2-column tariff, the President be given certain powers to raise or lower tariffs, to establish subclassifications within the general classifications—that is the classification system—

Mr. HILL. I am speaking of the quota system.

Mr. LOWRY (continuing). And to establish as an emergency measure, where necessary in connection with the program, quotas.

Mr. HILL. That is in your recommendation?

Mr. LOWRY. That is in our recommendation.

Senator GORE. Does your proposal to allot 20 percent of the Federal gallonage tax to certain States contemplate any change at all in, or have any bearing on the license system?

Mr. LOWRY. It does not, so long as the licensing system is a bona fide licensing system, and not so framed as to be a volume tax.

Mr. TREADWAY. Mr. Lowry, I am interested in Mr. Hill's inquiries in reference to classification. Do I understand you to say that by looking up the records of importations, and so forth, you would suggest a different rate of tariff on the same article coming from one country than you would on the same article coming from another country?

Mr. LOWRY. No.

Mr. TREADWAY. Is that classification?

Mr. LOWRY. No; you would not do that. You would place a different rate of tariff on what might perhaps be substantially the same article, but which was susceptible of a different description.

Mr. TREADWAY. Of course, such a theory as that, outside of the favored-nation clause, never has entered into any tariff negotiations. We have a standard rate for the importation of a certain article.

Mr. LOWRY. I realize that.

Mr. TREADWAY. That would apply to one country as well as to another. Are you suggesting something different than that in this classification?

Mr. LOWRY. Not different in theory. It may perhaps work out differently in practice. To take a specific case, let us say port wine, it is possible to place a tariff on port wine and so to describe port wine as to limit the product which comes within that tariff rate substantially to a commodity which is produced in Portugal.

Mr. TREADWAY. If we took up a classification system, how could we limit it to alcoholic beverages? Why would it not apply to a yard of goods or anything else and classify it by countries?

Mr. LOWRY. Of course that was beyond the province of the committee. We made our recommendation just on the basis of this one article.

(Mr. Lowry subsequently submitted the following memorandum:)

DECEMBER 8, 1933.

MY DEAR MR. PRESIDENT: As chairman of the informal interdepartmental committee on the taxation and control of alcoholic beverages, I transmit herewith, in accordance with your request, an abstract of that portion of the committee's report submitted to you on November 7, setting forth the committee's definite recommendations relative to the taxation of alcoholic beverages.

1. The committee recommended the following excise rates:

Beer, per barrel.....	\$5. 00
Spirits, per proof gallon.....	2. 60
Natural wines, per gallon.....	. 16
Fortified wines, per gallon.....	. 40
Artificial sparkling wines, per gallon.....	. 40
Champagne, per gallon.....	. 80

2. The committee recommended alternative tariff schedules—a 2-column tariff if the Administration desired to use liquor tariffs for bargaining purposes; a single tariff if it did not.

#### BARGAINING TARIFF

Beer, initial, \$15.50 per barrel; minimum, \$4.96 per barrel.

Spirits, initial, \$5 per proof gallon; minimum, \$2 per proof gallon.

Still wines, initial, \$2 per gallon; minimum, 60 cents per gallon.

Sparkling wines, initial, \$6 per gallon; minimum, \$1.60 per gallon.

The above 2-column schedules contemplate that the President be given power to lower the initial rates to the specified minimum.

#### NONBARGAINING TARIFF

Beer, per barrel, \$7.75.

Spirits, per proof gallon, \$3.00.

Still wines, per gallon, \$1.

Sparkling wines, per gallon, \$3.30.

3. In addition the committee recommended certain relatively small occupational taxes for control rather than for revenue purposes and a floor stock tax to make the necessary adjustments between present and recommended excise rates.

4. The committee recommended that Federal receipts from internal-revenue taxation of alcoholic beverages be shared with those States which refrained from levying direct or indirect gallonage taxes on alcoholic beverages—the States' share to be computed as follows:

Twenty percent of total receipts to be allocated for distribution to States. The share of each individual State to be determined by a formula based on the relation between the combined production and consumption in that State, and total domestic production and consumption for the entire United States.

Respectfully,

EDWARD G. LOWRY, JR.,  
Chairman of the Informal Interdepartmental Committee  
on the Taxation and Control of Alcoholic Beverages.

The PRESIDENT,  
The White House.

Mr. TREADWAY. It is not beyond the province of this committee in reaching a conclusion in relation to this system that you are suggesting of a classification, because it strikes me offhand—it is the first suggestion—that if we classify by countries importations of practically the same article in the way of alcoholic beverages, there is no reason why we should not classify a yard of goods or any other

article that we import in the same way, and put on one country's importations a different rate than we put on others. What strikes me, Mr. Lowry, is that you are suggesting a pretty dangerous tariff system to us.

Senator KING. May I make a suggestion, if my friend will permit me?

Mr. TREADWAY. Certainly.

Senator KING. There are three or four different kinds of currants that we import. The currant from Greece is to be differentiated from currants that are produced on the Island of Crete, or in Palestine, or in Italy. You could, it seems to me, by the classification that the witness is referring to, without invading or impinging upon the favored-nation proviso, so classify the currants that came in from Greece or from Italy that a different rate would apply.

Mr. TREADWAY. May I not ask this question, Senator? I am only asking for information. You are speaking of currants.

Senator KING. That is only one illustration. I might give many.

Mr. TREADWAY. That is an article of growth. Here we are dealing with a manufactured product. It seems to me that puts it in a different classification. Of course it is assumed that the best champagne would be imported from France—that is, if you are importing. I suppose out near your home, in California, they make just as good, but they cannot get quite the same price for it. As an imported article probably the best champagne would be rated as coming from France. On the other hand, there are other countries that make champagne. Now, when you get it manufactured, how are you going to classify it? You might classify the grapes from which that champagne is manufactured.

Senator KING. We classify glassware in our tariff act. We classify various commodities—textiles, etc.

Mr. TREADWAY. Different qualities.

Senator KING. Exactly; but you could consider the quality for the purpose of your differentiation and for the purpose of your classification.

Mr. TREADWAY. Then the Senator does not see any difficulty in the suggestion that Mr. Lowry makes as to the classification of liquors?

Senator KING. I am trying to follow him. I think you may classify liquor in such a way as to differentiate Scotch whisky from Bourbon or rye, and you could put that into one category.

Mr. TREADWAY. Oh, I agree; but when one bottle of rye comes from one country, and another bottle from another country, that is the kind of classification, I assume, that Mr. Lowry is referring to.

Senator KING. Doubtless there are such refinements in the production of liquor, Bourbon or rye, that it is easy to classify it. For instance, the Bourbon whisky that came from Kentucky had, it seems to me—though I have had no particular experience—a distinct flavor by which you could differentiate it from the whisky that might be produced in your State.

Mr. TREADWAY. I admit that I am not an expert in any recognition of those various differentiations, but I want to get the information.

Senator GORE. I want to make the point that this is hearsay, according to the gentleman's own statement. [Laughter.]

Senator KING. The objection is sustained.

The CHAIRMAN. Are there any further questions?

Mr. VINSON. Mr. Chairman, I move a recess until 2:30 this afternoon.

(The motion was agreed to.)

(Thereupon, at 12:15 p.m., the committees sitting in joint session took a recess until 2:30 p.m.)

AFTER RECESS

The committee reassembled at 2:30 p.m., pursuant to the taking of recess.

The CHAIRMAN. The committee will be in order. The first witness this afternoon is Dr. Herbert Feis, economic adviser of the State Department. Mr. Feis, will you please come forward and state your name and official connection with the Government and other facts necessary to identify you?

**STATEMENT OF HERBERT FEIS, ECONOMIC ADVISER, STATE DEPARTMENT**

Mr. FEIS. My name is Herbert Feis, economic adviser, State Department.

The CHAIRMAN. Your title is doctor?

Mr. FEIS. Yes, sir.

The CHAIRMAN. Doctor, I believe you were a member of the Interdepartmental Commission at the time the report to the Secretary of the Treasury of November 7, relative to taxation of alcoholic beverages, was made?

Mr. FEIS. Yes, sir.

The CHAIRMAN. The committee would like to know at the outset whether you have any general statement that you would like to make on the subject?

Mr. FEIS. I have no prepared statement; no, sir. I should be glad, perhaps, in the course of replying to your questions, to go to a little greater length than the answers to the questions might require.

The CHAIRMAN. You would prefer to yield to questions at the outset?

Mr. FEIS. If you please.

Mr. HILL. Dr. Feis, have you made a study of the cost of production of spiritous liquors?

Mr. FEIS. Never, sir.

Mr. HILL. Your connection with this committee had to do more or less with the trade agreement features that were in contemplation?

Mr. FEIS. That was the only reason why the State Department was represented on the committee. It was recognized that there was a foreign commerce question of substantial importance, and it was also recognized that the domestic tax policy and the commercial policy ought to be fitted in together. It was those considerations that led to the appointment of State Department representatives, and solely those considerations.

Mr. HILL. The domestic tax policy as related to the foreign trade policy?

Mr. FEIS. Yes, sir.

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Mr. HILL. In reading the report of this committee I see you suggest in the alternative two sets of rates of import duties on liquor imported. One is just a straight flat rate and the other a 2-rate system, the maximum and the minimum. I take it that the latter plan or suggestion was put in with the view of forming the basis for certain trade agreements or association for trade agreements with foreign countries that wish to export to this country either spiritous liquors or wines?

Mr. FEIS. That was the underlying idea behind the double-column tariff; yes, sir.

Mr. HILL. Could you give the committee an idea as to the plan under which such a dual system of rates might be operated?

Mr. FEIS. The source in general was this: Here was a prospective trade of very considerable importance about to be opened up. It was a trade in many branches of which the foreign product was of high quality, well esteemed over here, strongly desired, and therefore held prospects of a very substantial trade. If that trade merely took place under the ordinary tariff arrangement, it might or might not lead to the same desirable result that those who proposed the double column had in mind, which was this: That you would begin by establishing a level of rates that was very high, perhaps high enough to permit only a very limited amount of trade movement; then you put in the hands of the executive probably, as the easiest way of carrying out the policy, the power to reduce any of those rates down to a minimum, likewise defined by Congress, if and as, in his judgment, adequate concessions could be secured for various other American products for which it was important to retain or to develop new foreign markets. The departure was made with these thoughts in mind: That many other countries, including many of the important wine- and spirit-producing countries had of recent years developed trade arrangements based very largely on the bargaining idea.

Now, where you might trust to the ordinary process of international exchange to bring you markets in return for those which you permit foreign producers to develop over here, that process has lost the certainty which it once had, and therefore to reserve the right of entry to the American market, to make it part of a bargain over which you had some control seemed advisable.

Then there was the second thought. Again if left to ordinary trade process what goods would flow out of the American market, remains undetermined. If you handle the thing in part as a bargaining matter, in your bargaining arrangement you have some opportunity, limited, it is true, but still some opportunity to more or less seek markets for the particular American commodities for which it seems most essential at the moment to try to secure foreign markets, and what the committee had in mind primarily was the various staple agricultural products.

That, in general, was the line of reasoning behind the recommendation.

Mr. HILL. Doctor, did I understand you to say that the European countries have such a bargaining arrangement among themselves at this time?

Mr. FEIS. Very many of them have, in one way or another. They have a two-end slide rule. What they permit to enter very largely depends on what advantages they obtain; yes.

Mr. HILL. Now, it is a matter of general knowledge that France and some other countries are limiting imports from certain countries to established quotas. They limit some of the commodities from this country that are seeking markets in those countries to certain limited quantities, and it is in view of that proposition that you think this would be advantageous to our international trade?

Mr. FEIS. I would not say—I do not believe the committee would have recommended any such policy if merely one country had been in mind.

Mr. HILL. I did not mean to imply that it was just one country, but there are other countries. I named France, but I used the blanket expression "other countries." There are others?

Mr. FEIS. They vary in degree; they vary in method; they vary in the explicitness with which these bargains are arranged, but making allowance for the variation, there are almost no countries on the continent of Europe that in one way or another are not pursuing a bargaining policy.

Mr. HILL. In what way, Doctor, could we make such a plan effective without establishing a definite rate for one country and a different definite rate for another country on the same commodity that is exported to this country?

Mr. FEIS. That is a process that requires very careful examination. There may be some features of it that the committee might particularly not want to discuss in public.

Mr. HILL. Well, it has to be written into the act in some general way, of course, without probably defining specifically just what classifications you might want to make in order to effectuate the purpose in mind in making this recommendation.

Mr. FEIS. As for the general question of classification, one of the first things that became apparent in studying our previously existing—still existing—tariff classification for wines and spirits that it is very much simpler in nature than those used in most other countries. They have a very much more intricate system of classification than we have been in the habit of using, and the probable, reasonable surmise was that one of the reasons for developing that more intricate classification was to have a more flexible bargaining instrument.

Mr. HILL. I do not understand that it is the thought of the committee that Congress should establish specifically certain classifications but simply to provide general authority under which the State Department could itself work out the classifications under such general authority.

Mr. FEIS. I do not believe the committee had any conclusive thought in the matter. It had so definite a sense that Congress would dispose in this matter that I do not think it had any inner decision as to whether Congress itself in writing the provisions would write the classification in full, or whether Congress would write it in part and then give the Executive the power of modification. I do not remember any discussion in which that was talked of.

Mr. HILL. In your opinion would it be practical to write into the law specifically the classifications that might be necessary to carry out the purpose which you have in mind?

Mr. FEIS. Subject to the right to correct myself, I should think it would be practicable for Congress certainly to establish as many

classifications and as many intricate classifications as are developed in the report of the committee, perhaps leaving to the Executive the power to further extend them or to modify them or to shift them.

The CHAIRMAN. Doctor, at this point, if there is any phase of this subject that you would prefer to present to the committee in executive session, the Chair will be glad to take that matter up with the committee with the view to arranging to hear you in executive session.

Mr. FEIS. Thank you, sir. There is nothing very extensive. It would be only a matter of perhaps 5 minutes altogether. It might be a little bit easier to talk that way.

Mr. TREADWAY. Mr. Feis, before proceeding to some other questions, on your request to be heard in executive session, that subject was brought up this morning with Mr. Lourie, the matter of classification, and I think he did you the honor to say that you were the person that we ought to apply to for that information. Now I would like, without intruding on any executive suggestions that you wish to present, I think you could fairly tell the committee at this time the nature of the relationship that you would prefer to have carried out executive.

Mr. FEIS. Let me, perhaps, begin a little bit far from the target, about something that you gentlemen know much better than I do. Any work of classification, tariff classification, in the field of this commodity or any other commodity, is a business of rough approximation—I mean there are no perfections about it, and it is a business in which more than one element requires consideration. Offhand I should think these are some of the elements that anybody, legislative or executive, considering classification, would want to take into account.

As to our own domestic production, there would be the question of whether for the particular type of product, American conditions seemed favorable, and whether given any reasonable measure of protection, the industry could develop a quite satisfactory product of that type at a reasonable cost. That would be one. And the contrary of that, the determination of the types of product that we either could not, or presumably would not, or should not wisely undertake to try to develop here, but rather leave for foreign producers, seeking in return opportunities for other American industry. That is perhaps the leading line.

Mr. TREADWAY. And it is that particular detail of the relationship between this country and the various other countries that you feel ought to be confidential?

Mr. FEIS. Some of the detail of it, but not on that particular point. That is one element that would enter into the classification. More briefly, here are some of the others.

Presumably, as to whether it is a type of wines or spirits of popular consumption or one of the vintage wines, and the rest more generally considered luxury consumption. In one case or the other the committee might believe it both wise and practicable to apply a quite different scale of tariff as a tax. That would be a second thing.

The third element of classification would have several objects. It would be probably such a classification as would give bargaining

effectiveness and flexibility, so that you could establish relatively easy terms for the products of such regions or countries as seem to reciprocate fairly without necessarily extending those to other producing countries, and it is in that realm where I think to get down to detail is more easily done in private session.

Mr. TREADWAY. I get your idea, Doctor. How long have you been connected with the State Department?

Mr. FEIS. Since May 1931—no; May 1930.

Mr. TREADWAY. Would you mind telling the committee your private employment previous to your time, or what your connections were?

Mr. FEIS. I came from the Council on Foreign Relations in New York, which is, as many of you members may know, a group of several people of decided interest in international affairs.

Mr. TREADWAY. Is that conducted under Columbia University auspices?

Mr. FEIS. No; it is a private club in a way; a club, however, which tries to make—its facilities available to the public. One of the things it does is to edit a quarterly magazine called "Foreign Affairs" that you may have seen. Then, it has a research division that makes various studies in fields of American-foreign relations. But its chief purpose is just to permit the members to meet among themselves and with foreign visitors for the discussion of various phases of foreign affairs.

Mr. TREADWAY. You were an official of that organization?

Mr. FEIS. I was an official of that organization.

Mr. TREADWAY. How do you define your title in the State Department? Economic adviser of the State Department?

Mr. FEIS. It was defined before I came. There was a name and a salary and they just hooked me up with the name and hooked me up with the salary. That is all. [Laughter.]

Mr. TREADWAY. And it was not for salary purposes but for your knowledge that you were included in this list of about 15 inter-departmental men, I take it? Your salary does not change because you are assigned to a place on this committee?

Mr. FEIS. The salary does not change; no.

Mr. TREADWAY. Let me ask you this question: Of course, our citizens are proud of their own industries in this country and naturally so. Would you care to express any opinion as to the pre-war quality of alcoholic beverages manufactured in the United States?

Mr. FEIS. Practically all I ever saw of pre-war alcoholic beverages I saw by looking beneath the swinging doors at the corner saloon.

Mr. TREADWAY. I did not assume anything else, but I mean as a matter of your economic group there. I would not presume to insinuate that you had sampled them all personally. [Laughter.] That was not my thought, but more to get your idea of the quality of American products, whether it was the whisky of Kentucky or the rum of New England or the champagne of California or the wines of New York.

Mr. FEIS. Are you giving me an opportunity, Mr. Treadway, to express my purely personal temperamental taste or is this a technical question?

Mr. TREADWAY. This would be more technical.

Mr. FEIS. Well, as a technical question, I have not the slightest qualification for replying. I will explain again, if I may, that the only thing that drew the State Department officials to the committee was the recognition that there was a foreign-commerce question, a question for one thing which would involve our treaty relationships; a question, that connected us back to other departments every day in talking with the Department of Agriculture and the Department of Commerce, and their saying that their problems required the utmost attention to foreign-trade measures, and it is their shove behind us that makes us more and more alert to these foreign-trade questions.

Mr. TREADWAY. My inquiry was to get your view, if I could, as to the quality of American products containing alcohol.

Mr. FEIS. Well, I mean the only view I have would come from the tongue, not from the brain.

Mr. TREADWAY. I will delay that then.

Mr. FEIS. I am not withholding anything, sir.

Mr. TREADWAY. Then let me ask you this question: Are you a believer in the protective tariff system in American law?

Mr. FEIS. I believe that—this is a long and dull speech.

[Laughter.]

Mr. TREADWAY. No, oh no. Not at all.

Senator HARRISON. It will be if you talk on the protective part of it. [Laughter.]

Mr. FEIS. I believe that every government has the unquestioned right to lay down conditions for the entry of foreign goods. I believe that within proper limits and proper lines it is wise and justified in the exercise of that policy. To proceed from there would take me into a long discourse.

Mr. TREADWAY. The reason I asked that question was its bearing on this reciprocal trade proposition, and the reason I asked you about the quality of American products has the same general bearing.

Then let me come to this question: In your opinion what will be the reaction of the producers of American goods as now legalized in this country—I mean wet goods that are now legalized to be sold—if we enter into all these various trade relations that will reduce the rate of tariff entry of their competitive products?

Mr. FEIS. Here, of course, I am giving merely my personal judgment.

Mr. TREADWAY. That is what we want.

Mr. FEIS. I would assume that in dealing with the whole question Congress, or the Executive, would establish, even as a minimum rate, rates reasonably sufficient to protect against foreign production.

Mr. TREADWAY. In other words, you would not favor the reciprocal arrangement to the detriment of home products?

Mr. FEIS. I would have minimum rates on those branches of wines and spirits production which we seemed reasonably well suited to produce. I would have reasonable rates for those branches of production such as would give them a chance to develop.

Mr. TREADWAY. Bearing in mind our interest first in our own products?

Mr. FEIS. I would not know first or last—I mean there are various things—like a cook making a soup; I do not know quite how I would do it, how I would put the vegetables in there.

Mr. TREADWAY. But would you have in mind American interests?

Mr. FEIS. In those branches which would seem to have fitness.

Mr. TREADWAY. Just one more inquiry. In what way would this reciprocal proposition that evidently the administration seems to favor have bearing on favored nation treaties or clauses?

Mr. FEIS. In the case of countries with which we had unconditional most-favored-nation treaties, those countries could claim as low rates as were given to any third country on any particular classification division without any concession, without any express concession.

Mr. TREADWAY. That phase has been considered, I judge, by your committee, and you feel that you are within the province of the favored nation clause in the recommendations you make?

Mr. FEIS. We are distinctly of the opinion that our interest in the existing treaty relationships would not seriously curtail the useful results to be expected from this policy. And that I can explain more in detail privately.

Mr. TREADWAY. And we would not be getting ourselves into more difficulties by showing these favors in a reciprocal manner?

Mr. FEIS. Not, I should say, on two conditions—and here perhaps I might take advantage of the Chairman's original offer to permit me to make something in the way of a short statement.

It would not create resentment provided the minimum rates that were established were so low for those types of wines and spirits which we were not particularly well qualified to produce, that they offered a substantial market to foreign producers on relatively easy terms and in return for adequate concessions for other American industry. That is, if we permit the development of a real market here for the foreign product, there would be no resentment.

Secondly, provided the tariff arrangement was made reasonably permanent; provided, that as soon as the foreign producers had developed their connections, their vineyards, made all their calculations on the idea that there was this potential American market, provided that then we did not immediately reverse and shut them out. That would do more harm—any such policy of quick reversal would do more harm than any tariff policy that we adopted at the start.

Let me say this, that as you gentlemen may know, though perhaps not in detail, because these arrangements shift quickly, there is an Executive Committee on commercial policy now operating for the consideration of all questions in the international trade field. It is a committee set up by the President's order and contains representatives of 6 or 7 departments. Having received the request of your committee before the session of this Executive Committee this morning, I took the liberty of discussing this subject with them, and I was authorized to say that the general view I am expressing is in general the view and judgment of that Executive Committee who perhaps would make this additional suggestion, that you might want to take into consideration: If you decide to write a bill in which the Executive is given power to reduce rates down to a certain minimum, you might also consider giving the Executive the power to establish other types of arrangement, such as market

allocation arrangements in the field; that there may be some situations that might be fit to be handled better through some form of market allocation than merely by your two-column tariff; at the same time the committee would not want that to be understood to mean that it was thought in general these market allocation arrangements were advisable arrangements. I was asked to say these things in the name of the committee.

Mr. TREADWAY. Let me just understand a little more about that committee. I did not intend to ask this. This is not your interdepartmental committee that you are talking about now?

Mr. FEIS. That is not the interdepartmental wines and liquors committee, no.

Mr. TREADWAY. This committee has been set up since?

Mr. FEIS. This has been set up since.

Mr. TREADWAY. Since the interdepartmental committee was set up?

Mr. FEIS. That is right, all executive departments before taking any action affecting our imports or export trade, have been asked to report to this executive committee for discussion.

Mr. TREADWAY. Is this the one that the papers referred to this morning as to be headed by Mr. Peek?

Mr. FEIS. No, sir.

Mr. TREADWAY. One has got to move fast to keep up with these various committees.

Mr. FEIS. Yes, very. I gather from talking this morning with some members of the committee that the lines of Mr. Peek's committee are not yet completely defined, but I dare say this executive committee will work very close along with the committee that Mr. Peek will head; in fact, they might be merged or something of that sort.

Mr. TREADWAY. Is it confidential who constitutes this committee?

Mr. FEIS. No, sir.

Mr. TREADWAY. Would you mind telling us who they are?

Mr. FEIS. The membership is not exclusive. That is, each department has nominated one person, but it is very usual at the meeting to have additional persons there to cover topics that are up for discussion that day. The nominated members are, for the State Department, at the first sessions Acting Secretary Phillips, now Assistant Secretary Sayre; for Commerce, Assistant Secretary Dickinson and Dr. Willard Thorp, head of the Bureau of Foreign and Domestic Commerce; for the A.A.A., General Westerveld and Mr. Ray Miller; for the N.R.A., Mr. Oscar Ryder; for Agriculture, both Mr. Tugwell and Secretary Wallace have been at many of the meetings; for the Tariff Commission, Chairman Obrien and Vice Chairman Page. I think that has been the full regular personnel of the committee.

Mr. TREADWAY. Then you invite in—the board invites in others when particular subject matters are up? How long has that committee been in existence?

Mr. FEIS. About 4 weeks.

Mr. TREADWAY. That is quite an old one?

Mr. FEIS. It is the father of committees by now.

Mr. TREADWAY. Just one other question and then I am through, and that is this: Would you try to explain, in as plain and simple language as you can, the message that you brought to us from this board this morning? It is a little intricate for me.

Mr. FEIS. Point 1 is that the general recommendation in the liquor interdepartmental committee report of a double tariff system, accompanied by Executive discretion, in general seems to the executive committee a wise policy to follow.

Point 2, that in writing the bill Congress may in addition want to consider the suggestion that the Executive be given the power to regulate the inward movement of wines and liquors by other means than tariff. That is about what it comes down to.

Point 3, that in making that suggestion the executive committee does not want to be understood as necessarily favoring allocation or quota plans in general.

That, in essence, is the sum of the discussion of the committee this morning.

Mr. TREADWAY. The quota, you would feel, was only temporary, as explained this morning?

Mr. FEIS. Either temporary or exceptional. At any rate, the committee has never had anything like a thorough-going discussion of the quota system and would not want to have me purport it to be either for or against the general idea.

Mr. TREADWAY. Thank you.

Mr. KNUTSON. Mr. Feis, in view of the limited supply of liquor, do you not think that Congress would be justified in giving first consideration to the health of the American consumer rather than to the welfare of the American producer until such time as the domestic production of good liquor will be sufficient to supply the demand?

Mr. FEIS. I certainly agree that an adequate supply of good liquor is an important consideration; however, to rank it and combine it with the other considerations—on that I do not feel that I can be very definite.

Mr. KNUTSON. Do you not think that we are in a position now to consider the welfare of the consumer?

Mr. FEIS. You appeal to my sympathy. [Laughter.]

Mr. KNUTSON. How about good sense?

Mr. FEIS. And my good sense. [Laughter.]

Mr. McCORMACK. Doctor, is it expected that the importations will be greater for the next few years than they have been during the preprohibition period?

Mr. FEIS. That question in the interdepartmental committee always starts a free for all dispute, and the only authority, to the best of my recollection, that had figures to back up their idea was the Treasury, and they did not, in general, expect a consumption much greater than in the preprohibition period. I am not even sure that they did not think there might be actually a decline.

Mr. McCORMACK. I understand from the report that there is practically no domestic, aged whisky in the country at the present time.

Mr. FEIS. It is a very limited supply.

Mr. McCORMACK. About two and a half million gallons. And that it requires about 4 years to accumulate an adequate supply of straight whisky; that is, aged whisky in bond usually takes about 4

years, I understand. There is a small stock on hand which will be undoubtedly used for rectifying and blending purposes and for new distillations of grain alcohol. That was contained in the report. Would not that indicate that there would have to be substantial importations to meet the domestic demand?

Mr. FEIS. It really is a part of the field on which my evidence is worth very little, if anything. I can, perhaps, just add this item that you probably know, but it may conceivably not have been brought out so far. It was that consideration, I believe, which led the liquor authority last week to authorize the importation of a substantial number of millions of gallons of certain types of American liquor available in Canada.

Mr. McCORMACK. Carrying out Mr. Knutson's question, it would seem as though one of the primary considerations of the administrative power, if the administrative power is delegated, would be that of the consumer rather than protecting the domestic producer where they are unable to supply the demand. That leads up to what I had in mind. You have been talking about the reciprocal trade agreements and the classifications. If Congress writes in limitations it might seriously limit the administrative unit. What would be your reaction to Congress prescribing the broad legislative policy and leave to the administrative unit as broad administrative and directionary powers as possible?

Mr. FEIS. Offhand, I should think that would be the more advisable course. The first part of your question stirs up my recollection on a point that perhaps I might recite in addition to the points I have discussed.

The only reason the committee recommended the use of this license and quota system during this preliminary period was to protect the market until the time when Congress could act and lay down the maximum and minimum terms for the admission of the foreign product. It did not favor in and for itself this temporary curtailment of the market; but on the other hand, it concluded that if later a bargaining policy was to be adopted, you had better preserve the American market from being fully stocked before you began to bargain, but it would follow there that unless in the further carrying out of this policy Congress and the Executive laid down minimum rates low enough to permit certain types of foreign products to enter on relatively favorable terms so as to give a substantial market here which could be used to secure substantial markets abroad for American products—unless those things were done, I for one as a member of the committee would feel that the temporary quota arrangements, these licensing and quota arrangements that we are now using, would have missed their purpose, because that is their purpose.

Does that answer your question?

Mr. McCORMACK. My main question was to receive your view on Congress laying down the broad legislative policy.

Mr. FEIS. I should think that the Executive, having sensed the perpetual opportunity to review the situation could adjust it.

Mr. McCORMACK. To meet that situation.

Mr. FEIS. Yes, sir.

Mr. CROWTHER. I want to get clear in my mind, if I can, Mr. Feis, whether the suggestion that your Department feels that under the existing treaties with the most-favored-nation clause, whether the policy would be on the broad policy of a 2-column tariff or whether it is only just applied in the case such as is before us, where the commodities that we are going to give the preferential rate to are not made in any other country, and for that reason it would not cause any serious interference or impairment. You get my point, I think? For instance, on France we might in our 2-column make the rate \$6 on champagne and \$2 on champagne from France. That would not perhaps hurt anybody else's feelings, because we do not get champagne from anywhere else. We might do the same thing on certain types of Scotch and other whiskies from Great Britain. What I wondered was whether your theory on which your discussion is based pertains to this one subject or whether you went into the broad policy of a 2-column tariff.

Mr. FEIS. For all commodities?

Mr. CROWTHER. For all commodities.

Mr. FEIS. We did not go into that. The discussion was entirely limited to the one commodity.

Mr. CROWTHER. I am glad to know that. The suggestion was made this morning by Mr. Lourie, and if I got it correctly it was this: His suggestion of obviating the difficulty was that we make the special rate, say, to France or some other county, England or anybody, and then in any other competing country we make a quota restriction to this for them. It did not seem to me that was a proper procedure; it was too much like doing by indirection what you could not do directly.

Mr. FEIS. I do not think that that idea was ever discussed by the committee.

Mr. CROWTHER. I just wanted to get that. I am glad to know that the discussion on this point dealt wholly with the liquor question and viewpoint rather than general policy.

Mr. FEIS. I think your question relates to the general question asked before, were our treaty commitments such as to limit the effective use of a double column tariff for wines and liquors. The answer is to be found partly in the classification, partly in the fact that we have not got treaties with the whole world. That is another part.

Mr. CROWTHER. We have a great many of them.

Mr. FEIS. A great many, yes.

Mr. CROWTHER. With all the important countries of the world.

Mr. FEIS. No, sir; there are many countries with which we do not have them.

But I think this had perhaps better be reserved as the Chairman suggests.

Now as to the other question, the committee was appointed solely to deal with wines and liquors, and any suggestion in there must necessarily have been limited to that field. They had no jurisdiction outside of it whatsoever.

Mr. CROWTHER. From my viewpoint of protection I am afraid of the entering wedge. That is all. I am afraid of the camel's nose getting under the tent. That is all I am afraid of.

Let me ask you, would this be a fair question: Do you think your personal opinion, or is it true of the State Department, that under

the existence of our present treaties containing that clause, we are in a position now, not particularly with regard to wines and liquors, but to adopt a two-column tariff schedule as against the world, with the existence of our present treaties, without repeal or abrogation of present treaties or something of that sort? Is that a fair question?

Mr. FEIS. That is an invitation to dinner, Mr. Congressman. [Laughter.]

Mr. CROWTHER. That is all right if you pay the check. [Laughter.]

Mr. FEIS. Naturally, I think the question of a two-column tariff might as a general matter of policy be well worth consideration; not, may I add, as part of the general tariff revision, but I can imagine a possible delegation of powers to the executive of a somewhat broader character, such as in time might lead to the development of a two-column tariff. But that is a purely personal idea, and I want to assure you again that this wines and liquor thing was not debated as a question of general policy at all.

Mr. CROWTHER. I do not think you quite got my point.

Mr. FEIS. On the one hand there was the fact that we were going to open up this new American market; on the other hand there was the Department of Agriculture saying: "Can you do anything to ease our situation on staple American products?" And you put those two things together and you have got those sections of the report to meet.

Mr. CROWTHER. The merits of the proposition may be debatable, of course, but what I asked you was whether you thought, under existing laws and treaties, we are in a position now, without some changes in them, to have this two-column tariff on things other than liquors, as a general proposition?

Mr. FEIS. I certainly would not want—I should not think it would be advisable to do it by any single legislative act. If it is done at all, it would have to be done by, I think, delegation to the Executive and slow use of the delegated power if circumstances favored it—something of that kind, something of that sort. That would be the way in which the transition would be made.

Mr. HILL. Doctor, can you give us a list of the principal countries with which we have treaties under the favored-nations clause?

Mr. FEIS. I would prefer, if you would permit me, to send a printed record down to you.

Mr. HILL. And also those with which we do not have such treaties.

Mr. FEIS. We have actually more executive agreements than we have treaties. However, if I may be permitted for the purpose of the record I will send the whole list.

Mr. HILL. That will be perfectly satisfactory.

Mr. McCLINTIC. Is your department, your committee, giving out to the public information that relates to the amount of liquor that has been assigned to the various countries on the quota basis eligible to be brought in?

Mr. FEIS. No, sir.

Mr. McCLINTIC. Is that considered a matter that should not be given to the public?

Mr. FEIS. From the very beginning the State Department has undertaken to give out no information whatsoever on any phase of the subject. That was to avoid crossed wires. When Mr. Lourie was

chairman of the committee it was left to him, and since Mr. Choate has come down it has been left to Mr. Choate.

Mr. McCLENTIC. Then that information will not be given out to the public?

Mr. FEIS. It certainly is for Mr. Choate's decision, not the State Department's decision.

Mr. CROWTHER. Just one more question. I was wondering if you really thought that this offers a very broad base for trading facilities or opportunities at this time. I notice that the average value of our importations of all champagnes and other sparkling wines for the years 1900 to 1918 averaged around \$4,000,000 in value, with the duty collected the highest ever around \$3,000,000, and running from one to two million, and so forth. Does that afford a very big base?

Mr. FEIS. I think it is easily subject to exaggeration. I would anticipate American purchases of foreign wines and spirits to be somewhat greater than it was in the preprohibition period, but that is entirely, as it must be, entirely a personal hunch, nothing more, and at best I agree that it is subject to exaggeration.

Mr. CROWTHER. I just mention that because, as I stated before, I am concerned about the entering wedge of developing this policy.

The CHAIRMAN. Have you any questions, Senator?

Senator HARRISON. I wanted to ask the Doctor, Mr. Treadway asked you about your services up here now. You came here in 1930, I understand?

Mr. FEIS. Just about. I do not want to confuse the record and I want to correct myself again. I came in 1931, May 1931.

Senator HARRISON. When Mr. Stimson was Secretary of State?

Mr. FEIS. Yes, sir.

Senator HARRISON. And you served through Mr. Stimson's administration? And you have been there since, rendering very valuable service.

Mr. FEIS. Thank you, Senator.

Senator HARRISON. I wanted to ask you, just to remove any impression that may have been gathered in the country, it has been intimated, or insinuated, by some papers that this reciprocal trade agreement might be used against certain countries that were not meeting any part of their foreign debt, and that certain favoritism might be shown to other countries that were making every effort to pay a part of their foreign debt. Of course, that question was not considered by the departmental committee at all?

Mr. FEIS. No, sir.

Senator HARRISON. You have given no consideration to that?

Mr. FEIS. No, sir.

Senator HARRISON. And, of course, express no opinion on it?

Mr. FEIS. None whatever. And perhaps, if you will permit me to add, that our natural approach to this thing is to use this advantage to develop trade, not to create new antagonisms.

Senator HARRISON. Of course, if it would create a little bit of payment, it would not hurt? [Laughter.] But that has not been considered by the State Department at all?

Mr. FEIS. It has not entered into the considerations of the inter-departmental committee. If any power is delegated to the President,

I do not suppose anybody can limit the considerations that the President might take into account. But it was certainly not a major consideration.

Mr. JENKINS. Did your committee arrive at any definite conclusions which could be announced to the public as to what American products would admit themselves best to this type of legislation?

Mr. FEIS. In informal talk that was very often brought to the fore, especially by the representatives of the Department of Agriculture and of Commerce. It would be those commodities which had shown themselves able in the past to develop foreign markets on their own initiative if not obstructed too completely by foreign governments. Such American agricultural products as our cotton, our cereals, our fruits, our pork and pork products were items perhaps that entered into discussion more frequently than any others; and and in the field of industry such typical American products as American automobiles, which it has been proven time and time again that the population of foreign countries want if they get a chance to get them.

The CHAIRMAN. Are there any further questions? If not, Doctor, we thank you for your attendance and testimony and the information you have given the committee.

Are there any other representatives here from any of the executive departments or the Tariff Commission that would like to be heard?

Mr. HILL. Mr. Chairman, if there are no other representatives of the Departments, Mr. Lourie of the Tariff Commission is here.

The CHAIRMAN. We will be glad to hear Mr. Lourie. Give your name and address, please.

#### STATEMENT OF HARRY L. LOURIE, UNITED STATES TARIFF COMMISSION

Mr. LOURIE. My name is Harry L. Lourie, and I am a member of the staff of the Tariff Commission. I have been with the commission since April 1923, and before that I served for 14 years as a chemist and an executive under the Pure Food Law, having charge at one time of the control of the imports of various foodstuffs entering at New York City.

The CHAIRMAN. Have you a general statement that you would like to make, or do you prefer to just answer questions?

Mr. LOURIE. You have had so much testimony I do not know if there is anything I can add to the statements already made, but I will be very glad to answer any questions you have to ask.

Mr. HILL. I would like to ask you a few questions. Have you had any considerable work in the line of statistical research in connection with alcoholic liquors?

Mr. LOURIE. Yes, sir. The Commission prepared and has made public two statements with respect to alcoholic liquors. The first one was a volume, a pamphlet of about 50 pages, which was a digest of the old excise laws and showed a comparison of the various tariff acts from 1897 to the present tariff act. It also gave the statistics of the production and the withdrawal of the various categories of spirits and the imports by countries as well as in total for the various years 1900 to 1932.

The statistics also attempted to show the part that had been played by the revenue derived from alcoholic taxes beginning with 1900, as compared to the total revenue of the United States from all sources.

Mr. **THREADWAY**. May I interrupt you to this extent? That chart that Mr. **Lourie** furnished the subcommittee would, I think, be a very illuminating document to have incorporated as part of his testimony now, and I suggest that if the chairman approve, the clerk be asked to bring it down from the committee room upstairs.

Mr. **HILL**. What part did you have in this work, Mr. **Lourie**? Did you yourself personally conduct this investigation for the Tariff Commission?

Mr. **LOURIE**. Of course, it would be physically impossible for any one person to gather all the information himself. I had an assistant and we used our statistical division. Probably 20 or 30 people gathered the figures, and then we simply worked out our calculations and presented them in what we thought was the logical order. I may say for the benefit of the committee that early this year the Commission had discussed the advisability of preparing for Congress, in line with the statutory requirements, a summary of tariff information on the entire alcoholic schedule, and we had begun to work on this proposition and had made considerable headway; in fact, we had all of the statistics gathered and a great deal of the descriptive material prepared when the Interdepartmental Committee was organized, of which I was a member. As the committee was preparing to report, the Commission decided to postpone the issuance of its own publication, and simply furnished the Interdepartmental Committee the various statistics that we had gathered and the various estimates that we had made, and we made public this particular document, and last week, I think it was, we made public a statement showing for each country of the world the imports of the various kinds of liquors during the fiscal years 1910 to 1914.

Senator **WALSH**. Do you think the tariff on spirituous liquors should be less for the current year than for future years because of the shortage of supply?

Mr. **LOURIE**. That is a question, Senator **Walsh**, that I feel very loath to answer, because, as you know, the Commission representatives never discuss the actual correctness of any rate. But may I say this—

Senator **WALSH** (interposing). It has been suggested here that in order for a legitimate dealer to successfully compete with bootleggers, liquor should be sold at a retail price of \$1.50 a quart. If that is so, has your committee made any estimate of what the rate should be, the tariff rate, upon liquor, and what the gallonage rate should be?

Mr. **LOURIE**. I think I can answer that best, Senator, by making this general statement: That if you will examine the comparisons—

Senator **WALSH** (interposing). Do you agree that there is a price at which the legitimate dealer may be at a disadvantage as against the bootlegger?

Mr. **LOURIE**. Absolutely.

Senator **WALSH**. Now, then, if that price is fixed, should we not have in mind a rate upon the gallonage, a tariff duty, a tax within that price, together with the cost of production?

Mr. LOURIE. Of course, that problem was before the Interdepartmental Committee in all stages of its discussion, because we realized—at least, I believe all members of the committee felt that the first problem that the Government faced was to get rid of the bootleg trade, and that the next problem was revenue, and that any attempt to raise large amounts of revenue would fail because of the fact that the bootlegger would still stay in business and the legitimate dealer would not be able to thrive, and the Government would, of course, not get the revenue.

As far as tariff rates are concerned the rates in the tariff acts that followed prohibition were approximately double the rates which had been in existence in the tariff acts of 1909 to 1913. In those two tariff acts the rates were identical. There was no change at all as far as the alcoholic beverages were concerned. And I may say for your information that in those two tariff acts the rates on distilled spirits were \$2.60 per proof gallon, whereas in the existing tariff act they are \$5 a proof gallon. And furthermore, the existing tariff adds the Internal Revenue tax, which was not included in the earlier acts. The earlier acts included, presumably, a protective element, and whatever the internal revenue rate had been, and in those days, as you know, the internal revenue rate had hung at \$1.10 for a great many years. So it was rather simple for Congress to determine how much the protective element should amount to.

Mr. HILL. Mr. Lourie, have you made any investigation of the cost of production of whisky in America?

Mr. LOURIE. I might put it this way: The Commission, of course, was not able to determine by the examination of the cost records of producers what it actually cost, because the industry, as you know, was only in existence under a permit system, and we did not feel that we were justified in attempting to use costs under a restricted system as being true of what the cost would be under a free system. However, certain cost elements were rather easy to ascertain from general information. We know that if you make a corn whisky, bourbon type, you get, roughly, four and a half gallons of proof spirits from a bushel of corn. The definition that has been laid down by the Government since the Civil War is that a gallon of proof spirits, 100 proof, is 50 percent alcohol by volume. Now, if you take corn selling at 45 cents a bushel, you have a raw material cost, if you are going to get 4½ gallons, of 10 cents a gallon for your raw materials. Of course, then you can add general figures for overhead and labor and cost of management, depreciation on your plant, and I think under normal conditions, with capacity operations, the average distiller could make a gallon of whisky for somewhere between 30 and 40 cents.

The CHAIRMAN. With corn at what price?

Mr. LOURIE. Taking corn at 45 cents a bushel, which happens to be very close to what the price was in the preprohibition period.

Whisky, of course, is usually stored for 4 years. I am now talking about the aged whiskies. We determined from the cost schedules for the storing of whisky, as issued by the various people, that it would roughly cost 20 cents a gallon to store whisky for 4 years. And we finally reported to the Interdepartmental Committee that, according to our estimates, the cost of making a gallon of whisky

should not be more than \$1.20, including the profit. I think that that figure, under ordinary conditions, is fairly accurate. It does not include the tax, and I think that you can arrive at an estimate of its accuracy by remembering that before prohibition, with a tax of \$1.10, there were large quantities of whiskies sold in the United States from 75 cents a quart up to \$1.25 for the high-grade whiskies.

Mr. HILL. Under the \$1.10 tax?

Mr. LOURIE. Under the \$1.10 tax. Now, when the committee considered the \$2.60 tax it was a simple matter of arithmetic to divide the difference out and see how far the increase in tax might raise the cost of whisky made today under raw material conditions very similar to what existed before prohibition.

I may add, gentlemen, that the cost of labor in the distillery is not an important part of the cost of making whisky. It is an operation which does not call for a great deal of hand labor. So we figured that whisky which could have been sold before prohibition at 75 cents a quart with a \$1.10 tax, certainly could be sold—and this is at retail—for \$1.50 at a \$2.60 tax. But our calculations, of course, were based on the theory that there would be no superimposition of taxes by the States. Our historical studies showed that the States had used their licensing systems and their saloon taxes and various taxes to raise revenue but had not taxed the production.

Senator HARRISON. Have you got the figures there to show the aggregate privilege taxes collected on licenses paid before the days of prohibition by the States and the cities?

Mr. LOURIE. I gathered those statistics for the years 1914 or 1915, but, I am sorry I haven't them with me. I got the figures together for the committee itself and it ran into quite an amount of money, but, of course, that was before a number of the States changed from wet to dry and the local option, which caused quite a change in the figures. The United States census got out a report during that period showing the taxes gathered by the States, counties, and cities, and showing what portion of those taxes were gathered from each.

Senator HARRISON. You haven't those figures?

Mr. LOURIE. Those figures on taxes gathered from the disposing of alcoholic beverages I can supply to you, but I haven't them with me now.

Senator HARRISON. I think, Mr. Chairman, it would be well to put those in the record, if we could, and put them in by States.

The CHAIRMAN. It is so ordered.

Mr. LOURIE. I have them by States and by cities.

Mr. HILL. On this \$1.20 cost you stated, what percentage of profit did you allow?

Mr. LOURIE. I will have to be frank and say we did not consider the question of profit. I tried to make an estimate of what the cost had been before prohibition, and then taking into consideration the fact that the business has to be rebuilt again and there would be additional cost at the start, and that labor is somewhat higher, that figure of \$1.20 looked rather ample, considering that in the old days we know whisky had actually retailed at 75 cents a quart.

Mr. HILL. That cost of \$1.20 was for a gallon of whisky 4 years old, aged in wood?

Mr. LOURIE. Yes, sir. In other words, it amounted to 30 cents a quart for that whisky, without taxes.

Senator WALSH. That is the distiller's cost?

Mr. LOURIE. The distiller's cost; yes.

Senator WALSH. There must be added to that the wholesale and retail profit?

Mr. LOURIE. Yes, sir; and of course the various taxes, and the question of license fees in the cities and States.

Senator HARRISON. That did not include the cost of containers?

Mr. LOURIE. No; I used that without cost of containers.

Senator HARRISON. I wonder if the cost has gone up for bottles and jugs?

Mr. LOURIE. The cost of bottles should have gone down, because during the interim period there has been developed an automatic machine for making glass bottles. For example, the recent study on the cost of making beer in the United States shows bottles now is a very small item of cost.

Mr. VINSON. At that point I recall Mr. Lowry's testimony this \$1.20 per gallon included bottles.

Mr. LOURIE. There has always been a difference of opinion as to that point.

Mr. VINSON. I just wanted to know whether I understood Mr. Lowry correctly or not.

Mr. LOURIE. As to the total cost, if you include the bottles, figuring there are four quarts to the gallon, I think a whisky bottle with its label and cork and the container on a gallon basis, that the entire thing would amount to somewhere between 25 cents and 35 cents, perhaps; for the 12 bottles and the corks and labels, depending on the type of container, or it might run up a little bit, but they use cartons which are relatively cheap.

Mr. COOPER. As I recall now, I asked Mr. Lowry the definite question whether or not this \$1.20 was the price that legally produced whisky cost, the cost of the goods to the retailer, and I understood him to say it was. Wouldn't that embrace all of the elements you now mention?

Mr. LOURIE. It would, but I do not agree with Mr. Lowry's answer, because at the same time I prepared these cost figures on the same chart which the chairman of the committee has mentioned we have the cost of making beer, and in that particular cost item we did not include bottles.

Senator GORE. Wouldn't that apply to the wholesaler instead of the retailer?

Mr. COOPER. My question was, What is the cost of the goods delivered to the retailer? And that is what he stated, as I recall it, \$1.20 a gallon.

Senator GORE. I thought that was the price produced to the wholesaler.

Mr. KNUTSON. Some witnesses testified it was the thought of the interdepartmental committee that whisky should be furnished to the consumer at \$1.50 a quart.

Mr. LOURIE. Yes, sir.

Mr. KNUTSON. The present import tax is \$5 a gallon.

Mr. LOURIE. Plus \$1.10.

Mr. KNUTSON. That makes over 400 percent ad valorem.

Mr. LOURIE. It depends, of course, on what you compare that with.

Senator HARRISON. Five dollars was the before-prohibition rate.

Mr. KNUTSON. That is 333 percent, then, and that is high, isn't it?

Mr. LOURIE. It would depend on what you compare the rate with, whether you compare the rate with cost of producing a particular type of whisky in the United States, or whether you compare the rate with the cost of producing that type of whisky in the country it came from. The distilled spirits we import come from a number of countries and the same rate applies to cognac, which may be 30 years old, that would apply to Scotch whisky or gin, which might be only 3 years old.

Mr. KNUTSON. That applies to Canadian whisky which is comparable to American whisky, and in fact is, to all intents and purposes, American whisky.

Mr. LOURIE. Yes, sir.

Mr. KNUTSON. Doesn't it seem the tariff would be pretty high until such a time as we can provide the American consumer with a straight whisky rather than a blend of doubtful quality?

Mr. LOURIE. I might answer that question by saying at least 50 percent of the whisky consumed in the United States even before prohibition was blended—blended and rectified whisky.

Mr. KNUTSON. Yes, but they didn't know much about it then, and they know all about blending and rectifying whisky now. The average American is a pretty good chemist now. It has taken him 13 years to learn, but he has a pretty fair knowledge now of cutting and blending, and from now on I think they will demand a straight whisky.

Mr. LOURIE. I think that is a matter of opinion as to which is the better whisky, a blended whisky or straight whisky. I might say under the Pure Food Law regulations, which are quite strict, there was an order issued by President Taft, and various opinions rendered, one by the Attorney General, at that time Mr. Wickersham, as to what whisky is. There was an old ruling that to be entitled to the use of the word "whisky" alone it should not be touched, and this whisky, bottled in the bonded warehouse with the Government's seal over the cork, was straight whisky. Then you had your blended whisky, which was of two types. Then you had your rectified whisky, which was a blend of a small amount of old whisky and a larger amount of neutral spirits. Then you had a mixture of neutral spirits and other liquids which were not sold under the name of whisky.

Senator GORE. Then they were blended in the United States?

Mr. LOURIE. Yes.

Senator HARRISON. What is neutral spirits, I have forgotten what it is.

Mr. LOURIE. Neutral spirits is pure alcohol, whether you make it from gas, from corn, or from what, and it is made from many things.

Senator HARRISON. I used to know what it was in the old days.

Mr. KNUTSON. If we would make the price too high, isn't there a danger that many would go into the rectifying business?

Mr. LOURIE. I don't know just as to that.

Mr. KNUTSON. What is the market price of alcohol now?

Mr. LOURIE. I don't know what the price of alcohol is today.

Mr. KNUTSON. Of course it has gone up lately on the strength of Repeal, but it has been down to \$8.00 or \$9.00, according to the morning paper, per gallon, and I am informed each gallon will make two or three gallons of rectified liquor. I don't know whether that is correct or not.

Mr. LOURIE. Of course there never has been any limit to that.

Mr. HILL. In the rectifying of whisky the amount of alcohol determines the basic price, and then in addition to that you have the rectifying tax, which is an additional tax, and what would that be in the matter of the cost of rectifying whisky?

Mr. LOURIE. The rectifier has to pay another tax to the Government for each gallon he produces from his mixture. He may buy some old whisky and he may buy some new whisky and some neutral spirits and blend them all and add water to reduce the proportion to any point his customers desire, and then he pays the Government in addition to the taxes paid on the spirits a rectifier's tax.

Mr. HILL. Included in the cost to him is the tax on the proof gallon?

Mr. LOURIE. Yes.

Mr. HILL. In addition to that, when he rectifies this whisky he must pay an additional tax for rectification?

Mr. LOURIE. The rectifiers could only operate profitably if they get neutral spirits cheaper than straight whisky.

Senator GORE. The rectifiers' tax is what?

Mr. LOURIE. I think, 18 cents a gallon is proposed, and it is 30 cents at the present time.

Senator GORE. Is that \$1.20 the cost the producer receives from the wholesaler or retailer, or the price the wholesaler receives from the retailer?

Mr. LOURIE. That is the price we calculated the distiller can sell to the wholesaler.

Senator GORE. That is what I thought.

Mr. TREADWAY. Mr. Lourie, when you appeared as a witness before the Subcommittee of the Ways and Means Committee you provided us with this chart [indicating].

Mr. LOURIE. Yes, sir.

Mr. TREADWAY. I think that is really in line with your official duties, is it not—that is, this is a tariff chart?

Mr. LOURIE. This chart was designed to show what we estimated the cost in the United States and what the tariff itself was. In other words, we have two bars. The first bar shows what the height of the duty is without the cost of the foreign product. The second group shows the cost of making it per gallon and how much the excise tax is. For example, in this first set-up here the tariff paid here is \$1 per gallon.

Mr. TREADWAY. Pardon me for interrupting. That is beer, and beer is of less consequence in our consideration now than the other items. Why not make your explanation based on distilled spirits and wines?

Mr. LOURIE. In the case of distilled spirits the top bar here shows the tariff which is \$5 a gallon. The additional bar there is the excise tax of \$1.10. This does not include any items for cost of production in any foreign country.

The lower bar here shows the cost of making the whisky in the United States plus the excise tax. In other words, you come up, roughly, to \$2.30 for domestic whisky, including the tax, while the import without any cost of production is \$6.10.

Senator KING. In that smaller bar to which you call attention you find a pink color between the green, what does that represent?

Mr. LOURIE. That represents 4 years' storage for the whisky.

Mr. TREADWAY. Now, I think that is very informative to the Committee. Is it possible to so redraft that as to carry the same legend, but to possibly make a plate of it that could go into the record, not illustrating it by colors—could you do by a bar system?

Mr. LOURIE. We can reproduce the chart without colors, but by hatch system indicate the differences.

Mr. TREADWAY. Then, Mr. Chairman, if it is in order, I would suggest that the chart be incorporated in the record as the presentation by the Tariff Commission of the information it contains.

The CHAIRMAN. It is so ordered.

Mr. TREADWAY. Now, that upper bar shows what is necessary for the Government today, that it is legal to import distilled spirits, to charge importers.

Mr. LOURIE. Yes, sir.

Mr. TREADWAY. That is the rate of \$5 per gallon for duty. That never really was a practical or working duty rate, was it?

Mr. LOURIE. No.

Mr. TREADWAY. It was enacted after prohibition?

Mr. LOURIE. We never had a rate higher than \$2.60 in recent tariffs.

Mr. TREADWAY. \$2.60 was the duty rate at the time prohibition went into effect?

Mr. LOURIE. Yes, sir.

Mr. TREADWAY. Wouldn't it be illuminative or informative to us to add a bracket under that second section showing what the receipts would be to the Government for the tax if the rate was returned to \$2.60?

Mr. LOURIE. Yes, sir; I can prepare a new chart without colors and I will have two brackets for imports, one at the present rate and one under the tariff of 1909 to 1913.

Mr. TREADWAY. I think that would be very desirable. Now, another idea along the line of duty or tariff, this interdepartmental report recommends that the entire tax that should be levied—and I am talking now about internal revenue—should be \$2.60 per gallon based on the division between the States and the Federal Government.

If that bargaining is not carried out with the States, what would you think would be a fair off-set as a Federal charge when we also take into consideration a tariff that will be levied?

Mr. LOURIE. Well, of course, Mr. Treadway, we have opened up a question which caused a great deal of heated discussion in the committee itself.

Mr. TREADWAY. It is the question we are put here to answer, as I see it.

Mr. LOURIE. To give you my own point of view, I was one of the proponents who believed in a low tax, on the theory if we had a low tax charge, we could probably drive the bootlegger out quicker.

Mr. TREADWAY. How low?

Mr. LOURIE. The suggestion I made originally was that the tax for 1 year should be \$1.10, for the second year raised to \$2.20, and the third year to go up if the Government needed the revenue.

Of course, my idea was you would sacrifice some revenue the first year, but you would accomplish the driving out of the bootlegger, because it would permit the sale of the spirits at prices the same as before the war.

We also studied the question of what the bootlegger might sell his liquor for, and also the needs of the Government in the way of revenue. We had no idea at the time of our study that the States would go into the production taxing field as sharply as they have.

Some of us felt it might come down to the point where no concession would be made to the States whatever, on the theory that if the States superimposed a tax over the Government tax of liquor, that in those States the price would be so high it would encourage bootlegging, and the citizens would force the States to reduce their taxes so that they could get it at a proper price.

Mr. TREADWAY. Your judgment, having made a study of the tariffs on this subject, is that if the internal-revenue tax, without relation to a division among the States, but simply for the Government, should start with \$1.10 it would materially reduce the possibility of bootlegging?

Mr. LOURIE. I think it ought to pretty nearly destroy it in the wet States.

Mr. TREADWAY. We have had talk of anywhere from \$2 to \$2.20 this morning, and if we should follow your program, would it add to the probability of receipts on the part of the Government for the additional quantity that you feel we would crowd out from the bootlegger?

Mr. LOURIE. I will say this, Mr. Treadway, that if you reduce your tax to \$1.10 you might stimulate consumption, but the stimulation of consumption would not reach the point where you would receive probably as much revenue as you would at \$2 or \$2.20.

Mr. TREADWAY. But you think more of it would be legal?

Mr. LOURIE. Yes, sir.

Mr. TREADWAY. One or two other questions on the tariff, do you think the \$2.60 rate in force in preprohibition days is a good point to start at, at this time.

Mr. LOURIE. I think the statistics of importations answer that question. During the years in which the tariff was \$2.60, which began with the Tariff Act of 1909, which repealed the old reciprocity proposition we had under the Tariff Act of 1897, where the rate was higher, because it was \$1.75 under the Act of 1897, the imports actually increased, and we had imports of the various categories in the rates of the Act of 1909, and we reached the maximum importation in the period of the duration of the Act of 1909.

Senator GORE. You had what?

Mr. LOURIE. We had the maximum of imports during the operation of the Tariff Act of 1909, and that continued until the war disturbed the entire set-up.

Mr. TREADWAY. If this is any example, it rather indicates to you that it would probably be advantageous to set up a new tariff?

Mr. LOURIE. I think I might answer that question simply by reading a few figures. In 1910 the total revenue collected by the Government from all types of alcoholic spirits and beverages was \$17,400,000, and there were slight fluctuations from year to year to reach a maximum in the fiscal year of 1914 of \$19,000,000, then the war came along and it declined. Under the lower rates the duties were not as large and the collections were not as large.

Senator KING. The \$19,000,000 was the maximum imports collected?

Mr. LOURIE. A little bit over \$19,000,000, and that covered all of the imports of wines, spirits, beer, and everything else.

Senator GORE. Do you mean that the imports went up after the tax was increased in 1909?

Mr. LOURIE. Yes, sir.

Senator GORE. Both the volume of imports and the amount of revenue?

Mr. LOURIE. Yes, sir. There was, of course, the usual rush of imports in 1909 when the reciprocal tariff was going to be repealed, but we find that the greatest amount of imports under the reciprocal tariff omitting the year 1909, for distilled spirits, was 8,680,000 gallons, and since that time it was increased until in 1914 it reached 4,100,000.

Senator GORE. So that the volume imported actually increased under the increased duty?

Mr. LOURIE. Yes, sir.

Senator KING. I understand your view to be that a tax now, or rather an import duty of \$2.60 upon alcoholic liquors would be fair, and would yield a reasonable revenue and would afford reasonable protection to the domestic producer?

Mr. LOURIE. I might answer that question in two ways. I am one of those who believe that the demand for distilled liquors in the United States is so large at the present time that if you maintain the present tariff you will get a very large revenue. On the other hand, if you are discussing the fairness of the tariff from a long-term policy viewpoint, I am simply pointing out at the \$2.60 rate there was an ample volume of imports to supply the demand in the United States for that particular type of liquor.

I might also add that the import of distilled liquors never played an important part in our consumption, they represented a very small percentage.

Senator KING. In view of your statement, which seems to assume it is advantageous to impose a lower excise tax and also tariff duty, in order to prevent bootlegging, may I ask, is it not rather logical to continue this duty and maintain the present tariff of \$5?

Mr. LOURIE. I do not contend that. I say you can raise a lot of revenue if you do, because there is a great demand, but after all, that demand is not going to exist very long, but you have got to get some liquor from abroad.

As I stated some time ago, you have the situation in Canada, there you have the American type of whisky in rather large volume, in storage. That liquor is going to come to the United States and pay the tax, or it is going to come anyway, and the present plans, as I have heard them, is to allow a large quota of that to come in to be used for blending purposes, because it is exactly like our whisky.

and is not like Scotch whisky and cognac or the other distilled spirits.

Senator GORE. Can you give us some figures on the Canadian taxes?

Mr. LOURIE. I have the figures at the office, but not here. I believe their tax is \$8 a gallon, and they sell a 26-ounce bottle of Canadian whisky at \$8.45 at the retail stores, and they make a large amount of money out of it; that is a 26-ounce bottle, five bottles to the gallon.

Senator WALSH. The net result of what you say is if you keep the present tariff duty it would be possible for the man of wealth, who can pay the high price for good liquors, to get the best liquors, and the poorer class who desire to buy liquor will have to buy these American concoctions which are inferior. Is that right?

Mr. LOURIE. Absolutely.

Mr. TREADWAY. What comment do you care to make on a 2-column tariff of various rates for trading purposes?

Mr. LOURIE. I would prefer to leave that to the State Department and the advocates of that type of tariff.

I was brought up in the single-line tariff, and of course anyone who knows anything about juggling figures knows there is a great danger involved in the double tariff, although it might work out successfully.

I think everybody on the committee realizes that the volume we are talking about would not eventually be a very large one, and that after all it is a temporary market which ultimately would come down to the basis of pre-war years. When we talk about importing 20,000,000 gallons of distilled spirits in a year, it is only because of the bare condition of the American market. When that is taken care of I would expect the imports would decline sharply and become more normal.

Mr. TREADWAY. So that if there was to be any benefit in that trading process, it should be promptly enjoyed, and probably would be temporary in its benefit?

Mr. LOURIE. It might be more or less permanent in the case of the countries which have a specific product for which there is a market in this country, taking a thing like champagne in which you have France as the leading producer, protected in the use of the word "champagne" by the various laws, and where our own production is not very large, being in two States, New York and California. I think in that case where the trade was worth roughly \$4,000,000 a year, France in that particular commodity might be willing to make some sort of deal which would permit it to come in year in and year out, because we represented one of its largest markets. The French had two large markets before the war, one was the United States and one Russia. I think Russia has gone and we have practically gone, and the result is they have a very large surplus of champagne on hand at the present time which they are anxious to get rid of.

Furthermore, Mr. Treadway, you must remember 14 years is a long time, and tastes of people change, and we do not know what the American public is going to demand.

It is very noticeable that in England the taste has changed from distilled spirits quite decidedly in favor of ports and sheries and

similar wines. It may have been enforced by taxes they have there, and may have been a natural change in tendency because of the war.

Mr. TREADWAY. If it is a fair question, Was this matter of variable tariff rates for bargaining purposes given consideration by the Tariff Commission other than as you represented it on this interdepartmental committee?

Mr. LOURIE. I might explain this, as a representative of the Commission I was authorized to represent myself and not the Commission, and the Commission itself took no part in the deliberations, nor was it called upon to make any decision as to any of the statements I made to the interdepartmental committee.

Mr. KNUTSON. I notice from the report issued by the Tariff Commission for the years 1910 to 1914 that France exported to this country in round figures an average annual export of brandies, liquors, and wines of different kinds 1,400,000 gallons. Do you think it would be proper for this country to levy a double or treble tax on liquors and wines from countries who stand in default in their just debts to this country—did you give any consideration to that?

Mr. LOURIE. I don't think the interdepartmental committee gave to itself the right to even consider problems of that sort. Our problem was a very definite one, to make a statement of the laws and the facts. We did not consider any other relationship, whether foreign debts or foreign policies, except insofar as it related to controlling imports until such time as Congress decided it wanted to use a bargaining tariff.

Mr. KNUTSON. There would not be any constitutional barrier against doing something of that kind?

Mr. LOURIE. I don't know. I am not an attorney.

Senator GORE. You say there is an excise tax in Canada of \$8 a gallon?

Mr. LOURIE. Yes, sir.

Senator GORE. That does not attach, of course, to their exports. Do they have a drawback system?

Mr. LOURIE. On exports of liquor it is exported from bond free from all taxes.

Senator GORE. Have you summarized any data concerning taxes imposed in foreign countries, either on imports or exports or domestic excise taxes on distilled spirits and wines?

Mr. LOURIE. We have not made a study of it, although the information is readily available if you would desire it.

Senator GORE. I wanted merely a summary, not a detailed statement, if you can summarize it, and put it in the record in connection with your statement, I wish you would.

Mr. LOURIE. We can give you the tariff and excise taxes of leading countries that ship to the United States.

Senator GORE. And I mean also, a statement of their revenue receipts from those sources.

Mr. LOURIE. I am afraid that might be a difficult job to bring down to date.

Senator GORE. I don't want to put you to any additional trouble about it.

Mr. COOPER. Mr. Lourie, as I recall, when you appeared before the subcommittee, of which I had the privilege of being a member, you stated at that time there were about four million gallons of old whisky in this country. Is that correct?

Mr. LOURIE. There were at that time, but they disappeared after that.

Mr. COOPER. How much has disappeared?

Mr. LOURIE. You see, Congress liberalized the prescription law and the figures we had when we submitted our final report to the President indicated that roughly one million gallons were left. Of course, whisky was authorized to be made by the distillers in November, and the existing capacity was being utilized to its limit, and I think Dr. Doran can give you how much that amounted to per day. I think roughly it was 250,000 gallons a day, beginning about November 6 or 7.

Mr. COOPER. It was your statement to the subcommittee that there was at that time about four million gallons. That was during the latter part of October. How much has it been reduced since then?

Mr. LOURIE. I would say up to the time of the effectiveness of the repeal we had about one million gallons left in the hands of the primary holders, the distillers themselves. Of course, a lot of that is in drug stores and some in bonded warehouses for blending purposes, but I think the distillers at that time had left one million gallons.

Mr. COOPER. Are you prepared to give us an estimate of how much old whisky is now left in the country?

Mr. LOURIE. I don't think I can. I think Dr. Doran has that information.

Mr. VINSON. Will the gentleman from Tennessee yield?

Mr. COOPER. Yes.

Mr. VINSON. It is probable that the shrinkage has been greater than was estimated.

Mr. LOURIE. That may be true, because the whisky has not been gauged and it is hard to tell what will happen to whisky that has stayed in the warehouse from 1919 on.

Senator HARRISON. I hope Mr. Lourie will put into the record these statistics Senator Gore requested as to the taxes of other countries and so forth as far as he has it, and I want to suggest to the Chairman of the Committee that since this interdepartmental report has been submitted to each member of the Ways and Means Committee and the Finance Committee, and the newspaper gentlemen have received those reports, there is no necessity for it to remain confidential. It was not approved or OK'd by the President or any of the heads of the departments. It is simply the viewpoint of the gentlemen on this committee, and many will want to read it, and I was in hopes we might put that in the record as a part, so that other members of Congress might read it.

The CHAIRMAN. It is very pertinent to this inquiry to give them such an opportunity, and if there is no objection it will be put in as a part of the record.

Mr. HILL. It might be put in as a supplement.

There are two of the documents and I think your suggestion, Senator Harrison, covered both, and it seems to me it could go in as a supplement.

Senator HARRISON. Yes; that might be better.

Senator WALSH. Mr. Lourie, did we export any liquors before prohibition?

Mr. LOURIE. Yes.

Senator WALSH. Will you put that information in the record?

Mr. LOURIE. Yes. Of course, we have submitted figures to the gentleman, but I will be glad to put in all of those figures submitted to the various groups.

The CHAIRMAN. Are there any further questions of Mr. Lourie? We thank you, Mr. Lourie, for your attendance and the information you have given us.

The next witness is Dr. J. M. Doran. Will you please give the stenographer your full name?

**STATEMENT OF DR. J. M. DORAN, REPRESENTING THE DISTILLED SPIRITS INDUSTRY CODE AUTHORITY**

Dr. DORAN. My full name is J. M. Doran, representing the Distilled Spirits Industry Code Authority.

The CHAIRMAN. Doctor, under the rules by which we have formerly proceeded you have the privilege of making your main statement uninterrupted, if you prefer, at the end of which you will, of course, yield for questions. If you prefer to make your statement uninterrupted, we will be glad to have you do that.

Dr. DORAN. It is quite immaterial, and I will be glad to be interrupted at any point by the committee.

Such few observations as I wish to make dealing with the excise tax have to do primarily with the obviously desirable rate to be imposed to enable the legal industry to successfully compete with the illegal industry to the end that the illegal industry will be reduced to a negligible quantity, and the maximum revenue will be obtained under those conditions.

It seems to me in approaching that subject in a practical way it is well to predicate or premise your statement first on the desirability of so taxing liquor as to get the liquor to the consumer—get quality liquor to the consumer—at from \$1.50 to \$2 per quart, on a rejuvenated, or, you might say, more or less reestablished and stabilized basis.

Now, what taxes will approximate that which seems to be the desirable retail figure? If we take the suggested figure of \$2.60 per gallon, we see that amounts to \$7.80 per case, and if we assume that under normal producing conditions the cost will be between \$1 and \$5 a case—that is a little more than \$1.20 per gallon—the distiller will receive about \$12 to \$13 a case at the distillery.

If to that price is added the normal wholesale and retail profit, it will be readily understood that the tax could not exceed that amount and whisky be successfully retailed at any less than the range from \$1.50 to \$2 per quart.

Now, in discussing that figure of \$2.60 us, we might say, the ceiling beyond which retail prices will inevitably be raised, we must take into consideration the fact that several States through their legislatures have already imposed excise taxes, notably the State of New York at \$1.00 per gallon, the State of Pennsylvania at \$1.00 per gallon, with similar proposed actions in other State legislatures.

Senator GOME. What is the highest tax so far?

Dr. DORAN. The highest tax so far is \$2.00 floor tax in the State of Pennsylvania, plus a \$1.00 continued production tax as to the future.

The application of the State excise and the suggested \$2.60 Federal figure naturally raises that ceiling to a point where there would be considerable difficult retail experience.

It therefore seems to me, in view of the practical situation of the action of these legislative bodies, which it would be very problematical to have reversed in any short time, that the Federal excise tax should take that into account.

Therefore, as a plain matter of arithmetic, that would naturally suggest a figure of anywhere from \$1.50 to, say, \$2 per gallon, or possibly \$2.20 at the outside. I would rather say the figure should be around \$1.75 or \$2 a gallon.

With respect to the matter of cost of production, might I observe that the domestic distillers who are manufacturing spirits from corn have within the last few days signed a marketing agreement with the Secretary of Agriculture providing for the payment of parity price for corn, which at the present time I believe is around 75 cents per bushel.

Therefore, in basing cost figures that the Committee has been listening to, which, as I understood from Mr. Lowry's testimony, was based on an approximate cost of 45 cents per bushel, that agreement should be taken into account.

Senator KING. May I ask what is the proportionate cost resulting from the corn with relation to the entire cost?

Dr. DORAN. The corn cost is probably about 30 percent of the entire cost—that is, the corn itself. That figure is very rough, and I am not very nimble at arithmetic, and you will have to excuse me if later examination shows I am off.

Mr. KNUTSON. How many gallons does a bushel make?

Dr. DORAN. A bushel of corn made up in sour-mash whisky will run about 4½ gallons of whisky, and made up in the sweet-mash whisky by the cooking process, it will result in about 4.8 gallons per bushel.

Mr. KNUTSON. That would only make about 10 cents per bottle increase, you speak of?

Dr. DORAN. Yes; it will not be great, yet that is one item I just desire to call the Committee's attention to.

For the next 5 or 6 months the price of cooperage, that is, barrels, in which the whisky is placed when placed in the warehouses, is higher than can be expected to prevail after there is some stabilization.

In that respect the industry is confronted with somewhat the same condition that confronted the brewery industry this spring, where cooperage was not available except at a high figure.

Senator GORE. Is that wood or metal?

Dr. DORAN. That is wood, of course.

Senator GORE. I understood there was some statement made about the use of metal barrels.

Dr. DORAN. In this case it would be wood barrels, because the process of maturing whisky requires a wooden package, in our case a charred wooden package.

The conditions obtaining now, and which would obtain for the next few months, are very undesirable. There is a dislocation between the price at which the distiller can sell whisky by the case, and the price at which the consumer can purchase it through the

various outlets, so that any consideration of the tax should be based upon conditions which we reasonably believe will exist when there is some stabilization brought about.

There is new construction under way right now, with some 25 or 30 whisky distilleries in various stages of construction, and some of the older distilleries are enlarging their capacity, and the whole situation right now is in that fluctuating condition that attends the building of units of production.

Senator GORE. How many old distilleries are there?

Dr. DORAN. There are about 20 old distilleries now in operation.

Senator WALSH. Is there a limit being fixed upon the amount of production?

Dr. DORAN. The code for the distilled spirits industry, as approved by the President, contains a provision whereby the Federal Alcohol Control Administration may allocate the production of various types and kinds to effect certain purposes, namely, to prevent oversupply, and second, price disturbances, protection of the consumer, and so on.

Senator GORE. How many States are represented by those distilleries?

Dr. DORAN. The chief production now is in Pennsylvania, Ohio, Indiana, Illinois, and, of course, Kentucky, at the corn producing and distilled spirits centers.

I feel that the great desirability of keeping the retail price of, you might say, the bulk of good whisky within \$2, is the principal consideration I would like to call your attention to.

Senator KING. To the retailer?

Dr. DORAN. No; to the consumer.

I believe I have no further suggestions to offer, just bearing on the excise rate alone, at this time.

The CHAIRMAN. Doctor, if the retail price is as high as \$2 per quart, the average retail price, or \$8 per gallon, in your judgment, would that leave latitude for the bootlegger to operate, and make that problem more serious to deal with?

Dr. DORAN. That is my opinion, Mr. Chairman, and I do not take into account the fact that there will always be on the market higher priced special brands and imported brands, but the thing I am addressing myself to is the bulk of the whisky of a grade comparable to what the people purchased prior to prohibition.

Senator HARRISON. Doctor, how much liquor is there now in this country?

Dr. DORAN. There is approximately 1,000,000 gallons of 17-year-old liquor yet in the bonded warehouses, in barrels.

There has been quite a rapid conversion of a portion of the bonded liquor in the last four weeks in preparing such additional quantities of blended stock as were obviously needed to get the lowest price whisky out after repeal that it is possible to do. That million gallons will be rapidly consumed. Some of it will be sold as it is without change, for which, of course, a rather advanced price will be obtained, but the balance of it will go into the blending of whisky.

The 17-year-old whisky, of course, is something we never had before prohibition, and it is to a certain extent just a passing phase.

Senator HARRISON. How much liquor is there now in Canada?

Dr. DORAN. There is approximately 25,000,000 U. S. gallons in the Canadian bonded warehouses, of American rye and Bourbon types.

Senator HARRISON. What are the consumptive demands, in your opinion, for the year 1934, or what will that demand be?

Dr. DORAN. It will run to around 100,000,000 gallons, in my opinion, if the tax is kept within the general range I have suggested.

Senator HARRISON. Do you think it will stay about that way for the next few years?

Doctor DORAN. I would think the consumption would continue to increase on the theory that competitive conditions will tend to keep lowering the retail prices, and the further possibility, of course, of additional territory in which liquors might be legally sold.

Senator HARRISON. Mr. Parker in his statement said that in 1935 the consumptive demand would probably be 140,000,000 gallons. Do you differ from that statement?

Doctor DORAN. No, I don't; that seems to me to be very well based.

Senator KING. Don't you think there will be an increase in the consumption of beers and wines, which will tend to diminish the ordinary development and consumption of distilled liquor?

Doctor DORAN. That is no doubt true, there will be such an effect, but if we go back to the preprohibition years of 1912 and 1913, we will find we were consuming 150,000,000 proof gallons for beverage purposes, and we have, of course, a larger population now, so I think the figure of 140,000,000 gallons of Mr. Parker is a very good estimate.

Senator KING. When we legalized the sale of 3.2 beer, was there any diminution in the consumption of distilled liquors legally and illegally disposed of?

Doctor DORAN. There was no evidence of any decreased consumption of legal liquors as evidenced by the medicinal withdrawals. As to the consumption of illegal liquors, it is just my personal conception that the consumption was decreased.

Senator KING. One other question, suggested by the question of Senator Harrison: Has there not been quite recently a large amount of foreign liquors smuggled into the United States--distilled liquors?

Dr. DORAN. I believe that is true. Such information as I had in the last few months indicated that was the fact.

Senator KING. I saw some statement the other day about a considerable amount of liquor sold in New York, I think, or it may have been in New Jersey, at \$16.50 per gallon. My information was from the newspaper, and it said that the liquor had been smuggled in, and had been disposed of after the repeal of the eighteenth amendment, and, therefore, the vending of it was alleged to be legal. Do you know anything about that?

Dr. DORAN. Yes; that liquor was an accumulation of seizures which were disposed of on order of the court for the southern and eastern districts of New York. They were accumulations of seizures running over several years, being odd lots.

Senator KING. That would not be in connection with the large amount of smuggled liquor involved, would it?

Dr. DORAN. No. That would not relate to any recently smuggled quantity.

Mr. KNUTSON. How long does it take to age liquor?

Dr. DORAN. Of course, the American practice, evidenced by the bottled-in-bond act, was not less than 4 years. That was considered the standard of good aged liquor.

Mr. KNUTSON. It has been testified to by witnesses that methods recently discovered age whisky in 2 months.

Dr. DORAN. There has been a development in what are known as quick-ageing processes, very naturally on account of the obvious advantage of them at this time, and I believe there has been some substantial improvement in quick-ageing methods.

Undoubtedly good whisky can be placed on the market, of a fair beverage quality, by much less than 4 years, by the use of some methods of heat and other warehouse treatments.

It is quite possible that Congress will see fit later on to reduce the period at which goods may be bottled in bond, say to 3 years. It is quite probable that the facts relating to better practice of maturing whisky will lead to the conclusion that 3-year maturity is as good as 4 years was in 1912 and 1913.

Senator KING. Is that your information, Doctor?

Dr. DORAN. Yes; I believe there has been a substantial improvement.

Senator KING. Does the ageing process also include the removal of fusil oil?

Dr. DORAN. Yes; the ageing seems to include the removal of such elements, and the adding of a certain aroma associated with matured liquor which drinkers prize very highly.

Senator WALSH. Are there any of these processes you speak of in actual operation?

Dr. DORAN. Yes; some of the present distilling firms are using some of these improved forcing methods, principally the application of heat.

Senator WALSH. With what success?

Dr. DORAN. It is hastening the maturity of whisky, undoubtedly; yet until there is more volume distribution and it is known just how the market reacts, it is rather difficult to state the ultimate success.

Senator WALSH. In view of the figures you have given about consumption and the supply in this country, and the failure to yet develop the process of ageing, isn't it going to be very necessary to import exceedingly large amounts of spiritous liquors in the next few years?

Dr. DORAN. I believe, Senator, that the present condition of the market, the fact that many people much prefer an old, matured whisky, regardless of purity consideration, does make for increased importations in the immediate future, and, naturally, that volume would drop as our matured stocks were piled up and were placed on the market.

Senator WALSH. And it follows, does it not, that we must substantially reduce the present tariff duty if we are to give the American people pure and good whisky in the next few years?

Dr. DORAN. The present tariff duty of \$5 per gallon seems to me to be rather high, and I can see some obvious advantages in reducing that figure.

Senator KING. You think \$2.50 would be substantially a reasonable tariff under all the circumstances at this time?

Dr. DORAN. I think that is a very fair rate, that pre-prohibition rate.

Senator KING. I would like to propound one question, perhaps that is a little pertinent, calling for your judgment on a matter you may not care to express an opinion about, but if you do care to do so, I would be glad to know it.

Assuming it is unknown the number of States that will impose a gallonage tax, not knowing how they will address themselves to the question, assuming Congress will put a low tax upon liquor, and what their action would be if we would impose a rather high excise tax, and assuming we were to enact legislation providing for an excise tax, not knowing what the States will do, not knowing their reaction in view of what Congress may do, what would you recommend that this committee, regardless of what the States will do, with reference to the levying of an excise tax, and also as to reconciling the tax in those States that do not impose a gallonage tax—

Dr. DORAN. It seems to me, in view of what action some States have already taken, that the committee would necessarily consider the double taxation as bearing on the retail price as a very important consideration in reducing the illicit traffic.

The gross figure and subsequent distribution to the States, of course, is in my opinion highly desirable were we starting at the point where we had no State legislation in effect.

But it seems to me the difficulties, in view of the true situation, in trying to enact a tax for subsequent distribution in part to the States would be very great and would unquestionably affect the retail price in an adverse manner.

Senator GORE. Can you tell me the price whisky in Canada sold for, imported without any tax?

Dr. DORAN. The domestic tax up there is \$7 a gallon. It was \$8 and was reduced to \$7. There is no tax on imports. I believe Canadian liquor is probably being sold in Canada at about \$5 per gallon.

Senator GORE. That was my understanding; and \$5 plus \$7 would make about \$3 per quart.

Dr. DORAN. Your consumers in Canada through their stores pay \$3.50 or \$4 a quart.

Senator KING. The tax would be determined in view of the alcoholic content?

Dr. DORAN. Yes; and these figures we have discussed are based on the proof gallon, 50 percent by volume.

Mr. WOODRUFF. What is the common practice with respect to the cutting of liquor, as to the number of gallons to be made out of 1 gallon of bonded whisky?

Dr. DORAN. The blending of whisky, of course, was always practiced prior to prohibition. When I say that only 8 percent of the total consumption before prohibition was in the shape of bottled in bond, you can see that the great bulk of whisky consumed before prohibition was either straight whisky of less than 4 years of age or blended or rectified whisky.

That is not to say it was not perfectly pure, palatable, good whisky, but that was the ratio.

As to the proportion of blending for individual consumption, of course I differ as to the amount of so-called straight whisky and the amount of spirits, and the amount of other agents that should be used, and some straight whiskies blend a little further than others, so there can be no rule laid down or any formula for blending.

Mr. WOODRUFF. In view of the amount of whisky now in this country, there will have to be considerable amounts imported?

Dr. DORAN. Yes; and in this heavy-bodied 17-year-old whisky now in the warehouses, as low as 10 percent of that will furnish the same character in body that might have been furnished by 25 or 30 percent of 5- or 6-year-old whisky prior to prohibition.

Mr. VINSON. Doctor, as I understood, you said a bushel of corn will make  $4\frac{1}{2}$  gallons of whisky?

Dr. DORAN. Yes.

Mr. VINSON. At 75 cents a bushel for the cost of corn that would go into a gallon of whisky, it would be  $16\frac{2}{3}$  cents. Did I understand you to say that the cost of the corn was approximately 30 percent of the cost of the whisky?

Dr. DORAN. That was my rapid opinion to the Senator's question. That would make about 50-cent whisky.

Mr. VINSON. It would be about 55 cents?

Dr. DORAN. Yes; somewhere along in there.

Mr. VINSON. Now, I realize there is a lot that must be left to opinion, I realize that the history of the past may not be the yardstick of the future; but if \$1.50 to \$2 whisky is the retail price that would be a fair weapon against the bootlegger, I would like to have you break down that \$1.50 per quart into percentages, or into cents, so we can see what constitutes the \$1.50 according to your personal judgment.

I know of no one who would be better qualified to do that than you.

Dr. DORAN. Well, if you take \$1.50 per bottle, I will sort of reverse my own process of reasoning in the hope that I can answer your question properly.

A dollar and a half means \$18 per case retail; that is the price the retailer would get out of a case of whisky. Now, he has his profit to take up there, and before he gets it there is a wholesale profit, so that means the distiller would hardly sell that whisky for over \$12 and probably a little less than that.

Mr. VINSON. \$12 what?

Dr. DORAN. \$12 per case of 12 quarts, or \$1 per quart. That leaves a very modest wholesale and retail profit.

Therefore, in order to get \$1.50 whisky to the consumer, the distiller will need to get from \$10 to \$12 a case, and right there you start out with the groundwork on the effect of this excise tax; \$2.60 a gallon was the figure we were using as an illustration, and that means \$7.80 per case.

If the distiller gets \$12 a case, he has \$4.20 cost, and that \$4.20 is a little higher than the \$3.60 which was the figure quoted by the witnesses this morning. That \$3.60 is a figure based on normal price of corn approximating 45 cents a bushel. If corn again becomes 45 cents a bushel, and the distillery industry is going in an economical and efficient operation, I would say the \$3.60 a case—or.

rather, the price to the distiller is not unreasonable, but those conditions will come about rather slowly as the new operations get going.

Mr. VINSON. I realize that the witnesses, including yourself, have started at the retail price and drawn certain conclusions and deductions and assumptions that caused them to reach the conclusions they have.

Now, I would like for you to start at the other end of the thing and take your corn at 75 cents per bushel, on which you would have your cost of 55 cents. Now, take your manufacturing cost, including profit and carrying charges, and to lay it down in the store of the retailer, what would that figure be?

Dr. DORAN. The best way to get at that is what actually occurred prior to prohibition. You could lay down whisky in Kentucky in the warehouse for approximately 30 cents per proof gallon, based on 30-cent and 40-cent corn. The industry at that time was highly competitive and the profits very small, and there was continuous talk of overproduction in the domestic business.

That 30 cents per gallon when translated into 4 years' storage and marketing, resulted in whisky being placed on the market at \$1 per quart to the consumer.

Mr. VINSON. That was good liquor?

Dr. DORAN. Yes; and that was prevalent all over the United States, with a possible slight rise west of the Rocky Mountains. That, as I say, was under highly competitive conditions, with a very large storage charge, running from 250,000,000 to 300,000,000 gallons per year, and only a few cents profit per gallon to each house.

Mr. VINSON. About how much profit per gallon would you say was made under that competitive condition?

Dr. DORAN. To the distiller that is a little hard to state. It could not have been exceeding 5 or 10 cents. And again that measure of profit was entirely a measure of the efficient operation and the size of the plant based on the day's production or per gallon.

Mr. VINSON. Now, when it comes to a saving to the consumer, or the price that the consumer pays for liquor, it does not make any difference to him whether he pays it in tax to his Federal, State, or municipal government, or pays it into the hands of a distiller or the retailer in profit, does it?

Dr. DORAN. Well, all he knows is how much he has to pay for the liquor. He does not know the other things.

Mr. VINSON. It does not make any difference to him whether it is in taxes or in profit?

Dr. DORAN. No, sir; certainly.

Mr. VINSON. If you have a lower tax, there is a possibility that the profits might be greater for the distiller and the retailer?

Dr. DORAN. That is true, were it not for the competitive factor that is bound to enter into a large industry.

Mr. VINSON. If competition is as keen as it formerly was, a lower tax to the Government means a lower price to the consumer?

Dr. DORAN. That is right.

Mr. VINSON. Competition will cause the distillers and the manufacturers to put the price at what the traffic will bear?

Dr. DORAN. That is correct.

I would just like to make one further observation on the effect of taxes on the price to the retailer. Obviously the wholesaler must invest his capital, which includes the tax the distiller has paid to the Government, plus the cost of the commodity, and he makes a profit on that just the same as if it was merchandise, regardless of the makeup of it, so it pyramids on up.

Mr. COOPER. How long, in your opinion, will it take for that competitive situation to develop that you speak of?

Dr. DORAN. When these thirty or forty distilleries now under construction get into operation and there is some measurable matured product, say within a year, those competitive factors should be in full operation.

Mr. COOPER. Within a year from now?

Dr. DORAN. Yes; within a year from now.

Mr. COOPER. All competitive factors will be in operation then?

Dr. DORAN. I believe so.

Mr. HILL. We have heard recently rumors to the effect that 90 percent of the distillery business will be controlled by certain interests. I don't know whether that is true or not; but if it is true, that competitive factor might not enter into it.

Dr. DORAN. The truth is that while the stock of old bonded liquor was held by 8 or 10 companies, 2 of which may have held 60 to 70 percent of it, it is equally true that during the last 6 months there has come into operation new production that will very materially reduce that percentage holding of the two larger companies.

Then, with the coming into production of these units now under construction, that percentage will be, of course, still further materially reduced.

It is quite evident that there will be a highly competitive situation brought about within a measurable time.

Senator GORE. Do you know how many of these new distilleries will be controlled by the two companies you speak of?

Dr. DORAN. They are in independent houses, so far as I know.

Senator GORE. Each of the 40?

Dr. DORAN. The reason I say that, they are projects of old distillers who were in business prior to prohibition, and who at the advent of prohibition ceased business and disposed of their stocks.

Senator GORE. What are the two larger distillers you refer to?

Dr. DORAN. The National Distilleries and the Schenley.

Senator GORE. What is the comparison as to the two, which is the larger?

Dr. DORAN. I believe the National is larger.

Senator GORE. Of the twenty old existing distilleries, do those two concerns control a good many of those?

Dr. DORAN. They control a portion of them, but there has always been in the field a number of independent active Kentucky distilleries who have held their business even through prohibition.

Senator GORE. About how many, would you say?

Dr. DORAN. I can call to mind about six right now.

Senator KING. Do you see any tendency on the part of these two larger companies to which you have referred, acting independently or in association with others, to effect a monopoly of the distilling business in the future?

Dr. DORAN. I don't see how that is possible the way things are right now. These distilleries in Baltimore, several of them, are being constructed by individuals and groups who were in the business prior to prohibition and who have no relation to these groups that engaged in the medicinal whisky storage during prohibition. Then, some of the distilleries are being reconstructed in Kentucky.

Senator KING. Assuming there is a supply now of liquor held by this monopoly, much of which is needed for medicinal purposes, is there any legal way by which that monopoly may be compelled to disgorge this accumulation and sell it to the public at a reasonable price?

Dr. DORAN. Yes; there is a very effective means of controlling prices within certain limitations under the code authority, the Federal Alcohol Control Administration supervising that.

Within the last week there have been large offerings of very fair blended goods at these large distillery warehouses at \$12 a case, Federal tax paid; and that should enable a consumer, provided there is no further excise, to secure that whisky for approximately \$1.50 a quart, or, at most, \$1.75.

Senator KING. Yet some of these drug stores are charging 3 or 4 dollars a pint. There is no warrant for those rather high prices.

Dr. DORAN. That is the old 17-year-old medicinal stock, and while I believe those prices are quite high, it is due to a very limited supply and really is a passing phase.

Senator GORE. Did you have any statistics as to the cost of production in Canada?

Dr. DORAN. I have not, other than to believe it is slightly higher than it is in the United States under normal conditions.

Senator GORE. How many distilleries are there in Canada?

Dr. DORAN. They have about 5 or 6 plants. They have always centered production in a few large plants rather than our method of scattered small plants.

Senator GORE. About what is the production?

Dr. DORAN. They have on hand now a very large quantity of Canadian whisky, and their production, I believe, will be somewhat less than during the last 8 or 10 years for obvious reasons.

Senator GORE. What is the annual capacity?

Dr. DORAN. I believe their annual capacity is about 10,000,000 gallons on a population of less than 10,000,000.

Senator GORE. How is it Canada can sell whisky, as you remarked a while ago, at three and one half or four dollars a quart, without inviting the bootlegger into the field?

Dr. DORAN. Well, that happens to be because of certain conditions concerning the police, and the fact there has been in Canada always a bigger supply available, differing somewhat from the conditions that have obtained in this country.

Senator KING. May I suggest to my colleague my information is in Canada they are afflicted with the curse of the bootlegger, and the bootlegger comes from the United States, or at least American whisky is bootlegged in Canada. I ask Dr. Doran if my information is correct?

Dr. DORAN. I have heard that, yes, but I will have to say frankly I have not studied that very carefully.

Senator GORE. I understood under the law they close at 11 o'clock.  
 Dr. DORAN. Yes, and after that hour the bootlegger comes in, possibly. Canadian officials have told me they have had some trouble with bootleggers in the eastern provinces.

Senator GORE. You have no doubt if it should retail here at \$4 a quart the bootlegger would be very active?

Dr. DORAN. I have no doubt of that, because he is entrenched quite well.

Senator KING. What percent of the liquors distilled in the United States before the war were of corn and what percentage the other grains?

Dr. DORAN. Roughly speaking, about two thirds bourbon and the other rye.

Senator KING. How many bushels of barley were used in the production of liquor in the pre-prohibition days?

Dr. DORAN. I can't give you that figure offhand. Of course, that is the chief grain used in beer brewing, but I must confess I cannot give you the figure offhand.

Senator GORE. Have you formed an estimate of how much corn will be used in the production of bourbon after we get into production and sale?

Dr. DORAN. There should be about 30,000,000 bushels a year used, certainly for the first four years while this reserve stock is being piled up. That is a rough figure, but it will come around there somewhere.

The CHAIRMAN. You speak of the price of liquor in Canada being \$5 per gallon, does that mean the retail price?

Dr. DORAN. No; that is the price at which I understand rather large offerings have been made to American importers. Of course, that is naturally a price based on a rather substantial amount.

The CHAIRMAN. Is there any substantial difference in the cost of producing whisky in Canada and the United States?

Dr. DORAN. It costs a little more up there.

The CHAIRMAN. What is the total domestic tax in Canada?

Dr. DORAN. \$7 per gallon.

Mr. FREAR. What was the tax before the war in Canada?

Dr. DORAN. I am unable to answer that. It was lower than \$7. The higher excise taxes are post-war figures in Canada.

Mr. FREAR. They paid \$5 at that time?

Dr. DORAN. No; the pre-war tariff was \$2.60 a gallon for the entry of Canadian liquors into the United States.

Mr. FREAR. What was it in Great Britain?

Dr. DORAN. The pre-war tax in Great Britain was higher than any taxes we have ever imposed, and the present tax is exceedingly high.

Mr. FREAR. How high is it?

Dr. DORAN. I think it approximated three or four dollars a gallon before the war, and now the tax as reduced to American proof gallon and American money is about \$14.70 per gallon. I believe it is 72 shillings and 6 pence per gallon—that is the excise in Great Britain.

Mr. FREAR. What was the tax before the war?

Dr. DORAN. It was not over a third of that, Mr. Frear, but I am unable to quote the exact figure.

ck. Mr. FREAR. We imported a million and five hundred thousand  
in, gallons, I believe—  
me

Dr. DORAN. I imagine it was exported free of tax. I believe it  
at has always been the policy of the United Kingdom to levy no tax  
on exports.

Mr. FREAR. What would be the effect of putting a \$14 tax on our  
red product; would that throw it to the bootlegger?

Dr. DORAN. It would practically dry up the legal industry.

Mr. FREAR. Are there any bootleggers in Great Britain?

Dr. DORAN. I understand that is no problem at all.

Senator GORE. Will you restate those taxes in England? I got  
the confused on it. Don't they levy an excise tax equivalent to the  
import duty?

Dr. DORAN. There is a very low importation of spirits into the  
United Kingdom, possibly some gin from Holland and some liquor  
at from other countries, and a little cognac, and the import duty is no  
doubt added to the domestic tax, so that the combined figure is a little  
of greater than the domestic excise tax.

Senator GORE. What is the tariff duty in Canada on imported  
whisky?

Dr. DORAN. As I recall, it is \$9 a gallon as against \$7 domestic tax,  
ed, and that is a \$2 surcharge, or additional tax.

Mr. VINSON. What was the pre-war tax on champagne in France?

Dr. DORAN. I am unable to say.

Mr. HILL. You say the domestic tax in Canada is \$7 a gallon?

Dr. DORAN. Yes.

Mr. HILL. When that liquor is exported, is that tax taken off?

Dr. DORAN. It is tax free exported, provided they furnish a land-  
ing certificate. Their practice is the same as this country's, always  
of exported under bond which covers the amount of taxes that might be  
due on that commodity, and when there is a landing certificate  
furnished the Dominion authorities showing the liquor has been  
landed in a foreign country, the bond is discharged. If a landing  
certificate is not furnished, the authorities exact the amount of tax on  
the liquor.

Mr. HILL. Then the \$5 is the price which they sell to importers  
\$7. in this country, and really represents the wholesale price of the  
liquor?

Dr. DORAN. Yes, that is correct.

Mr. FREAR. Is there any difference in the tax on the different  
he liquors in these foreign countries; for instance, any difference in wine  
and in cognac?

Dr. DORAN. I believe they all levy a tax on distilled spirits without  
an regard to the variety.

Mr. FREAR. That is the proposal in this report?

Dr. DORAN. Yes, this is a straight tax on distilled spirits of any  
type.

Mr. WOODRUFF. Some minutes ago you stated in approximately one  
of year strong competitive conditions will arise in this country due to  
ve the fact there are approximately 20 new distilleries being erected  
at at this time. I assume from that you contemplate that the product  
of those distillers will enter into the market within a year?

Dr. DORAN. Yes; because there will be some of those that will produce this more rapidly matured whisky which will necessarily be marketed.

Mr. WOODRUFF. You think the law in years gone by requiring the holding of liquor in wood 4 years would not stop that and it would not apply?

Dr. DORAN. It would not necessarily apply, because that was not mandatory. It was only a provision whereby a distiller might place before the public a bottle of whisky with the Government stamp that it was authentically 4 years old and of a certain manufacture, and of 100 proof.

Mr. WOODRUFF. It was not a legal requirement?

Dr. DORAN. No; it was an optional provision by which the distiller could do this, by availing himself of the provision.

The CHAIRMAN. Doctor, we thank you for your attendance and the testimony you have given.

Dr. DORAN. And I thank the committee for your patience.

The CHAIRMAN. The chairman would like to observe at this point that it is the desire of the committee, if possible, to conclude the hearings tomorrow. Therefore, it will be necessary for the witnesses to condense their statements as much as possible, and also it might be necessary to limit the time of the statement of each witness.

I wish each member of the committee would be here promptly to start on time sharply at 10 o'clock.

The hearing is adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 5:25 p.m., the hearing was adjourned until Wednesday, December 13, 1933, at 10 a.m.)

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## TAX ON INTOXICATING LIQUORS

WEDNESDAY, DECEMBER 13, 1933

THE HOUSE COMMITTEE ON WAYS AND MEANS  
AND SENATE COMMITTEE ON FINANCE,  
*Washington, D.C.*

The joint hearings before the Committee on Ways and Means, House of Representatives, and the Committee on Finance, United States Senate, were resumed pursuant to adjournment in the caucus room, new House Office Building, Hon. Robert L. Doughton presiding.

The CHAIRMAN. The first witness on the calendar this morning is Prof. Yandell Henderson, of Yale University, on the subject of the liquor tax.

### STATEMENT OF PROF. YANDELL HENDERSON, NEW HAVEN, CONN.

The CHAIRMAN. Professor, will you give your name and address and for whom you appear, to the reporter?

Professor HENDERSON. My name is Yandell Henderson. I am professor of applied physiology at Yale University, but I do not represent Yale University in this matter. I speak in my private capacity, and not as an officer of the university.

The CHAIRMAN. How much time will you probably need, professor?

Professor HENDERSON. I think I can present in about 10 or 12 minutes the gist of a prepared statement which I shall simply run over. After that there is a little that I should like to say, which will take perhaps 5 minutes more. So I think that most of what I particularly want to say can be said in about 15 minutes.

The CHAIRMAN. You will have permission to extend your remarks or insert any supplemental thoughts you may have in the record. We are going of necessity to be compelled to abbreviate these statements as much as possible on account of the number of witnesses who desire to be heard, and the shortness of the time at the disposal of the committee. Perhaps we may start out without limiting the time, but very likely before we get far it will be necessary to limit the time of each witness.

Professor HENDERSON. I will take advantage of that, if I may, and ask if there may be printed with my testimony a somewhat longer and somewhat fuller discussion of the general topic of liquor

taxation in relation to liquor control which I presented a few weeks ago before the National Municipal League. I will not take your time to run over that.

The CHAIRMAN. You have that privilege. Just leave it with the reporter.

(The article by Professor Henderson, above referred to, appears at the end of his oral statement.)

Professor HENDERSON. I will turn, then, directly to the particular topic of which I want to speak. That is the matter of liquor taxation, whisky taxation, in its bearing partly upon revenue and also upon what I think is a very important topic—the topic of temperance.

I would ask leave to remind your committee that a year ago you did me the honor to hear my testimony, to invite it. It was in support of 3.2 percent beer as being actually nonintoxicating in use. I also acted as an expert for the Judiciary Committee of the Senate. At their request I wrote part of the report of the Judiciary Committee on that matter. I would remind you that almost the only successful experiment that has ever been conducted in the United States on the subject of control of alcoholic beverages in relation to temperance was the 3.2 percent beer experiment which I supported a year ago.

I want now particularly to put before you a proposition of somewhat the same sort which is also somewhat experimental. It will sound very odd, but it is the only line—I state this as a scientific proposition, and on the basis of a study of liquor control in this country and elsewhere—what I am going to speak of is the only line along which the peculiar problem of liquor in America can be solved, because our problem is peculiar. It is the only way, in my judgment, that the saloon can be prevented from returning without continuing the speakeasy. It is the only way that the United States Government and the States can avoid the choice which is now facing the States particularly—a choice between the saloon and drunkenness on the one side or the speak-easy and lawlessness on the other.

I have been in touch with the commissions of many States, and I am quite well acquainted with what is going on in many of them; and they are facing an exceedingly difficult choice. In particular, what I want to present is the most effective way to promote the temperate use of liquor.

I realized when I came down here, and I have learned it much more clearly since, that a tremendous effort is being made by speakers before your committee and through the press to persuade you and the Congress that there should be low taxes on strong liquor. That might eliminate the speakeasy, but it would certainly restore the saloon and promote drunkenness. There is nothing that promotes drunkenness so effectively—and that means the saloon, too—as a low tax on strong liquor.

Proof spirits of all variety ought to be taxed high, perhaps \$4 a gallon. After I heard Dr. Doran's testimony yesterday I was inclined to raise that figure, when I heard that in Canada it is \$7. I had not realized that they had got it as high as that.

Mr. FREAR. It is over \$14 in Great Britain.

Professor HENDERSON. Yes; \$14 to \$17, I think he said; so that a quart bottle would retail at a cost of \$3 to \$4.

I recognize that that is not by any means all. I fully agree that unless a reasonable drink of whisky can be bought in restaurants and clubs at a moderate price—say 10 or 15 cents—the men who want a drink of whisky will continue to go to the speakeasy. I make that statement because of my acquaintance with what is going on in the States, and with such a problem as has presented itself to the Massachusetts Legislature in the last two or three weeks, and such a problem as is now presenting itself in Connecticut.

What I want to urge on you as strongly as I can, as a practical and scientific and the best solution of this problem, is that whisky which has been diluted at the distillery down to 10 or 12 percent of alcohol—that is the strength of an ordinary highball; it is strong enough for anybody—and is supplied only in pint, or, better, in half pint bottles, should be given the benefit of a relatively low tax, perhaps down to \$1 a gallon on the original whisky.

Drunkenness and the saloon are peculiarly the products of the drinking of alcohol in high concentration. By that I mean the practice, which is unfortunately rather common among considerable sections of those who drink whisky in this country, but is not in any other countries, of drinking the whisky almost undiluted; just two or three fingers of rye or Bourbon with at most a dash of water or a mouthful of water as a chaser. It is that habit which has made the problem of liquor control in America more serious, and has made liquor a more terrible evil in America, than any other. I do not mean to say that everybody drinks that way; but a considerable percentage of the men, and particularly those with whom liquor becomes a curse and a ruin, do drink that way. The proposition which I am putting before you is a means of preventing that, or at least of minimizing it. It would not absolutely prevent it, but would minimize it.

That way of drinking might almost be called the old-fashioned national, typical American way of drinking whisky. That kind of drink is 3 or 4 or 5 times as concentrated, and it is at least that many times as intoxicating, as the national drink of any other nation, such as the French, who drink 8 or 10 percent wine; or the Germans, who drink 4 or 5 percent beer; or the English, who drink 6 or 7 percent beer.

A man drinking in that way can easily drink a pint of whisky in an hour, and a quart of whisky in an evening. If he is not habituated to it the pint will make him extremely drunk, and the quart will render him unconscious, or may kill him. Of course a man who is habituated may drink a quart every day. Then, of course, he goes to pieces.

On the other hand, if the whisky has been diluted with 3 or 4 volumes of carbonated water, which is about the dilution of an ordinary Scotch highball, a man has to swallow half a gallon of fluid to get a pint of whisky; and very few men, unless they are very determined drinkers, will pour down the gallon of fluid which is necessary to get a quart of whisky of that dilution into their stomachs. And even if a man does persist until he has drunk 8 highballs in order to get a pint of whisky, or 16 highballs in order to get a

quart of whisky, he will not be anything like as intoxicated as the man who drinks his whisky nearly straight. It takes him a great deal longer; it is absorbed very much more slowly, and some of it will have been excreted before he gets the last of it in.

The whole weight of experience in England—now I want to relate this to the question of taxation—is that the most effective way to diminish drunkenness and those conditions that we group under the word "saloon" is to use high taxation of distilled spirits—that is, proof spirits—and relatively low taxes on the less concentrated beverages. There it is somewhat simpler to put that into effect, because the English working classes commonly drink beer; and unfortunately, with us, while they drink some beer, they also drink a good deal of whisky.

The whole weight of scientific evidence is that the most effective way to attain these ends is to promote dilution. On that point I would refer you to the report of the Judiciary Committee of the Senate (72d Cong., Rept. No. 1105) last winter on the bill legalizing 3.2 percent beer.

Mr. FEAR. Pardon me; is that the report that you wrote for the Senate Judiciary Committee?

Professor HENDERSON. Yes; it is. In that report is reprinted an English report that presents the best discussion of this question that has ever been written.

That report by the ablest English scientific men and also by several leading English statesmen, after thorough study of the problem, says in effect that the man who drinks a dilute beverage—

must consume some pints before he gets as much alcohol into his blood as the spirit drinker would absorb from a glass of neat whiskey at proof. \* \* \* In this connection it has also to be borne in mind that alcohol is absorbed into the blood more slowly when it is drunk in dilute solution than when taken in concentrated form.

Then they say:

As our practical conclusion, then, we may say that any form of alcoholic liquor can cause drunkenness if such a quantity of it is taken at once or within a short time as will lead to the presence of the drug in the blood above a certain proportion, which in the case of the average healthy adult may be put provisionally at from 0.15 to 0.2 percent. From the point of view of the prevention of drunkenness the superiority of the more dilute beverages, such as the lighter beers and natural wines, is therefore mainly due to the fact that the bulk of the fluid makes it difficult for the drinker to consume a very large dose of alcohol within a moderate period.

It is on that report of the British Liquor Control Board that the policy of Great Britain, which has greatly diminished drunkenness, is based.

I realize that your committee is primarily concerned with raising the maximum revenue; but if the States see the saloon coming back—and they do see it coming back—and drunkenness increasing, some of them will enact State prohibition, with loss of revenue to the United States Government. Several States—for instance, the State of Connecticut, where I live—permit the sale of wine and beer in restaurants and clubs but do not permit the sale of whiskey by the drink. Spirits can be obtained only by the quart from a package store.

That arrangement also loses the Federal Government a certain amount of revenue, because it is proving an entirely unpractical situation. We are not a wine-drinking people. I wish we were. We should do what we can to encourage the drinking of wine and the production of good wine; but there is as yet very little good wine available. The natural substitute is diluted whisky. It will certainly be either that or undiluted whisky, and that means the restoration of the essential feature of the saloon.

Nearly every State is facing, or will have to face, the problem of permitting or forbidding the sale of spirits as a drink in restaurants and clubs. If the Federal Government would make this difference in the taxation of full-strength spirits and dilute spirits, the problem would be rendered far easier for the States. They could permit diluted spirits to be sold by the drink in restaurants and clubs, but proof spirits only by package stores or State agencies for consumption off the premises. I believe that that arrangement would bring in probably the largest revenue to the Government, while tending to prevent drunkenness. It would eliminate the speak-easy, but would not bring back the saloon. It would be the longest and the most effective step toward the temperate use of liquor that this country has ever taken. There is every reason to believe that a people that used as its national drink spirits diluted to about 10 percent of alcohol would be as temperate as a people like the French that drink wine that usually contains no more than 10 percent of alcohol. We are almost the only people in the world that drink any considerable amount of alcohol in concentrations above 20 percent. That fact is the crux of our problem.

Now I should like to add just a few words more.

I realize that this is a novel proposition to put before you; but I believe that in the long run what I have been saying is the line along which this problem will be solved.

Three years ago I made a statement in a little article that in my judgment 3.2 percent beer, or 4 percent beer by volume, would not be intoxicating. A year later Senator Bingham introduced the Bingham beer bill based on that statement of mine. I was his principal witness, and I got most of the others. I suppose we were regarded as rather foolish. A year after that—that is, a year ago—3.2 percent beer became law; and now the prohibition amendment has been repealed. So that even if you do not adopt something of this sort now, I venture to predict that sooner or later something of this sort will have to be considered.

My particular recommendations are these:

(1) In all legislation, and so far as possible in general discussion, the word "liquor" should be applied only to distilled spirits. A large part of the popular confusion on the problems of alcohol is due to applying the same words to include all forms of alcohol. Some of these forms are as powerful drugs as morphine or cocaine. Others are as mild as coffee. We should get this issue clear.

(2) Every bottle of every form of alcoholic beverage, strong or weak, should be required by Federal law to carry a label stating the percentage of alcohol that it contains, to the end that not only scientific experts but our entire people may know from experience the facts as to the strength of the various beverages that induce the

various degrees of physical and mental effects. I would also recommend that Congress should ask the Bureau of Standards to revise the methods of expressing strength of spirits. The old phraseology of "proof spirits", "wine gallons", "tax gallons", and all that, is exceedingly complicated; it is obscure; it is unscientific. There really is just one way to express concentration of alcohol, and that is the percent of alcohol, either by volume or by weight; and it would help enormously in the long run if some clear, definite, scientific phraseology and system were adopted.

(3) I would urge that native natural wines should be taxed as low as possible, just enough to cover the expense of governmental inspection. They really are foods. They are not in the class with whisky in any sense. The tariff on foreign wines containing not more than 10 percent of alcohol should be low enough to encourage their use as a means of developing a taste for wine.

Mr. KNUTSON. Right there, I should like to ask the witness a question. Would you see any objection to imposing a double or treble tariff on wines coming from countries that are in default in their payments to us?

Professor HENDERSON. Well, finance and matters of that sort are outside of my field, sir. I am not an expert on the international debts; but I would say, as regards wine, that wines over 10 percent, especially champagne, which is drunk by those who can afford it in larger volumes at one time than any other wines, should be taxed very much higher. Champagne is almost the only wine that is frequently the cause of drunkenness.

(4) Beer up to 3.5 percent or 4 percent of alcohol by weight, or even 4.5 percent—I think there are reasons for raising it to 4.5 percent—should be taxed only \$3 per barrel instead of \$5, as at present. It is very important that we should have good beer, and at present the tax is too high to permit as good a beer as we could have and should have. But beer of a higher concentration than, say 4.5 percent should be taxed double; and beer that ran over 6 percent of alcohol should be taxed three times the maximum rate. Strong beer—that is, beer up to 8 percent, or something of that sort—is the cause of a great deal of drunkenness in some countries, particularly Belgium. We have never had it, and we never should have it.

Then the main recommendations are these:

(5) Full-strength whisky, gin, rum, brandy, and all other alcoholic beverages containing over 15 percent of alcohol, should be taxed at a high rate, so that a quart at retail would cost not less than \$4, whereas in Canada the tax is \$7. I do not know the exact cost per bottle. The proposal that legal liquor should be cheap as a means of counteracting bootlegging amounts to encouraging drunkenness. Better measures can be found against bootlegging than that.

(6) Whisky and other distilled spirits that have been diluted at the distillery, either with carbonated water or with other dilutents (this has actually been proposed, I believed, in the State of Ohio) down to 10 percent of alcohol, and sold only in pint or half-pint bottles, should be taxed so much less (that is, perhaps a dollar a gallon) than full-proof spirits that a drink of that sort, which is the normal drink that an ordinary temperate man takes, will cost

only 10 or 15 cents. That arrangement will satisfy the large majority of all who wish to drink spirits, and very few people will get drunk on such mild highballs.

Now, I think I am very near the end of the time I mentioned, but there is a word or two more I should like to say.

The CHAIRMAN. You have had about double the time now. You have gone on for at least 20 minutes.

Professor HENDERSON. Then I apologize. I would merely say that I thought the testimony which came out yesterday, in which the representatives of the Departments urged low taxes on whisky, throws the whole case open; it repudiates all the pledges that have been given to the American people that in future temperance should be maintained and stimulated; and as such I protest against it.

Mr. TREADWAY. Mr. Chairman, I suggest that perhaps the professor understands that we would be glad to have any extension of his remarks in the record.

The CHAIRMAN. The Chair so stated.

Senator CLARK. May I ask just one question?

The CHAIRMAN. Certainly, Senator.

Senator CLARK. Professor, did I understand you to say that you wrote the report of the Senate Judiciary Committee?

Professor HENDERSON. I wrote only 3 or 4 pages of it.

Senator CLARK. That is what I wanted to get at—whether you had made that statement because the report merely embodied some of your ideas, or whether you meant that you literally wrote part of the report of the Senate Committee on the Judiciary.

Professor HENDERSON. Senator Blaine telegraphed to me and asked me to come down here, and he said that he proposed to incorporate in the report of the Judiciary Committee this British report, and they wanted an abstract of it and a discussion and explanation of it in terms of American conditions. I do not know just how long my little passage was; maybe 3 or 4 or 5 pages. I wrote that, and it is printed under my name in that report.

Senator CLARK. That is what I wanted to bring out.

The CHAIRMAN. We thank you, Professor, for your appearance, and the testimony you have given the committee.

(The article by Professor Henderson, referred to in the first part of his statement, is as follows:)

#### A TOXICOLOGIST ON THE LIQUOR PROBLEM

[Reprinted from the Yale Alumni Weekly of Nov. 17, 1933]

#### DILUTION AS A MAJOR FACTOR IN PREVENTING THE EVILS OF ALCOHOLISM

(By Yandell Henderson, 1895, Professor of applied physiology, Yale University)

[An address before the National Municipal League, Nov. 11, 1933, at Atlantic City]

The contribution that I hope to make to this conference is concerned with certain fundamental principles that are generally little known or considered, but are essential to any real solution of the liquor problem. In order to bring out the significance of these principles I am going to use the word "intoxicating" as little as possible. Instead I shall use a closely related word: "toxic." And toxic means poisonous. I am going to compare the control that is needed over drinks that are, or may be toxic, and those that are not.

I have spent many years in studying the health hazards and sanitary control of volatile liquids. Alcohol is a volatile liquid. Chloroform and ether and methyl alcohol and gasoline are others; the war gases are still others; the lead compound added to gasoline to make ethyl gas for automobiles is another. These substances can be either inhaled or drunk. Some of them are very slightly poisonous, such as gasoline vapor. Others are deadly poisons. One of the most deadly is the lead compound in ethyl gas. If used in high concentration, that substance would cause numerous cases of such injury to the brain that violent mania and death would result. Its mania is more violent than alcoholic delirium tremens. But actually this substance is now supplied and sold to the public only in dilute form in gasoline. Ethyl gas contains far less than 3.2 of lead and in this dilution is practically free from danger to its consumers. Similarly the ethyl alcohol of all alcoholic beverages, if imbibed in high concentration, exerts powerful toxic effects upon the brain and upon other organs of the body, notably the stomach. But when alcohol is sufficiently diluted, these toxic effects are diminished or abolished. Toxicologically there is a wide difference between the concentrated and the dilute alcoholic beverages.

Obviously sensible and practical liquor control, after repeal of the eighteenth amendment, should make an equally wide difference between the dilute and the concentrated alcoholic beverages. Sane measures of control should permit or even promote the use of the dilute and harmless beverages; but it should maintain a strict control over the concentrated, and therefore toxic, alcoholic beverages.

The first requirement for such control is that so far as possible the various classes of alcoholic beverages shall be kept separate. In other words light beer with its 4 percent of alcohol and whiskey with 50 percent of alcohol should never be dispensed under the same conditions, or over the same bar, or on the same table.

#### ALCOHOL AND ALKALOIDS

Let us take another illustration from toxicology, and compare the alcoholic beverages with a class of drugs called alkaloids. We all use alkaloids. One of them is the substance that gives coffee its stimulating effect. It is a drug called caffeine. A closely related alkaloid is contained in tea, and another in chocolate. Still another is the nicotine of tobacco, and drug for which we smoke cigars and cigarettes and pipes. Nicotine is a very powerful poison, but it is so diluted, and partially destroyed, by the process of combustion in smoking that its use does most people very little harm. These are comparatively harmless alkaloids. But closely related to them there are certain powerful drugs. They are the narcotic alkaloids morphine and cocaine. We do not take them with or after meals like coffee and tobacco. To treat all alcoholic beverages as if they were alike is exactly similar to treating all alkaloids as if they were alike.

As you know, coffee and tea and chocolate are not even taxed. Tobacco is taxed but is not otherwise controlled by the Government. No other control is needed. On the other hand, the Government tries to maintain a rigorous control over morphine and cocaine. In spite of that control morphine and cocaine addicts, especially in our larger cities, form one of our most serious problems.

Now suppose that the problem of alkaloids had been treated in the same manner that the problem of alcoholic beverages has been. There would have been another "noble experiment." It would have been promoted by the Drys and would have aimed to forbid not only the public sale of morphine and cocaine, but also of coffee and tobacco. I know several Drys who believe that the use of tobacco should be suppressed, although they would generally allow coffee. Indeed, one fanatical friend of mine almost lost his temper when I asked whether he was also opposed to chocolate.

Again, suppose that some State were to adopt local option for alkaloids while a neighboring State had high license for alkaloids. In the one, coffee and tobacco would be forbidden along with morphine and cocaine. In the other a citizen could buy morphine in the same shop and over the same counter as tobacco. He could get a shot of cocaine at the same table where he could drink a cup of coffee. The results would be as disastrous as local option and high license have been in the case of alcohol, and the methods equally foolish.

This is not an overdrawn analogy. The stronger alcoholic beverages—such as distilled spirits as whisky, gin, rum, and brandy—can wreck a man, mind and

body, as effectually as either morphine or cocaine. On the other hand I believe that the experience of this country since light beer was legalized demonstrates that I told the truth when I testified to committees of Congress a year ago that a glass of light beer is no more intoxicating—that is no more toxic—than a cup of coffee and rather less so than a cigar.

I have not time now to discuss details. I published a paper in Harper's Magazine for last June in which I presented the type of control that the science of toxicology indicates. The report of Messrs. Fosdick and Scott to Mr. John D. Rockefeller, Jr., is along the same line and seems to me to face realities bravely, truthfully, and practically. It recommends that beer needs little control, but that distilled spirits should be sold only by Government agencies. That is certainly the ideal arrangement. But if that arrangement should prove to be more than can be attained now, we should aim at least to limit the sale of distilled spirits of full strength to a few package stores that would sell only by the bottle, not by the drink.

An excellent report along the same general lines has recently been made by a commission in the State of Oregon. A similar report has been made in Michigan. California has already embodied much the same general conception in its State constitution by referendum a year ago. It is already the law in Connecticut.

In all of the recent reports the idea of distinguishing between the different classes of alcoholic beverages is given increasing importance. To my mind it is the feature of supreme importance. There should be no licenses for the general sale of all alcoholic beverages from beer to full strength spirits for consumption on the premises. Such licenses would immediately revive the saloon and the saloon system.

So far as possible a place licensed to sell beer should not be licensed to sell spirits or even wine. It would be well if a place licensed to sell wine should not be allowed to sell any alcoholic beverage of less than 8 percent or more than 18 percent of alcohol. A store licensed to sell proof spirits should not be allowed to sell any weaker beverage, or to permit drinking on the premises.

#### THE PROBLEM OF CLUBS, HOTELS, AND RESTAURANTS

All of these proposals are perfectly simple, scientific, practical, and feasible in every feature except one. That feature applies to clubs and hotels, and especially to the large hotels and their restaurants in large cities. But even for such hotels this separation is not impracticable. The grill might be allowed to have a beer license and the restaurant a wine license, provided that drinks are not interchanged between the grill and the restaurant. There is no good reason why a hotel should be allowed to serve drinks of any kind in bedrooms. There are strong reasons against it. Each particular class of beverage should be permitted to be served only in the place, the grill or restaurant, where it is licensed. The man who wants to drink spirits in his room should get his bottle from the Government agency or the package store.

Now, I want to present for your consideration an idea which is somewhat novel but which is, I believe, practical and advisable. It is based on a toxicological fact of fundamental importance. This fact is that beverages containing more than 20 percent of alcohol and those containing appreciably less than 20 percent (say 10 to 15 percent) are quite distinctly different in their effects. One of the most distressing effects of chronic alcoholism in the whisky addict is gastritis or inflammation of the stomach. The habitual use of alcohol in concentrations above 20 percent produces this condition; the habitual use of weaker drinks does not. The stronger also affect conduct more strongly than the weaker.

Of course a man can get "drunk" on beverages containing 15 percent of alcohol. But he does not get such rapid and intense effects from any alcoholic drink in concentrations below 20 percent as he does from those above 20 percent, such as whisky straight or diluted only with an equal volume of water, or as he does from the stronger varieties of cocktails. For this reason there should be an effort both by means of taxation and license to influence those who wish to consume the stronger beverages to take them in a form below 20 percent concentration. The reason for this is not merely on account of gastritis, but rather because the effect of one cocktail of 30 percent upon a man's behavior, self-control, and ability to drive an automobile is much greater than is the effect of two cocktails of equal volume each containing only 15 percent of alcohol. There is no great hardship for whisky drinkers involved in this. I have seen

many Englishmen drinking whisky and soda, but never in a proportion of less than two or three volumes of soda water to one of whisky. But I used to see Americans drink Bourbon nearly neat.

There are two measures that can be used to promote more dilute drinks; and both should be used. Suppose that whisky, which is 50 percent alcohol, is to be taxed so that a quart will cost the consumer \$4. The same amount of whisky, diluted with three volumes of carbonated water to an alcoholic strength of about 13 percent alcohol and dispensed in half-pint bottles, should be taxed so much lower that it would cost the consumer only \$2. He would get 16 half pints of dilute whisky, containing altogether a quart of the original whisky, for half the price that the quart of full strength would cost. It is only chronic inebriates, or those on the way to becoming such, that want anything stronger. The lower price would be influential; and the more alcohol is diluted the harder it is to get "drunk." Diluted whisky should be taxed at the same rate as wine of a like concentration of alcohol.

*For less kick in cocktails.*—In the same way dilution should be applied to cocktails or their ingredients so that the price to the consumer would be very much less for the diluted articles than for those of full strength. Cocktails under these conditions would still be quite as strong or stronger than the best interests of the human stomach and safety for motorists in traffic require. For hotels, restaurants, and clubs this dilution of all the stronger forms of alcoholic beverages down to some concentration below 20 percent should be mandatory in the terms of the licenses issued. Full-strength spirits or any form of alcohol above 20 percent should be obtainable only from the Government agencies or the licensed package stores.

I have put this idea before some hotel men. Their first reaction is of course strong objection. But on further thought they have rather favored it. As one hotel man put it, "We could charge as much for a 15 or 18 percent cocktail as for one of 25 or 30 percent. It would cost us less, and probably a good many people would then buy two cocktails instead of one with a corresponding increase in our receipts." If he had been a toxicologist he might have added that a man who has taken two 15 percent cocktails could drive his car much better than if he had had only one 30 percent cocktail. Furthermore one of the few benefits that have resulted from prohibition is that the bootleggers have diluted their synthetic gin so that a large proportion of all cocktail addicts are now accustomed to cocktails that run well below 20 percent. If they are satisfied with that percentage now, it would be a pity to educate them again up to the stronger cocktails that prevailed before prohibition. After repeal of the eighteenth amendment undiluted gin will certainly return to common use for cocktails, unless controlled along some such lines as I am suggesting.

If clubs are to be allowed to dispense beer, wine, spirits, and cocktails—nothing stronger than a percentage of alcohol somewhere between 15 and 18 should be allowed by their licenses. Any club man ought to be satisfied, and most of them would be, with a highball containing 13 percent alcohol. He should not object to pouring the highball out of a half-pint bottle in which the whisky had been mixed with carbonated water at the distillery, instead of doing the mixing himself. It would cost him only half as much.

I believe that for some years to come it will be necessary to permit the sale of distilled spirits at proof—that is to say, 50 percent alcohol—either by Government agencies or by licensed package stores. This is the only way to stop bootlegging. But before a citizen should be allowed to buy proof spirits he should have to get a license, similar to that for driving an automobile, which would in effect certify that he is a law-abiding and fairly temperate person. Such certificates should be issued by a board on which the police department, the board of health, and particularly the commissioner of motor vehicles would be represented.

To sum up all that I have said thus far: The one great principle to be kept in view in defining a sound public policy and drafting legislation, if the evils of alcoholism are to be minimized, is that of substituting the more dilute for the stronger alcoholic beverages. It is the concentration, the high percentage of alcohol in American drinks, that produces the evils of alcohol even more than the absolute amount of alcohol consumed.

*The crucial feature in the politics of alcohol.*—So much for the scientific side. Before I close I want to say a few words on the practical political side. I take it that it is the business of science to point out what ought to be done; what would be done if this were a perfect world. On the other hand it is the

business of the better forms of practical politics, in which such a gathering as this is interested, to go as far, but only as far, in that direction as public opinion at the time and place will permit.

Viewed from that standpoint the primary object of all who hope and work for the best attainable conditions should be to prevent the return of the local control of licensing; that is, licensing by cities, towns, and counties through boards of local politicians. Instead of such local boards the licensing power throughout each State should be exercised by a State board appointed by the Governor.

This point is so perfectly clear, so obviously the arrangement that would be adopted in a perfect world, that respectable citizens are inclined to assume that this arrangement will everywhere certainly be adopted. On the contrary experience shows that it will quite certainly be nowhere adopted without a fight; and when adopted, it will require a continual, watchful, and energetic defense. I know this from personal observation. Not long ago I went to a hearing in the Capitol Building of one of our States. The hall was packed with perhaps five hundred people, all very intent on the business in hand. The commission that had called the hearing presented a bill providing for the control of beer, and later of spirits, by a State board to be appointed by the Governor. I was the only citizen who, merely as a citizen, appeared in its support. Two representatives of certain organizations also favored it for their organizations. No one in the crowd supported us.

Then the opposition took the floor. A State senator of well known alcoholic connections shouted, "If a fellow doesn't want beer and does want whisky why shouldn't he have it? We want things the way they used to be." This statement the crowd applauded. Then even more forcibly he shouted, "We object to the Governor's appointing the commission. We want commissions of our own town to manage licenses." And the crowd rose to this sentiment with applause that shook the State House.

*Education for the dries.*—So much for a certain kind of wets and their aims. Now, for a few words regarding the dries. If a sufficient majority of the people is to be won, not only for the repeal of the eighteenth amendment, but also for the effective control of alcoholic liquors after repeal, that majority must include a large number of people who up to this time have been dries. The campaign of public education must be aimed quite definitely to win their support. They are for the most part earnest, conscientious people, but almost hopelessly ignorant. They quite generally believe—impossible as it sounds—that beer makes more drunkards than whisky. Indeed a leader in their cause, a prominent medical authority, has recently published an article in a well known magazine in which he seriously states that "Intoxication is as properly applied to the person who has taken a quart of 3 percent beer as it is to the drinker of a quart of whisky . . ." Yet the one may show no appreciable disturbance of conduct while the other is rendered completely unconscious or even killed. Such a view is toxicologically as unsound as it would be to class coffee and tobacco with morphine and cocaine. It demands an impossible degree of asceticism. Yet this is the attitude of large numbers of worthy people; and, until it is changed, those who are striving for sane liquor control are in the unfortunate position of fighting on two fronts. At present we have to fight the old liquor interest and corrupt politics on one front and the dries of the type I have indicated on the other.

We know what we have to expect from the liquor interest. The problem of the conscientious but ignorant dries who insist that all alcoholic beverages of all strengths are equally evil is no less difficult. I am reminded of a saying of a certain Episcopal bishop some generations ago to the effect that "The landing of the Puritans upon Plymouth Rock was a great event. But how much greater an event it would have been if Plymouth Rock had landed upon the Puritans."

NOTE.—The percentages here mentioned are by volume. By weight they would be one fifth less, e.g., 40 instead of 50, and 12 instead of 15.

The CHAIRMAN. The next witness on the calendar is Paul Garrett, representing Garrett & Co., on the subject of the wine tax.

The Chair will observe, much as he regrets to do so, that it will be necessary to request the witnesses to confine their remarks as nearly as possible to the 10-minute limit. We will not make any hard-and-fast rule, but there are so many witnesses to appear that we shall have, as nearly as possible, to observe the 10-minute rule.

**STATEMENT OF PAUL GARRETT, PENN YAN, N. Y., REPRESENTING GARRETT & CO.**

Mr. GARRETT. I will try to abbreviate my remarks, Mr. Chairman. If you should be interested in the subject, Mr. Woodard will give me his time.

The question has frequently been asked, gentlemen, why Americans are not wine-drinkers. With the great wealth of native grapes in this country, as evidenced by all of the early explorers, it is rather surprising that we have used so little wine in the last 50 or 60 years.

I think this explanation is fairly logical. In the earliest stages of wine-making in this country, the colonists relied on French importations of vines. Those vines were all subject to disease in this country. A rather strange corollary is that all of the French grapes now are planted on American roots, they being resistant to the disease of phylloxera.

The next effort that was made in the wine business was about 1835 or 1840, by two pioneers—Mr. Weller of North Carolina, and the elder Longworth, of Cincinnati. They made an effort to produce wines from American grapes which was the first effort to commercialize our native grapes. California at that time had not begun to develop the grape business; it was not a part of this country, and it was being developed by the padres and others who established the missions, and brought with them the grapes from Mexico and from the foreign countries.

But about the time that the Wellers and the Longworths were trying to introduce a wine business into this country, the temperance movement got under way under Neal Dow in Maine and others; so the result was that the lighter beverage of wine, the only place for the use of which is on the American table, was banished from the table, and by legislation its sale was confined to the saloon or bar-room.

Nobody goes to a barroom or a saloon for a glass of wine. I challenge any man who has ever seen a glass of wine drunk in a barroom. As a missionary salesman, I have had 15 years' experience "before the bar", and I have never seen a drink of wine taken at a bar yet. The result has been that wine has been sublimated and its distribution has been in the places controlled by other branches of the trade, and has never had an opportunity to reach its logical place of distribution—the American home.

Wine should not be judged by its alcoholic strength alone; and my references are all toward light wines. I am not discussing fortified wines at all. They have their sphere in the medical world, perhaps; but I am only discussing table wines, the natural product of fermentation of grapes. My plea, so that you may understand what I am driving at, is that you consider, if we can develop a method of distribution of wines to the American home, that will eliminate all taxes, just as we do on cider, not so much on account of the tax—some of us may be able to pay the tax—but because of the co-related consequences. If it is taxed, it has to be sold in liquor places only. It comes under the same restrictions that are put on liquors. In New York State it even is not classed with beer any more.

Now, as my time is limited, I will pass on to another phase—the agricultural phase.

There are in France between 20 and 25 percent of the population of 40,000,000 people devoted to viticulture. Italy has equally as many, and I think about the same population. We have as many acres of land suited to the cultivation of fine wine grapes in the United States, and pretty uniformly distributed throughout the States, as both France and Italy; and if wine-making is permitted free of tax for use in the home—we would not expect it to be sold in public places, except of course where food is used, at hotels—a development in this country is possible that might equal the production of France and Italy. But if we got only one half of the production of France per capita in this country it would afford an interesting occupation and a profitable occupation for 10,000,000 men and women in country districts. We all know that the best lands devoted to wine grapes are the hillsides of our mountains, and places that are not very valuable for the growth of other crops. The finest wine grapes grow on the sunny exposures of hills. The tonnage is not very large, but if the quality is there we can get the price.

My appeal is primarily to consider wine in a class to itself, along with cider, as an agricultural proposition. Every wine man in the country is a grape grower. Nearly every grape grower makes wine; that is, he produces it in its first stages. The majority of the wines produced by grape growers are accumulated by wine merchants, because the grape grower has not the facilities to extend his sales throughout the country.

As to the American people drinking wine, I had a good many controversies with my very good friend Mr. Wayne Wheeler, who objected to wine because he said it was a natural taste; it did not need any acquirement. Wine is a natural taste, and it would not be difficult to cultivate it to the great aid of temperance and good health.

The value of wine in the lexicon of health is that it aids the digestion by its acids, and not by the alcohol it contains. So used, wine is never intoxicating.

Mr. VINSON. Mr. Chairman, I was under the impression that the eighteenth amendment has been repealed. I should like to hear evidence directed at the tax problem. That is what we are mainly interested in.

Mr. GARRETT. I am appealing for no tax on wine, as is the case with cider; that is, wine that goes into the home.

At 4 cents a gallon, it is a tax of \$6 a ton on grapes. At 16 cents a gallon, it is a tax of \$26, I think, on a ton of grapes—\$26 a ton—and that tax falls on the grape grower. We may twist it around as we want to, but it is almost impossible to pass it on to the consumer.

Mr. VINSON. Those are facts that are very interesting, and we are mighty glad to get them.

Mr. GARRETT. It has been said that a tax of 10 cents per gallon would be acceptable to the grapegrowers and winemakers. This is a tax on the grapegrower of from \$16 to \$17.50 a ton. Prior to prohibition, the biggest crop of light wine made in the United

States was 30,000,000 gallons. Ten cents per gallon would produce \$3,000,000 of revenue. A casual glance at the voluminous reports now required by the Revenue Department show conclusively that the expense of supervision and collecting this tax will run far in excess of \$3,000,000; and on top of this tax each State is following suit with taxes ranging from 10 to 50 cents per gallon. If the United States will recognize winemaking as a nontaxable agricultural pursuit, the States will follow very readily.

My whole idea and hope is to turn your attention toward the possibilities of the introduction of wine as an article of daily use in the homes of our people, as against the use of the stronger drinks which are so frequently used now, as the gin-cocktail appetizer, and so forth. I am appealing for wine as a matter of health and as an agricultural proposition. As I pointed out, we have lands that are suitable. We have people who are looking for work. It is attractive work. It appeals to a man of intelligence. A man and his wife both can work at a vineyard. In the majority of instances the vineyard man is also the vintner; that is, he makes his wine.

Mr. VINSON. What would the gentleman suggest to be a fair rate on wine?

Mr. GARRETT. Well, as I said, the present 4 cents a gallon on wine is a tax of \$6 a ton on the grapes; and any tax forces its sale through liquor channels. I should like to see wine sold through the grocery store.

Mr. VINSON. At what point would the gentleman fix the rate?

Mr. GARRETT. At what point would I fix it?

Mr. VINSON. Yes.

Mr. GARRETT. Nothing.

Mr. VINSON. Do you think that this committee and the Congress would fix the rate on wine at nothing?

Mr. GARRETT. Well, I had hoped that as an agricultural proposition it might appeal to you in the same light that cider does.

Mr. VINSON. At what point would you fix the rate on liquors, distilled spirits?

Mr. GARRETT. That is entirely out of my province. I quite agree with a good many of the sentiments I heard here yesterday—that if the rate is fixed too high it is going to give encouragement to the bootlegger. I have no interest in the distilling business or in liquors. I have been a wine man all my life—three generations of wine men—and I am interested, in my later days, to see that the wine business comes into its own as a food product, and not as a liquor.

Mr. HILL. Will the gentleman yield there?

Mr. VINSON. I yield.

Mr. HILL. You are basing your suggestion here as to tax-free wines on the proposition that wine is an agricultural product; are you?

Mr. GARRETT. Yes, sir.

Mr. HILL. As consistently, you might say that hard liquors are an agricultural product.

Mr. GARRETT. Not by any means or to such an extent. A larger percentage of a ton of grapes goes into the beverage that is used by the consumer, and a larger percentage of the return goes to the producer, than in the case of any other beverage that I know. A very small percentage of the return from beer goes into the hop man-

purse; and if the grapegrower is also the vintner, a large percentage, in fact a very large percentage, of the returns from the vineyard go into the hands of the producer.

I am trying to draw a distinction of wine from liquor. Wine is a food, in my judgment—an adjunct to food. The history of those nations, such as France and Italy, where wine is so used, is that they are the most temperate. I believe that is conceded. I do not believe that is debatable at all.

Senator CLARK. It is your theory, is it not, that we ought to have a prohibitive tariff on foreign wines, and no internal-revenue tax on domestic wines? That is the logical conclusion from your remarks.

Mr. GARRETT. I do not object to putting a high tax on foreign labels. Most of them come here under false guises, you know. If we have people who want to pay fancy prices for labels and help bear our burden of expense, I do not care, provided you keep it high enough on the labels. A good many vin ordinaires come in here, as we know, under "chateau" brands.

I shall be glad to answer any other questions.

Senator HARRISON. Do you think we can make as good a champagne in this country as they make in France?

Mr. GARRETT. I think we can, sir.

Senator HARRISON. Whereabouts are they produced—in California or New York?

Mr. GARRETT. So far, in the experience of those who have done it, New York State has led, and New Jersey, in the production of champagne; in other words, eastern grapes, by reason of the fact that growers have given a greater number of years to it. The wines of the East are much higher in acid than the wines of the West. I am not disparaging California. I am simply speaking of a fact which exists. I do not know of any brand of California champagne that ever went very largely into the trade.

Champagne is a highly acid wine, and has been more experimented on and more attention given to it in the East than in the West. It is understood that I am equally interested in California. I have no desire to disparage her abilities or qualifications, or what she might do. I am simply speaking of what has been done. The brands that have been on the market have been chiefly Eastern brands.

Mr. McCLINTIC. Is the grape juice used in champagne in the East fortified?

Mr. GARRETT. No, sir; with the exception that frequently, just as a finish, following the foreign example, what they call the dosage may be of a little sugar and a little brandy that will help to prevent additional fermentation. It is not what you would call a fortified wine. The alcohol is all the result of fermentation.

Mr. McCLINTIC. Does that go into the champagne made in the East?

Mr. GARRETT. The dosage?

Mr. McCLINTIC. Yes.

Mr. GARRETT. Yes, sir; it has been the custom.

Mr. McCLINTIC. That is not used in the California product; is it?

Mr. GARRETT. I could not say from personal experience, but I understand that they followed the same methods that are in general use throughout the world. That is followed in France and everywhere else.

I do not want to take your time with a technical discussion of the necessity of a dosage, or the advisability of it. I am not primarily discussing champagne. I am deeply interested in champagnes, as I am in everything concerning the wine business. I want to discuss the possibility of wine as an agricultural development and as an aid to temperance in this "new deal" at this time. I have been in business 56 years, and I have hoped for the time to come when the wine business might come into its own as a family product.

Mr. REED. I should like to verify one figure that you gave a while ago. You know, in western New York we raise the Concord grape, which is not made into champagne nor wine, but is made into grape juice and sold largely to hospitals for medicinal purposes and to people who want to use it as a healthful nonintoxicating drink.

Mr. GARRETT. Yes, sir.

Mr. REED. If Congress puts a tax of 5 cents a gallon on that, that reduces the price of grapes to the farmer by about \$8 a ton.

Mr. GARRETT. It would.

Mr. REED. And this year their price is about \$15 a ton, and not a farmer is making a cent in that section.

Mr. GARRETT. I think that bears out my statement, but I am very glad to have your indorsement of it. The tax in the wine business and in the grape-juice business does come on the farmer, because he is largely the manufacturer.

The CHAIRMAN. Have you concluded your statement?

Mr. GARRETT. Let me just say this: I do not want to omit anything. I stated that if we could get one half of the per capita consumption in this country during the period of the next decade, say, or the next generation, we would be able to put ten million people into a pleasant occupation of viticulture in this country, while if we got the combined consumption of France and Italy, which our population would entitle us to, it would multiply that by a great deal, and give them a very healthful occupation.

A great deal is said about moving the urban population to the country. I do not know what they will do there. If they are set to raising potatoes, they will become a public charge in a very short time; but as vineyardists it would respond to intelligence.

My plea is to give us wine free of tax, just as you do cider, provided its ultimate destination is the home, so that it can reach the home through the distributing house, the grocery store, not only without tax but without the prohibitions that go with the tax.

The CHAIRMAN. We thank you, Mr. Garrett, for your appearance and the testimony you have given the committee.

(Mr. Garrett submitted the following memorandum:)

YALE UNIVERSITY,  
LABORATORY OF APPLIED PHYSIOLOGY,  
New Haven, Conn., November 16, 1933.

Mr. PAUL GARRETT,  
10 Bush Terminal, Brooklyn, N.Y.

DEAR MR. GARRETT: I have read your letter of November 16 with great interest. I agree with you that wine should not be confused with spirits. The whole problem of alcoholic beverages is rendered more difficult by the use of the word "liquor" to indicate all forms of alcoholic beverages.

Sincerely yours,

(Signed) YANDELL HENDERSON.

GARRETT & Co., INC.,  
Brooklyn, N.Y., December 4, 1933.

Professor YANDELL HENDERSON,  
Care of Yale University, New Haven, Conn.

MY DEAR PROFESSOR: May I take the liberty of approving most heartily the ideas advanced by you and set forth in the copy sent me entitled "Testimony before committee on alcohol beverage law of the Federal Bar Association of New York, November 27, 1933."

I hope you will pardon me if I try to throw light on one or two of the subjects about which you seem to ask information and which I think I can answer intelligently.

For instance, I think I can give the reason for your statement that "we are not, as a nation, drinkers of wine." History records the fact that all of the earliest settlers were enthusiastic over the possibilities of grape culture in the new land and even looked forward to supplying the mother countries with the much desired wine which was then being procured from their southern neighbors.

Great stress was laid by the explorers Amadas and Barlow, who were sent out by Sir Walter Raleigh with a view of colonizing his immense grant to the Virginia territory from Queen Elizabeth on the unlimited possibilities of grape culture. These hardy sailors were undoubtedly familiar with all of the wine-producing countries of Europe, stated that in all the world "no such wealth of grapes were to be found, the scent of which met them far out at sea."

Every Colonial governor greatly emphasized the possibilities of developing a wine trade as a money crop and repeated experiments were made by the landed gentry, but unfortunately they fell into the error of trying to transplant the vines from France. These vines were not adapted to the richer soils and the climate of the coastal regions and soon succumbed to the disease which later devastated the French vineyards and this disease was arrested only by grafting the European varieties on the native stock of the Eastern States.

With these repeated failures, tobacco became the medium of exchange with the mother country, and wine making was abandoned as a commercial pursuit.

It was not until the middle of the nineteenth century that a few courageous men working in the interest of viticulture and temperance seriously undertook the propagation of the native American varieties. The leader of these was perhaps the elder Longworth, of whose Catawba wine the poet Longfellow launched into a lyric commending its fine qualities as comparable with the best wines of the older countries.

But unfortunately for the viticulturalists' art, the excessive use of rum and other distilled spirits had aroused the indignation of the churches and temperance reformers, and, strange to say, wine came in for just as severe criticism as distilled liquors, and was banished from the tables of the well-to-do who, being for the most part members of the churches, were unwilling to incur the social ostracism threatened if wines were served with meals, which is the only proper way in which wines are ever used.

California at that time was not a part of the United States of America, but European varieties peculiarly adapted to her soil and climate were being introduced by the Padres and Jesuits who were founding missions and carrying with them the culture of the grape, which later on developed wonderful possibilities on the Pacific coast, which grape, being of European type, has appealed especially to the Latin population which have been the chief customers for the products of California.

I wish to most heartily commend your drawing a distinction between the word "intoxicating", which is ordinarily used to mean exhilarating, and the word "toxic."

Without undertaking to analyze the toxic properties of any distilled liquors or of beers, I wish to say most emphatically that properly and scientifically made wines are not toxic, that is, poisonous or habit-forming, nor do they have deteriorating effects on man's mental, moral, or physical make-up. I am not prepared to argue the point as to whether a dilution of 10 percent alcohol may or may not be toxic. I am prepared, however, to prove, I think, that a scientifically fermented wine, produced under proper supervision, can be made and is being made, that is in no sense toxic or poisonous.

Wine makers in America have made more progress in the last two decades in scientific wine manufacture than all the rest of the world has made since Pasteur, who, with the aid of the microscope, discovered the science of fermentation, with its many diseases threatening to destroy the wine industry of France.

If we are to attain true temperance, it must be through the medium of lightly alcoholic, scientifically made beverages. Wines, however, should not be classed either with beer or with distilled liquors, but should be looked upon as an agricultural product capable of adding billions of dollars to our national wealth and hundreds of millions annually to our income if social America would put the stamp of approval on the use of wine as the French and Italians do, as an article of daily diet.

Nearly 20 percent of the population in France are engaged in viticulture, yet France imports from her Algerian colonies millions of gallons of wine over and above the millions she exports.

Probably 25 percent of the population of Italy is engaged in viticulture and the vintner's art, but in neither country is the question of intemperance either a social or political consideration except among the tourist class, who insist on having high-powered distilled liquors in cocktails, highballs, etc.

If the temperance problem is to be solved we should give encouragement to viticulturalists and the vintners, at least until they can get the mortgages paid off on their homes and until millions of available acres, otherwise going to waste, and not suited to other crops, are planted to productive vineyards which make high quality wines. In the United States there are more acres of land ideally adapted to the growth of suitable grapes, either native or imported types, than there are in Italy and France. From an economic standpoint and from a temperance standpoint, every encouragement ought to be given to planting these otherwise barren and unproductive hillsides, which are the ideal locations for the production of fine wine grapes, just as they are in France, Italy, Switzerland, and other sections.

One other point you raise that I think I can answer out of observation and experience; that is, as to distillation. My maternal grandfather, like thousands of large landowners in the South, ran a small fruit brandy distillery, making only 1 or 2 barrels of apple and peach brandy, which was exclusively for personal use and never sold. Prior to the taxes arising out of the Civil War, there was no tax or supervision of this homemade brandy-making.

In my earlier years, on our vineyards in North Carolina, I operated a distillery of the same type as a salvage proposition, utilizing the wine sediments and making a high type of grape brandy which commanded fancy prices after proper ageing. This was before the day of the steam distillery, and these crude methods of extracting the alcohol were known as "pot distilleries."

The method of handling this pulp mash or lees was to put it in extreme dilution into the copper distillery, build a fire under it and evaporate the alcohol through a lead or copper still-worm, running water being used to condense the evaporated alcohol.

Now the first runs of these distilleries came to be known as "low wines" and owing to excessive fusel oils were rarely fit to drink, so that after two or three runs of the distillery, accumulating enough of the low wines, this low wine was put back into the distillery for redistillation or doubling. In this last distillation the brandy was condensed generally at about 150 to 160, and as it was exhausted it would run down to lower degrees, and when it came to be about 60 or 70 proof again the heavier fusel oils began to come over and the last run was again put into the low wines.

When the Government put a tax on distilled liquors, it set up an arbitrary rule that if any distilled liquor, including fruit brandies, showed over 100 proof, the tax was assessed at proof value, but if the liquor to be taxed showed less than 100 proof (50 spirits) then it paid a per gallon tax; in other words, if the spirits to be put away for aging showed only 60 or 70 or 80 proof it still paid the per gallon tax of 100 proof. This I think established the rule for marketing and aging all distilled spirits at 100 proof, instead of at lower degrees, it being expected that the drinker would dilute the goods if as and when desired.

Light, natural wines in my judgment should not be taxed, as it constitutes a tax on agriculture. The proposed 10 cents per gallon tax on natural wine is a tax of \$17.50 per ton on the grower of the grapes. This is especially true since the majority of these wines are produced through their first fermentation by the grower himself; and, contrary to the generally accepted theory, he is not able to pass his tax on the to consumer.

Respectfully yours,

PAUL GARRETT, *President.*

TESTIMONY BEFORE COMMITTEE ON ALCOHOL BEVERAGE LAW OF THE FEDERAL BAR ASSOCIATION AT NEW YORK NOVEMBER 27, 1933

(By Yandell Henderson, professor, applied physiology, Yale University)

I wish to deal particularly with a very specific and very pressing question: What is to be done about the sale of distilled spirits by the glass, by the drink, in restaurants, and clubs? Every commission of every State is facing, or will soon have to face, this question. In some States, as here in New York, such sale is to be allowed for proof spirits on the same terms as wine. In other States, as in Connecticut, the sale of full strength spirits by the drink is to be forbidden. Which is the right solution of this problem?

In my opinion both are wrong. Each will lead to evils that can be plainly foreseen. One reestablishes the saloon. The other will continue the speak-easy.

What I have to say will lead up to a proposal, based on scientific knowledge, that offers an escape from this alternative of evils. This proposal has nothing to do with any law or regulation as to whether a man shall drink standing or sitting; or whether there shall be a bar or only tables. All of that sort of thing appears to me foolish. Let us be done with prohibitions. If it is best that men and women shall be seated at tables instead of standing at bars, let us arrange conditions so that it will appear to them natural and desirable to drink seated. The bar and standing drinking are peculiarly American tourists.

Legislation, to be effective, must be based on facts and realities. One fact that is certain is that we are not as a nation drinkers of wine. In this fact the problem of alcohol with us differs from the problem elsewhere. It has been rather successfully solved over in Canada in the Province of Quebec. But our habits are different. The French-Canadians drink chiefly wine. Conditions in England are also different. In England much the greater part of all the alcohol consumed is in beer and a minor part only in spirits. This is even more true of Germany. In the United States before prohibition a full half of all the alcohol consumed was drunk as whisky; and a good deal of it was drunk with very little dilution. This lack of dilution was the major cause of the appalling evils from alcohol that led up to prohibition. Let us face the fact that no legislation can make us over night, or within many years, a wine-drinking people. Let us encourage wine by very low taxes and in every other way as against spirits. But for the present the problem of supreme importance is how to prevent, or at least diminish as greatly as possible, the evils that result from the drinking of distilled spirits in high concentration.

I have been trying to find out why whisky, brandy, rum, gin, and spirits generally are all approximately 50 percent alcohol. Why not 25 percent, or 75 percent, or 95 percent such as we use in scientific laboratories and in industry? No one seems to have asked that question before. There are two possible answers. One is that probably in the early days of distilling the stills were so crude that 50 percent was about their limit. The other answer is that any concentration much over 50 percent burns the mouth. If no product of distillation, no form of spirits, stronger than 10 percent had ever been produced, there is every reason to believe that a people that use such a distillate as its national drink would be no more drunken than a nation, like the French, that drink wine that usually contains no more than 10 percent of alcohol. We are the only people in the world that drink any considerable amount of alcohol in concentrations above 20 percent.

If we cannot prevent a considerable part of our people from consuming distilled products, and if we cannot at once make them drink wine instead of whisky, we can at least arrange matters so that what they will choose of their own accord to drink shall be no more harmful than wine. This should be done largely through Federal taxation, rather than through state policing. If this is done all such questions as whether one should drink standing or sitting, whether at a bar or a table, whether in a saloon or a restaurant, will settle themselves. And they will thus be settled for the best interests of our people and for the minimum of drunkenness.

The effort to establish effective liquor control is just now in serious danger of becoming futile. Some well-meaning people say, "If we don't allow restaurants to sell whisky by the drink, the speak-easy will continue to flourish around the corner." Other equally well meaning people say, "If the sale of whisky by the drink is legal, the bar and the saloon are inevitable." Certainly no one is going to sit down, if his drink is 3 fingers of nearly neat Bourbon or Rye followed by only 1 or 2 swallows of carbonated water as a chaser. On the other hand

no one will stand up, if his drink is as bulky as the large mug of beer that one drinks in a German beer garden. He prefers to sit down and put his mug on a table.

The speakeasy must be abolished by removing the demand for it. The saloon must be prevented by offering a satisfactory substitute to replace it. But the speakeasy and the saloon are not the only or the greatest enemies. The third and greatest enemy is drunkenness. Drunkenness is peculiarly the product of alcohol in high concentration. The alcohol problem can be solved in America, as it has been solved in other countries, in one way and in only one way; namely, by dilution. For practical purposes this means here, not the substitution of wine for whisky, desirable as that is, but the dilution of whisky down to approximately the alcoholic concentration of wine, the strength of a mild highball. The minimizing of drunkenness and of all the other evils of alcohol can best be effected by arranging that as much water as possible shall be swallowed with the alcohol.

In America during the past 150 years all sorts of experiments have been tried for the control of liquor, including the "noble experiment" now ending. All have failed except one; that has been a great success, namely, the legalizing of light beer. It has been such a success that several colleges in the West have approved the opening of beer taverns near the campus as a means of keeping their students out of speakeasies. That experiment has been a success because 3.2 percent beer is about 95 percent water.

I do not like the word "intoxicating." No one knows exactly what it means. I prefer the word "toxic." Toxic means poisonous. Undiluted or only slightly diluted distilled spirits are poisonous. A man can easily kill himself with them. Alcohol diluted to 10 percent is not toxic; it contains too much water.

I have spent many years in studying the health hazards of volatile liquids like alcohol used in industry and in setting standards for their sanitary control. If the problem of alcohol were to be treated scientifically, it would be no more difficult than that of determining the ventilation standard, which I worked out, for the vehicular tunnels under the Hudson River. It is the dilution of the carbon monoxide from cars that makes the tunnels safe. The problem of alcohol can be solved similarly; and it can be solved in no other way.

These are my recommendations:

(1) In all legislation, and so far as possible in general discussion, the word "liquor" should be applied only to distilled spirits. A large part of the popular confusion on the problems of alcohol is due to applying the same words to include all forms of alcohol. Some of these forms of alcohol are as powerful as morphine or cocaine. Others are as mild as coffee. Let us get the issues clear.

(2) Every bottle of every form of alcoholic beverage, strong or weak, should be required by Federal law to carry a label stating the percentage of alcohol it contains; to the end that, not only scientific experts but our entire people may know from experience the facts as to the strength of the various beverages that induce the various degrees of physical and mental effects.

(3) Native natural wines should be taxed as low as possible, just enough to cover the expense of governmental inspection. The tariff on foreign wines containing not more than 10 percent of alcohol should be low enough to encourage their use as a means of developing a taste for wine. Wines above 10 percent, both native and imported, should be taxed heavily, especially champagne, which is drunk by those who can afford it, in larger volumes at one time than any other wines. Champagne is almost the only wine that is frequently the cause of drunkenness.

(4) Beer up to 3.5 percent of alcohol by weight should be taxed only \$3 per barrel instead of \$5, as at present. Beer of 3.5 to 5 percent should be taxed double. Beer over 5 percent should be taxed three times the minimum rate. Strong beer is a cause of much drunkenness in some other countries. We have never had it, and we never should have it.

(5) Full-strength whiskey, gin, rum, brandy, and all other alcoholic beverages containing over 15 percent of alcohol, should be taxed at a high rate so that a quart at retail would cost not less than \$4. The proposal that legal liquor should be cheap, as a means of counteracting bootlegging, amounts to encouraging drunkenness. Better measures against bootlegging can be found.

(6) Whisky and other distilled spirits, that have been diluted at the distillery with carbonated water or other diluents down to 10 percent of alcohol and sold only in half-pint bottles, should be taxed less than half as much as full-strength spirits, so that one of these half pints will cost the consumer in a restaurant or club only 10 cents. This arrangement will satisfy the large majority of all who wish to drink spirits and very few people will get drunk on such mild highballs.

(7) The States should not allow taverns to sell anything but light beer, certainly not anywhere in the neighborhood of a school or college. Restaurants should be licensed at a very much higher charge than taverns; and restaurants should not be allowed to sell or to have on the premises any reinforced wine, such as sherry, vermouth, or prepared and bottled cocktails, stronger than 15 percent. Most people will be satisfied with a 15 percent cocktail, and the effects are much less powerful than the stronger variety. Whisky diluted to 10 percent in half-pint bottles should be allowed for sale in restaurants on the same terms as wine.

(8) For the next few years distilled spirits of full strength should be sold by Government agencies or by package stores, but only by such agencies, or stores as a measure against bootlegging.

It will be along these lines, but only along such lines, that we can move toward the solution of the problems of alcohol, the ending of bootlegging and the speak-easy, the prevention of the saloon, and the minimizing of drunkenness and the more serious forms of alcoholic addiction.

The whole weight of all scientific evidence and all scientific authorities is that the only effective measures to these ends are those promoting dilution.

The CHAIRMAN. The next witness is J. W. Murray. The calendar does not state whom he represents. He is to speak on the subject of the liquor tax.

#### STATEMENT OF J. W. MURRAY, HOLYOKE, MASS.

The CHAIRMAN. Give your name and address, and the rôle in which you appear, to the reporter.

Mr. MURRAY. My name is J. W. Murray. My address is 277 Linden Street, Holyoke, Mass. I am coming here as an independent, formerly in the wholesale liquor business, handling imported and domestic liquors, wines, brandies, cordials, and affiliated lines, not affiliated with any organization now in this business in a large way.

At the present time the large organizations have a dovetailing out into the importing and the handling wholesale of beverages of all kinds. That is my best information, and what I have been able to observe. In other words, the large groups have induced certain people to represent themselves as being in the importing business. They walk in and say, "We are the importers of liquor", or "We are the rectifiers of liquor", or "We are the wholesalers of liquor." Unfortunately, these people know nothing about this business, never were in the past connected with it or identified with it in any way, and that has brought about some of the chaos that is now very evident and which you are reading about in the newspapers.

It has been my information, from contacts through which I formerly imported goods from abroad, that the very good grades of Scotch whisky were available to the people who knew how to buy them, and who were in a position to buy them, at about 35 shillings a case in Europe. What some of the people paid for them who are now offering them to the public at \$60, \$70, and \$80 a case is very problematical. Naturally, having no former interest in the business, they knew nothing about buying, and now find themselves high and dry in the selling of them; and I dare say they will lose considerable money by going into something that they know nothing about.

I intended to make a plea for what seems to be an infant industry, one that formerly was, as being reborn again, and under peculiar circumstances. Perhaps we might refer to theosophy. Then it is coming back in competition with an illegitimate brother, a large, big brother with a tremendous force, and well financed. If I do go back into the business—which I have not decided to do, yet, until I get

an opportunity to size it up and see what it really means—we will have a very hard time with this big illegitimate brother known as the bootlegging industry.

I do not believe it would be wrong to ask the Department of Justice to come here and tell you something about this big, organized bootleg industry. I can tell you something about it, which I intend to do, but you can get very much more detailed facts from them than you could from me.

While I was here yesterday I heard more of what I put down here as a note that I am going to call "etherizing, futurizing, generalizing, and theorizing" by people who, to my best belief, know very little about this business. They are willing to try anything on this business to see where we come out. Of course all we have got to do is to supply the time, the plant and the money to do business; and if we lose our money through their bungling, then of course that is all right with them. We are flat on our backs, and we are going out, with or without flowers.

I am going to tell you about the bootleg operations. If I take up too much time you just tell me, and I will go back to the point where I am a practical liquor dealer, with a college education, having taken graduate work in economics and other things in direct line with many of the compound questions that you have asked people here; and I think I could probably change your opinion on a great many of those things if you would give me the opportunity. Do not handle me with kid gloves. Just "treat me rough", and I will tell you what I really think.

We will start with these bootleg operations. At the present time we will start in with A, a purchaser of materials. There are a great many items in the newspapers about the organization of this business. It is highly organized. We call it organized to the teeth. They have plenty of money that they have made over the past 14 years, and they can go out and buy materials in competition with any firm in the legitimate business today. They have college men, and they pay them exceptional salaries, much higher than could be obtained in any other field under present conditions, so that they can buy materials to make anything that is to be made in the legitimate industry. If I may make a side remark, if some one said to me "Murray, you take this business and try to straighten it out and get rid of the bootlegger", gentlemen, I do not know where I would start. I probably never would live to finish the job, but I would not know where to start.

Now, I am going to tell you about one of those production methods. These details are all true, gentlemen.

There is one organization in one part of this country that has anticipated the return of legitimate, legal liquor. They have at the present time anticipated it back as far as July, when they started to make pure rye whisky. They have obtained very excellent cooperation for that rye whisky. Some of it was formerly used for whisky, and had a certain character in the wood. They are set up in a sort of organization where it would be impossible to eliminate them. There are 26 units in this thing, all running in different parts of this country, and each one with a very well organized staff of its own, all trained, highly trained by a man who was formerly a very repu-

table distiller. The 26 distillers and the 26 plants are now in operation. If you started out you could probably get three or four, but there would be 23 or 24 still running to produce liquor to be sold at bootleg prices under the organization.

That goes for the production, and whether they can compete. I might tell you that I have seen samples of this pure rye whisky that is 6 months old, and it compares favorably with any brand that was formerly a legitimate product. They have not skimmed on the stills that they have built. I have not seen them, and naturally I would not want to see them, because I will probably hear from this anyway sooner or later; but it is a good idea not to know too much. I am just generalizing, and you can ask me questions when you wish.

Mr. FREAR. I should like to ask one question at this point. Will you give the names of the places?

Mr. MURRAY. I would not dare do that, sir. That would not be safe for me. I have a family that I have got to look out for, and I want to try to take care of them.

Mr. FREAR. You say we can find out very easily.

Mr. MURRAY. I think you can, through the Department of Justice. I believe they must have these facts. The quality of the goods, I understand, is excellent, good enough for anybody.

Mr. JENKINS. Do these organizations keep books, or do they have any accounting department?

Mr. MURRAY. I could not answer that; but they must have some, because they are so big that they could not keep track of it on their fingers.

Mr. KNUTSON. Do they make income-tax returns?

Mr. MURRAY. I could not say as to that. I assume not.

Mr. JENKINS. Just one other question.

The CHAIRMAN. Mr. Jenkins has the witness.

Mr. JENKINS. You seem to know a good deal about this. I do not doubt your veracity in the least, but I do not know very much about it. I should like to know if you can tell me with personal safety what you do know about their actual business manipulations, how they keep their records, how they buy their materials, how the legitimate trade sells them, who sells them cooperage, etc.—not that I want the names of the individuals, but how that is done.

Mr. MURRAY. The size of their operations in the past may or may not have been any indication as to what they are going to do in the future; but the organization is big enough so that they must buy in carloads when they buy. This organization formerly, before they went into the production of rye whisky to be sold to the legitimate trade, made what is known as sugar alcohol, and they made it in such large quantities that they must have bought their materials wholesale.

Mr. CROWTHER. Corn sugar?

Mr. MURRAY. Yes; to be sure.

The type of stills, as I said, was excellent. I understand they cost \$12,000 a unit. I did not see any bills to that effect.

Mr. McCLINTIC. Would you give the committee the information in executive session?

Mr. MURRAY. I would be afraid to. If anything happened to this crew they would probably blame it on me anyway. Their costs are

comparable to the former costs of rye whisky. I want to tell you gentlemen that in the old days we bought rye whisky, as compared with bourbon whisky, as what we call contractors. It (rye) ranged from 60 to 75 cents a gallon made in the distillery on contract, which we had, of course, to age for 4 years in the bonded warehouses. Bourbon whisky, by the way, cost us—I think the lowest we ever paid was 30 cents. That, of course, included the cost of the barrel, which was around \$5 a barrel for a white-oak charred barrel. Their costs, I understand, run 50 cents per gallon on this rye whisky.

Now, I heard the statement here yesterday that the Rockefeller Foundation—which I, as an individual, of course could hardly cope and compete with—says that the bootleg organization is paying \$4 for protection of one kind or another. That is ridiculous, because people who are “in the know” tell me that this outfit pays 50 cents a gallon. Of course, doing a big business, that covers everything. I understand they are taking contracts to be used in competition with legal liquor and selling it at \$1 a proof gallon delivered in thousand-gallon lots. Now, if you do not call that competition to a legitimate business, what is it?

Mr. KNUTSON. Does that dollar a gallon take into consideration police protection?

Mr. MURRAY. I dare say that it does, because it is all handled in a unit by one person. That takes care of the whole thing.

Mr. KNUTSON. The bottom must have dropped out of the market.

Mr. MURRAY. I do not know about that. Of course the police protection in the past cost whatever you would pay. If you kicked hard enough, rather than get nothing they would compromise with you.

I want to make it clear to you gentlemen that I was in no way connected with this business during prohibition. I went out like a gentleman, and I am going to come back, if I come back, like a gentleman; but I learned yesterday that there is a deadline drawn on the import permits—one of which I expected, of course, to get if I went back—of December 1. So I guess the boys have crowded in there to the point where I will have to wait for some of these fellows to fail up before I can get one, probably. I mentioned it to Mr. Choate, and he said, “Of course there will be other permits given.” I said, “If this business looks as though I can get back any of the amount of money I lost during prohibition, I think I will have to ask you for one;” and we left it like that.

Mr. COOPER. Mr. Chairman, one question. As I understood you to say, you had formerly been in the wholesale liquor business?

Mr. MURRAY. My folks have been in it from away back; I could not tell you what date.

Mr. COOPER. How long did you engage in the business?

Mr. MURRAY. I came to work in this business the morning after I graduated from college, and worked in it for seven years, up to January 16, 1920.

Mr. COOPER. I understood you to state just now that at the present time what you classify as rye and bourbon whisky of good quality are being sold by bootleggers at what figure?

Mr. MURRAY. This unit that I have reference to is trying to do business with people who have become legitimate dealers at \$1 a gallon. That was the price that they had put.

Mr. COOPER. They are wholesaling it at \$1 a gallon?

Mr. MURRAY. That is the idea; yes.

Mr. COOPER. Delivered to the retailers?

Mr. MURRAY. That is right; and as the fellow said to me who told me, "We eliminate the small fry. We do business with big people, and we do not take any orders for less than thousand-gallon lots, and that eliminates any possibility of difficulties."

Mr. COOPER. How does that price compare with the wholesale liquor price on similar brands and qualities prior to prohibition?

Mr. MURRAY. I might mention two or three of the old brands—Melvale, J. A. Daugherty's Pure Rye, and Finch's Golden Wedding Pure Rye, of Pittsburgh. They all cost around between 65 and 75 cents, contract, depending on the cost of the rye in the years they were made.

Mr. COOPER. That was in bulk, was it?

Mr. MURRAY. Oh, yes; in barrels in the warehouse. From then on there was the storage tax to pay, which at that time in Pennsylvania was around 6 cents a barrel per month. In Kentucky it was down as low as 5 cents a barrel per month; and, of course, as you aged these goods for 4 years you had what is known in the Internal Revenue Department now, under detailed figures from them, as "outage", which, of course, was the shrinkage due to the aging of the whisky which you paid for but which you did not get when you drew it out. It was evaporation.

Mr. COOPER. We have had some evidence presented to us here indicating that about 5 cents a gallon was the cost of ageing.

Mr. MURRAY. I do not know. I would have to figure it out for you. There would probably be an outage on a 4-year-old whisky of 12 or 13 gallons. If it was in excess of that, that was because of poor cooerage; and the Government collects the tax in that case, or did, whether the goods were there or not. In other words, it was up to you to see that your packages were tight, and that you did not lose it through excess sweating.

Mr. COOPER. Just one other question, if I may.

Mr. MURRAY. To be sure.

Mr. COOPER. Can you state to us what was the average or usual price of the type of liquor mentioned by you here, laid down and delivered to the retailer, prior to prohibition?

Mr. MURRAY. We sold J. A. Daugherty's Sons' Pure Rye, for which we had a practically exclusive agency, for between \$1.95 and \$2.15, delivered, at 90 proof. That was, of course, a 10 percent reduction, and was the standard drinking whisky of that time. That did not vary more than five cents for what is known as Eastern pure rye.

Mr. COOPER. And that was with tax?

Mr. MURRAY. That was including the tax of \$1.10 a gallon.

Mr. COOPER. Do you state that whisky of similar quality and type is now sold by bootleggers at \$1 a gallon?

Mr. MURRAY. They are endeavoring to hold their market and not let it get away by offering these goods for delivery in thousand-gallon lots; and, as they say, "Believe me, you will take the whole thousand gallons"; and I believe the fellow when he does business with them will take the whole thousand gallons and pay for it at

\$1 a gallon. In other words, they are trying to crowd the legitimate dealer out of this business before he even gets started. How can he compete? The tax is \$1.10. You gentlemen are looking for revenue, naturally; but if you drive out the legitimate man with \$1.10, these fellows come in and pay nothing.

The CHAIRMAN. Do you term the illicit manufacturer a bootlegger?

Mr. MURRAY. He is not a bootlegger. I am going to get to that, Mr. Chairman. If you will pardon me, I have a few more things here.

Senator CLARK. Mr. Murray, if I may interrupt you in connection with that last statement, I understand you are directing your argument to the proposition that there ought to be no tax on liquor.

Mr. MURRAY. Certainly not. That would be ridiculous. I think we are going to have a hard time; but if the Commission stands behind us, and all you gentlemen stand behind us, and get about 6 or 7 thousand more Department of Justice agents to go around and clean this thing up, by 3 or 4 years we may be in business profitably again. These fellows will not quit unless they cannot make money; and then, of course, they will sort of pick up their tents like the Arabs and pass into the night. The other way they are going to fight you right to the finish.

Mr. TREADWAY. Mr. Murray, in view of your wide experience, what advice would you offer the committee as to a suitable tax rate, having in mind our revenue and desire to cooperate with your views of trying to rid the country of the bootlegger? Where do you think the Government would fit into it?

Mr. MURRAY. Well, I have given this thing sufficient reflection, gentlemen. I know you need money. I know the country needs money, and I know that is partially why this business has been allowed to come back. I cannot see, as I figure it out, how a man can be expected to engage in the wholesale liquor business with the possibilities of loss under present conditions if he must gamble too high on his stock and then not do a volume of business.

In the former days—do not let me deviate too far; I do not want to take up your time unnecessarily—if we made \$5 a barrel on goods that we sold at wholesale, we were perfectly satisfied. That was slightly under 50 gallons. Rye barrels were 48-gallon barrels, and we expected to make at least 10 cents a gallon profit, gross.

Today, times are different. I do not imagine for some time we can develop the volume of business that will get the gallonage out that we used to get; so that I cannot see how consistently anything more than \$1.10 in the way of tax can be imposed without keeping the business in a sort of turmoil for years.

Mr. TREADWAY. You are looking at it entirely from the viewpoint of a private business man; but what would you say looking at it, as we must look at it, from the Government's standpoint?

Mr. MURRAY. That is what I am trying to do. You see, we have a 40-cent tax already in Massachusetts. That makes \$1.50 that the dealer must pay per proof gallon to wholesale goods in Massachusetts, in tax.

Mr. TREADWAY. At that point, we have heard the testimony here of the department people in connection with one tax and prorating

it to the States; what are your views as to the practical feature of that?

Mr. MURRAY. I am sorry to note that the States have tried to capitalize on this thing at the start; it is just like taking a drowning man and pushing him back. If you have a tax of \$1.50 and allocate 40 cents back to the States, I think that would be about all the business would stand at the start.

Mr. TREADWAY. From your knowledge of legislatures and their methods, do you think the States would cooperate with the Federal Government?

Mr. MURRAY. I think from my observation they would be very glad to, because they have been bedeviled and embarrassed trying to collect the tax. In Massachusetts they have been running beer into the State that never paid the State the \$1 tax. They cannot keep track of it at all and cannot collect the tax.

Mr. TREADWAY. I would like your view on this one thought. Yesterday the expert of the Tariff Commission, Mr. Lourie, suggested a graduated tax less on the first year than it would be the second year, and so on. What is your view on that?

Mr. MURRAY. I would not want to definitely commit myself, because I can readily see that the progress of the business is going to be very problematical. I don't believe we will be any further out of the woods next year than we are now so far as the bootleggers' competition is concerned.

Mr. TREADWAY. What do you think might be the effect on the bootleg situation, of the graduated tax?

Mr. MURRAY. I think Mr. Lourie's testimony was one of the best and the most practical I have heard, and he agrees in many respects with what I think myself. If we can be sure to get the bootlegger out of business, then you can put the tax at \$3 after he is out and cannot get back in again, then the trouble is over. You are going to meet a certain phase of this thing, and it may turn right around, because after he is out he is out. I have heard of the \$6 tax in Canada and the \$14 tax in Great Britain. Those things may be workable there, but they have not had, and they are not now in the condition that this country is in with its well-organized bootlegger organization, and they have never met such conditions.

Mr. TREADWAY. Don't they have them in Canada?

Mr. MURRAY. I am quite well familiar with the Canadian situation. I have had bootleggers come to the hotel when I was staying at the Windsor and offer me liquor that had never paid the Canadian tax.

Mr. VINSON. As I recall, Mr. Lowry said the tax in Canada was \$8. Senator HARRISON. He said it used to be \$8 and was reduced to \$7.

Mr. MURRAY. That is true; I have made a mistake in my notes as to the \$6; but the point I want to bring out is that regardless of whether it is \$7 or \$8 it is the same situation.

While there is bootlegging there, and while it is semiorganized, and you have probably read about some organization that has been bringing back sugar alcohol through the States and bringing it up into Canada, yet it is not as organized as we have it here. It is not in the billion-dollar class in which the 14 years of prohibition has almost put this bootlegging industry in our country.

Mr. VINSON. It is not organized to that extent?

Mr. MURRAY. Of course you gentlemen have as much idea as to whether the bootlegging industry is a billion dollar industry or a seven hundred million dollar industry. I don't know, but I know they are tremendously financed.

Mr. SHALLENBERGER. Dr. Doran said yesterday there were many distilleries in the United States making whisky. Do you know how many?

Mr. MURRAY. I don't know, and I couldn't say.

Mr. SHALLENBERGER. I understood you to say there are 26 now making whisky and illegally selling it.

Mr. MURRAY. That is my best information in one part of this country, not in the whole country.

Mr. SHALLENBERGER. Is there any way of stopping them from doing it?

Mr. MURRAY. I don't know, and I wouldn't want the job: I wouldn't take it today. The easiest way without sacrificing life and throwing away a great deal of money, would be to make it unprofitable and then you wouldn't have to put them out of business; they will fade away and evaporate.

Mr. SHALLENBERGER. How shall we make it so that it will be unprofitable?

Mr. MURRAY. These fellows are not satisfied with anything outside of big money. They would not be satisfied to make what they would make on selling rye whisky at \$1 a gallon, and my own idea is, knowing their methods, that in order to keep the business, they are expecting to take business at cost for a time.

Mr. SHALLENBERGER. You stated the Great Britain tax was something like \$14, yet they have no bootleggers there.

Mr. MURRAY. Well, that may be due to the fact they have not been through 14 years of prohibition such as we have.

Mr. SHALLENBERGER. It is because they enforce the law in that country.

Mr. MURRAY. And they do so with more alacrity.

Mr. SHALLENBERGER. I think if we could do that here, it would force them out.

Mr. MURRAY. If we went out in the right way, probably so, but it would be at a great sacrifice of money, and probably life.

Mr. SHALLENBERGER. What we need is not only enforcement of the tax, but enforcement of the law.

Mr. MURRAY. Unquestionably we have got to come to it if this business is going to be worth going into from the standpoint of engaging in it legally.

Mr. KNUTSON. Assuming we repeal the tax altogether, that would put the legitimate and illegitimate dealer on a parity, and if the illegitimate industry could operate profitably on that basis, why couldn't the legitimate?

Mr. MURRAY. That is easily answered. The illegitimate is going from day to day to pay these various protection fees, and the peculiar thing about this protection is that it is on a graduated scale, and if you pay a certain amount you are expected to pay more the next time, and gradually the thing works out so that it gets up so high he cannot pay it and go on.

Mr. KNUTSON. A statement was made here yesterday by one of the witnesses that it would cost the bootlegger industry about \$4 a gallon to operate. How do you reconcile those two answers?

Mr. MURRAY. I don't know where they got the figure, but I know this group pays 50 cents, and I believe I am correct in that. Of course, I cannot substantiate it with documents, and nothing in this line can be substantiated.

Mr. KNUTSON. You mean 50 cents a gallon for protection?

Mr. MURRAY. 50 cents per proof gallon; yes. That is all the handling from one angle, taking in the cities, States, and everything at the same time.

The CHAIRMAN. The witness has consumed about 23 minutes now, and how long will it take you to get through?

Mr. MURRAY. It will take me about 5 minutes to get through.

The CHAIRMAN. You may go ahead, if we may do so without interruption.

Mr. MURRAY. In the wholesaling of this beverage which is known as bootleg, this organization and all of these organizations have a complete fleet of trucks, as you must know, because of their getting arrested, but you cannot pin them to any person. Many of them are run by independent operators, as circumstances would warrant; but you will find them loaded with liquor as they were during prohibition. These trucks are owned by these people, they are on the road, and they are delivering and running liquor. They are run by a fair grade of men who stay sober and deliver the goods. You have never heard for a long time one of these trucks being knocked off because the driver was drunk.

Mr. FREAR. Does the Department of Justice have information on this matter?

Mr. MURRAY. I don't know, but they have been fooling with it for 14 years, and they must have information.

They have planes to deliver in wholesale, and you cannot connect them with any particular person; but they deliver liquor by planes. I was informed last week by a fellow who has a good deal of information, and I believe him, that one of the men said he would buy his plane from the outfit and quit running liquor. I said, "What do you suppose he is going to do then?" He said, "He is going to smuggle Chinamen, he is going to bring in aliens", and there is something for you gentlemen to think about.

They have cars of good make, and they are not always run by men, they are sometimes run by women. It is a standing joke with them that you can call up and in 10 minutes they will bring a pint of liquor to you. They are never late, and if they are later than half an hour they will give you the pint of whisky and you don't have to pay for it. They call it the organization, that is all.

I don't see how any legitimate man could deliver a pint of whisky and pay taxes on it in 10 minutes, because he would have to have motorcycles running all over the town.

They have got the public demanding such service that a legitimate man cannot give it. They will run out in the middle of the night and deliver a pint to the consumer, but of course they don't sell that for \$1 a quart, but they charge higher prices. They change the labels, and some of them have their own brands.

Mr. KNOTSON. They maintain a 24-hour service?

Mr. MURRAY. That is right; they maintain a 24-hour service with a fine organization, and we in the business they make us look like pikers, and we couldn't begin to compete with them.

They have a messenger service that will come, and it is not always young men, because they have young girls that drive the cars.

They also have depots arranged in the various cities where you don't have to start at one end and go completely across the city. They have someone who has a complete stock, enough for a day or so, having probably two or three cases of this and that, whatever they might use during the day.

Now, the importing is probably the biggest end of it and there they have planes again, large boats and small boats in which they bring the liquor into the country, and have been doing that all during prohibition.

In fact, they have some very unusual affiliations, and have had during prohibition. They have their own private brands, some that I never heard of before, and they put it upon the boats. Some comes down from St. Pierre Miquelon, and some bring it in, in speed boats. There are some operators running out of Lunenburg, Nova Scotia, and they buy enough so that the big operators will go out and bring it in, in their speed boats.

Now, I will tell you about the large syndicates. There are said to be among these fellows some syndicates, I don't know whether they are independent or affiliated, but I assume they must be dovetailed up pretty well. There are eleven large syndicates supposedly in the country at this time. One of these I understand is now liquidating, or what seems to be so to the people who know, or consolidating with one of the other syndicates, so that there will be ten, unless some others consolidate, ten large syndicates in this business, for competition on a big scale, importing and bringing it in with boats, and a complete line.

There really could not be said to be more than two large companies here in the United States in the legitimate business, and probably there will be an understanding of some sort, of one kind or another, between them, undoubtedly, on the different brands.

These 10 or 11 syndicates are now marking time waiting to see what you gentlemen will do about this tax, and of course the higher you put it, the better it will be, and they will be, as they say, sitting pretty if the tax is high.

Mr. BOEHNE. There will be no way of catching the bootlegger and tracing his product for tax purposes—there would be no way of placing some responsibility on him through the retailers?

Mr. MURRAY. There has got to be some way to do that, but of course that will be the problem.

Mr. BOEHNE. It seems to me that the retailer would have to show that the liquor had been properly tax paid. If he gets it from the bootlegger and it had not been tax paid he could not meet that requirement.

Mr. MURRAY. If you know anything about the business, you know these fellows will cheat if they can. Where their license fees and organization expenses are so high, rather than lose their investment, they will resort to cheating.

Mr. KNUTSON. Don't you think we will break the gang up if we put a bounty on them like we do in the Northern country with the wolves?

Mr. MURRAY. They are wolves all right, I know.

Senator CLARK. Couldn't the competition you point out be completely met by a system of government-owned stores like the Ontario system in Canada?

Mr. MURRAY. I couldn't say, because it has never been successful in Canada. In addition, they have had fourteen years to get organized, and it would be hard to break them up. If you shut Canada down, and turn all of these people loose, and open up the liquor stores in Canada, you would have a worse situation than we have here, and I will tell you why: If I go into Canada and want to buy a bottle of Usher Green Stripe or a bottle of Johnny Walker, I am going to pay \$3.75 now for it. I have sold Usher Green Stripe and Johnny Walker in the old days for \$14 a case, and it retailed for about \$1.40 a bottle. Would it be your idea that if this liquor cost \$1.40 a bottle, that they would go into the Canadian liquor stores and buy it for \$3.75 a bottle? [The bottle contains 25 oz.]

Senator CLARK. It has been done, hasn't it?

Mr. MURRAY. No; because they haven't got them organized to the point they are here. In fact, they are not going into the liquor stores to buy it now, and that is why Canada is reducing the tax.

Mr. WOODRUFF. The bootlegger today is a complete organization from the manufacturer down to the distributor or retailer?

Mr. MURRAY. As I understand it, the same organization does not handle it all the way through. The manufacturer's end is one distinct department.

Mr. WOODRUFF. But they have the whole set-up?

Mr. MURRAY. Yes.

Mr. WOODRUFF. And not one of those distributors today is a legitimate distributor, is he?

Mr. MURRAY. Not as far as I know.

Mr. WOODRUFF. Is that organization going to be destroyed because we put on a tax to make the handling of liquor illegitimate—isn't the bootlegger going to keep his organization the best he can and go along trying?

Mr. MURRAY. He isn't going to lose that investment by stepping aside and saying, "Gentlemen, you decided to put the thing back in a legal and legitimate way, and I will pass out of the picture and lose all of this money."

Mr. WOODRUFF. As a matter of fact, if the tax on this product is put up high by Congress, won't the same speak-easies handle liquor that have been handling it under the same system of distribution carried on by the bootlegger?

Mr. MURRAY. It may not be handled that way for very long, because of the desire "to grab so much", but he may fade out in that form, and then they (the bootleggers) will go to the ultimate consumer with the goods and eliminate the seller who is selling in the store.

Mr. WOODRUFF. That is the idea I have in mind. In other words, they will retain their present set-up all of the way through, so far as they can.

Mr. MURRAY. Yes; and instead of selling to "the place", as formerly, the so-called "speak-easy", they will sell directly to "the customer", because the speak-easy passes out of the picture.

Mr. WOODRUFF. Whether it passes out of the picture or not, the eventual distributor will be precisely the same as it is now, and it will reach the same hands it is reaching under the present conditions?

Mr. MURRAY. Yes; through a different channel.

Mr. WOODRUFF. And that may make it possible for the legitimate dealer to compete with him?

Mr. MURRAY. In my opinion that will not come about immediately, because the bootlegger and the speakeasy gang will try to stay as long as they can, until the "ante" gets above what they can pay for legal protection, and when they begin to lose money they will fade out, and the customer will look around for the former bootlegger who will not ask an excessive price for the liquor.

Mr. WOODRUFF. The market for the illicit product will still remain?

Mr. MURRAY. That is right.

Mr. McCLINTIC. If a penalty was put on the purchase of illicit liquor, what would be your opinion with respect to that question?

Mr. MURRAY. I don't think from casual consideration of it that it would work.

The CHAIRMAN. The Chair suggests it is unfair to the witness to consume further of his time.

Mr. MURRAY. May I make one further statement?

The CHAIRMAN. You may go ahead.

Mr. MURRAY. As to the rectifier of liquor, there has been some bad information handed to the Committee. Cutting liquor as it has been done under prohibition is not rectifying. Rectification is a process in the blending of goods to be rectified, and it must be put in "the process of rectification." As a rectifier of 9 years' experience I know what I am talking about. We have blends from rectification of some of the finest liquor sold, and some of the hotels known for their fine whisky have sold these blends. They were not spirit blends, they were blends of malt liquors, some times with a percentage of bourbon liquor and sometimes good rye whisky, and sometimes a light palatable whisky. Blends and rectification and cutting liquor are entirely different. We are not paying fellows \$75.00 a week to match samples of liquor to be sold to high class dealers for nothing. It is an art and a lost art.

The CHAIRMAN. We thank you, Mr. Murray, for your appearance here and for your testimony.

Senator CLARK. I would like to ask one question.

Mr. TREADWAY. There are 20 or 21 witnesses to be heard before the Congressmen, and would it meet your approval, Mr. Chairman, to let the Congressmen know they will be the first witnesses tomorrow morning, because there is no need to keep them here today and we must finish with the outside witnesses today. However, I do think in courtesy to our colleagues, it would be desirable to have a session tomorrow morning and put them on first.

Mr. HILL. Mr. Chairman, shouldn't we proceed as far as we can today, to see how far we can get, because it may not be required to hold a session tomorrow.

Mr. MURRAY. Is there anything you want to ask me in private? If there is anything you would like to ask me about the situation as to the liquor business, you may ask me, and I will be around for two or three days if you would like to see me.

The CHAIRMAN. We thank you, Mr. Murray, for your testimony. (Mr. Murray subsequently submitted the following memorandum:)

*To the Joint Committee on Ways and Means, Senate Committee on Finance, and House Committee on Ways and Means:*

A SHORT EXPLANATION OF BLENDING AS APPLIED TO THE OLD-TIME LEGITIMATE WHISKY BUSINESS PREVIOUS TO PROHIBITION

GENTLEMEN: The amount of time that your gracious committee found possible to allot me would not have been sufficient to discuss the following technical details which will be interesting to some of the committee, I am sure. Honorable James V. McClintic requested some accurate information along these lines. There has been so much erroneous testimony given before your committee concerning blending and rectifying in the legitimate liquor industry, in the preprohibition era, and comparing it with derogatory innuendo as the "cutting and splitting" of whisky during prohibition by unqualified amateurs (and worse) that perhaps this explanatory statement of fact will not be amiss.

Blending, a long-honored legitimate trade practice, which was done under the sanction and supervision of the United States Government, in plants that were properly equipped for the work, and licensed by the city and Federal Government (and now licensed by some States such as Massachusetts), was controlled by the Bureau of Internal Revenue. It was known to them, and to the trade, as the "process of rectification".

Barrels of whisky, or other liquor, to be put into the process of rectification were prepared by first "scalping" the stamps from the barrels and sending them, attached to a Government form, properly filled out, to the Collector of Internal Revenue at Boston, for authorization "to dump" them into the blending vats. When this form was returned, with the approval of the United States Collector of Internal Revenue, or his authorized agent, the "dumping" of the goods into the blending vats was permissible.

Goods in the vats was known as "goods in process" (of rectification). From this point, by using the various whiskies, rums, gins, or brandies "in the process", the desired samples of goods to be matched or compounded were prepared.

In the several vats were such whiskies as 4 to 6 year old straight Eastern pure rye whiskies; some younger ryes from 2 to 4 years old; bourbons (made from all corn of the continuous run type; some other bourbons of the heavy sour-mash type; a few bourbons of the part-rye mash type; imported and domestic brandies of various characters from 5 to 18 years old; straight pure barley malt whiskies of various ages; apple brandies; rums of different grades and ages from Jamaica, St. Croix, and the domestic rums; gins of the Holland, English, and domestic rye varieties; prune wines; peach wines; old heavy-bodied blending sherry wines; and pure grain cologne neutral spirits reduced from 190 proof to 100 proof. From these various vats and liquors the blender did his expert work.

During 1 day's work on a blending floor there might be samples of pure straight rye whisky blends prepared (using only straight rye whiskies of varying aromas, ages, and bodies (of light or heavy character)) to produce an article that was preferable to any of the whiskies themselves, individually, as received from their respective distilleries. If two absolutely straight pure rye whiskies of different types and ages were blended together and the resultant blend of these reduced to 90 proof, with pure soft filtered water, without the addition of a single item, the result was known as blended or rectified and carried a rectified United States revenue stamp attached by the United States gauger. The barrels to be filled were weighed, and their tare marked thereon, by the United States gauger, and the filled barrels weighed and their contents determined by him, and so stamped. The above mentioned two different types of rye whiskies might be given complements of bourbon whiskies, or malt whiskies, or both in varying percentages, to meet some dealer's ideas of what type of whisky his trade has demonstrated a preference for.

The same situation was true in reference to gins, rums, brandies, etc.

One of the real arts of this type of business was the production of domestic cordials and liqueurs, in competition to the foreign products, using domestic

materials. We, at the plant of P. J. Murray & Co., Inc., in Holyoke, Mass. went into this branch of the work extensively, and were considered very adept at producing and matching foreign products. Our cordials were well and favorably known throughout the country, particularly in New England as quality products.

Now, gentlemen, let me correct another wrong impression given your committee. This is in reference to pure cologne grain neutral spirits. Cologne grain neutral spirits has been compared with alcohol by some of the unqualified testimony before your committee. Pure cologne grain neutral spirits is a distillate made from corn throughout the Middle West (just as bourbon whisky is made from corn in Kentucky). It is colorless, tasteless, and odorless, and is a triple distilled product, and runs up to between 188 and 190 proof. By the triple distilling, all of the fusil oils, ethers, esters, ethyl esters, and aldehydes are removed, as well as all of the possible moisture content, so that it is the same proof as alcohol (188 to 190) but is a very fine quality of distilled liquor made wholly from grain, usually corn. Alcohol, on the contrary may be any distillate made from any product (potatoes, molasses, or garbage for that matter) that has been distilled once or more, and has attained a proof of 188 to 190. The only real similarity between a pure neutral cologne grain spirits and alcohol of the common garden variety is the proof (188 to 190).

Upon analysis this pure cologne grain neutral spirits, when reduced to 90 proof, will show a better purity report upon analysis than any type of rye or bourbon or malt whisky, regardless of the quality. Let me explain this. It is so because the whisky, whichever one is used for the comparison, must have a percentage of the oils, ethers, esters, ethyl esters, and aldehydes, to rely upon for its taste, aroma, and body; and these chemical substances of different kinds are responsible for the different tastes and aromas and different types of whisky, and different brands of whisky, etc., because the many different and varying percentages of corn, rye, and malt, used in the mash, from which they are produced, are responsible for these chemicals in the varying degrees and amounts to be found in the finished product. Therefore, as far as absolute purity is concerned, the 90 proof pure neutral cologne grain spirits "takes the prize" in the laboratory for analytical purposes. It must be given a most creditable report.

The coloring matter used in matching shades of whisky is the finest and purest grade of caramel (burnt sugar) produced. It is absolutely harmless from the laboratory standpoint, and is well known to every housewife and culinary expert. So, technically, from the chemist's point of view, the purest whisky that can be obtained is 90 proof or 80 proof or 70 proof pure grain cologne neutral spirits, but of course, this would have no color, aroma, or taste. It could hardly be considered a very palatable drink because of its absolute lack of character.

In the production of cordials, sometimes harmless vegetable colors are used, just as in the manufacture of ice cream or candy. They produce the bewitching colors that you have seen in Creme de Violette, Creme de Cocoa, Rose Cordial, etc.

In conclusion, there is nothing about the process of rectification that is mysterious or unethical, as many of these straight-whisky cranks, who are probably employed by the low grade bourbon whisky distillers would have you believe by their innuendo, before your committee.

In fact, in the good old days, when the writer wanted some good whisky for his own use, either for social or medical purposes, when the entire stock was available free, the choice was a blended whisky, having a base of J. A. Dougherty's Sons' pure rye whisky, a complement of Meadville malt whisky, a complement of peach and a complement of prune wine, with the addition of some California brandy and blending sherry, rock-candy sirup, and reduced to 90 proof. It possessed a fine flavor with a delicate aroma and a pleasant mellowness. It was not so strong that it would take all the membrane off your throat and make you sing like McCormick. It also lacked that medicinal taste which some whiskies have that I always compare to the spring tonic that your grandmother probably made out of her garden herbs, and with its medium body (or character), it was an excellent article. The name of the brand was Silk Edge. Keep in mind that all of the other brands were available free, but this particular one suited my taste much better than any of the others, either blended or straight. Blends, such as were mentioned by Doctor Buck, and others, with practically no body, were unknown to us. They are undoubtedly a product of the prohibition era because I personally never saw them until prohibition. As a matter of fact, during prohibition, I did not see one good blend produced by the interests in the bootleg industry. They were either unable to get the goods to properly blend, or they did not have the facilities or they did not give a damn. It is safe to say that in

Scotland you could not drink the Scotch whisky straight because it is so heavy bodied and unpalatable. This is partly due to the fact that many of the small pot stills are operated with peat for fuel which stinks up the whisky pretty well.

For this reason, consequently, the most popular and big-selling brands of Scotch are all blends with varying percentages of Highland and Lowland whiskies. They are reduced in body by lighter and younger distilled spirits to a point where they can be consumed, and enjoyed if you like Scotch whisky. This is also true with the foreign rums, gins, and cognacs to a very large degree. The blending of liquor to suit the many various tastes and demands in the different parts of this country, and for that matter the whole world, is an old art. At no time could this be safely entrusted to street-car conductors or truck drivers, and the training that was required of an expert blender, for which he was paid exceptional wages, was only attained after years of practice and tutelage. In addition to this, it was necessary for him to keep his Government records of goods received, goods disposed, and all goods that had been put into the process of rectification, in an accurate manner. These reports were submitted monthly to the Collector of Internal Revenue at Boston, and the balances were checked by the deputy collectors, once or twice a month. So you see, gentlemen, this business is already properly supervised by the Bureau of Internal Revenue, and if the old firms who were formerly connected with the business in an honorable way, are allowed to proceed without unnecessary restriction and regulation, we shall very shortly dispose of the type of competition that I believe is objectionable to you.

Thank you.

JOSEPH WILBUR MURRAY.

WASHINGTON, D.C., *December 15, 1933.*

P.S. It has been my personal experience that you can drink a high-class blended liquor without suffering with that "morning-after head". Many others have found this true. It is explained by the absence of the chemical substances mentioned (oils, esters, ethyl esters, and aldehydes) in large amounts in blended liquor.

J. W. MURRAY.

The CHAIRMAN. The next witness will be Mr. Cauffman, of the Philadelphia Liquor Dealers' Association. Mr. Cauffman, will you give your full name to the reporter?

**STATEMENT OF WILLIAM L. CAUFFMAN, REPRESENTING SUNDRY PHILADELPHIA WHOLESALE LIQUOR DEALERS**

The CHAIRMAN. The next witness will be Mr. Cauffman, of the Philadelphia Liquor Dealers' Association. Mr. Cauffman, will you give your full name to the reporter?

Mr. HILL. Mr. Chairman, I suggest enforcement of the rules of the committee, to allow the witness to first make a general statement before questions are asked.

The CHAIRMAN. It is suggested by Mr. Hill that the witness be permitted to make his main statement without interruption, and I hope that the witness can conclude in 10 minutes.

Mr. CAUFFMAN. I think I can conclude within that time.

Most people drink highballs at the present time, and I think the drinking of whisky straight has almost died out.

Mr. Murray said something about the London tax and I have here a clipping which came from the National Whirligig, which says that two thirds of the cost of a bottle of whisky in England is excise. There is a market for cheap whisky and American bootleggers are already peddling their liquors abroad, and that shows they are getting into England.

I should like to read a short statement and then you may ask me any questions you like, and I will answer them to the best of my ability.

I have had some correspondence with your chairmen, Senator Harrison and Mr. Doughton, beginning last September 13th, in reference to taxation of distilled spirits, which they probably have at hand. If not, I have.

In the fiscal year 1916-17, when general business was very good, there were tax paid at \$1.10 per gallon over 164,000,000 gallons of domestic spirits, which brought in over \$181,000,000. Prices were low and there were not any bootleggers, at least not in this part of the country—no illicit distilleries and no State taxes. The tax was increased from \$1.10 to \$3.20 on October 3, 1917, and from then on legitimate sales of spirits fell off to almost nothing, and for the remainder of the year 1917, and the first part of 1918, my business became so bad that I wound it up on May 31, 1918, and quit, after making no profit, and actually losing money for about 8 months. And this was in very good times, and still no bootleggers. For the 9 months of the fiscal year October 3, 1917, to June 30, 1918, under the \$3.20 tax rate, payments fell to \$119,717,000, derived from only 37,411,000 gallons. In the late summer and fall of 1918 the terrible "flu" epidemic broke out, and then ensued a frantic demand for whisky, and price was no object. There were many near riots at liquor stores due to the great demand. Had it not been for this, it is hard to say how low tax payments would have fallen.

For the fiscal year July 1, 1918, to June 30, 1919, the tax was \$3.20, until February 24, 1919, when it was increased to \$6.40 for beverage spirits, and the result was as follows:

58,757,000 gallons, at \$3.20.....	\$188,022,000
13,839,500 gallons, at \$6.40.....	88,572,476
Total (72,596,500 gallons).....	276,594,476

Remember these were exceedingly busy times, money was plentiful, people were stocking up for the advent of prohibition, there were no bootleggers, and the "flu" was still raging in the fall and winter of 1918.

I am at a loss to figure out, in view of past history and present conditions, how anyone can expect more sales and greater revenue from a high tax now than in 1917-18. Most people now have not the money to buy liquor at all, and certainly cannot and will not pay high prices for it. This is proven now, especially in our own city, as it was in 1917-18.

It is unfortunately true that after prohibition and until about 1930, people were willing to pay fancy prices for liquor to bootleggers; but times were good, money plentiful, and they could not get it anywhere else—and there was the added kick and sport of defying the law.

It would be the part of wisdom to leave the tax as at present, \$1.10 per gallon. This rate will bring in very large revenues: in fact, it will produce more revenue than any other higher rate, in a normal year; that is, a year of normal production. This has been amply proven. And it will discourage bootlegging, make all or most sales legitimate, will stimulate all lines of business, will create more employment, result in more profits to all business, and bring in more income tax. But even the rate of \$1.10 will not entirely stop bootlegging—it is too strongly entrenched. One hundred and ninety proof spirits now being sold in Philadelphia at \$13 for

5 gallons or \$2.60 per gallon is cheaper than tax-paid spirits at \$1.10 can be sold. From it can be made 10 gallons of 95 proof gin for about \$1.35 per gallon. No dealer paying tax can compete with this kind of business. There are stores selling all kinds of artificial flavors, with which people can make their own gin, cordials, etc., at prices lower than we could produce or sell them. If you could drive out all bootleggers, you might be able later to raise the tax slightly, but I doubt whether that would produce more revenue, as raising the rate has never done so.

You must not overlook also the large revenue to be derived from imported wines and liquors which, together with increased income tax receipts, will amount to more in the aggregate than high liquor taxes and less income tax receipts.

I honestly believe \$1.10 is the limit of safety, especially if the States are to be allowed to impose large taxes of their own on top of the Federal rate. This spells danger, and will cause prohibitive prices, with consequent profit to the bootlegger. New York, New Jersey, Pennsylvania, and Delaware have imposed \$1 per gallon, Maryland \$1.10. If we felt we could sell our products without illegal competition, we would not care what the tax was; but there is a limit to what the public will pay, as witness 1917-18 and the present time. Three-cent postage failed to produce as much revenue as 2-cent, and higher liquor taxes always have produced less than lower taxes, as shown by previous experience, and history has a habit of repeating itself. From my experience since 1892, and the past history of the business and taxes, I estimate as follows, for a normal production year:

\$3.00 per gallon, 40,000,000 gallons.....	\$120,000,000
\$2.50 per gallon, 60,000,000 gallons.....	150,000,000
\$2.20 per gallon, 70,000,000 gallons.....	155,000,000
\$2.00 per gallon, 80,000,000 gallons.....	160,000,000
\$1.50 per gallon, 120,000,000 gallons.....	180,000,000
\$1.10 per gallon, 170,000,000 gallons.....	190,000,000
In a good year, possibly.....	200,000,000

It has been estimated that there were 150,000,000 to 200,000,000 gallons consumed annually under prohibition, so it is fair to presume that much will be consumed again. So what is not sold legally will be sold anyway. The most important thing today is to have liquor sold legally and receive the tax on as much of it as possible. The revenue will come in. There were only 15 States in which liquor could be sold in 1917; there will be more soon.

In regard to the suggestion of the administration's committee for \$2.60 per gallon tax and 16 cents per gallon extra for rectified goods, I can only say you will make a very grave mistake if you adopt it. With all due respect to the gentlemen of the committee, it certainly looks as though they were not familiar with the history of liquor taxation or had ignored it; and they forget the fact that business is far from good now and that the great middle class which supports all business including the liquor business has neither the money nor the inclination to pay fancy prices for liquor but wants pre-war prices.

As far back as 1892-93 the amount of spirits tax paid at 90 cents per gallon was over 99,000,000 gallons, and in 1916-17 the amount was over 164,000,000 gallons, at \$1.10, yet in 9 months of 1917-18

the amount at \$3.20, plus 15 cents rectifier's tax, amounted to only 37,000,000 gallons. Yet these gentlemen estimate legal consumption on the basis of 1934 low business at 92,000,000 gallons. That is absolutely impossible and is against all history and previous experience. If it should reach 50,000,000 gallons at the rate of \$2.60 in 1934, it would be very large, and instead of \$230,000,000, it would hardly bring in \$130,000,000. I am willing to wager that if the \$2.60 plus 16 cents rate is adopted, the tax payments will not exceed 100,000,000 gallons for the next 2 years together.

On the basis of high business activity in 1935, they estimated 135,000,000 gallons, which is not probable or possible either. Your objective is twofold—to raise as much revenue as possible and to wipe out the bootlegger. The rate of \$2.76 will do neither, but will reduce the former and help the latter.

He will have the advantage at the start of \$2.76 per gallon over the legal dealer, and who would want anything better than that? The \$2.60 tax means \$4.84 per wine gallon of alcohol, which is being sold at \$2.60 per gallon, and costs about 40 cents to make. The tax, therefore, amounts to 1200 percent of the cost. The bootlegger can sell cheaper if he wants to, but he will sell higher and make more profit if the tax is high.

I cannot see the justice of a tax on rectified spirits. Why should there be a discrimination against one kind of liquor in favor of another kind? It looks like class legislation to me. Why should I be penalized 16 cents per gallon for manufacturing cordials, and so forth, which are not intoxicating, no matter what their alcoholic content? You might as well tax the manufacturer of jellies, jams, or sirups.

It seems that under the code we are to be considered as criminals, out under a bail bond.

We want our products to be sold to the consumer at as low a price as possible, even at \$1 per bottle retail. We can do better at that price than at \$2.50 or \$3 or \$4.

Don't kill the goose that lays the golden eggs. How can anyone expect to collect \$230,000,000 in a bad year, which would be the highest amount ever collected, except in the very good years of 1918-19 under exceptional circumstances?

I will tell you something about the cost of liquor before prohibition which was touched on by Dr. Doran and several others. Under the 90 cents tax we sold whisky as low as \$1.25 for 90 proof and \$1.50 for 100 proof. Then when the tax was increased to \$1.10 we couldn't raise the price, so liquor was reduced 10 percent and we sold a blend 90 proof at \$1.50 per gallon and from there up to \$3.50 for the best liquor. It is foolish to talk of one price, because the different grades of liquor call for different prices. I never bottled anything but the highest grade myself. We sold that at \$12 a case, which gave \$2 profit after paying expenses.

Mr. VINSON. Who made the profit of \$2?

Mr. CAUFFMAN. The manufacturer or blender.

Mr. VINSON. \$12 was the price to the retailer?

Mr. CAUFFMAN. Yes; and he sold it at about \$1.50 a quart. The cheaper grades we did not bottle, we sold them in bulk, but our principal business was cordials, which we sold as low as \$1 a gallon, because they run from 20 percent alcohol up, or 40 proof.

As I said before, they are not intoxicating. Do you know why? They are 50 percent sirup, and I would like to see anyone get intoxicated on it.

I will tell you a funny story if you will permit in that connection. We had an Irishman selling for us about 1895 and 1896, and, as you know, the Irish do not drink cordials. So one day he brought in an order from an Irish saloon for a lot of goods, including a case of assorted cordials. We were putting up at that time many kinds of cordials, and I said, "Pete, this man don't want that kind of goods, you know the Irish don't drink that." He said, "Well, he ordered it:" and I said, "Well, I will send it."

One week later we got a postal card from this place to please send for the cordial, there was something wrong with it, and I went down to see him, and I said, "Mr. Sweeney, in the case of cordials you said something is wrong, would you tell me what is the matter?" He brought out a bottle of rose cordial with that much out of it. I said, "What's happened?" He said, "My man got sick." I said, "Do you mean to tell me one man drank all of that?" He said, "Yes." I said, "How did he drink it?" He said, "Out of a glass." You know, they are drank over crushed ice. I said, "What happened then?" And he said, "He threw up." I said, "We had better send for the case of cordial."

So these cordials are not intoxicating, because you cannot drink enough to get intoxicated. That is my business, and I don't see why we should be penalized in making those cordials.

Under the 90-cent tax we sold blended whisky as low as \$1.25 per gallon for 90 proof and \$1.50 for 100 proof. Then when the tax was increased to \$1.10, we couldn't raise the price, so liquor was reduced 10 percent, and we sold a good blend at 90 proof for \$1.50 per gallon, and from there up to \$3.50 for the best liquor. It is foolish to talk of one price, because the different grades of liquor called for different prices. We never bottled anything but the highest grade and quality ourselves. We sold that at \$12 a case, which gave about \$2 profit after paying expenses of selling and overhead.

If there is anything else you would like to ask, I will be glad to answer you.

The CHAIRMAN. Thank you for your testimony, Mr. Cauffman.

(Mr. Cauffman subsequently submitted the following memorandum:)

#### WHAT IS WHISKY?

(By Wm. L. Cauffman)

On June 30, 1906, during the administration of President Theodore Roosevelt, was passed the Pure Food and Drugs Act.

At that time Dr. Harvey W. Wiley was chief of the Bureau of Chemistry, Department of Agriculture, to which was delegated the enforcement of the act.

Up to that time nearly all the whisky consumed by the public was "blended whisky", which was a mixture of various pure rye whiskies, together with pure neutral grain spirits, colored to the required shade by burnt sugar or caramel and flavored with various fruit juices such as peach or prune and sweetened slightly with sugar syrup or sometimes glycerin, to give it smoothness. The definition of a "blend" in the Food and Drugs Act was as follows: "A blend is a mixture of like substances, not excluding harmless coloring and flavoring matter, used for the purpose of coloring and flavoring only."

Dr. Wiley, who was very much prejudiced in favor of "straight" whisky, decided that pure spirits distilled from grain, and straight whisky or impure spirit distilled from grain, were not like substances, and therefore what was heretofore known as "blended whisky", was "compounded whisky", and that

pure grain spirit colored and flavored was not plain whisky, but was imitation whisky.

There were no hearings held, and his decision was arbitrary, yet it was approved in a ruling by Attorney General Chas. J. Bonaparte, and his ruling in turn was approved by President Theodore Roosevelt, again without any hearings, as the President declared his mind was made up, and declined to hear representatives of the trade.

The trade was very much dissatisfied by the decision and protested loudly, but to no avail, and the decision was enforced, much to the detriment of the business.

When William H. Taft was inaugurated on March 4, 1909, one of the first things he did was to appoint a commission, headed by Hon. Claude G. Bowers, Solicitor General of the United States, to hold hearings and to decide "What is Whisky?" At these hearings, the Kentucky distillers, who were backing Dr. Nile, and whose product was not suitable for blending, and who were anxious to get all the business, were represented by the late Hon. John G. Carlisle as counsel and various witnesses. The blending trade was also represented by Marvin M. Hough as counsel and various witnesses, but the eastern rye whisky distillers took little part, as their product, which has always been considered the finest, was sold to, and used by, the blending trade.

The principal witness for the blending trade was my father, the late Emil Cauffman, who was considered as one of the leading experts in whisky in the United States. As a result of his and other testimony, Mr. Bowers decided that "any spirit distilled from grain of a potable strength, and whether colored with caramel and flavored with fruit juice, or colored and flavored by charred wood, was whisky, and that a mixture of rye whisky and pure grain spirit, or neutral whisky, or rectified whisky, was "a blend of whiskies", and his decision was upheld by President Taft.

My grandfather, Jacob Cauffman, was a wine and liquor merchant in Bavaria, as were his father and grandfather before him. He came to Philadelphia in 1856, and established himself as a wine and liquor merchant in this city. My father, then about 14 years old, soon after left school, and entered his father's employ, so that his experience and testimony were very valuable. I entered the business in 1892.

I had a typewritten copy of this testimony, but at present cannot lay my hands on it. It can no doubt be found in the archives of the Department of Justice.

He said about as follows: "When he entered the business in 1856, the favorite strong drinks in the large cities of the East, were French brandy, and Jamaica rum, both of which were colored with caramel, and made smooth and palatable by the use of fruit juices and sirup. It must be thoroughly understood that all products of the still are clear water white when first produced, and that any color they may have when sold, is either added or acquired artificially.

Rye whisky was distilled in Pennsylvania and Maryland, but was crude and raw, as the refinements later used were not then known. It was put into barrels with plain oak staves and was not allowed to age very long, as it did not improve much in flavor. It acquired a pale straw color and a slightly acrid flavor from the tannin in the wood. It was consumed mostly in the West and in the country districts.

The duty on imported spirits, brandy, and rum was \$2.50 per gallon in gold, and when the Civil War was going on and greenbacks went to 36 cents on the dollar, it took about \$7.50 to pay the duty on a gallon, and the importations ceased almost entirely, and there was no brandy made here at that time. So the trade had to create a substitute for the imported brandy and rum, and the result was the "blended whisky" of commerce.

There were a number of distilleries around Easton, Pa., which produced a crude corn whisky at a high proof, which was known to the trade as "high wines." This was shipped in barrels by canal boat to Philadelphia to the dealers, who were at that time rectifiers. There have been no real rectifiers for many years. The process of rectifying, or purifying, was as follows: Large wine tubs, called "leaching tubs", were packed with powdered charcoal and had outlets at the bottom. The crude whisky or high wines, was poured over the charcoal, and was filtered through. The charcoal took up the fusel oil and other harmful substances, and the result was a clean, pure grain spirit, without any taste or flavor, and which would take the flavor of any substance that was put into it. Since that time, there have been great improvements in distilling. By experimenting, the rectifiers found that by blending certain pure rye whiskies, and adding them to the pure grain spirit (or rectified whisky) and coloring it with caramel, and flavoring it

with peach or prune juice and sirup, they could produce a smooth palatable beverage, which could take the place of French brandy. This was "blended whisky" and it became very popular; and as it contained but a minimum of fusel oil and other impurities, it was wholesome if not used to excess. So you will see that the original way of coloring whisky was with caramel or burnt sugar.

Now about the charred barrel. It was discovered quite by accident. In making a barrel, the ends of the staves were joined together until they formed a circle, and then a hoop was forced around them. The other ends of the staves stood out, and in order to draw them together a fire of chips was built under the barrel, and a rope noose was placed about the bottom, and as the staves became heated, the rope was drawn together at the bottom, until the staves were all joined tightly together, when the other hoops were forced on and the heads put in.

In the 1870's a certain cooper one day was engaged in filling an order for barrels for a distiller, and while engaged in heating one of them, was called away. When he came back, much to his disgust, he found the inside of the barrel in flames, and the wood charred and black. Not wishing to lose the barrel he finished it up, put in the heads, and sent it along with the rest. Some months later the distiller came to him in great excitement, and wanted to know what he had done with one of the barrels. The cooper was all apologies, and told the distiller how it happened. Contrary to his expectations the distiller was delighted, and ordered all his barrels in the future to be treated that way. Thus was born the "charred barrel", and it became universally used for rye and bourbon whisky; but corn whisky is still put in uncharred barrels, as it should not acquire any color.

Now all this talk about the magic that takes place in the charred barrel, about the fusel oil being removed, together with other impurities, is all rot. What really takes place is this: The whisky takes on a dark amber color and an entirely different flavor, from the charred wood, and there is no fusel oil absorbed by the charring, for how could there be? In order to get rid of the fusel oil, the whisky must pass through the powdered charcoal, in other words must be filtered, and not just come into contact with charred wood."

After my father's testimony, Mr. Bowers remarked about as follows: "Dr. Wiley, according to Mr. Cauffman's sworn testimony, the original process for coloring whisky was with burnt sugar or caramel, and the later process was by the charred barrel. For the life of me, I cannot see how the newer process can be the only genuine, and the earlier process an imitation." President Taft cited this in his final decision:

Now the older a whisky gets, the more fusel oil and impurities it contains, besides all the tannin it absorbs from the charred wood in the process of aging and coloring.

When a barrel of whisky is made, it is placed in a heated warehouse for aging, but aging does not make it more wholesome, it merely adds a foreign color and flavor to which the people became accustomed. It is really more wholesome and purer when it came from the still—clear water white; but it does not taste as good. A barrel contains about 46 gallons at 100 proof, and in the course of four years, it loses about 7 or 8 gallons in volume, but gains in alcoholic strength, showing that the evaporation or shrinkage was mostly water. It will then contain about 38 wine gallons at about 108 proof, or about 41 proof gallons. It has lost 8 wine gallons, but only 5 proof gallons. In other words, of the 8 gallons lost, but 2½ gallons consisted of alcohol, the rest was water.

Oil does not evaporate very readily, especially when it is in solution, so the 41 proof gallons that are left, contain practically all the fusel oil that was in the original 46, or about 12 percent more fusel oil. The older the whisky gets, the more it shrinks and the more fusel oil it contains to the gallon.

In regard to the coloring matter, which do you prefer to take into your stomach—burnt sugar or charred tannic acid?

The agitation against blended whiskies began with the passage of the "Bottling-in-bond" law. I don't remember the date but it was around 1903. This law was backed by the Kentucky distillers of Bourbon whisky, which was not popular in the East, and which I have told you was not used by blenders. They asked that whisky should be allowed to be bottled in bond under Government supervision, when it reached the age of 4 years. This was just an arbitrary plan, but the public imagined from this, that whisky must be that old to be fit to drink and that the Government guaranteed it; and the editors of the United States Pharmacopœia, guided by the decision of the late Dr. Wiley, made their definition of whisky to include only whisky bottled in bond, or 4 years old.

Now is water when filtered through charcoal and cleared of impurities, no longer water, but an unlike substance?

It certainly is not. If whisky is filtered through charcoal and certain impurities removed, does it cease to be whisky, when it comes out? President Taft said "No."

Blends still continued to be the favorites, and so certain distillers organized their campaign of vilification and abuse and untruths. Scotch and Irish whiskies are not aged in charred barrels, and are blended. So I believe is French brandy, which is not aged in charred barrels either. This talk about the purifying effect of charred barrels is a grand humbug.

Suppose we take a barrel of pure rye whisky, remove half of it, and run it through a charcoal filter, or rectify it. Is it no longer whisky when it comes through, or if it is put back into the barrel again with the rest, is it not all whisky?

Blending is practiced in nearly every food product. We have blended coffees, blended tea, and maple sirup blended with cane sirup. This latter is exactly the same as blending pure rye whisky with neutral grain spirit. The maple sirup has the flavor, and the cane sirup has none—it is just sweet. The rye whisky has the flavor, and the neutral whisky has none—just the strength.

If you will take a little old pure rye whisky and evaporate it over a flame, you will get a yellow powder as the residue. This is the tannin that the whisky has absorbed from the charred wood in the process of aging. If you will take a little blended whisky and do the same thing, you will get burnt sugar and a little bit of tannin as the residue.

But if you will take new whisky, you will get no residue at all. Which is the most wholesome? The expression "raw alcohol" is very wrong and misleading. Grain alcohol for beverage purposes is never raw, but is highly refined, has no distinctive taste or odor, is very smooth, and will take the flavor of any substance that is added.

There is no more need for aging rye whisky than there is for aging corn whisky or gin or apple brandy, or any other fruit brandy. Any of these latter can be drunk as soon as made, if carefully and properly distilled. All medicines are made with pure neutral grain spirit (or dilute alcohol if you prefer), and if it is not raw in medicines, which are far more important, why is it raw when drunk as a beverage? For that matter, pure dilute grain alcohol is just as much of a stimulant as 4-year-old whisky, and much more wholesome, as the patient needs the stimulating effect of the alcohol, not the fusel oil and flavor.

On Sunday, October 8, there appeared in the Ledger an article headed "Making Whiskey Safe is Task", by Robert Merrill. He asks, "What safeguards will be enforced to protect the public from a product inadequately aged or otherwise improperly prepared?" This shows lack of knowledge of the subject.

From what I have written, you will see that any spiritous liquor turned out by a reputable distiller or dealer need not worry the consuming public, as age is not necessary, and there will be no such thing as "green liquor with all its injurious qualities", unless it is colored green like "creme de menthe", that is far from injurious.

The information given by Dr. E. Fullerton Cook, chairman of the revision committee of the U.S. Pharmacopeia, is from the standpoint of the person who believes all that Dr. Harvey W. Wiley said, and the definition of whisky in the Pharmacopeia is based on that opinion, which was reversed by President Taft. The article states further: "Among the harmful ingredients for whose presence it outlines tests are: ——— Caramel; burnt sugar. This is used to impart color artificially, and its presence would indicate an imitation rather than an approved whisky." "Glycerin, sugar, etc., used for sweetening and smoothing a raw product."

Since when is burnt sugar a harmful ingredient, or glycerin, or sugar? And as I have pointed out, coloring with caramel is the older process, and there is no "imitation whisky", if it has been distilled from grain, even if it does not contain fusel oil, tannic acid, and other impurities. Further on it states: "Perhaps the greatest obstacle in producing whisky to meet a sudden demand is offered by the necessity of aging it in charred wood. This process distillers and chemists explain is necessary to remove certain substances peculiar to raw distilled spirits, or to blend them into a smooth, finished product."

Again I repeat that it seems very queer, that it should be necessary to age whisky in charred wood, when that process was only accidentally discovered around 1870. Wasn't it whisky when no one knew about charred barrels? Also, as I have explained, the charred barrel does not remove any substances peculiar to "raw distilled spirits." It merely imparts an artificial color and

flavor to the whisky, by absorbing the charred tannin from the wood. If it is so necessary to "age whisky in charred barrels to remove these substances", why in the world is it not necessary to store in charred barrels Irish or Scotch whisky, brandy, gin, apple brandy, peach brandy, corn whisky, Jamaica Rum, St. Croix Rum, and New England Rum? Surely they are just as "raw" when produced, and contain the same "certain substances."

And while I am on the subject, I wish to explain that there is a vast difference between "blending" and "cutting". The former means taking two or more pure rye whiskies and mixing them with pure neutral grain spirit, adding the usual sugar coloring and some softening material, like peach juice, which was the universal practice. "Cutting" on the other hand was universally looked down on and condemned by the reputable dealers. It consists in taking a barrel of a certain brand—let us say "Mt. Vernon", removing part of its contents, filling it up with neutral spirit or inferior whisky, and selling it as Mt. Vernon whisky.

In conclusion let me repeat that no one need fear that he will not be able to get from reputable dealers all the good wholesome whisky that he will want or need, provided the Congress, through misinformation or bias, does not forbid the old and time-tested process of blending old whiskies with clear pure neutral grain spirits. There will be enough whisky in the warehouses for that, even though all of it will not be 4 years old.

Hon. ROBERT L. DOUGHTON, Hon. PAT HARRISON,  
Washington, D.C.

GENTLEMEN: Had I been able to use a little more time on last Wednesday I could have told you more about costs of whisky, so I thought it well to send you this letter, which you can add to the record if you see fit. Those who testified seemed to have very vague ideas as to costs.

Every summer the larger distillers of Pennsylvania, Maryland, Ohio, etc., notified the wholesale and blending trade that operations would start in the fall, and named a price per gallon, which might be anywhere from 25 to 70 cents.

They sent around blank contract forms which were filled in and signed by the persons or firms desiring to purchase new whisky.

As soon as the whisky was made warehouse receipts and invoices were sent to the persons contracting for it, and then the crop was listed, just as stocks and commodities are listed on exchanges, and brokers sent out quotations each week. Thereafter the price was governed entirely by supply and demand. For instance, a whisky made by Mount Vernon Distillery in October 1914 at 60 cents was quoted in December at possibly 62½ cents. In a few months it might be quoted at 58 or 65 cents, according to demand.

As per accompanying example, a 4-year-old rye whisky costing 60 cents new would stand the blender or wholesale dealer about \$2.30 per gallon under the \$1.10 tax.

Original contract price 60 cents, and we will assume each barrel contained 50 gallons.

Fifty gallons at 60 cents.....	\$30.00
Four years' storage at \$0.08 per month.....	3.84
Four years' compound interest at 6 percent.....	8.00
Freight.....	1.50
Cartage.....	1.00
Insurance for 4 years.....	1.00
Loss in 4 years, about 12 gallons.....	-----
Tax, at \$1.10 per gallon, on 38 gallons.....	41.80
<b>Total.....</b>	<b>87.14</b>

divided by 38, makes \$2.30, cost per gallon. Cheaper or younger goods accordingly.

If purchased by anyone when 2, 4, or 6 years old, it would probably cost considerably more, as quotations were always for original gallons, and carrying charges plus profit were added. So a 2-year-old whisky would cost about \$1.95, and a 6-year-old probably \$2.75 or more per gallon, based on original cost of 60 cents.

Now, blending is an art, acquired by constant experiment and practice. Suppose a blender wishes to put up a fairly good quality of whisky. He might possibly use:

5 gallons 6-year-old whisky, at \$2.75.....	\$13.75
5 gallons 4-year-old whisky, at \$2.30.....	9.20
10 gallons 2-year-old whisky, at \$1.05.....	10.50
20 gallons neutral or rectified spirits, at \$1.40.....	40.00
1 gallon peach or prune juice.....	2.00
	<hr/>
	85.05
He reduces this to 90 proof by removing 5 gallons and substituting water (deduct 10 percent).....	8.50
	<hr/>
	76.55

which results in 50 gallons, at \$1.53 per gallon for materials only. This grade of whisky would probably have been sold to the retailer for about \$2.25 per gallon.

The blender would have to add to the cost of the material 10 percent of the sale price for salesman's commission, 13 percent for overhead (license, rent, labor, insurance, depreciation, incidentals), leaving about 9 percent as net profit—thus:

Cost of materials per gallon.....	\$1.53
Commission to salesman, 10 percent.....	.2250
Overhead, 13 percent.....	.2025
Net profit, 9 percent.....	.2025
	<hr/>
	2.25

If you wish to get the cost of similar whisky at any other rate of tax, simply substitute that rate for \$1.10 in the example.

Hoping this will assist you in your deliberations, and thanking you for your courtesy to me, I remain, with kind regards,

Sincerely,

WILLIAM L. CAUFFMAN,

The CHAIRMAN. The next witness is Mr. Luther Gulick, representing the Rockefeller Foundation. Mr. Gulick, will you give your full name and your connection to the reporter?

#### STATEMENT OF LUTHER GULICK, DIRECTOR OF THE INSTITUTE OF PUBLIC ADMINISTRATION

Mr. GULICK. Mr. Chairman, let me make a preliminary statement. I notice you have listed me as representing the Rockefeller Foundation. The so-called Rockefeller Liquor Report was a study initiated by John D. Rockefeller, Jr., in order to bring in such evidence as might be available of American experience and European experience on this subject which you are studying.

Mr. Rockefeller asked two laymen, Mr. Raymond D. Fosdick, a lawyer, and Mr. Scott, an engineer, to be the commission to undertake that study. Beyond that he had no connection with the work, so far as I know.

Mr. Scott and Mr. Fosdick brought together a number of specialists in different fields, some who had experience with the liquor trade and some who were specialists in economics, and others who were specialists in finance, and others who had been interested in the general problem of education in the United States.

I was asked to join that staff to deal with the problem of taxation.

When I was asked last evening if I would appear before you it was my first information that you desired to hear from this group, so that in presenting to you the ideas which were worked out in connection with this study, and in presenting any other ideas, I trust you will recognize that these come from the technical staff rather than from Mr. Rockefeller who sponsored the project.

Beyond preparing that report I understand he has no personal interest in pushing any kind of ideas with reference to liquor taxation or liquor control in the United States. His effort was to bring the facts together and make them available to you, and to have that done by a group of experts in a dispassionate fashion; and that was the endeavor of the members of the staff. There is one further question which I know you will ask from the discussion of this question yesterday and today, and that is where did we get the figure of \$3 to \$4 of protection for the wholesale bootlegger. I may say that the evidence which was gathered by the members of our staff who are specialists in the liquor business indicated that the illegitimate trade in the United States could be divided into two groups, one of the unorganized, desultory small bootlegger and distiller working in individual localities without any large-scale organization; and secondly, the large-scale, well-organized illicit member of the trade.

Mr. Murray said today that there were 10 or 11 of these large-scale enterprises. The number of small-scale ones cannot be estimated. The impossibility of classifying the illegitimate trade under these two heads is that the large-scale enterprise has a much lower production cost, but has a much higher operation cost, and presents a degree of intelligence and degree of shrewdness in the management of the enterprise which makes it a real threat to the organized provisions of local government, State government, and National Government in the effort to enforce the law.

The small bootlegger operates on a small margin and can be dealt with much easier, and the volume he handles is less significant. The figure which we used of between \$3 and \$4 of the additional costs of the large established bootlegger is not all for protection. We are not able to determine even to our own satisfaction how much of that margin went for protection. That was found to be the difference in operating costs between what he sold it for and what it was sold through other channels for. Where he spent it we do not know. How much went for protection, how much for handling cost, and how much for the additional cost of distribution, overhead and such things caused by the loss of trucks when confiscated and other factors, we do not know, but that is the total margin of business operation. On the basis of the figures which were presented to us, and what was Mr. Murray's testimony today, that the large wholesale bootlegger can distribute wholesale at \$1 a gallon, does not offer him sufficient margin to keep in the business. It may simply be a depression method in order to try to fight through this initial period, but as Mr. Murray says, protection costs have been and are mounting. It was also the evidence presented to us it would seem that 50 cents per gallon protection would gradually climb, and he would not possibly be able to operate on that basis.

Bootlegging cannot be stamped out in the United States by low taxes. Even if you eliminate the tax entirely there would still be

the desire to make a profit, and they would still operate in competition with the legitimate trade. At the same time high taxes will be an additional incentive for remaining in the trade. Therefore, while the taxes are an important element, the low tax rate will not solve the problem by itself. It has got to be solved by law enforcement and by the recognition by the citizens of this country that they have more to gain than they have to lose by buying legitimate liquors through legitimate channels, even if someone else can come to them and say, "Here, we have the same stuff at lower rates"—and probably they do not have the same stuff. In many cases when we pay lower prices for illegal beverages than legitimate taxes require and demand, we are subsidizing the legitimate which serves to debauch our police, undermine our courts, and wreck our governmental machinery throughout. Therefore, it is not only necessary to have taxes, but it is necessary to have rigid enforcement, and a new attitude on the part of the public at large. It seems to me there is an opportunity for that new attitude. We have had two new slogans before us, one that it is smart to be legal, and another, not quite so new, that we have had for years, that it is smart to be thrifty; and when those are canceled out, it will be seen that it is smart to be smart, but the people will join in seeing bootlegging stamped out, as has been revealed by the repeal vote.

The specific program of taxes which we outlined in the Fosdick-Scott report, a schedule of which you have undoubtedly had before this, because it has been published and available, suggests that the maximum tax on spirits and whiskies and gins be placed at \$3 per gallon. That \$3 is to include all Federal and State gallonage taxes. That figure was arrived at on the basis of the general opinions which have been discussed before you here by Mr. Lowry and others. The effort was to put the tax as high as possible without creating too much margin of profit for the illicit trade. But on the basis of the evidence that has been presented in recent days before you gentlemen, I am inclined to think maybe we went too high in that figure, although that, you must remember, includes both the State and the Federal levies. If you should go above that, you will subsidize the forces of lawlessness more than you can afford to at the present time, it seems to me. With the taxes, Federal and State, combined in that amount, coupled with the scheme of low license fees suggested in the Scott-Fosdick report, we believe that a cheap grade of whisky could be sold for \$1.50 a quart, with ample profit in handling. If the States adopt the State alcohol control authority plan somewhat along the lines of the Quebec system but adapted to American conditions, we are certain whisky could be sold at \$1.25 a quart of standard grade and good quality, since a low price of that sort is necessary in order to meet the bootleg competition.

As soon as the bootleg trade is brought under control, it was our feeling that for the reasons outlined by Professor Henderson to you at the opening of the session, the tax should be gradually increased. For the States under the State monopoly system it would be a matter of price policy, whereas on the license system this would have to be brought about by an increase of taxes.

Mr. KNUTSON. Did your committee, in looking into the matter of distribution of illicit goods, give any consideration to the amount these men spend in needless entertainment, etc.?

Mr. GULICK. We were not able to get anything except gossip as to where the money goes. We were able to get some fairly accurate information as to the price at which it was distributed, and we knew what the cost was, and that gave us the margin used in financing the trade, but where it went, we could not determine.

Mr. KNUTSON. Less than a year ago the alcohol price in Minneapolis was less than \$2 a gallon, is my information. Why would it cost more to distribute whisky than it would alcohol?

Mr. GULICK. The minute you cut it and make your whisky you have increased the bulk somewhat.

Mr. KNUTSON. How do you mean, increased the bulk?

Mr. GULICK. The alcohol is 100 percent alcohol, but when turned into whisky it is 40 or 50 percent, so that you have doubled the bulk.

Mr. KNUTSON. Fifty percent of it is water?

Mr. GULICK. Yes.

Mr. KNUTSON. Then you mean to say it would cost more to distribute water than alcohol?

Mr. GULICK. Yes; because it is a larger package and you have to have the place at which to do the cutting.

Mr. KNUTSON. How do you mean, a larger package, a gallon is a gallon, isn't it?

Mr. GULICK. No; it is 2 gallons, 1 gallon of alcohol plus 1 gallon of water is 2 gallons of whisky, and you have twice as much to handle.

Mr. KNUTSON. Why would it cost more to distribute a gallon of one product than a gallon of another?

Mr. GULICK. It does not make any great difference at that point, except there is one more place where it has to have protection, because there is this factor of handling and the factor in the blending.

Now, Mr. Chairman, I realize your time is limited and therefore may I go on to the next suggestion I would like to lay before you?

It seems to me that we must recognize that in dealing with the alcohol problem we have a problem which cannot be solved by the States alone, nor can it be solved by the Government alone.

With the levy under the Federal system, it has a great many advantages in administration and it has some disadvantages in administration. In dealing with a problem which is Nation-wide it has economic ramifications which pay no attention to State lines, and the State cannot deal with the problem 100 percent satisfactorily.

When we come to the question of taxation, this means that the Federal tax program and the State tax program must be worked out in cooperation if we are to have a satisfactory solution. A question has been asked this morning by various members of the committee as to whether it is believed the States will join it. I can only say this, that the Interstate Commission on Conflict of Taxation, which is made up entirely of representatives of State governments, with individuals drawn from all of the States of the Union, and with representatives of State tax departments, has already made and has passed a resolution in favor of a cooperative scheme under which the administration of all taxes on the manufacture of alcoholic beverages will be handled by the Federal Government and in which a part will be distributed back to the States. It may be there

is ample room for discussion of the basis of distribution itself, and it may be a difficult problem, but it is not as serious a problem as leaving the matter in chaos which will wreck the whole system in the States and the Federal Government. There was also a meeting of the Commission to revise taxes of the State of New York, a commission appointed in part by the legislature and in part by the governor and that commission passed a resolution for the transfer to the Government of the administration and the collection of taxes on the manufacture of alcoholic beverages, and for the return to the States of a part of that amount, providing the States would join in the program.

We have had a number of interstate compacts in the past in which the States have in effect entered into a treaty with themselves to deal with a problem, and perhaps this is the kind of a problem which could be handled on an interstate compact, including the Federal Government.

Senator HARRISON. Was this action of the Commission in the State of New York taken before the State of New York had put the gallonage tax on, or afterward?

Mr. GULICK. It was taken afterward, and the gallonage tax in New York, I might say, is a temporary measure in which the State is waiting for action on your part, and of course in arriving at a national program, it would hardly be possible for the State to take the initial step in such a matter. It seems to me this rests with the Federal Government.

Mr. TREADWAY. In connection with this matter of the States, what about the recent action in the State of Pennsylvania?

Mr. GULICK. I am not well acquainted with the underlying forces in the State of Pennsylvania. Undoubtedly that State has gone off on its own.

Mr. TREADWAY. You know what they have done?

Mr. GULICK. Yes.

Mr. TREADWAY. Does that show a spirit of cooperation of that State with the Federal Government in connection with this one tax?

Mr. GULICK. Of course, the State of Pennsylvania did not have before it any very clear indication of what the Federal Government might do. It may be if the Federal Government took a strong position calling for cooperation before that position was definitely stated, so that there would be an opportunity for genuine cooperation in developing the program, the States which have taken action already would be prepared to cooperate, because they would not fail to recognize the very great difficulties to be encountered in connection with taxes, especially on the manufacturing side of the business.

Mr. TREADWAY. Mr. Chairman, it is along this very line I would like to interrogate, and possibly you would not object to an inquiry or two before he proceeds further.

The CHAIRMAN. You may proceed, Mr. Treadway.

Mr. TREADWAY. You spoke of the \$3 recommendation of the Fosdick committee as being, perhaps, too high; how much too high, in your judgment?

Mr. GULICK. Perhaps 50 cents too high, as a combined tax.

Mr. TREADWAY. You would, then, more or less agree with Mr. Choate's testimony yesterday as to the \$2, for instance, \$2 to \$2.50?

Mr. GULICK. Yes, to include the Federal and the State taxes on the manufacturing side of the business.

Mr. TREADWAY. Of course, you have given a couple of instances where certain groups have advocated this. As near as I could follow you, aside from the one reference to New York State, you at no time brought in any reference as to the attitude of the legislature. Now that is a thing that I am sure, with your experience, you would realize would be a very determining factor as to whether or not a State would enter into this agreement. Take the very fact that Pennsylvania has already laid as heavy a tax as they have, what is likely to be the reaction of a member of the house or senate in Pennsylvania when he would agree to a reduction of the amount of the tax that Pennsylvania has already laid, in order to cooperate with the Federal Government? Now, I would like your view on what you conceive to be the likely attitude of a legislature.

Mr. GULICK. Sir, you know a great deal more about practical matters of that sort than I do, though in the past 15 years I have devoted most of my time as adviser and consultant to legislatures in various States working on the problem of taxation. From all experience I would say that the American legislatures are increasingly ready to recognize the difficulties of State taxation on economical enterprises that go beyond their limit, and, therefore, in a situation of this sort, if action is taken promptly enough so that we do not have too many States which have gone forward with conflicting schemes of taxation, there may be an opportunity to bring some order out of this chaos, as you gentlemen succeeded in doing with the inheritance tax through the system of credits.

Mr. TREADWAY. The difficulty to my mind there is this, an inheritance applies but once. A man dies and that establishes the tax proposition. Here is the sale of a commodity which is evidently going to be pretty general from the quantity of it, and you have got a different proposition entirely. I don't think myself that the State inheritance tax offers a comparable situation, not nearly as much as the gasoline tax does, and you see where we have come in the gasoline tax, anywhere from one half of a cent to 7 cents in the various States.

Mr. GULICK. I may say in the resolution to revise the tax laws in the State of New York the other day, the gasoline tax was included in the group of taxes which it was felt should be transferred for administration purposes to the Federal Government with a repayment back to the State of a certain portion of that tax. But that takes us outside of the discussion.

Mr. VINSON. Would the gentleman from Massachusetts yield?

Mr. TREADWAY. Certainly.

Mr. VINSON. What method did the commission of New York propose for allocation, by population or production?

Mr. GULICK. Was that on the allocation theory?

Mr. VINSON. Yes; the allocation theory.

Mr. GULICK. Allocation by population.

Mr. TREADWAY. To what extent did the Fosdick-Scott investigation endeavor to secure testimony in making up its decision in favor of this one tax, the Federal and State tax combined, as to the practical operation of it such as we are referring to now. Did you take

it as a judicial decision it was the best thing to do, or did you look into the practical side of it?

Mr. GULICK. Both, sir.

Mr. TREADWAY. What was your testimony on the practical side?

Mr. GULICK. Testimony was not taken at all in open hearings such as you are holding today. It was the effort of the staff to discuss the matter with individuals who were involved in tax administration and with individuals who were studying the problem, both as members of legislatures and other groups interested in taxation, and also in discussions with those in the trade who recognized that multiplicity of taxes would produce certain difficulties.

Mr. BACHARACH. I would like to inquire as to the method of taxing liquor before prohibition; did the Government distribute money to the States?

Mr. GULICK. No, sir; there was a low Federal tax which varied up to \$1.10, as testified to before you, and there was no State taxes on strong liquors.

Mr. BACHARACH. What is your theory now, that legislatures adjourn sine die and everything be performed at Washington?

Mr. GULICK. No, sir.

Mr. BACHARACH. You are practically saying so; that gasoline be taken over and the question of liquor tax be taken over, and I presume your next recommendation will be something else. I don't think the State I represent would have any thought of discontinuing their legislative prerogatives. I don't believe they will approve of the method of taxing you refer to.

As Mr. Treadway has well stated what Congress wants; it seems that all you are doing is proposing to set up a bureau here just to distribute the money to the States.

Mr. GULICK. There would be many fewer bureaus and administration offices in the operation of the proper machinery.

Mr. BACHARACH. I have heard that for the last 20 years that I have been here, but they have been increasing just the same, and I think, with your legislative experience of 15 years, you do not find fewer bureaus, do you?

Mr. GULICK. There are fewer departments in many States.

Mr. BACHARACH. What States?

Mr. GULICK. New York, Massachusetts, and some others.

The CHAIRMAN. And North Carolina?

Mr. BACHARACH. Yes; as the chairman states, North Carolina.

Mr. GULICK. Of course, they have increased in population, and it is natural there should be more persons drawn into the service. I might also say, it would seem to me that you gentlemen should do something to better arrange taxes in your State.

Mr. BACHARACH. What taxes do you have in mind?

Mr. GULICK. The taxes on real property, personal-property taxes, and taxes on incomes, and other taxes.

Mr. BACHARACH. We don't have any income tax in the State of New Jersey.

Mr. GULICK. But I have to pay it outside, and I would much rather pay it to the State of New Jersey.

Mr. BACHARACH. You have been working in legislatures; what work have you done on taxation?

Mr. GULICK. I think the State of New York is one of the largest.

Mr. BACHARACH. What have you done in your native State?

Mr. GULICK. My native State has not been interested in my help.

Senator COUZENS. May I ask if your group has given any thought to the purchaser of bootleg liquor?

Mr. GULICK. We have given thought to it, but we determined that the same reasons that broke down enforcement of prohibition would apply.

Senator COUZENS. In the case of prohibition, what broke it down?

Mr. GULICK. The effort to lay a special tax on the purchaser of bootleg liquor.

Senator COUZENS. I am not talking about taxes; I am talking about the penalty.

Mr. GULICK. The same thing would apply.

Senator COUZENS. You believe it is impracticable?

Mr. GULICK. Yes. My interest is on the tax side. There may be other members of our group that feel differently.

Mr. KNUTSON. How high should we go in taxing without giving an opportunity to the bootlegger?

Mr. GULICK. If you pass a tax without any effort to secure State cooperation, I don't believe you should go above \$1.50 or \$2 at most. If you work out a scheme of cooperation with the States—and when I say cooperation I do not mean a plan which leaves the States with no right to be heard and excludes the States from being heard in the problem—but if it is worked out in connection with the States, you can go to \$2.50 and be safe.

Mr. JENKINS. What, in your judgment, is the best policy of cooperation? Don't you think there will be constant furore between the States as to whether they are getting their rights?

Mr. GULICK. It is on that basis I suggest it might better be worked out from an interstate compact viewpoint, so that it would be settled for a long period and not be subject to frequent revision.

Mr. WOODRUFF. One State has before the legislature at the present time a bill to provide for a monopoly in handling liquor, and if that State was willing to accept the rebate, we will term it, from the Federal Government, the Federal Government should not in any way attempt to limit the profit that the State could derive from the sale of the liquor.

Mr. GULICK. No, sir; that would be a matter purely for the decision of the State liquor authority.

Mr. VINSON. In the conclusion of your committee with the reference to the \$3.00 per gallon tax, what percentage of that did you think should be paid to the State?

Mr. GULICK. We suggested not less than 20 percent.

Mr. VINSON. What State taxes would that mean would not be levied?

Mr. GULICK. The taxes on production, gallonage excise, or any other type that might be invented.

Mr. VINSON. Would there be any thought of controlling the so-called "occupational" or license taxes?

Mr. GULICK. No; the occupational license tax which has to deal with the wholesale end would remain with the Federal administration and the occupational licenses that have to do with the retail end would remain entirely in the field of State taxation.

Mr. VINSON. I see you permit production to enter into the picture with reference to the taxes, but yet when you gave the equation as to the allocation you simply used population; how did that happen?

Mr. GULICK. We felt that the question of allocation had not yet been satisfactorily thought out, so what we suggested with regard to allocation was quite indefinite.

Mr. VINSON. As a matter of fact, you were thinking along general terms as to the allocation from moneys collected by the Federal Government to State governments to relieve a conflict of taxation?

Mr. GULICK. That is correct.

Mr. VINSON. And that thought you had, you say, applied to the gasoline tax?

Mr. GULICK. This commission, of course, paid no attention to the question of gasoline.

Mr. VINSON. I was confusing it for the moment with the resolution passed recently in New York, and that was based upon population alone, I believe.

Mr. GULICK. Yes.

Mr. VINSON. Now, with reference to the allocation method, did you give any thought to the consumption of alcohol with reference to the part it plays in the allocation of taxes to the State?

Mr. GULICK. Yes; and as I say, you will find in the Fosdick-Scott report no position was taken with reference to the distribution formula. When I mention population I state that was the formula recommended by the commission on State taxation, but the Scott-Fosdick report takes no position on that.

Mr. VINSON. Did the interstate committee base allocation on population alone?

Mr. GULICK. It was a somewhat complicated formula basis, it on per capita.

Mr. VINSON. Have you thought over the formula of allocation?

Mr. GULICK. Yes; I have worked on it considerably.

Mr. VINSON. Do you think production plays any part in it?

Mr. GULICK. I believe the formula should include production and consumption, and those two bases should be used in order to recognize the fact that certain States with large legalized productions will have to sacrifice more than the States with small legalized production, if they are asked to forbid the levy of production taxes.

Mr. VINSON. Could this method be termed the nationalized theory or nationalized method of allocation?

Mr. GULICK. I have not heard it would be used in that sense. I should say it was more of an administration under which the States, recognizing they could not handle the problem satisfactorily, have yielded certain administrative tasks to the Federal Government in return for the payment to them of the fund which they might reasonably collect if they were themselves levying the taxes.

Mr. VINSON. At any event, the theory you have in mind is for the Federal Government to collect all taxes?

Mr. GULICK. All on the manufacturing side, because manufacturing is not a localized affair, but extends over the State lines, and the distillers that manufacture for New York markets are located in Kentucky, Illinois, and somewhere else.

Mr. VINSON. Then your plan is to allocate to these States a certain percentage of it?

Mr. GULICK. Yes, sir.

Mr. VINSON. Now, I would like for you to explain the difference between what might be termed the nationalization method and the credit method?

Mr. GULICK. Under the credit method the legislation passed by Congress permits the individual in paying the Federal taxes under the Federal law to use as a credit the tax which he has paid under the same kind of a tax to the State in question. In other words, his payment to the State is made and the tax receipt for that can be used in paying his Federal taxes to the extent Congress permits it under the credit provision.

Mr. VINSON. That applies to the State tax?

Mr. GULICK. Yes.

Mr. VINSON. How would that work when we use the credit system with reference to liquor taxes?

Mr. GULICK. With reference to liquor taxes, the credit system, it seems to me, would not work satisfactorily because of the very great temptation to the State of levying amounts larger than the possible credit provisions that could be provided by Congress, so that the total result would be a higher tax than this \$2.20 or \$2.50 or possibly \$3 that we have been talking about.

Mr. VINSON. But would it work, if they were within the percentage?

Mr. GULICK. If they were within the percentage it would work substantially the same way it does on the State inheritance taxes.

Mr. VINSON. In other words, the State would levy their taxes, the Federal Government would have their taxes, and in the allocation of any Federal moneys to the States that proportion that would go to a particular State would be credited with the amount of taxes that the State had collected?

Mr. GULICK. Yes. The one difference there is this, that under the State tax a State must maintain a rather complicated machinery for publishing wills and for making appraisals of estates, so that the machinery which determines the taxes must be in existence whether they determine the tax or not.

In the tax of alcoholic beverages if the tax is administered exclusively by the Federal Government, then there would be no need for this machinery in the State, because the Federal Government would do the examining, measuring, and stamping of liquor anyway, under the Federal law.

Mr. VINSON. If this was a withdrawal tax, you would not have very complicated machinery, would you?

Mr. GULICK. No, sir.

Mr. McCORMACK. I am very much interested in this tax compact you refer to, because Massachusetts recently established a recess committee, that you are probably acquainted with, and wouldn't that take quite a long while to bring that about—of course I am in complete harmony with the purpose.

Mr. GULICK. There is a possibility it would take a great time to bring it about.

Mr. McCORMACK. And would it defeat the purpose you have so ably argued as to the speed in trying to prevent other States from imposing a tax on gallonage, such as several States have done?

Mr. GULICK. My thought was that the Federal Government tax with the rebate provision should be adopted immediately, and then adopt whatever means should be satisfactory to work into the interstate compact plan which might be somewhat broader than the taxes.

Mr. McCORMACK. Don't you think the interstate tax plan would be more satisfactory for those States which have sectional problems in common with each other?

Mr. GULICK. It certainly would be more easily ratified, just as the Port Authority between New York and New Jersey, involving only two States, could be ratified promptly.

Mr. McCORMACK. On this allocation you mention production and consumption, but if you take a State that neither produces nor consumes, they are naturally going to be interested in the allocation, but on such allocation they would get nothing. That is a very practical question which involves considering a compromise of a legislator's opinion, and yet we have got to compromise in order to bring about something which will operate nationally, and in addition to production and consumption, you would have to consider other factors. I am in harmony with you about realizing there might probably have to be a compromise or it would receive serious opposition in its journey through Congress; so would you also include population?

Mr. GULICK. That could be done.

Mr. McCORMACK. That would be more or less necessary in coming to a compromise.

Mr. GULICK. Of course, the State you refer to which has neither consumption nor production would receive no tax on gallonage if it levied one.

Mr. McCORMACK. On the other hand, the Federal Government is allocating back money, and probably their representatives in Congress might feel constrained to insist upon some consideration, and that would necessitate the consideration of a compromise.

Mr. GULICK. Before prohibition there were States which had a State license tax under which a part of the revenue was refunded to the areas, and in a number of those States the refunds were made solely to the areas which were wet, with no refund to the areas which were dry. That is somewhat a similar problem to the one you just mentioned. It is a difficulty, but perhaps it could be overcome.

Mr. McCORMACK. You state that if the Federal Government imposes a tax, the basic tax to the Federal Government should be \$2—I mean \$1.50. That, of course, has in mind trying to remove as far as possible by taxation the first social evil, the bootlegger. You also state that not less than 20 percent should be allocated to the States, and then you say the maximum figure of \$2.50 Federal and State taxes combined is recommended. If it was fixed at a basic rate of \$1.50 that would provide for 40 cents allocation to the several States, and don't you think the \$2.50 tax would be a little high at the outset in attempting to remove this social evil of the bootlegger?

Mr. GULICK. The reason I said the Federal rate should be kept to \$1.50, and certainly not more than \$2, unless there is a cooperative scheme worked out with the largest States at least, is that if the scheme is not worked out, then the State levies will be \$1.10, \$2.20.

and figures of that sort, so that if it is not under control the figures will mount up.

Mr. McCORMACK. I have no disagreement with you on that, except I am concerned with the important social problem of the bootlegger, and it is my frank opinion it would be better for us to lose a little revenue at the outset if by doing that we could more completely accomplish the final social objective.

Mr. GULICK. It is my opinion, Mr. Chairman, and this is my second point, that you will lose by your taxes——

The CHAIRMAN. Before you go to that, are you through, Mr. McCormack?

Mr. McCORMACK. Yes.

Mr. TREADWAY. I would like to ask this: I think you said that at the \$3 tax whisky could be retailed at \$1.25 to \$1.50 a quart?

Mr. GULICK. At \$1.25 through the State store, and it would cost \$1.50 for the cheapest whisky through the ordinary channels.

Mr. TREADWAY. If you take 75 cents for taxes per quart, you will only allow 50 cents to 75 cents for manufacture, distribution, and everything else, figuring on the basis of a gallon. How much are you allowing for cost of goods, distribution and so forth on your figure of selling at about \$1.50 a quart?

Mr. GULICK. We are allowing production costs running from 30 cents to 60 cents.

Mr. TREADWAY. A quart?

Mr. GULICK. A gallon. With ageing it raises it to between 50 cents and \$1.20 a gallon. Then the balance of it is handling and distribution, which brings it up to the figure of \$1.50 a quart, which is \$6 a gallon retail.

Mr. TREADWAY. You feel confident at that tax a good quality whisky can be sold at not to exceed \$1.50 a quart?

Mr. GULICK. The quality of whisky which has been regarded as the cheapest decent whisky sold.

Mr. TREADWAY. When you say the cheapest decent whisky, is that drinkable whisky?

Mr. GULICK. Yes, it is; it is not the synthetic 6-months aged stuff.

Mr. TREADWAY. Chemically pure?

Mr. GULICK. Chemically satisfactory.

Mr. TREADWAY. Now, just one other question. I want to clear up that matter of price, as long as you are confident it can be sold at those figures at that tax rate, and that is what I am aiming it. I also think you said the bootleggers are charged about \$4 a gallon protection.

Mr. GULICK. No; \$3 to \$4 protection and distribution.

Mr. TREADWAY. Now, what do you mean by protection to the bootlegger, where does the \$3 go to ultimately, that you are describing as protection?

Mr. GULICK. We only know from hearsay, and it certainly differs in different jurisdictions. It goes to the maintenance of gangs, to defense agencies, to their own legal defense, and it is rumored some of it goes into the maintenance of political organizations, graft, and corruption.

Mr. TREADWAY. How far is that information you are giving us now rumor, or based on facts?

Mr. GULICK. The statement of where the money goes is exclusively rumor.

Mr. TREADWAY. And can be like any other street gossip if you went out to get a man's character abused?

Mr. GULICK. The amount, however, is a matter of knowledge, and as I stated in presenting that evidence, we knew what the production costs were and we knew what the sale costs were, and that left a margin in between, which was used in the overhead, handling, distribution, and protection.

Mr. TREADWAY. Isn't it recognized that there is a very big margin of profit to the bootlegger?

Mr. GULICK. Yes, sir.

Mr. TREADWAY. And that you figured in?

Mr. GULICK. That is right.

Mr. TREADWAY. But so far as this statement as to protection is concerned, there is no evidence?

Mr. GULICK. There is no competent evidence at all as to that except a very few cases brought out in court where individual testified to payments, and so forth.

Mr. McCORMACK. Further calling attention to the point brought out by my colleague from Massachusetts with respect to contributions where your figures were made on the basis of consumption and production, and the suggested compromise that might be made on the basis of population, does that mean you would divide it in such a way that the States that did not produce or consume would receive a small portion based on population?

Mr. GULICK. Yes, sir.

Mr. KNUTSON. Carrying Mr. Treadway's question a little further, since I interrogated you a little while ago I have learned that corn sugar alcohol is selling in the Northwest at \$1.45 cents a gallon at the present time. Will you kindly tell the Committee how these philanthropists are able to sell corn sugar alcohol at \$1.45 when the overhead is \$3, when the cost of distribution is \$3 per gallon? That is a question of mathematics, I think, as well as taxation.

Mr. GULICK. The question of what prices are being gotten in individual units at individual times or individual States, is a matter which varies very extensively and the best anyone can do is to try to find out what the general run of the situation is, then follow those figures.

Mr. McCORMACK. This alcohol is shipped in interstate?

Mr. GULICK. I don't doubt it at all, and Mr. Murray just testified about a large concern of which he had heard that was able to sell what I judge to be molasses alcohol blended into whisky at \$1 a gallon, and that is entirely possible.

Mr. KNUTSON. How can that be done? I left school at an early age, and I am seeking information. How can they pay \$3 for protection and sell it at \$1.45?

Mr. GULICK. Those people have no such production margin, their margin is probably around 30 cents to 40 cents.

Mr. KNUTSON. Do you mean the enforcement officials in the Northwest are less forceful in their demands than in other portions of the country?

Mr. GULICK. I am not informed, sir.

Mr. KNUTSON. Where did you get your information it was \$3?

Mr. GULICK. This was gathered through field agents who interviewed parties and gathered what facts they could with reference to prices.

Mr. KNUTSON. Whom did they interview?

Mr. GULICK. They interviewed those who were buying.

Mr. KNUTSON. Of course, it had been explained to them, I suppose, that the reason the price was so and so was that so much went to political organizations and so much to enforcement officers, and so on?

Mr. GULICK. I am very sorry I have given the wrong impression in reference to protection. As I said earlier, and as I stated just now in answer to prior questions, it is not possible to gather any reliable information with reference to how much goes for protection.

You can get some information that the drop-off price is 50 cents a barrel to a certain cop on a certain beat in a certain city, but as to how much goes for protection it is impossible to get any material.

All we can get, as you know, is the manufacturer's costs under normal conditions, and you know what the distribution cost is of the final product, and in that way you can get the amount that goes for overhead, profit, and protection.

Mr. KNUTSON. You have broken down the cost and you have told the committee that it is between \$3 and \$4.

Mr. GULICK. Yes; that was the normal situation.

Mr. KNUTSON. Now, why doesn't the whole country go up into the Northwest and buy their alcohol?

Mr. GULICK. They probably will. These prices vary so much under the illicit trade situation that it is not possible to rely on figures of an immediate section and say this is the solution of the whole problem.

Mr. Chairman, the next point I want to make is that there must be a differential in the taxes that are adopted with reference to spirits and with reference to beers and wines, for the reasons that have been presented to you over and over again. It was the suggestion of the Fosdick-Scott report that the tax on beer be reduced to \$3 per barrel, and that the present Federal tax be \$3 to \$5 a barrel. In the next place it was our suggestion that there be introduced—

The CHAIRMAN. In that connection, what loss of revenue, if any, do you figure, if the taxes are reduced from \$5 to \$3?

Mr. GULICK. The loss in revenue would be about \$24,000,000.

The CHAIRMAN. Meaning what; as to a larger consumption?

Mr. GULICK. A somewhat larger production.

The CHAIRMAN. \$24,000,000, you say?

Mr. GULICK. Yes, sir.

Senator CLARK. You put no limitation on the amount of alcohol in the beer?

Mr. GULICK. The Fosdick-Scott report recommended 3.2, with added taxes on all beers stronger than that amount.

Senator CLARK. What I am trying to get at: you mentioned the \$5 tax on the 3.2 beer, with a higher tax beyond that?

Mr. GULICK. Yes; with a higher tax on all beers stronger than 3.2.

Mr. McCORMACK. Why did you recommend that?

Mr. GULICK. In order to encourage the weaker beers against the stronger beers.

Mr. McCORMACK. Stronger beers do not run much higher?

Mr. GULICK. No.

Mr. McCORMACK. If you do that, you are giving one branch of an industry preference over another branch in the exercise of taxation.

Mr. GULICK. I am not sure whether it is given to another branch.

Mr. McCORMACK. Why not put them all in the same classification of taxation?

Mr. GULICK. The 3.2 was accepted purely because it had already been established by law, and was regarded as a figure that could be continued.

Mr. McCORMACK. Of course you know the history of the 3.2 beer. That was the maximum amount advocated at the hearings before the Committee on Ways and Means.

Mr. GULICK. But it was a fight that had been fought and settled.

Mr. McCORMACK. From a pure license angle it was settled.

Mr. GULICK. From a practical angle it would be a point somewhat higher.

Mr. McCORMACK. As to beers of 3, 4, or 5 percent, there is not much difference as to the higher or heavier beer, and wouldn't it be better from a legislative angle and from a nondiscriminatory angle to have one tax apply to all?

Mr. GULICK. It might be.

Mr. McCORMACK. It would be, wouldn't it?

Mr. GULICK. Those who feel that beers of 6, 7, or 8 percent should be treated in such a way as to discourage their consumption in comparison with beers of 4 percent or less.

Mr. McCORMACK. Why not apply the same thing to wines?

Mr. GULICK. That was suggested.

Mr. McCORMACK. But it was not seriously suggested?

Mr. VINSON. You have different rates of alcohol in liquors now.

Mr. COOPER. Mr. Chairman, I sought to get this information a while ago, but something else came in. I understood you to say, Mr. Gulick, that on the basis of a tax of \$3 a gallon liquor could be retailed at \$1.25 a quart, and just at that point you were attempting to break down those figures when something else came in. Would you be kind enough to do that for us now?

Mr. GULICK. I don't quite understand what you want.

Mr. COOPER. Break down again the cost, showing how liquor could be sold at \$1.25 a quart even with the \$3 tax.

Mr. GULICK. Liquor that could be sold at \$1.25 a quart can be produced and given the minimum ageing for around \$1.20 a gallon, and the remainder above that would be the expense of handling and the profit to the State liquor authority which handled the goods. I don't think through the retail trade you could sell it for \$1.25, but that would have to be through the State agency.

Mr. COOPER. I thought you were attempting to give some detailed figures on that. Isn't there any way you can break that down further and give us the figures?

Mr. GULICK. No, not any further than that.

Now, the third proposition we have is that in the taxation of alcoholic beverages there should be introduced a series of taxes based upon income, or upon excess profits, in order that the gallonage tax could be held at a reasonable figure, without putting into the hands of individuals in favored positions large profits above and beyond the ordinary returns of the administration of the business.

We, therefore, suggest that in the Federal act which establishes the excise taxes on alcoholic beverages, there be either a personal income tax on the business that is an excise tax, either by income, or putting it in legal terms which would take 50 percent of the income of the business. It is the belief of the Commission that the profit motive should be eliminated as far as possible in the liquor business. We suggested also that in the States which maintain the license system there be an excise tax or business tax on the liquor business which would take either excess profits or else a large share of the income of the business. We realize that there are many obstacles in the way of the development of the excise tax as applying to the liquor business, but we must remember that the liquor business now comes back on sufferance, and it comes back on a very definite understanding of that it stands in a different position than any other business in the United States.

Mr. BACHARACH. Why not put that same proposition on gasoline?

Mr. GULICK. Because there is no necessity in this country of diminishing the consumption of gasoline, there is no necessity in this country regarding gasoline as a social problem which we have to bring under control.

Mr. BACHARACH. You want to bring it under governmental regulation?

Mr. GULICK. No; not the use of gasoline.

Mr. BACHARACH. I understood you to say to Mr. Treadway that you did.

Mr. GULICK. No; I said the administration of the gasoline tax should be handled very much the same. If it was known the vast amount of bootleg gasoline put out, it would result in an uprising among the people who have to pay the very high taxes in the various States.

Mr. TREADWAY. Is it not a fact that if the recent emergency had not arisen the gasoline tax would not have been an emergency tax? It was an emergency tax to meet the N.R.A. program that the gasoline tax was imposed, and it was understood to be an emergency tax.

Mr. McCORMACK. Income taxes cannot be passed on very well to the consumer.

Mr. GULICK. That is true.

Mr. McCORMACK. And it is the theory that this tax would not be passed on to the consumer?

Mr. GULICK. Yes.

Mr. McCORMACK. In addition to the Federal Government, the States would have a similar tax, and if the Federal Government took 50 percent, the State government could impose the same tax on the producer or manufacturer?

Mr. GULICK. They could if they wanted to.

Mr. McCORMACK. Suppose you had a 50 percent tax in the Federal Government, and suppose the State government had this same tax,

what incentive would there be for private enterprises to enter into the business?

Mr. GULICK. None.

Mr. McCORMACK. If that is done, then it is either governmental ownership or you are going to have no incentive for individual initiativeness, and we are going to get back to the use of the power of taxation to bring about prohibition again.

Mr. GULICK. I can only say there are certain of the evils that we are trying to wipe out in the American system, and we would like to see them wiped out.

Mr. McCORMACK. I am not disagreeing with you on that, but we are dealing with a problem, and unless we have individuals who are willing to invest their capital, we are going to have governmental ownership, and in the absence of governmental ownership you will have prohibition back again, and have through the power of taxation the same institution you have had for 14 years. You do not recommend that?

Mr. GULICK. No; what we recommended was exclusive Federal taxation, and there would be no tax by the States, and we include in the scheme the elimination of State taxation on the manufacturer. If the States wanted to they could go ahead with this taxation and create the chaos I have referred to before.

Mr. BACHARACH. If we are going to meet at 2 o'clock, Mr. Chairman, I think we should have some recess.

Mr. GULICK. I will be through in a few minutes, and after lunch you can have some other witnesses at your convenience, if you will permit me to proceed.

The CHAIRMAN. If you can conclude in a few minutes, we will let you proceed.

Mr. CROWTHER. You talked about gasoline, both legal and bootleg, what is the form of bootleg gasoline?

Mr. GULICK. The carriers are bringing it into the States free of taxation, because it comes through being supposed to be used for export, and then it is used in the State into which they bring it.

Mr. CROWTHER. That is legal avoidance?

Mr. GULICK. Yes; legal avoidance. Now, Mr. Chairman, I wish to present to you one further idea which was not discussed and was not dealt with in the study of the Fosdick-Scott report, and that is this: After considerable examination of the problem I have come to the conclusion that there is no solution of the tax problem either in the States or in the Federal Government unless both in the States and in the Federal Government there are established governmental liquor authorities. At the same time, the suggestion is made in the Rockefeller report that the State authority deal exclusively with the retail trade, and it is my suggestion that as a revenue measure and as a measure of social control, the Federal Government establish, not a system of taxes, but a system under which there will be a Federal liquor authority which will be a wholesale monopoly. Under that provision of the law every distiller or manufacturer would be permitted to sell no alcoholic beverages except to the Federal authority, and the Federal authority would then sell to the State authorities in those States which have author-

ities, and to the local dealers or wholesalers in the States which remain on the license system.

The advantages are found in the fact that, first, it becomes an easy method of administration under which the liquor authority can vary the amount of profit which it will draw from the business as the work progresses, to meet its requirements in dealing with the bootleg trade. In the second place, it makes it almost impossible for the larger scale illegitimate trade to continue, because any liquor passing in commerce of any kind will have to be coming from the Federal liquor authority. The objection that can be raised against this is primarily that it is the Government going into business. But, gentlemen, it is not the Government going into business any more than you go into business when you step in and take out a large part of the returns in the form of taxes. All of the problems that you have been considering this morning, yesterday, and the day before, with respect to how high this tax shall be, those problems cannot be answered on the basis of how high they should be next month, next year, and the year after. They are things which must be followed about, to get the changing conditions, and where the wholesale monopoly is being exercised they can include the tax item in this element. The chief difficulty in the whole liquor problem has been the private profit motive, and that is the motive which presses for the increased business, for the increased sales, for the avoidance of rules and regulations, for unreasonably low taxes at times when taxes might be possible.

All of these problems are solved if the Federal Government will establish a wholesale liquor monopoly, and if the States will establish such liquor authority.

Mr. VINSON. What have you to say with reference to the authority in law for the establishment of the Federal wholesale monopoly?

Mr. GULICK. That has been examined, sir, and I think there is no question as to the authority in law. It would be done under the taxing powers of Congress.

Mr. VINSON. Taxing power alone—is there any other constitutional basis for it?

Mr. GULICK. Interstate commerce.

Mr. VINSON. Wherein does the interstate commerce clause come in?

Mr. GULICK. That it would control the flow of alcohol between the States.

Mr. VINSON. What about the control of the flow intrastate; if it is based upon the interstate laws, wherein would it have the power to control the intrastate business?

Mr. GULICK. That raises a very difficult question, but it seems to me that could be held very easily to be essential to the entire problem, just as the intrastate rates have been held to be a part of the general rate structure, and therefore essential in the control of the interstate railway rates.

Mr. VINSON. Of course, I am certain you realize it is easy to say it is constitutional and pass it away lightly, but I would like to have your views expressed here today, and set forth as extensively as you care to on the constitutionality of the Federal monopoly.

Mr. GULICK. I will be glad to submit them at a later time.

Mr. Chairman, that concludes the points I wish to make in coming before you.

The CHAIRMAN. We thank you for your attendance, Mr. Gulick, and the very informative statement given by you.

Senator HARRISON. Mr. Chairman, Mr. Parker has had prepared by his staff the States that have put gallonage taxes on, and I would like somewhat if the Ways and Means Committee would see fit to put it in the record.

The CHAIRMAN. If there be no objection it may be put in the record by the reporter.

(Mr. Parker submitted the following statement:)

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,  
Washington, December 13, 1933.

Hon. PAT HARRISON,  
Joint Committee on Internal Revenue Taxation,  
Senate Office Building, Washington, D.C.

MY DEAR SENATOR: There is transmitted herewith information concerning gallonage taxes recently imposed by some of the states on intoxicating liquor. There is also transmitted information as to certain license taxes imposed by the States on distillers of intoxicating liquors and wholesalers and retailers thereof.

This information has been prepared by the staff of this committee.  
Very respectfully,

L. H. PARKER, Chief of Staff.

December 13, 1933.

Mr. L. H. PARKER,  
Chief of Staff, Joint Committee on Internal Revenue Taxation,  
Congress of the United States, Washington, D.C.

MY DEAR MR. PARKER:

I am submitting to you herewith tables showing the States imposing excise and license taxes and the rates imposed therein on intoxicating liquors as of December 12, 1933. These tables are compiled from the latest data we are able to obtain and include the State of New Jersey in which the laws were enacted only a few days ago.

In this connection, it might be well to state that the legislatures of the States of Illinois, Iowa, Michigan, Minnesota, Missouri, and Oregon are now in session with the announced purpose of enacting legislation in regard to intoxicating liquors and that the legislatures of Maine, Ohio, Washington, West Virginia, Wisconsin, and Wyoming are also now in session but without, so far as can be ascertained, having announced that they would specifically consider this subject.

Very truly yours,

W. L. WALLACE, Attorney.

List of States imposing excise (gallonage) taxes on intoxicating liquors and rates imposed therein (as of Dec. 12, 1933)

	Rate per gallon		Rate per gallon
Arizona	\$0. 80	Maryland	\$1. 10
Colorado	. 80	Massachusetts	. 40
Delaware	. 75 to 1. 00	New Jersey	1. 00
Indiana <sup>1</sup>	2. 00	New York	1. 00
Kentucky <sup>2</sup>			

<sup>1</sup> Law enacted Mar. 1, 1933, and provides for sales only by registered pharmacists.  
<sup>2</sup> Imposes a tax of 50 cents per gallon on all distilled liquors produced prior to Jan. 1, 1928, and a tax of 2 cents per gallon on all such liquors produced subsequent to that date.

List of States imposing license taxes on distillers, wholesalers, and retailers of intoxicating liquors and amounts imposed therein (as of December 12, 1933)

State	Distillers	Wholesale liquor dealers	Retail liquor dealers
Arizona.....	\$250.....	\$100.....	\$25 to \$100.
California.....	\$50.....	\$100.....	\$100.
Colorado.....	\$1,000.....	\$1,000.....	\$225 to \$525.
Connecticut.....	\$1,000.....	\$500 plus 1 percent of gross receipts.	\$50 plus 4 percent of gross receipts.
Delaware.....	\$50 plus \$50 for each 500 gallons produced.	\$3,000.....	\$75 to \$300.
Indiana.....	.....	\$250.....	\$25 (to be sold only in drug stores).
Maryland.....	\$1,000.....	\$1,000.....	\$75 to \$750.
Massachusetts.....	\$2,000 to \$5,000.....	\$2,000 minimum.....	\$250 to \$2,500.
New Jersey.....	\$1,000 to \$7,500.....	\$750 to \$1,500.....	\$150 to \$1,500.
New Mexico.....	\$2,500 plus 5 percent of gross receipts.	\$1,250 plus 15 percent of net income in excess of 25 percent of gross income.	\$300 to \$500 plus 25 percent of net income in excess of 25 percent of gross income.
New York.....	\$15,000.....	\$4,800.....	\$500 to \$1,500.
Pennsylvania.....	.....	.....	\$20 to \$600.
Rhode Island.....	\$2,000.....	\$1,000.....	\$400 to \$1,400.

No provision is made for sales except by hotels, restaurants, clubs, dining cars, and steamships.  
 Montana and North Dakota have provided that sales may only be made through State and municipal dispensaries.  
 Nevada has provided that conditions of sale and licenses may be fixed by county and city boards.

The CHAIRMAN. We will adjourn until 2 p.m.  
 (Whereupon, the hearing was adjourned until 2 this afternoon.)

AFTER RECESS

(The committee reassembled at 2 p.m., pursuant to recess.)

The CHAIRMAN. The committee will be in order. The next witness on the calendar is Francis W. Brown. It does not appear here whom he represents. He appears on the subject of liquor taxes. Is Mr. Brown present? [No response.]

Next is W. G. Wellhofer, representing the National Retail Beer and Liquor Dealers Association. Will you state your name and address and whom you represent, Mr. Wellhofer?

**STATEMENT OF W. G. WELLHOFER, ATLANTIC CITY, N.J., REPRESENTING THE NATIONAL RETAIL BEER AND LIQUOR DEALERS' ASSOCIATION**

Mr. WELLHOFER. My name is William G. Wellhofer, Atlantic City, N.J. I represent the National Retail Beer and Liquor Dealers Association.

The CHAIRMAN. It will help us very much if the witnesses will conclude their statements in 10 minutes. Of course, with interruptions we will make allowances for that.

Mr. WELLHOFER. I represent what is known in Jersey as the Jersey Licensed Beverage Association, being vice president of the State Association; also chairman of the legislative committee. I also represent what is known as the "National Retail Beer and Liquor Dealers Association" being chairman of their legislative committee.

Mr. TREADWAY. When you say you represent them, are you in that line of business yourself, or are you employed to represent them?

Mr. WELLHOFER. I was going to explain that in my talk. We represent, for instance, in the State of New Jersey, with which I am

closely identified, between 6,000 and 8,000 license holders who have received licenses since April 7 to sell beer. I personally hold one of those licenses. That also is the fact so far as the national organization is concerned. Among those license holders are a great number of hotels, restaurants, cafes of the higher type who had licensed places prior to prohibition. For instance, perhaps some of them you may have note of yourselves. In Atlantic City we have places like the Traymore Hotel, the Marlborough-Blenheim, two of the largest resort hotels in the world; Harry Hackney, Hackney's Restaurant, in Atlantic City, who is noted as a world-wide restaurant owner, as president of the local association in Atlantic City. You can see the type of men that I undertake to represent. In any legislation we may advocate we try to take the position, as we like to tell it, a common-sense standpoint, one of practicability and not only theory. We feel that the mandate of the people in doing away with the eighteenth amendment was not merely because someone wanted something to drink. We do not feel that they merely had the prohibition repealed because of the necessity of revenue, insofar as National and State governments were concerned. We do feel, however, that the mandate came from the people because of their disgust with conditions that came about by prohibition, namely, the bootlegger, the resulting racketeer, and the last result, the gangster: the breaking down of the efficiency of law-enforcement agencies in a good many large cities, and, in fact, insofar as the State itself was concerned. It was the concern of the people and they felt that prohibition was a fine factor in that matter, and we feel that all legislation of a taxing nature or licensing nature should always keep that in mind from the human standpoint, the human-element standpoint, the thing that the prohibition amendment did not take into consideration.

We of the retail trade feel that we are closest to the consumer. We feel that the consumer was the one that was responsible first for the bootlegger and on down the line to the gangster. If the consumer had not asked for the liquor and if he had not made it profitable for the bootlegger and the gangster to do his business, we would never have had those conditions existing; therefore, we feel that the first thought of legislation should be toward that point, to satisfy the consumer in a reasonable manner, that we may have reasonable legislation and legislation which will and can be enforced.

Insofar as what has occurred is concerned in taxation up to this point, we will take the beer taxation. We feel that the consumer naturally assumed that when the repeal of the eighteenth amendment was a fact, that he would more than likely be able to get his 5-cent beer and his 10- or 15-cent drink of liquor, as he did prior to prohibition. Now, let us see how that works out.

When it came to beer, we taxed it nationally at \$5 a barrel. A good many States placed an additional tax of a dollar, approximately, or \$1.38, on the average, on that same barrel of beer. Prior to prohibition the normal selling price to the retailer of a barrel of beer was approximately \$6. Some of them shaded that to \$5.50 or \$5, up to \$6.50, but the normal average was \$5. Now, you are taxing that same beer at the present day approximately \$6, making it practically impossible to get that 5-cent glass of beer that the consumer wants.

There is another thought in that matter that I wish to bring to your attention. Prior to prohibition, as I say, the normal tax was a dollar, nationally, and the normal price from the brewer was \$5. From that he gave us what? He gave us, when he collected his bills, 5 percent rebate. At Christmas time he gave us 2 percent rebate on all business we did during the year as a Christmas present. He took care of the bartenders. He painted our places, gave us wonderfully beautiful signs for the outside, gave us new coils if we requested them, and were doing a good business. He did a lot of things of that nature, and still the brewer made quite a little money. We all admit that the brewer prior to prohibition on his \$4 to \$5 over-all made quite a little money. Today the tax is approximately \$8. The normal selling price to the retailer in New Jersey is \$15 and upwards. In other words, the over-all of the brewer today is \$9 and I think it should be looked into. I do not question that perhaps the cost of grain is a little more at the present time; the distributing system is not perfected yet, but still I think it should be looked into as to why that wide difference, practically double overhead, that the brewer gets today from what he got prior to prohibition.

Mr. KNUYTON. You say the retailers in New Jersey are paying \$15 a barrel. I understand they are buying it for \$11 and \$12 in other parts of the country.

Mr. WELLHOFER. Yes; I understand they buy it as low as \$12 in Maryland, and I would like to know for my own information why we have to pay \$15 in New Jersey.

Mr. KNUYTON. I think you should have the Department of Justice look into that.

Mr. WELLHOFER. Yes, sir; I believe that should be done.

Mr. COOPER. That is your business, is it not?

Mr. WELLHOFER. That is my business. I am in the retail business.

Mr. COOPER. And you want Congress to find out about your business, your own business, for you?

Mr. WELLHOFER. No, sir; not necessarily. I merely feel that we, of course, are retailers and have to pay the tax. Now, there is a reason in our minds as to why that should be, why we have that. We are trying to think of the consumer, too. We realize that the consumer should have his 5-cent glass of beer.

Mr. COOPER. In that connection, what is beer selling for? How much a glass?

Mr. WELLHOFER. Normally 10 cents a glass for beer.

Mr. COOPER. Were you here during the hearings on the beer bill?

Mr. WELLHOFER. No, sir; I was not.

Mr. COOPER. The committee was told at that time that if the tax was placed at \$5 a barrel, which the brewers asked, which was what they requested, there would be no doubt but what there would be a 5-cent glass of beer, a good substantial sized glass of beer, for 5 cents. Now, the tax was fixed at the very amount that was suggested, and why is it that the consumer does not have the 5-cent glass of beer?

Mr. WELLHOFER. Again I say that we look at things from a practical standpoint, from the standpoint of the retailer, the man that touches the consumer, and not from the theoretical standpoint. Now, it is reasonable to believe that the old system, with all of its

injuries and all of its harms, did have a normal selling price that was natural for those times. As I say, if we paid \$6 a barrel for beer prior to prohibition and sold it for 5 cents a glass, we could hardly sell the same glass of beer today, paying \$15 or more, two and a half times as much as we paid before. That is a simple arithmetical proposition, is it not? That is the way we try to look at it, from the practical standpoint, not from any theoretical standpoint. That is the case in New Jersey, that we pay, the normal price, \$15 a barrel. Some of the better grades of beer are up as high as \$20 a barrel.

Mr. COOPER. What is the size of the glass you are selling?

Mr. WELLHOFER. I think we are selling normally throughout the State between 8 and 10 ounces in a glass of beer for 10 cents. You realize also, of course, that the retailer pays a license. That is one thing we have to take into consideration in all of our matters, that the retailers do pay a license tax.

Mr. COOPER. Naturally, of course, that should be taken into consideration. Now, how many such glasses of beer are there in a barrel?

Mr. WELLHOFER. There is supposed to be, of course, 31 gallons in a barrel, 128 ounces to the gallon. It can be very easily figured mathematically, but practically you again come to the point that no barrel is full; that there are certain leakages and wastages in drawing the beer; that there is normally in our business something different than the retail business of other kinds, where you sell an article of goods for so much and a thing where there is some waste, and you must occasionally perhaps buy a drink. That also has to be taken into consideration.

Mr. COOPER. That is your business. You certainly know more about it than I do. I am just trying to get your idea about how many glasses of beer on an average there is in a barrel.

Mr. WELLHOFER. I have had that figured out. I do not have the figures at hand, but I could give them to you very roughly.

Mr. KNUTSON. May I interrupt there? Mr. Evans figures it out 875 glasses in a barrel of beer.

Mr. WELLHOFER. How many ounces?

Mr. KNUTSON. That does not take into consideration foam and wastage.

Mr. WELLHOFER. I would say that practically, at that figure, a man can realize from a barrel of beer about \$40—\$38 to \$40 in retail sales.

Mr. COOPER. \$38 to \$40 profit?

Mr. WELLHOFER. No, sir; not profit. That is his net income. That is income over the bar. That does not take into account expenses.

Mr. HILL. There are 496 half pints in a barrel. Half a pint is about what you would call a glass?

Mr. WELLHOFER. Half a pint in an 8-ounce glass.

Mr. HILL. That would be 496 glasses.

Mr. WELLHOFER. In a half barrel?

Mr. HILL. Half pints in a barrel.

Mr. COOPER. That figures out on more careful calculation, 496. Of course, obviously, that would be 496 times 10 cents that you get for a barrel of beer that cost you \$15. What is all that spread there?

Mr. WELLHOFER. I would say that practically the spread is much

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too great. I will say that no barrel ever contains the full 31 gallons of beer. No barrel is ever full. There is a wastage on drawing that beer. It works out practically, as I can tell you from figures from taking it practically over the bar, it works out between \$35 to \$40 on a barrel of beer, the income.

Mr. COOPER. I am just trying to get something that we can take hold of here as tangible and definite. Now, you say it runs about \$35 to \$40 a barrel that you get out of the beer?

Mr. WELLHOFER. Yes, sir.

Mr. COOPER. And it costs you \$15?

Mr. WELLHOFER. Yes, sir.

Mr. COOPER. That is delivered to you, the retailer?

Mr. WELLHOFER. Yes, sir.

Mr. COOPER. Now then, \$15 is the cost to you, and then you get \$35 to \$40 for it. It looks to me like there is a considerable margin there.

Mr. WELLHOFER. That is a good fair profit, but cut that in half now and try to sell it for 5 cents, and where would you get off? If you cut that \$40 in half and make it \$20 at 5 cents a glass for beer, where would we get off?

Mr. COOPER. If it only cost you \$15.

Mr. WELLHOFER. We are making \$5 a barrel.

Mr. COOPER. You get \$20 or \$25 out of it. There would be some margin in that.

Mr. BACHARACH. Will you yield in that connection, Mr. Cooper?

Mr. COOPER. Certainly.

Mr. BACHARACH. I want to call attention to the fact that every man pays a license tax, a substantial license tax in New Jersey. He also has rent to pay; he has to be in a good location; he has to purchase fixtures, which deteriorate, and there are many expenses like that to be taken into consideration.

Mr. COOPER. I grant that, but I was just trying to get him to say—he is in the business; I presume he knows the business, and I was just trying to get him to say what these items were that made that great spread between a product that cost him \$15 and one that he gets \$49.60 for.

Mr. WELLHOFER. First, it takes a good saloon to sell over two to three barrels a day. You realize that that is lots of beer. For a saloon or cafeteria or restaurant or hotel that sells that beer, that is considerable beer. I would say that anyone that sold two or three barrels a day was selling a lot of beer.

First, he has the expense of help for that type of retail trade. If you conduct a place properly you must have help around that place of high caliber and pay them high wages. Then we have high rentals, and we have the high license fee that I spoke of before, that enters into it. In all catering businesses we know that 50 percent profit is the proper profit for a restaurant or catering business. I think that is the normal reaction of restaurateurs that sell beverages. That, of course, is the point we are trying to make, that the consumer does want a cheaper glass of beer; therefore, we ask that this beer tax of \$5 be reduced at least to half that, to give that man a chance to get that 5-cent glass of beer. If the price to us is reduced to \$9, we can give a man a 5-cent glass of beer.

Mr. COOPER. The argument made to this committee at the time that bill was under consideration was that if the tax was fixed at \$5 a barrel, there would be no doubt that they would be able to give a good, reasonable-sized glass of beer for 5 cents. Now you say it is not being done and you say it cannot be done?

Mr. WELLHOFER. It cannot be done when we take this proposition—

Mr. COOPER (interposing). And now you think that for a difference of \$2 a barrel tax it could then be done?

Mr. WELLHOFER. I think with a difference of \$2 a barrel in tax and consideration of the brewing interests to reduce their profits.

Mr. COOPER. We do not have any consideration of those questions. We are not able to control those elements. The only thing we can control is the tax. Now, do you insist that a difference of \$2 a barrel tax on beer will insure a 5-cent glass of beer, when it cannot be sold now for less than 10 cents?

Mr. WELLHOFER. We feel this way: That it will materially aid toward that end. We feel that competition among the brewers, which will of course increase as time goes along and more breweries get into operation, will reduce the price and we will be able to get it for approximately \$9 a barrel, making it possible to sell a 5-cent glass of beer. That is the way we feel. We feel that with the \$5 tax at the present time that point will never be reached, probably.

The CHAIRMAN. You speak of competition between the brewers. There does not seem to be any competition between the retailers. They all seem to have the same price.

Mr. WELLHOFER. There is competition between the retailers. I am talking about the normal, decent place of business, the high-calibre place.

The CHAIRMAN. How is competition made manifest? If they all sell beer at 10 cents, where is the competition?

Mr. WELLHOFER. I am merely saying that is the normal. There have been places that would sell beer at 12 ounces for 10 cents; some sell 8 ounces; some even try to gather all the business in they can in a great volume of sales and make up the difference in profit by the amount of sales, and sell 14 ounces for 10 cents.

The CHAIRMAN. In your experience it could not be sold for 6 cents or 7 cents and a reasonable margin of profit be left for the retailer?

Mr. WELLHOFER. No, sir; it could not—well, yes, 6 or 7 cents, but that seems not proportionately put. When a man comes into the bar room, he does not want to put up pennies. When you ask a man for 6 cents and he has to put up a penny change, it does not seem to work out very well. So far as this business is concerned, I do not believe that the retail consumer feels like going in there and dealing in pennies. We are trying to get down to the normal price of 5 cents or 10 cents.

The CHAIRMAN. And in order to do that you charge him an unreasonable profit?

Mr. WELLHOFER. We are not trying to charge him an unreasonable profit.

The CHAIRMAN. According to what you say, it can be done for 6 or 7 cents, and yet you are selling it for 10 cents.

Mr. WELLHOFER. I will say it can be sold reasonably at 8 cents.

The CHAIRMAN. You said it could be sold for 6 or 7 cents, yet you are charging him 10 cents, and if it can be done for 6 or 7 and you are selling it for 10, why is not that an unreasonable profit?

Mr. WELLHOFER. I am merely trying to take this position, that again we bring in the human nature element. The human nature element is that it is not human nature for a man to go into a saloon or cafeteria or a restaurant and put down pennies. Any of you gentlemen that have ever been in a cafe will bear me out—for instance, you go down to the Occidental and say, "Give me a glass of beer", and the bartender says, "That will cost you six cents", you would sort of laugh at it. I believe that is the only common sense view that you can take of that.

The CHAIRMAN. The human nature element is to take all that the traffic will bear.

Mr. WELLHOFER. No; it is not the human nature from our standpoint. We want a reasonable profit.

The CHAIRMAN. But you have said you are taking more than a reasonable profit.

Mr. WELLHOFER. No; I did not say that.

The CHAIRMAN. You said that 6 or 7 cents would give you a reasonable profit, and yet you charge 10 cents.

Mr. WELLHOFER. I admit that you have got me in a very peculiar situation. I am merely trying to illustrate to you that the fact of charging 8 cents or 7 cents has not been the practice of the business, and it is hard to make the American public get into that thought. The penny thought does not go in our business?

The CHAIRMAN. Following up the line of inquiry of Mr. Cooper, it was stated here, and repeated again and understood, that if we fixed the tax at \$5 a barrel on beer a reasonable size glass of wholesome beer would be sold to the public at 5 cents a glass. Now, what assurance do we have that if we reduce the tax, that that promise will be kept? What assurance do we have that if we reduce the tax you will not still charge 10 cents?

Mr. WELLHOFER. We can only go back to what occurred prior to prohibition, and there is no question about it that when the tax was practically a dollar, the normal retail price was five to six dollars, and we did have the 5-cent glass of beer then, and it worked out equitably well in our business and nobody became famously wealthy by selling that 5-cent glass of beer. It was normal business at that time, and if the cost to the retailer was \$6 at that time, how could he normally sell that same 5-cent glass of beer if the tax alone was \$6 at this time?

Mr. HILL. You say you do not like pennies in the beer business. Why could you not sell your customer a 12-ounce glass of beer for a dime? If an 8-ounce glass is a little too much beer for a nickel and not quite enough for a dime, why can you not make it a 12-ounce glass for a dime?

Mr. WELLHOFER. I believe I said in the discussion that we sell an 8-ounce glass of beer, but the normal price for a 10-ounce glass of beer is 10 cents.

Mr. BACHARACH. Apparently you have gotten a little bit rattled about your proposition. At the present time there is a loss in drawing a keg of beer, is there not?

Mr. WELLHOFER. Yes, sir.

Mr. BACHARACH. You have said, in response to the suggestion of Mr. Hill, that there were 496 glasses of beer to a keg. You do not believe that, do you?

Mr. WELLIHOFER. No, sir; I know that is not the fact.

Mr. BACHARACH. I know, but you should have stated that. The committee has not received that information yet.

Mr. WELLIHOFER. I believe I did not make that clear. I tried to say that the normal income from a barrel of beer was \$35 to \$42, somewhere along there.

Mr. BACHARACH. You lose about 20 percent?

Mr. WELLIHOFER. You lose at least 20 percent.

Mr. BACHARACH. That would bring it down to 400 glasses of beer. Now, in addition to what I stated about the rent, of course there is light and heat and everything that goes with it, and as my colleague from Washington called to your attention, why should you not give a 10-ounce glass of beer or a larger glass of beer for 10 cents? The probabilities are that the \$3 extra that you are paying for a barrel of beer over the price in Maryland would make some difference, would it not?

Mr. WELLIHOFER. It would make a material difference.

Mr. BACHARACH. Those are matters that we have not had an opportunity yet to hear.

Mr. WELLIHOFER. That is what we are trying to arrive at; that if we could get a normal reduction, say, to \$9 a barrel, we could sell a 5-cent glass of beer. In other words, taking \$2 off the national tax and reducing the brewer's profit \$3, to what is now normal in, say, Maryland, \$12 a barrel, instead of \$15 in Jersey, then we could give the consumer the 5-cent glass of beer that he had hopes of getting with the repeal of the eighteenth amendment. That is the thought that I am trying to bring out. Perhaps I did get rattled, as Mr. Bacharach said, for the moment, because I did not have the figures before me as to ounces, and so forth, in a barrel of beer. I tried to figure it out as quickly as I could, but that is impossible, standing before you gentlemen at this time.

The CHAIRMAN. Is it not a fact that prior to prohibition, in pre-prohibition days, one reason that beer was sold for 5 cents is that they had competition with wines and hard liquors; whereas, since the sale of beer has been permitted before the repeal of the prohibition amendment, there has been no legal competition with beer in the beverage line? Has that had anything to do with the price you have been charging?

Mr. WELLIHOFER. I do not believe—it may have had in the first part of this period, which has been only 6 months, which after all is the period we are waiting for the hard liquor to come out. Naturally we try to get more profit—perhaps it is necessary to get more profit on our beer than was the case prior to prohibition; but nevertheless, we are now coming to the time when liquor is coming back and we feel that we are trying to reduce that price to the consumer to 5 cents, and we feel that a reduction in the national tax will make more revenue in the long run by providing greater consumption of the 5-cent glass of beer, and perhaps help to make the public drink beer instead of hard liquor.

The CHAIRMAN. Dr. Gulick or someone testified this morning that if the tax were reduced, as suggested, that the Treasury would

lose \$24,000,000 by that operation. You seem to think it would not be any loss at all.

Mr. WELLHOFFER. I feel this way: That the consumption of beer would be greater and perhaps you would overcome the difference by the greater consumption of beer. The normal reaction of the consumer is to drink beer instead of hard liquor.

The CHAIRMAN. Suppose that we increased consumption, but the question is whether or not it would be sufficient to take up that difference in revenue.

Mr. WELLHOFFER. That I am not in a position to say. I merely surmise.

Mr. COOPER. There is no disposition to try to confuse you or anything of that kind. I am sure all members of this committee have had brought to their attention repeatedly, as I have, the practice that seems to prevail throughout the country, as was reflected by the question of the Chairman, that good faith has not been kept, in that we were assured that with the \$5 tax on beer a good substantial glass of beer would be sold for 5 cents. I am sure all of us have been having that brought to our attention since the people have not realized what was promised them. Now, I simply want to try to get some information, because I think you are the first one who has appeared before us who is really engaged in the beer business. Probably you could be helpful to us by giving us some information. You stated something about the cost in New Jersey being about \$3 more than it was in Maryland. Is that correct?

Mr. WELLHOFFER. That is correct; yes, sir.

Mr. COOPER. We cannot be responsible for that. We levy the same Federal tax throughout the whole United States. How do you explain that difference?

Mr. WELLHOFFER. I believe, perhaps, the brewers in Maryland—I cannot speak for Maryland; I can merely speak for New Jersey, and I believe those brewers have of their own accord kept that price, that level, because the retailer will pay it, and the retailer in turn has to keep the price up to the consumer because he has to pay it in the retail price. Now, whether competition will finally come into the State in sufficient quantity to lower the price of that beer, I believe eventually that will happen, but up to the present time it has not happened. We pay in Atlantic City as high as \$17 a barrel for beer, did up until October, when our association went on record and fought against that condition and got the price reduced to \$16 by concession from the wholesaler, and finally it is now getting down, by competition, I believe, to \$15.

Mr. COOPER. Is it not reasonable for us to assume that competition will accomplish the very purpose that you think should be accomplished?

Mr. WELLHOFFER. I hope that competition will and that it will not be necessary for anything else to enter into it, and by that time it will reduce normally to \$12, and if you take your \$2 off it will bring the price to \$10, so close to the \$9 point that we can then sell a 5-cent glass of beer. That is what we are trying to reach, gentlemen, but with your extra \$2 on that we will never arrive anywhere near the \$9 price that we suggest, in spite of the fact of competition entering into it.

Mr. COOPER. Do you not think it would be fair for you to try to see if you cannot remove that \$3 discrepancy that you speak of between New Jersey and Maryland before you come here and ask us to practically cut the Federal tax in half?

Mr. WELLHOFER. I am merely stating the fact that competition will take care of that. We cannot do that through any influence of our own. As long as the brewers have a close corporation, for instance, some of that sort, but we do feel that no matter if they reduce their price to \$12, we could not normally sell a 10-cent glass of beer at 5 cents as before prohibition.

Mr. COOPER. Are we to understand from your statement, then, that there is a monopoly in the brewing business?

Mr. WELLHOFER. I would not say that. I would say perhaps they have an unwritten understanding among themselves to keep the price up.

Mr. COOPER. Is not that in effect a monopoly, when they fix prices and agree among themselves what they are going to get?

Mr. WELLHOFER. I would not say that it is a monopoly. I would merely say that perhaps they have an association; perhaps they have a feeling among themselves that that is the price they can get, and they get it.

Mr. COOPER. Is that what you think is happening?

Mr. WELLHOFER. I think it is, yes, sir.

Mr. COOPER. All right.

Mr. SHALLENBERGER. I would like to ask you, have you got a code for beer sellers?

Mr. WELLHOFER. No, sir; we work under the restaurant code.

Mr. SHALLENBERGER. You have no agreement as to the price on beer?

Mr. WELLHOFER. No, sir.

Mr. SHALLENBERGER. Could that be regulated by the N.R.A. if they saw fit to do so?

Mr. WELLHOFER. I believe it could.

The CHAIRMAN. Have you about concluded?

Mr. WELLHOFER. No; I want to speak about liquor for a few moments.

The CHAIRMAN. We cannot give you much more time.

Mr. WELLHOFER. On the question of liquor, Mr. Chairman, hard liquor, there is the same point. We feel that if the consumer gets what he wants, what he normally expects, in order to do away with the bootlegger and racketeer, we are closest to both. We are in the business and we are closest to the consumer and we are closest to the bootlegger and the racketeer. We understand the conditions. We feel that if the price of liquor, of good liquor, is such that the normal consumer, the temperate consumer, who after all is in the great majority, gets his drink at a reasonable price, where, when, and how he wants it, you will break down the racketeer and the bootlegger who, after all, are not our friends; we have no use for them; we do not want them any more than you do. The normal men in this business, the licensed men, I would say 95 percent of them, are law-abiding citizens and intend to be such, intend to stay such as long as it is possible for them to stay in business under those circumstances.

Mr. KNUTSON. Are you people troubled much with the bootlegger?

Mr. WELLHOFER. With the bootlegger? We have been up to this time; yes, sir.

Mr. KNUTSON. What percentage of the liquor that has been consumed has been furnished by the bootlegger?

Mr. WELLHOFER. Up to this time? All of it. I mean up until the 5th of December.

Mr. KNUTSON. What is the status up in New Jersey now? Are you selling hard liquor?

Mr. WELLHOFER. We are now selling hard liquor. That is the reason I want to take a few more moments of your time telling about this liquor situation. The same thing applies to liquor. At the present time we have a \$1.10 tax nationally, and we have a State tax of a dollar. When we went to buy our first liquor, or the first liquor that came out under the law, legal liquor, of course, it was difficult to procure it, and when it first came into the State of New Jersey it was of low quality. The first that I saw in the State of New Jersey cost \$22.45 per case, with \$1.10 tax that you gentlemen have on it. That is low-class liquor. I would say that prior to prohibition normally a drink of liquor sold for 10 cents and cost the retailers \$2 per gallon. Of course, then we had the other case goods liquor, bottled goods, such as Overholt—5-year old Overholt at that time sold for \$8.50 to \$10, according to the age, or \$11 or \$12 per case. Today the quotation on good substantial old-time Overholt, preprohibition Overholt, is \$85 per case. Of course, there has been a big advance in that.

The CHAIRMAN. Now, just come directly to the subject which the committee is most vitally interested in. Assuming that the Federal Government imposes the entire tax, what rate of tax per gallon would you suggest to supply the Government with revenue, and also having in view the putting of the bootlegger out of business?

Mr. WELLHOFER. We suggest this: Keep the tax at the present rate, \$1.10 per gallon; attempt to stimulate the business so that we can get a good, reasonable drink of whisky, rye whisky with proper age to it, so that we will be able to sell it to the public at a reasonable price. If they can get bootleg liquor at 15 or 20 cents that is higher quality than that on which the Government is charging \$7 a gallon, I do not see how it is possible.

The CHAIRMAN. You have in mind the suggestion that has been discussed of the Government levying the entire tax?

Mr. WELLHOFER. We have a dollar State tax in New Jersey, and naturally liquor is going to cost us more because of that State tax than it did prior to prohibition. Now again, if the Government charges \$2.60 a gallon, as has been proposed in these chambers, and the State puts a dollar on it, that is \$3.60 tax again.

The CHAIRMAN. We are going to propose \$2.60 as the entire tax, part of which will be distributed to the States.

Mr. WELLHOFER. In other words, the tax would be reduced to \$2.60. And again, as I explained about the beer situation, the tax alone on liquor will then be much higher than the cost of liquor was before prohibition to the retailer, again making the tax—making the liquor cost so much that perhaps the bootlegger, as has been explained to you here, will still exist. Now mind you, we feel that the license holder is the greatest detriment to the bootlegger and will be. If

you will place on your liquors as you sell them a stamp similar to that stamp that you placed on bonded liquor prior to prohibition, using your internal-revenue agents to check up on that in retail places, you will help materially to do away with bootleg liquor. That is one thought that I would like to leave with you particularly, is the stamp idea of putting on the bottle, no matter what the proof is; if it is supposed to be 80 proof, put on an 80-proof stamp, or 90 proof, put on a 90-proof stamp, or an 85-proof stamp. Those stamps themselves will be a deterrent to any retailer having any liquor on his premises other than legal liquor.

The CHAIRMAN. Your recommendation, as I understand it, to the Committee is to let the Federal tax stand as it was at \$1.10, and leave the matter of State taxation to the States, and not have the Government levy the tax entirely?

Mr. WELLHOFER. I would like to see the Federal Government levy it entirely, but the States now need revenue, and they see a chance to get revenue from the liquor business, and I do not see how you are going to get them to loosen their hold of it.

The CHAIRMAN. If that should be found practicable, though, you would favor that system?

Mr. WELLHOFER. I would favor the Federal Government putting all the tax on it.

The CHAIRMAN. Have you completed your statement? You have had about 40 minutes, I believe.

Mr. WELLHOFER. Yes, Mr. Chairman. Thank you.

The CHAIRMAN. We thank you for your attendance and the information you have given us.

(Mr. Wellhofer subsequently submitted the following extension of his remarks:)

It is the belief of the National Retail Beer and Liquor Dealers Association, which I represent, that the chief causes that led to the repeal of the eighteenth amendment were as follows: (a) The desire to eliminate bootlegging, racketeering, the corruption of public officials, etc., that were the direct result of the eighteenth amendment and the prohibition laws; (b) to provide the Federal Government with much-needed revenues that they have lost since the enactment of this said amendment; (c) to return to our citizens their personal liberties and to return to the several States the control and regulation of the alcoholic beverage trade. As each of these points has a direct bearing on Federal taxation, they will be presented in their order.

(a) The elimination of bootlegging, racketeering, etc., we believe should be the first objective of all Federal taxation, even more important than increased revenue at the present time. We must face the fact that this country has had more than 13 years of prohibition, in which time a far-reaching illicit business has grown up. The only way that it can be eliminated is to make it unprofitable in competition with legitimate business. With the Federal Government, the several States, and thousands of counties and municipalities looking for and needing increased revenues, it is only natural that they should look upon the alcoholic beverage trade the same as a drowning man reaches for a straw.

Under the laws that have just been passed in the State of New Jersey over the Governor's veto, the retail dispenser of alcoholic beverages will become the real foe of all bootleggers and racketeers. Under this law we will be licensed to dispense all kinds of alcoholic beverages to the public. We will soon know of any speak-easies and have a right to ask the local authorities to close them up; if they fail, we can go to the State government; if these two agencies fail to do their duty, we can then go to the Federal Government. Under the New Jersey law, we believe that bootlegging and racketeering will be eliminated quicker than in any other State that has passed liquor-control legislation. The only things that may operate against this are two factors: (a) the Federal and State taxes may be higher than the traffic will bear; (b) the manufacturers may attempt to get excessive profits, especially if monopolies are permitted.

To eliminate duplicate State taxes a plan was printed in an Associated Press dispatch from Washington under date of December 10, printed in the Philadelphia Inquirer on December 11, from which we quote: "The administration's liquor-tax program includes, besides the \$2.60 levy, sharing of the revenue with the States to avert duplication of gallonage imposts, and authority for the President to negotiate reciprocal trade agreements with foreign liquor exporting countries. It proposes that States entering into agreements with the Federal Government not to impose special liquor levies receive 20 percent of the revenue gathered on the Federal levy. Each State would be entitled to share on the basis of production, plus consumption of alcoholic beverages with respect to total domestic production and consumption. Already some States have levied gallonage taxes, and unless they repeal them, they would not be allowed to share in the Federal revenue. Their allotments would be retained by the Treasury." We are in full accord with these recommendations, except that we object to the \$2.60 tax, which will be explained later.

Under the provisions of the twenty-first amendment, the Federal Government agrees to protect the States that desire to remain "dry" from all importations of alcoholic beverages into their territories. Our association has gone on record objecting to the use of "Federal revenues" derived from alcoholic beverage taxes, to be used in any State that by law forbids such sales. We believe that such "dry" States should be required to reimburse the Federal Government for its expense in protecting their borders, nor should such a State receive profit from any Federal liquor revenues to which it contributes nothing.

(b) We believe that for a period of at least 2 years the Federal tax on spirits should remain at \$1.10 per proof gallon. Such a tax will enable the several States to wage an aggressive battle against bootleggers. We believe the time to consider increased taxation is after the bootleggers have been driven out of business.

Some provision must also be made to protect the retailers and the public from excessive prices on the part of the manufacturers. Three fourths of the present whisky supply of the country is controlled by two corporations—the National Distillers and the Schenley Distillers. With limited domestic stocks, they are in a position to gouge the public and make whisky so expensive that the bootlegger will continue in business. The facts for this statement were taken from the December 4 issue of the Time Magazine, on page 53.

The association which I represent favors domestic manufacturers of alcoholic beverages, but does not feel that we should be imposed upon at any time, and especially not until the American supply catches up with the demand. For that reason we believe a liberal import policy should be pursued until such a time as the American supply is sufficient to take care of our domestic needs.

The National Retail Beer and Liquor Dealers Association is also opposed to the present \$6 a barrel tax on malt beverages of over 3.2 and the \$5 a barrel tax on 3.2 and less.

The public has been clamoring for a 5-cent glass of beer ever since 3.2 beer was legalized last April. To the \$5 Federal tax most States added an average of \$1.38 State tax, making the total direct tax of \$6.38. The breweries are getting an average of \$15 f.o.b. platform for their product which leaves them a gross profit of \$8.62 a barrel. The retailer selling a 10-ounce glass of beer on this basis would receive approximately \$17.80 a barrel, leaving him a gross profit of \$1.80 a barrel. The public blames the retailer for not selling a 5-cent glass of beer. We believe that the Federal and State Governments and the brewers are to blame. In order to sell a 5-cent glass of beer to the public, the cost to the retailer should not exceed \$9 a barrel, tax and manufacturing charges included. The breweries have grown rich in these few months, while we have yet to hear of a retailer who has made money selling beer in this period. When the stronger beer was released, the brewers immediately passed this additional tax on to the retailer charging from \$1 to \$2 more for his product. We feel that they could have well afforded to give us this new beer at no additional cost.

The brewers will now ask that a different tax basis be given to 3.2 beer and less and a higher tax to the other malt beverages. We are opposed to this distinction being made as we believe that it will be a law that will be hard to enforce. A Federal agent will have to be constantly on guard at every brewery in the country to see that higher alcoholic content beer does not go out as the 3.2 variety. Their motive for wanting this special tax is so that they will eventually be able to sell 3.2 beer as a soft drink with no more restriction than now applies to Coca Cola or ginger ale. We favor no law that will make it easy for minors to obtain alcoholic beverages. If you make any distinction in the taxation of malt beverages, it will lead to such abuses.

(c) It has been the policy of the present administration to return the control and regulation of alcoholic beverages to the several States, with the exception of taxation. We believe that this policy should be pursued and that the several States should be left in freedom to work out their own problems, even where they feel that the old laws concerning alcoholic beverages are much superior to the many "foreign systems" now being proposed in this country. The Federal Government must legislate for the District of Columbia. We recommend to you such a law as was recently passed in the State of New Jersey, as the law that will be the most easily enforced.

The CHAIRMAN. The next witness is George H. Burnette, representing the Flavoring Extract Manufacturers Association, on the subject of industrial alcohol. Please state your name and address and the role in which you appear, Mr. Burnette.

**STATEMENT OF GEORGE H. BURNETTE, REPRESENTING THE  
FLAVORING EXTRACT MANUFACTURERS ASSOCIATION**

Mr. BURNETTE. Mr. Chairman and members of the committee, I am appearing for the Flavoring Extract Manufacturers Association of the United States, of which I am a member of the executive committee, and for the Joseph Burnette Company, Boston, Massachusetts, now completing its 86th year in the flavoring-extract business.

I was put down on the calendar as speaking about industrial alcohol. What I am interested in and what our association is interested in is nonbeverage alcohol.

At the present time our association is composed of some 200 members and comprises the larger manufacturers of pure extract. The industry uses in the neighborhood of 5 million proof gallons of alcohol in the manufacture of pure vanilla, lemon, almond, orange, and 20 other flavoring extracts which are sold to housewives, bakers, confectioners, ice-cream manufacturers, and is used entirely in food products.

The total sales of the industry amount to perhaps \$35,000,000. We understand that it is proposed that the new tax schedule be applied to alcohol, whether it is used for beverage or nonbeverage purposes. We register the strongest objection to any such proposal. Alcohol for flavoring extract, for food products, medicine, tinctures, and a host of other articles for technical use in laboratories, colleges, schools, and so forth, is a necessity of life and should not be put in the same tax classification as alcohol beverages. In fact, every one of the States that has already passed legislation in regard to taxation of liquor, gallonage taxes, has exempted, either directly or by indirection, all taxes on alcohol used for that particular purpose. We plead, therefore, for the retention of the present tax of \$1.10 a proof gallon on nonbeverage alcohol and the permit features of the National Prohibition Act of 1920.

The application of the proposed new tax will deal a staggering blow to this industry. Alcohol forms the largest part of our cost, and the tax, of course, is much the largest part of that cost. Tax-paid non-beverage alcohol at the present time costs \$2.50 per wine gallon. Of that the tax is \$2.10. It is 190 proof, so the tax is \$2.10, and the cost of the alcohol in bond is only 40 cents. An increase of the tax to \$2.60 a proof gallon would make the alcohol cost us \$5.34 a wine gallon, an increase of \$2.84, or 110 percent in the cost of this most important ingredient entering into the manufacture of this common household necessity.

Pure vanilla is sold in grocery stores, mostly in 1-ounce, 2-ounce, 4-ounce and 8-ounce bottles. I have taken for an example of the increase in cost the common 1-ounce bottle. A tax of \$2.60 per proof gallon would increase the cost of the alcohol a little over a cent a bottle. The manufacturer on this particular size would, of course, consider the cost of overhead based on this increase, and he would charge the wholesaler about 1½ cents a bottle more. This cost would naturally be pyramided by both wholesalers and retailers, so that in most stores the 1-ounce bottle would become a 15-cent seller instead of a 10-cent seller. I admit that on special sales in cut-price stores, the price would hardly be 15 cents.

In the case of almond and orange extracts, they contain a much higher percentage of alcohol than pure vanilla, and the retail price would have to be even higher.

The majority of our members sell bulk flavoring extract products to ice cream makers, dairies, soda fountains and bakery trade, and the average price per gallon of pure vanilla extract to those trades is around \$3 a gallon. The tax on pure vanilla extract is about \$1.20 a gallon under the present tax. Under the proposed new tax of \$2.60 a proof gallon, the manufacturer's cost of alcohol would be increased to \$2.97, an increase of \$1.72 in the cost of alcohol, and an increase to the purchaser of approximately \$2.00 per gallon, which in turn would increase the selling price of pure vanilla extract to \$5.00 per gallon instead of \$3.00 per gallon as at present.

In our industry our severest competition is the imitation extracts and flavors sold on price and price alone. These extracts are usually prepared by small manufacturers where no machinery or much investment is required in making them; sometimes in unsanitary surroundings, and are sold mostly by house to house canvass. Little, if any, alcohol is used in making them, as they are mostly synthetic, dissolved in water and glycerine. Every gallon of this product sold displaces the sale of a pure product containing alcohol, with a corresponding loss in income to the Government. As this competition is based solely on price it has had a startling increase during the past few years, due to the decreased purchasing power of the public, and any further increases in our cost would be disastrous. Realizing that higher taxes for beverage alcohol will probably be enacted in the next session of Congress, and very possibly much higher taxes in the future, judging by what many of the speakers have said, we plead for the retention of the tax of \$1.10 on nonbeverage alcohol, and the permit features of the National Prohibition Act.

We understand the Treasury Department believes that there is the possibility of the diversion of alcohol from nonbeverage to beverage purposes, and this is a question which I agree with, and which I am sure the committee will realize requires very serious consideration. Diversion in any quantity would be an impossibility, or almost an impossibility, if the Department of the Treasury carefully scrutinizes the record of persons applying for permits. There has been no diversion in our industry in the past few years. Twelve years ago, when a permit was issued to almost any applicant, there was some diversion, but when the Bureau of Industrial Alcohol, so ably administered by Dr. James M. Doran, began to function properly, the diversion of nonbeverage alcohol became a thing of the past. It seems to our association and to our industry that the common neces-

sities of life should not be perhaps irreparably injured by having the alcohol they use included with the alcohol on which a proposed higher tax is to be levied. We ask once more for a tax of \$1.10 per proof gallon on nonbeverage alcohol, and the inclusion in the act of the permit features of the National Prohibition Act of 1920.

I want to say further that the permit feature has been a most successful way of preventing the diversion of industrial alcohol. Shortly after the National Prohibition Act was passed, people who wanted a drink—wanted liquor—only had four ways in which it could be produced. One way was by distillation, one way was by importation or smuggling, one way was by redistillation of the denatured alcohol, and the other way was by diversion of nonbeverage alcohol.

The last two methods were very much easier to control than the first two methods; by proper supervision of the Treasury Department, and the consequence is that today there is practically no such thing known as redistillation of denatured alcohol or the diversion of nonbeverage alcohol.

Mr. HILL. What percentage of alcohol is used in your extracts?

Mr. BURNETTE. It varies from 40 percent to 90 percent.

Mr. HILL. What particular extract carries 90 percent?

Mr. BURNETTE. Lemon extract carries from 80 to 90 percent. Different manufacturers have different formulas for that. Vanilla extract contains from—we are required by the Department of Agriculture to label our products in terms of absolute alcohol. It is very confusing with proof alcohol and cologne spirits—190 proof is absolute alcohol—but we are required to label in terms of absolute alcohol, and lemon extract is prepared from alcohol containing 80 to 90 percent.

Mr. HILL. By weight or volume?

Mr. BURNETTE. That is by volume.

Mr. HILL. Is it practicable to use that as an intoxicating beverage?

Mr. BURNETTE. No, sir; it is not.

Mr. HILL. How about the redistillation of it, as a practical matter?

Mr. BURNETTE. It would not be possible to redistill it in any considerable quantities. That is—perhaps I do not quite understand your question.

Mr. HILL. I mean redistillation to get the alcohol for beverage purposes, assuming it was denatured?

Mr. BURNETTE. No; it would not be an easy matter.

Mr. HILL. There is not, as a matter of practice, very much of the extract used for beverage purposes?

Mr. BURNETTE. No. Shortly after prohibition was passed people who wanted a drink very badly were looking for liquor anywhere they could find it, and they drank denatured alcohol, wood alcohol, flavoring extract, anything they could get their hands on. But that became a thing of the past.

Senator CLARK. A man can get on an awful jag with lemon extract.

Mr. BURNETTE. Possibly, if he wanted it bad enough.

Senator CLARK. I used to have a cook in the Army that ran amuck about once every 3 months from drinking lemon extract.

The CHAIRMAN. If there are no further questions, we thank you very much, Mr. Burnette.

(Mr. Burnette subsequently submitted the following memorandum:)

The Flavoring Extract Manufacturers Association of the United States, the National Association of Manufacturers of Fruit and Flavoring Syrups, and the National Manufacturers of Soda Water Flavors, comprising in their membership the larger manufacturers of flavoring extracts and sirups for the household, ice cream, dairy, bakery, confectionery, soda fountain, and carbonated beverage industries, respectfully urge the members of the Ways and Means Committee of the House of Representatives and of the Senate Finance Committee, to weigh carefully and consider both the wisdom and justice of (1) differentiating between the use of alcohol for beverage and nonbeverage purposes, and (2) retaining the present tax on \$1.10 per proof gallon of alcohol for nonbeverage purposes.

This industry uses about 5,000,000 gallons of alcohol in the manufacture of vanilla, lemon, almond, orange, and over 20 other flavoring extracts, which are used entirely to flavor food products and nonintoxicating beverages such as lemon soda, ginger ale, sarsaparilla, etc.

Alcohol for flavoring extracts, food products, medicines, tinctures, and a host of other such articles, for technical use in laboratories, colleges, schools, etc., is a necessity of life, and should not be put in the same tax classification as alcoholic beverages. This distinction has already been recognized by those States which have passed liquor control bills, all of which either directly or indirectly exclude nonbeverage alcohol from gallonage or excise taxes. We plead, therefore, for the retention of the present tax of \$1.10 a proof gallon on nonbeverage alcohol, and the permit features of the National Prohibition Act of 1920.

The application of the proposed new tax would deal a staggering blow to the pure extract industry. In this industry, alcohol forms the biggest item of cost. The present tax is much the largest part of that cost. Tax-paid, nonbeverage alcohol costs \$2.50 per wine gallon. Of that, the tax is \$2.10, and the cost of the alcohol, in bond, 40 cents. An increase in the tax to \$2.60 a proof gallon would make the alcohol cost us \$5.34 a wine gallon, an increase of \$2.84, or 110 percent in the cost of this most important ingredient entering into the manufacture of these common household necessities.

Pure vanilla extract is sold in grocery stores, mostly in 2-ounce bottles, and 1-ounce bottles, at 10 cents for the latter. Using the latter item as an example, a tax of \$2.60 a proof gallon would increase the cost actually a little over a cent a bottle to the manufacturer, but because his overhead is based on his cost, he would have to charge the wholesale  $1\frac{1}{2}$  cents more per bottle. The cost would naturally be pyramided by both the wholesaler and the retailer, so that, except at special sales, the 1-ounce bottle would become a 15-cent seller instead of a 10-cent seller. In the case of lemon and orange extracts, as they contain a much higher percentage of alcohol than pure vanilla, the retail price would have to be even higher.

Most of our members sell bulk flavoring extracts as well, to the ice cream, dairy, confectionery, soda fountain, and bakery trades. The average selling price of pure vanilla extract per gallon is around \$3. The cost of the alcohol contained in that gallon of pure vanilla extract is about \$1.10 per gallon under the present tax. With the proposed new tax of \$2.60 per proof gallon, the manufacturer's cost for the alcohol would be increased to \$2.70, an increase of \$1.60 for his alcohol, and an increase to the purchaser of approximately \$2 per gallon. That would make the selling price of pure vanilla extract \$5 per gallon instead of \$3 as at present.

A number of the members of this industry also manufacture soda water flavors and concentrates which, according to their strength, vary in price from approximately \$4 to \$10 per gallon. Any increase in the tax on alcohol would be reflected in the higher selling price of these products.

In our industry, our severest competition is with imitation extracts and flavors sold on price and price alone. These extracts are usually prepared by small manufacturers, for no machinery or investment is required; sometimes they are made in unsanitary surroundings and usually sold by house-to-house canvassers. Little if any alcohol is used in making them, as they are mostly synthetics dissolved in water and glycerine. Every gallon of this product that is sold displaces the sale of a pure product containing alcohol with corresponding loss in income to the Government. As this competition is based solely on price, it has had a startling increase during the last few years, due to decreased purchasing power of the public. Further increases in our cost would be disastrous.

Realizing that higher taxes for beverage alcohol will probably be enacted at the next session of the Congress, and very possibly much higher taxes in the future after the bootlegging menace is eliminated, we plead for the retention of the tax of \$1.10 on nonbeverage alcohol, and the permit features of the National Prohibition Act.

We understand that the Treasury Department believes that there is a possibility of the diversion of alcohol from nonbeverage to beverage purposes. We contend that this is an administrative problem which is not impossible of solution. Diversion in any quantity would be an impossibility if the Treasury Department fully scrutinizes the record of persons applying for permits. Twelve years ago when a permit was issued to almost any applicant, there undoubtedly was some diversion, but when the Bureau of Industrial Alcohol, so ably administered by Dr. James M. Doran, began to function properly, diversion of nonbeverage alcohol became a thing of the past. It is the opinion of the membership of our associations that the revenue laws of the United States can and will be successfully enforced, so that no special tax burden or penalty should be placed upon legitimate manufacturers or industries classified as users of nonbeverage alcohol for food purposes.

Diversion will be even more difficult than in the past because the Code of Fair Competition for the Distilled Spirits Industry specifically provides under article V, section 9, that no distiller shall sell or otherwise dispose of distilled spirits to any person not authorized by a license \* \* \* if such a license is required of such person by State law, or by any code under the act pertaining to alcoholic beverages.

It seems to our association and our industry that the common necessities of life should not be injured by having the alcohol they use included with the alcohol on which the proposed higher tax is to be levied. We ask once more for a tax of \$1.10 a proof gallon on nonbeverage alcohol; and the inclusion in the tax of the permit features of the National Prohibition Act of 1920, if the committee after full consideration of the case deems the retention of the permit system advisable.

GEORGE H. BURNETT.

The CHAIRMAN. The next witness is Honorable Marion DeVries, representing the Wine Producers Association and Grape Growers League of California, on the subject of wine tax:

**STATEMENT OF HON. MARION DE VRIES, WASHINGTON, D.C.,  
REPRESENTING THE WINE PRODUCERS ASSOCIATION AND  
GRAPE GROWERS LEAGUE OF CALIFORNIA**

Mr. DeVries. Mr. Chairman and gentlemen, my name is Marion DeVries, attorney at law, Washington, D.C. The Wine Producers Association includes in its membership the producers of more than 75 percent in volume of wines in the United States. Many, if not all, of this membership are vineyard owners. The Grape Growers League of California includes a majority of the grape growers of the United States. This appearance is as a duly authorized spokesman for both of said organizations.

The industry in California alone represents an investment of more than \$350,000,000, and an agricultural area of over 600,000 acres. It is in size and importance the second industry of the Pacific coast. While it largely preponderates in California, it forms substantial and important factors of the industrial wealth and commerce of New York, Michigan, Ohio, Missouri, New Jersey, Indiana, and many other States. In many Southern States, particularly those bordering on the Gulf, it is now appearing in highly thriving conditions. Its product represents an annual contribution to the commerce of the country of more than \$50,000,000, the processing and

marketing of which afford employment to practically every kind and class of labor, industry, and transportation. It adds to the revenues of railroads and trucks, to the lumber, bottle, barrel, nail, hoop, cork, refrigeration, and various other enterprises in vast sums. No other industry more extensively divides its revenues with labor and other industries. There is no State in the Union, wet or dry, whose commercial activities are not quickened to some substantial extent by the marketing therein in some form of the grape or some product of the grape.

No product of any industry is so intimately connected with its agricultural source as is wine with the grape. Grape wine is made practically exclusively from the juice of the grape. Water composes the major part of whisky in its production; rectification adds other ingredients, increasing its volume many fold. Water is the chief component of beer. Grape wine is a product practically wholly of the grape. Indeed, fortified wines are customarily fortified with grape brandy or spirits. Wine cannot, like whisky, be cut or rectified into added volume. Wine, therefore, being strictly and practically entirely an agricultural product, should be accorded every privileged legislative status the Congress wills necessary to the upbuilding of agriculture as the true basis of our economic welfare.

In behalf of this industry this effort will be to present certain basic facts which your honorable committees are requested to take into consideration in fixing the import duties and internal revenue taxes on and regulating sales of wines. Fundamental to both is the economic condition of the domestic industry.

The wine industry is one of governmental parentage and development. By land subsidy so early as 1817; by relief from taxes so late as and up to 1912; by publication, advice, encouragement, and persuasion, the Government fostered embarkation into the wine industry for more than a century, thus inducing thousands of our best citizens to so invest and thereto devote their savings, their lives and those of their families. It was a program of national agricultural development of a product universally accepted and used the world over as dietetic not alcoholic.

There came a day when by the Prohibition Act all these good people so induced were declared criminals and their product contraband. Even the right of export in any substantial degree was denied. After a spasmodic flare of prosperity, for 15 years they have struggled thereunder in desperate efforts to retain their farms and their homes and feed and educate their children. Not only was the vintner's manufacturing plant made practically worthless but different from the brewer and distiller he had to keep up his vineyard with an annual expense for watering, cultivating, pruning, sulphuring, and picking at from \$25 to \$50 per acre. This was absolutely necessary. In that particular obviously the wine and grape was struck a more severe blow than any other industry of the country. No other industry was by its nature compelled to make the customary annual outlay to preserve its investment from total loss. Naturally and necessarily the vineyardist's farm and vineyard depreciated in

value and the vintner's machinery rusted and decayed. The mortgage grew. Indeed, many hundreds of such had passed into the hands of the banks and other mortgagors, more often than not retaining the former owners as bankrupt but competent tenants or managers.

Poverty and despair strode through these ample acres and erstwhile beautiful vineyards. Then came the great depression.

Therefore, at the dawn of repeal our vintners and growers, in order to put their vineyards and wineries in shape, have been compelled to borrow to the limit on their properties and product and mortgage to the extreme limit their farms. In many instances the R.F.C. came to their rescue with the commendable purpose of aiding this greatly crippled agricultural industry in this moment of certain revival by repeal. These new credits, all must know, were largely predicated upon the assumed early open markets for wines after repeal. Upon these assumptions—our free markets and their full enjoyment—rests today the financial structure and future prosperity of our grape growers and vintners.

On the other hand, European and other foreign vintners suffered not this almost total annihilation of their markets but continued, unrestricted by criminal and other laws, to operate their farms and vineyards and sell their products to the other world markets. Thus, unrestrained, vast quantities of wines have accumulated in foreign countries and their provinces, more accessible to our markets than our vintners by reason of low water freight rates. In this contest they are backed by untold millions. They are backed by the rich and powerful. Our vintners are financially prostrate.

In this situation it is one of the duties primarily of your honorable committees to determine under what conditions and in what quantities foreign wines will be permitted to enter our markets in this unequal competition with our wines.

Without consuming time to go into detail figures which will not add to this presentation, it will suffice to say that the Interdepartmental Committee's recommendations before the committees, as published by the press, proposes either permanent or potential drastic cuts in the present rates of import duties upon wines. While these publications may be inaccurate or subsequently changed they will here serve to present the principles involved.

The Wine Producers Association most respectfully urges that there is no justification for any such reduction of duties. While it is not here intended to challenge, but on the contrary it is the purpose to affirm, the wisdom of the delegation of the suggested powers, it is respectfully urged that the minimum possible rates which will ever be demanded by the foreigner and stand as a menace to the domestic trade should in no case be lower than will best subserve our public revenues and adequately protect the particular industry.

The wine industry today is wrought with fear, moved by the press statements that foreign markets for the products of other industries are to be bargained at its expense, and that of one other industry only, notwithstanding its situation is so desperate as to merit and receive Government aid in order to survive and carry on.

It is apparent to all that the lowest possible rate under the law will be accepted by industry and capital as the basis of commercial

financing and operation. Therefore, should that possible minimum rate be so low that, under existing trade conditions, financing, extension, and improvement of the particular trade will not be possible, the industry will pass into decadence. It is here asserted that the possible minimum rates for reciprocity procedure here recommended, for example, 60 cents per gallon on still wines, are so low as to halt the vintners' progress.

We assert that the present import duties upon wines are justifiable minimums and should not, under present conditions, be reduced. The issue is one of fact. What is the purpose of the proposed legislation?

It is obviously, first, to increase our revenues; second, to afford ample protection to our industries; and, third, to provide a Presidential power of reciprocal negotiations within definite limits. How can it be said that it will increase our revenues to reduce wine rates when under our present import licensing system not only are the full import quotas being exercised but increased quotas urgently solicited without question of or hesitation at the present rate of import duties? Our departments today are crowded with import licensees begging for added import quotas. Present import duties are gladly paid to the full extent of the permitted imports. The duty rate deters none. It is not even considered. Any reduction thereof, therefore, from the revenue standpoint, is a gratuity to foreign importers and vintners at the expense of our Treasury.

Can it be said that the existing rates of duty are greater than necessary for the protection of our wines? Under normal trade conditions tariffs are generally adjusted by our Congress at rates equal to the differences in costs of production, foreign and domestic, delivered in the principal markets of this country with reasonable profits to the domestic industry. Under existing conditions, however, no man can determine or even guess what is the cost of production today of wine in the United States. For is there any fixed or determinable market for such? Owing to prohibition there has been no free market for wine in the United States for 15 years. Those being marketed today were produced years ago. Many of such being marketed today are at forced sale prices in order to pay taxes and interest and save the vintners and growers from loss of their properties. It is a liquidation, not a free market. While all old and many new wineries of the country have been running at full capacity the present vintage season just closing, practically all of them, in respect for and compliance with the President's recovery program, are operating at greater labor costs, greater material costs, greater overhead, and charges than heretofore. The necessary transportation costs to deliver such into our principal markets are not as yet fixed, the local and Federal taxes thereon not laid, the marketing expense and control conditions uncertain, wherefore the cost thereof necessary as fair tax bases cannot possibly presently be estimated.

Mr. REED. I would like to ask a question there, Mr. Chairman. If we lower the rates on wine coming in here, the grape growers would have to take it out of the price paid for labor, would they not?

Dr. DEVMES. Yes, sir. Nor is it fair nor accurate to resort to pre-war 1910 to 1911 costs in any estimation of duty or tax bases, because in those days the vintners more often than not paid what they pleased for grapes, and the grower suffered. Eastern markets

for grapes were negligible, and there was no real market save to the wineries. Labor, refrigeration, transportation, materials, and all costs, delivered in the principal markets of the country, were on an entirely different basis. Taxes, import duties, and sales regulations were far different. That taxes, import or internal, should be laid upon costs 15 years past is an anomaly unprecedented and economically unsound. In effect and in fact this is today a new industry, proceeding on entirely different costs and under different conditions from any heretofore existing, the product of which is to be marketed at prices and under costs not yet determined. The tariff rates and excise taxes fixed by this Congress will be operative upon productions of the present and future vintages. Operations and marketing will be under the new Wine Code and Wine Marketing Agreements, as yet incomplete, possibly fixing directly or indirectly the grape prices, operating and sales conditions. These, together with future taxes, will determine the costs of production of the present vintage of wines, which, therefore, no one can now determine or guess.

The question here of whether or not the existing import duties upon wines are adequate or too high does not, however, find its answer in detail calculations of costs. There is none such reliable in existence.

The question is, however, incontrovertibly answered by existing import conditions. All men know that notwithstanding the existing rates of duty, and regardless thereof, were it not for the Administration's licensing system of imports of liquors now in effect, owing to foreign depression and disturbed conditions, millions of gallons of wine now in Germany, France, Italy, Spain, Portugal, Greece, Argentina, Chile, and Algeria, in which latter places it is said wines are produced at as low as 6 cents per gallon, would be physically dumped into our markets, present duties being gladly paid, and the great wine industry of our country swamped. How can it then be said that our present duties are unreasonably high or unnecessary to protect our industry? All men know that regardless of present import liquor duties—yes, if they were doubled without restraint or drastic regulations, this country would be flooded with foreign liquors and wines.

Mr. REED. I would like to ask you there, Mr. DeVries, how do transportation rates from California to New York compare with transportation rates by water from France or other foreign countries to New York?

Mr. DEVRIES. The rates from California to New York are very much greater. I will touch upon that later.

Mr. REED. The rates from California to New York are greater than they are from foreign countries to New York?

Mr. DEVRIES. Yes, sir. Nor is the proposed reduction of import duties necessary to the investment of the President with the desired reciprocal powers. Quite as effectively the range of negotiatively-duties can be fixed above existing duties. That very thing is suggested by the committee in the proposed increase of duties for that purpose on still wines for reciprocity purposes from \$1.25, as presently provided, to \$2 per gallon. From existing conditions, however, all must realize that to reduce the still-wine rate of import duty from \$1.25 to 60 cents per gallon, and in addition adding to

their domestic costs internal, Federal, and State taxes, if ever proclaimed effective, would spell annihilation to our wine interests.

To illustrate: New York is by far our principal market for wines. The freight from California to New York in tank cars is 11 cents, in barrels 16 cents, and in bottles 19 cents per gallon. New York regulations prohibit sales for consumption except in bottles. The New York State tax on still wines is 10 cents per gallon. The proposed Federal tax is 16 cents per gallon—a total in taxes and freight only on case wines of 45 cents a gallon without including any costs of production, against a protective duty of 60 cents a gallon. While foreign costs are unobtainable, it must be apparent that such being much cheaper than ours, water freight rates less, and the lure of the word "imported" in our markets powerful, the consequence to our industry of such a low duty would be fatal.

The very suggestion of said report that in the absence of the Congress granting the suggested Presidential powers, the still wine import duty should be fixed permanently at \$1 per gallon would seem to entirely negative the suggestion that under any circumstances it should be reduced to 60 cents. Indeed, all existing conditions demonstrate a \$1 rate ineffective.

Senator CLARK, Judge, have you included the freight rate, the transportation cost from San Francisco to New York by water?

Mr. DEVRIES. Yes; we are tabulating those now, and I will submit them, with the permission of the committee.

It is therefore respectively urged that any reduction of the import duties upon wines will prove a needless loss of public revenues, will jeopardize—if not destroy—the domestic industry, and is unnecessary in order to put into effect reciprocal powers. The further suggestion, according to the public press, is made by said committee, as follows:

Until such time as a permanent liquor tariff policy is worked out, the Interdepartmental Committee proposes that 600,000 gallons of beer be imported each month; 350,000 gallons of spirits, and 700,000 gallons of wine. The recommendation was worked out on the basis of the 5-year average importation from 1910 to 1914.

Bearing in mind that these import quotas are licensed under the provisions of the triple "A" act, the purpose of which is to put American agriculture upon a parity with other industry, it is difficult to grasp just how licensing imports of foreign wines will aid American agriculture. Of course, all fair-minded men must admit that there may be a shortage of domestic wines in our markets of a particular kind or class whereupon imports to satisfy that shortage would be not only commercially wholesome but add to our import revenues. There is no such shortage, however, in our markets of any class or of all wines of such huge quantities as 700,000 gallons per month, or 8,400,000 gallons per year. Nor can any such arbitrary estimate for the future be justified. The imports into this country from all countries of champagne and other sparkling wines have never reached 750,000 quarts per year. Indeed, when prohibition arrested our champagne production we were building up at great expense such an industry in this country of more than 3,000,000 bottles per year of finest quality champagne. A detailed history and quantity production thereof, with permission of the committee, will herewith be filed. The still wine is our predomi-

nant market. There is truth no still wine on earth of a quality superior to that produced in this country. The California Wine Association has received the following foreign recognition: Gold medals and diplomas of honor were awarded at Genoa, Italy, 1892; Bordeaux, France, 1895; Turin, Italy, 1898. At the Paris Exposition in 1900, California wines received 4 gold medals, 9 silver medals, and 9 bronze medals. One brand of California wine—Creta Blanca—has received gold medals at 19 different expositions from 1889 to 1915.

In the summer of 1911, the Italian-Swiss Colony, of California, secured a Grand Prix for their Golden State Extra Dry Champagne at the International Exposition at Turin, Italy. Thus, in quality competition with the world, our wines have been universally approved. The quantity of such wines now in storage in this country, estimated to the close of the present vintage year, according to available statistics, is at least 62,550,485 gallons. There is authority based on the recent crushings, as yet not concluded, that this may reach 70,000,000 gallons. Of this 22,619,853 gallons are in California alone, and 2,930,632 gallons in other States. This total of 25,550,485 gallons is aged more than 1 year. The remaining estimated 37,000,000 gallons by modern treatment will undoubtedly be fit for market and potable upon the consumption of the older present available wines. It is conservatively estimated that the next vintage will produce 100,000,000 gallons. There are the necessary grapes and wineries and there will be the necessary cooperage, this year's wine production having been greatly curtailed by lack of cooperage. While the average annual market consumption of wine prior to prohibition was around 52,000,000, none can say, in view of the taxes being laid thereupon by the several States, and restrictions upon sales being imposed by many States, such as sales by the bottle only, that next year's consumption will not anywhere near approach these figures.

Mr. KNUTSON. Right in that connection, will you put in the record Judge, the prewar prices on various California wines as compared to the present price?

Mr. DEVRIES. The prewar prices?

Mr. KNUTSON. The preprohibition prices, I should say.

Mr. DEVRIES. You mean the retail prices?

Mr. KNUTSON. The wholesale prices at the wineries f.o.b. California.

Mr. DEVRIES. If there were any uniform prices I will. I will make the best effort to do that.

Mr. KNUTSON. I wish you would, for the information of the committee.

Mr. DEVRIES. I may say in that connection that the pre-prohibition wine prices, of course, were based on the price that was paid the grower for his grapes, and prior to prohibition the price paid by the winery to the grape grower was nothing like what will be paid at the present time under the N.R.A. provisions. I lived in California at that time, and I had some experience with that situation, and I know that \$5 to \$10 a ton was about the highest price the grower could obtain for his grapes. That price of \$5 and \$10 a ton for the growers' grapes at the present time would be negligible. That would be bankruptcy for the grower.

Mr. KNUTSON. It might be well for you also to put in the pre-prohibition price on grapes and the price that you will have to pay under the N.R.A.

Mr. DEVRIES. Very good. I will endeavor to do that. What I was going to say is that the estimated consumption of grapes in this country under present conditions, what will be consumed in the next year, is very difficult of ascertainment. It averaged, prior to prohibition, about 52,000,000 gallons a year, but at that time we had unlimited distribution. It is probable now, under the new law, the regulations that are being set up and the tax in the different States, that the avenues of distribution will be extremely restricted for some time to come. Advertising has to be commenced anew. You are commencing practically a new industry. The probabilities are that if these taxes and restrictions obtain future sales will be far less than 50,000,000 gallons. To meet this we have a certain supply of at least 63,000,000 gallons.

The arbitrary allowances, therefore, of immediate imports of 700,000 gallons, principally still wines, per month, or 8,400,000 gallons per year, is not justified by conditions. That such carries out the N.R.A. or A.A.A. policy of upbuilding American agriculture is unbelievable. Why not permit our farmers and our vintners to receive the money returns for that quantity of wine rather than send it from our country to the foreign farmer or foreign vintners? Such in no way carries out, but defeats, the purpose of the N.I.R.A. Even the Willis-Campbell Act in principle safeguarded the American vintner, for therein, section 2, it was in part provided:

That no vinous liquor shall be imported into the United States unless it is made to appear to the Commissioner that vinous liquor for such nonbeverage use produced in the United States is not sufficient to meet such nonbeverage needs.

That provision applied to all then legally importable wines, and we suggest that in principle it be applied to the present and future imports of wines; that it be provided by law that before any quota of imports shall be assigned any licensee to import, it shall be found by competent officials that there is not sufficient of that kind or class of wines in our country to supply the market demand. I challenge any American to deny its patriotic justification.

Another suggestion of great merit was received by wire yesterday from members of the organization, as follows:

Our premonitions of disastrous effects of imported wines on our domestic wines is verified. Local liquor stores selling two thirds imported to one third our wines and liquors at tremendous higher prices than domestic. For example, Clichequot Champagne for \$7.50 bottle against \$3.50 for Golden State Spanish Sherry and Port \$3 bottle against 75 cents best California brands, French and Italian dry wine from \$2.50 to \$4 bottle against 60 cents to \$1.05 for best California brands. This proves our past contention that tariff wall will not prevent our people from giving preference to imported merchandise; protection to our industry must be effectuated by constructive and timely regulations. Therefore, we contend that only solution to protect our reborn industry from the devastating effects of foreign wines is that still wines shall be imported in our country only by proprietors of bonded wineries and bonded storerooms for blending with wines of domestic production and sold under domestic labels. Kindly bear in mind that this matter is one of paramount importance to our industry and should have your immediate attention before it is too late.

B. CRIBARI & SONS,  
BIACCOLA BROS.,

Members Wine Producers Association.

The foregoing is submitted for the consideration of the committee. Such is the lure of the phantom word "imported," that regardless of quality, high prices and tariffs, the public buys such in preference to an equal domestic article.

Mr. KNUTSON. Will you put into your remarks, Judge, the amount of wine that is now held by the wineries ready for distribution?

Mr. DEVRIES. I have already stated that.

Mr. KNUTSON. I was called out of the room and I did not hear it.

Mr. DEVRIES. Yes; I stated that. Twenty-five million gallons, with practically 62,000,000 within the next 4 or 5 months.

It is respectfully submitted to your honorable committee that no man can foretell sufficient for allotment of imports what will be the annual consumption of wines in this country. While previous to prohibition wines were comparatively unrestrainedly sold in all wet States, many of those States, as well as the Federal code authorities, as is herein suggested, seek to confine such sales to bottle goods which will tremendously limit such sales. It is respectfully suggested that in that status, before the extent and demands of our markets are at all disclosed, the foreigner should not be allotted any estimated fixed portion thereof based upon conditions entirely different from present obtaining 15 years ago. No foreign producer is entitled, particularly in our economic stress, to fill any more of our market demand, agricultural or otherwise, than cannot be supplied by our own producers. Until it is shown that there is imminent a shortage of such wines to supply our markets with still or other wines, or that such is advisable for blending purposes only, it is respectfully submitted none of that kind or class of wines should be admitted. The suggested rules effect just that.

The present law does not provide a sufficiently increased duty upon imported case wines above that upon bulk wines. Indeed, paragraph 810 of the Tariff Act of 1930 reduces the duty upon bottles and jugs filled with wine to one third the rate provided on such bottles or jugs when imported empty. There is no justification for this exception. Bottles, jugs, caps, the material for and labor costs of bottling and packing wines, are lower in foreign countries than in this. Freight rates of such domestic goods to the principal American markets are much greater than those of the foreign goods. Case goods should bear a specific duty sufficient to fully cover said additional costs with a reasonable profit. For administrative purposes it should be specific, and not separately estimated from the wine content. To equalize the costs of such to the domestic producer there should be taken into consideration also the relative costs of transportation, foreign and domestic, of case goods into the principal markets of this country. With permission of the committee a suggested rate for such case goods will be herewith submitted.

Internal-revenue taxes. The suggested internal-revenue taxes submitted by the Interdepartmental Committee are on an average four times greater than current and prewar rates.

Mr. HILL. Judge, before you go into the internal-revenue features, you were referring to the proposed double rate plan, that is, import duties on still wines and the minimum of 60 cents a gallon as being too low.

Mr. DEVRIES. Yes.

Mr. HILL. Here is the interdepartmental committee report on that particular question, which says:

The minimum rate of 60 cents per gallon is the same in the law of 1908. It is in excess of the cost of production of the domestic product.

What is your comment on that point?

Mr. DEVRIES. It may have been so in 1908, but it is not so today. Besides, Mr. Hill, I make this point, that we are interested in revenue. This legislation is interested in revenue as well as for protection, and if it be true, as economic conditions today demonstrate, beyond any controversy, that there are millions of gallons of wine in foreign countries ready to be dumped into this country at the present duty rate, there is no justification for cutting that rate down. When you cut that rate down you merely cut the revenues out of the Treasury.

Mr. HILL. The import rate now is \$1.25 plus the excise tax.

Mr. DEVRIES. No; \$1.25.

Mr. HILL. Plus the excise tax.

Mr. DEVRIES. No.

Mr. HILL. Is not the excise rate added?

Mr. DEVRIES. No, sir.

Mr. HILL. Yes; it is added. I think you must be in error.

Mr. DEVRIES. I beg pardon. I do not think so.

Mr. HILL. The schedule I have here is \$1.25 plus the excise tax, which would be 16 cents.

Mr. DEVRIES. Are you reading from the law?

Mr. HILL. No; I am reading from the statement in the chart here.

Mr. DEVRIES. No; I am speaking about the law.

Mr. HILL. Well, I understood that they had taken that as their basis.

Mr. DEVRIES. I drew that law, or rather wrote the court decision thereupon, and I do not remember any such result.

Mr. HILL. There is the act itself, section 801 (b), which says that the duties prescribed in schedule A-8 shall be in addition to the internal-revenue tax imposed under existing law or any subsequent tax.

Mr. DEVRIES. That does not mean that your duty is added to that tax.

Mr. HILL. But they will have to pay that duty.

Mr. DEVRIES. No; they do not pay that as a duty.

Mr. HILL. Not as an import duty, but as a tax?

Mr. DEVRIES. They pay it as an internal-revenue tax, yes; but it does not mean that the foreigner has to add that to the import tax when he pays his import duties.

Mr. HILL. No, that is true; he pays \$1.25 a gallon to get it into this country?

Mr. DEVRIES. Yes.

Mr. HILL. Then, after it is gotten into this country he pays the additional internal-revenue tax that all wines produced here pay?

Mr. DEVRIES. That is naturally so, though it was ruled otherwise in one instance.

Mr. HILL. So that the total tax paid, import and internal revenue, import and excise, amount to \$1.25 plus the internal-revenue rate?

Mr. DEVRIES. Yes; but the net protection is indicated by the import duty only, because the domestic producer as well as the importer must equally pay the internal-revenue tax.

Mr. HILL. That is true; yes. You are right about that. I was just trying to get your reaction on that.

Mr. KNUTSON. Has the code been prepared for the vineyards yet?

Mr. DEVRIES. They are preparing it today.

Mr. KNUTSON. Do you know what rate they will contain?

Mr. DEVRIES. No; I do not. We have hoped and feared, but we have no absolute knowledge. The Code will not fix rates of duty or excise taxes.

The CHAIRMAN. How much additional time will you need? We are very much pressed for time.

Mr. DEVRIES. Well, I have got one or two thoughts that I want to express to your honors, then, if I may, file my remarks in full.

The CHAIRMAN. Very well.

Mr. DEVRIES. The suggested internal-revenue taxes submitted by the Interdepartmental Committee are on an average four times greater than current and pre-war rates. They are generally the highest war-time rates. In some instances they are greater. We must bear in mind that in addition to these the vintner, whether a corporation or an individual, must pay the same corporation and income taxes as others. Time is not here afforded, nor would it presently be profitable, to review the said suggested rates in detail. Such rates on still wines will illustrate.

The present internal tax on still wines is 4 cents per gallon. The war-time rate was 16 cents per gallon. The Interdepartmental Committee suggests 16 cents. I am instructed by the Wine Producers Association to submit to the committee for its consideration a schedule of internal tax rates approximately double those provided by existing law, which suggestions will be printed herewith, and to say to you that any higher schedules will certainly defeat your revenue purpose, encourage home wine-making which has heretofore escaped tax action, and illicit manufacturing. The Association expressly requests that it be borne in mind that individual States are not only imposing excise taxes but such onerous and expensive methods of distribution as will put in the discard one half of the national grape production for lack of market therefor because of the thereby increased costs of wine to our working population who represent the major portion of the wine consumers of our country. It would seem, in the light of recent experience, that nothing of argument could reinforce that obviously true and self-convincing statement. In this particular the committee will, of course, bear in mind that the chief source of brandy production of this country is from the grape, and that grape brandy used for fortifying wines enters largely into the costs of fortified wines. Such brandies so used always have been and should obviously be accorded a special and much lower tax rate than when sold for general uses.

Senator HARRISON. Judge, what tax do you think champagne should bear?

Mr. DEVRIES. Our suggestion, I think, is \$1.20 a gallon, Senator. Senator HARRISON. This committee only recommends 80 cents, with the internal revenue, of course, protected by \$6.

Mr. DEVRIES. Yes, \$6. We manufacture a very considerable amount of champagne in this country.

One of the most important recommendations of the Interdepartmental Committee, if enacted into law without limitations, will sound the fate of the wine industry. It is by the press reported as follows:

The report recommended that liquor be sold entirely in bottles except to rectifiers, to importers for bottling purposes, and to consumers for drink.

As reported its purpose is not clear. Thereunder no right to sell wine in bulk quantities to retailers or other than in bottles is made clear. The contrary would seem implied. The provision in substance as above interpreted is found in all liquor and wine codes or marketing agreements adopted or proposed, save that of beer. The beer exception is instructive. The provision in more exact form as above interpreted is found in some State regulations. Apparently the recommendation contemplates or authorizes regulations that in its course of distribution to the consumer all wine shall be bottled. If so, the added cost will be disastrous to the vintners' markets. For example, California wines, the chief market being New York, are quite frequently if not usually shipped in casks or tank cars in bond and therefrom sold in bulk or barrel quantities direct to the retailer. If all California wines can be sold in bottles only to the distributing trade, the transcontinental freight in bottles if shipped and expense of bottles will so increase the wine cost that they cannot be sold at reasonable prices or in competition with foreign or eastern wines in the eastern markets. Thereby, also, the bottling business of the West will be disrupted and bottling for eastern trade be carried on solely in the East. Where wine is marketed in bottles the bottling is a part of the winery plant equipment and labors, wherefore it is more economically conducted. To require otherwise will work serious injury to the bottle industry of the West and the labor therein employed as well as divide the winery operations. The great bulk of wines, however, heretofore was not sold in bottles but in bulk, or in barrels to be sold therefrom direct to the consumer without bottling. Thereby the cost to the consumer was greatly lessened.

Care also should be had by due and ample exceptions that no unfair advantage or exceptional privilege be given importers over domestic producers, or of one section of the country over another, as is possible under this provision. The right of the domestic producers to ship in bond and sell in bulk or barrel to the distributor for the retail trade should be preserved.

More important—indeed, most important—would be any failure to recognize the vast difference between wines and spirits, and the usual and customary methods of their sale and consumption. Wine control should not be treated as, and tied up with, distilled spirits. Our laws and regulations have almost uniformly so provided. Wines have never been so classed except where over 24 percent alcoholic content. Such would not only destroy the chief market for wines but undoubtedly work vast reduction in the public revenues and the

re-establishment of home wine production. To require that all wines sold for home use must at any stage of the distribution process be in bottles will put the cost of such in the home so much higher that such market will be greatly impaired. The family will thereby be very measurably denied the use of pure fine wines with meals, the Government its revenues, and resort will be had to home production. That wines, particularly light wines, are dietetic and usually consumed with meals is universally recognized and they should so legislatively treated. Even the Volstead Act, Section 29, recognized the sacred and exceptional right of the home owner to make and consume wines of exceptional alcoholic content in his home. Indeed, before that Act became a law, recognizing the family custom and right to have wines as a food basis free of tax, the Revenue Act of 1918, Section 616, allowed 200 gallons of such to be produced in the home tax free. All these laws elucidate the truth that you cannot legislate habits or tastes. To require wines to be obtainable in bottles only or with the added cost of bottles will invade that home right to the extent of its denial or greatly increased cost to millions of our most desirable population of moderate means as an important part of their customary daily meals.

Mr. HILL. You are speaking now of naturally fermented wines?

Mr. DEVRIES. Naturally fermented wines. I might go a little further and say wines up to 15 percent, which are of that kind and class. There is a sweet wine which is not a fortified wine, which requires the addition of a little bit of sugar to bring it up to the parity of alcoholic content. The eastern wines, for example, only develop ordinarily about 7 or 8 percent alcoholic content naturally, while the western wine develops a higher alcoholic content. They add sugar to bring that up. Therefore, the words "naturally fermented wine" are used to describe them.

Mr. HILL. Where you add sugar to bring the alcoholic content up, is that called naturally fermented wine? You do not call that a fortified wine?

Mr. DEVRIES. The law classes it as naturally fermented wine for tax purposes up to a certain alcoholic content.

Mr. HILL. But where you add alcohol after the fermentation to increase the alcoholic content, that is a fortified wine?

Mr. DEVRIES. That is fortified.

Mr. DICKINSON. Your grapes in California require no sugar, do they? Or, I should say, your wine in California, from grapes in California, requires no sugar at all?

Mr. DEVRIES. None at all.

Mr. DICKINSON. But east of the Rocky Mountains sugar has to be added?

Mr. DEVRIES. It does, in some cases.

Mr. DICKINSON. In the States of Missouri, Ohio, and New York?

Mr. DEVRIES. I think that practically can be said to be true of all the States, to bring it up to the standard alcoholic content of 10 or 12 percent, which is natural wine content.

Mr. DICKINSON. What about these foreign wines? Are you familiar with them, as to whether they require sugar?

Mr. DEVRIES. Some do, and some do not.

Mr. DICKINSON. There is a difference in different countries?

Mr. DEVRIES. There is a difference in localities of production.

Mr. DICKINSON. And some of the foreign wines are like the California wines that require no sugar at all?

Mr. DEVRIES. Yes, sir. In corroboration of these views I read briefly from the eminent authority, the Rockefeller Report, based upon a careful survey of world conditions, chapter 3, entitled "Light Wines and Beers vs. Spirits", pages 28 and following. It states:

We come now to the situation existing in those States in which, by the repeal of the eighteenth amendment, the slate has been wiped clean for a new experiment in liquor control. What is the road to be taken? From what point do we see the beginning of a path toward temperance?

American liquor legislation in the past has, as we have seen, been guided more by emotion than by reason or experience. In the stumbling search for a law to cure the drink evil, legislators seldom paused to inquire what drinks should be the main target of attack. To many earnest and sincere temperance workers alcohol in any form was a vice. Beer containing 3.2 percent of alcohol was condemned indiscriminately along with whisky having a content of 30 to 45 percent.

True to the American tradition of treating all alcoholic beverages alike, the Volstead Act defined as "intoxicating liquor" any beverage containing one half of 1 percent, or more, of alcohol by volume. An overwhelming weight of medical and scientific testimony to the contrary was brushed aside.

A rational approach to the problem of liquor control requires an about-face and a new viewpoint. We should start by inquiring what concentration of alcohol makes a beverage intoxicating in fact to the ordinary man. When the alcoholic content is below that point, a drink should be subject to little, if any, restraint upon its use. The sale of stronger drinks should be regulated under a program which, as far as is practicable, discourages consumption with increasing strictness as the alcoholic content increases. Such a system directs its spearhead against alcohol in the forms most liable to abuse by man, and by permitting relative freedom in the use of the weaker drinks tends to promote temperance.

Where shall the line be drawn in setting up such a plan of control? A natural and convenient division is between fermented beverages and distilled liquors. The fermented drinks, consisting mainly of beers and wines, have a range in alcoholic content up to 12 percent. Distilled liquors, which include whisky and gin, usually contain from 30 to 45 percent of alcohol.

The distilled liquors are thus seen to be in a class by themselves, with an alcoholic strength far in excess of wines and beers. This difference should be made the basis of a radical difference in treatment under the law.

Wines naturally fermented—not in excess of, say, 10 to 12 percent—should be sold by the bottle for off-premises consumption as freely as 3.2-percent beer. While a 10- to 12-percent dividing line is more or less arbitrary, it represents the average upper limit of the stronger natural wines. But as compared with 3.2-percent beer, a greater measure of restriction should govern the sale of wine for on-premises consumption. Natural wine should be sold by the glass only with meals. It follows that the sale of wine for on-premises consumption should be restricted to bona fide restaurants, dining rooms, and clubs.

In summary, we recommend that the following classification of permits for the sale of 3.2-percent beer and of wines be adopted:

A. Permits to sell 3.2-percent beer and naturally fermented wines not in excess of 10 to 12 percent by the bottle for off-premises consumption.

B. Permits to sell 3.2-percent beer for on-premises consumption with or without meals.

C. Permits for sale of 3.2-percent beer and natural wines at hotels, restaurants, or clubs for consumption on the premises with meals.

It is a question of human tastes and appetites which, as we have discovered, cannot be eliminated by statute; in our opinion there is but one major proposition to be faced in relation to alcohol. Granting that millions of our people will not drink at all, how can the cause of temperance best be served among those who choose to drink? It is because that we believe that the whole temperance movement will be materially helped if the sale of beverages of low alcoholic content is liberalized that we have been led to the recommendations contained in this chapter.

It is respectfully submitted to this committee that the logic of that report is applicable to all wines up to that strength at which they are regarded as spirits, to wit, 24 percent. At that alcoholic content they are one half or less the alcoholic strength of whiskys, gin, and so forth. Moreover, all men know that all such are practically always used solely with or as a part of meals. When used without other food they are sipped, not gulped. They are consumed only in eating places and in the home, and not in a saloon. They are not a saloon article. To confine their sale to bottled wines, therefore, is unnecessary, will defeat the public revenues, will lead to bootlegging and homemaking of wines with no useful purpose sustained. The intended purpose of a nonsaloon use is effected by the national, universally customary use of wines with meals and in the home.

The Wine Producers Association has filed its code with the N.R.A. and A.A.A. The eventuation will be, we hope, a thoroughly self-regulated industry. Its dominant forces purpose producing and selling wines of high quality, or reasonable prices, and in quantities sufficient to satisfy all American demands. As such, notwithstanding its present condition, it will be one of the first agricultural industries of the country in its agricultural rehabilitation. We offer tax payments more than double current rates.

We protest an excise tax burden four times greater than the present—even higher than war-time rates. We ask the Congress not to defeat our efforts by exposing our markets to disastrous foreign competition; not to lay upon us unbearable taxes, and not to close those market channels and deny family habits accepted as naturally wholesome and in the interests of temperance by universal custom and observance.

The CHAIRMAN. Have you completed your statement?

Mr. DEVRIES. In substance. If I may add some articles that have been asked for.

The CHAIRMAN. Yes; you have the privilege to insert them in the record.

Mr. SHALLENBERGER. I have just one question on the effect of the tax on the cost of wine. Is the price of wine dependent upon the quality of the wine or upon the cost of the production generally?

Mr. DEVRIES. The quality, of course, enters into the price very extensively.

Mr. SHALLENBERGER. That is the main factor, is it not?

Mr. DEVRIES. Yes, sir. I wish to thank the committee for the courtesy of this hearing.

The CHAIRMAN. We thank you for your attendance and the information you have given the committee.

(Mr. De Vries subsequently submitted the following memorandum:)

*To the Honorable Members of the Joint Committee of the Senate and House:*

In compliance with the requests of members of the joint committee at the time of the hearings that certain data be supplied, every effort has been made to ascertain in detail the facts so requested, with results as follows:

As to pre- and post-war prices of California wines, no uniform pre-war prices prevailed. Prior to the war wine prices were governed in a large measure by grape prices, which were unprofitably low and controlled by the wineries. For that reason, and by reason of the vastly different prices paid by the wineries in different areas, there were at that time no uniform whole-sale wine costs or prices at the winery or elsewhere. Requests of the industry for said data since the hearings confirm these facts as previously stated.

Neither the costs of production nor fair market prices at which wine will sell under the N.R.A. are as yet determinable. No one can forecast this year's actual cost of wines at the winery because of the variant prices of grapes in different localities, the tremendous capital investment in improvements of wineries recently undertaken and not yet completed, the uncertain expense of marketing, and local and Federal excise taxes which will be applicable thereto on sale not yet fixed. The certain increased prices of grapes and costs of labor of future production of wine which will be subject to taxes, State and Federal, now being considered, which will be taxed upon present and future wine stocks, are not as yet fixed or ascertainable. All these are presently in process of determination. It may be said generally that tremendous sums have been expended in improvement and extension of wineries and increased labor costs both in numbers employed and wages paid, which will properly be added to present wine stock costs. It is certain that grape costs, labor costs, and taxes so properly added will be much greater. Regulations as to marketing containers in which wine may be sold (bottled, for example) will be an important factor.

It would seem reasonable to forecast that when all the foregoing factors are settled the costs of producing wines delivered in the principal markets of the United States will be at least three times the pre-war costs and relative sales prices will necessarily accordingly be adjusted.

*Costs of competitive water transportation.*—The factors to be taken into consideration in an estimation for comparison of transportation costs of wine to New York from European countries with those from California are so numerous that in the time allowed satisfactory and complete information has not been obtainable. There enter here the questions of inland rates to the seaboard in Europe and California, the kind and class of containers in which the wine is shipped, that is, barrels, casks, bottles, etc., whether or not under long or short contracts with the shipping agencies, whether in so-called carload lots or less, currency fluctuations and calculations, and numerous other factors, wherefore accurate or reliable comparisons are not in the time allowed possible. To this may be added the ascertained fact that since repeat many ocean freight rates upon wine have been and are now being materially changed to meet competition with and secure an advantage over domestic wines in our markets, which said changes are not only incomplete but we have as yet been unable to ascertain those adjusted.

It is due to say to the committee, however, that investigations so far made disclose that, all things considered, there is no substantial difference in water transportation costs of wine to New York from the wineries of Europe and of our west coast.

By reason of the much longer period of time required to reach New York from San Francisco than from European ports, the exigencies of the trade result that relatively few shipments of wine can be made from California to New York by water. Wherefore present competitive freight rates and sales prices of wine, even could the same be definitely ascertained, form no safe or sufficient factual guides upon which to increase excise taxes or reduce import duties upon wines. Certainly tremendous floods of wine pouring into the country at this time regardless of duties conclusively argues against any present reduction of import duties.

I am instructed by the Wine Producers Association to submit to the Committee the following suggested excise rates upon wine, to wit:

Wine not over 14 percent alcoholic content, 8 cents per gallon; fortified and other wines over 14 percent and not exceeding 21 percent alcoholic content, 20 cents per gallon; from 21 to 24 percent alcoholic content, 40 cents per gallon; over 24 percent alcoholic content to be classed as spirits and pay duty accordingly; carbonated wine, 20 cents per gallon; naturally fermented champagne, \$1.20 per gallon; brandy for fortifying wine, 20 cents per gallon.

In this connection I wish to state that if the present rates upon spirits are to be no more than doubled, those upon wine should not be increased in greater proportion.

The association believes the foregoing to be the limit of excise taxes which should be imposed in the interest of the public revenues, the industry, and to avoid home production and illegitimate production and sales.

At the same time, counsel for the association, without its authority, wishes to coincide with Congressman Buck (Hearings, p. 274), in the belief that all

the foregoing purposes would be better subserved by adhering to present excise rates.

*Age of potable wines.*—Since the hearing there has been referred to the Wine Producers Association the question of the necessary age for potable wine. Thereto answer was given as follows:

"Regarding age required for wine in France and Italy, and in the United States in preprohibition days, large consumption came from laboring and other classes of moderate means, who consumed lower-priced wines of the current vintage starting with wines of from 4 to 6 months' age. Of course, matured and aged wines for more discriminative uses are required, which can be supplied from older stocks on hand.

"(Signed) WINE PRODUCERS ASSOCIATION."

At the hearing it was suggested for answer, in reply to a request for the maintenance of the present rate of import duty on wine of \$1.25 per gallon "that in 1908 the import duty was 60 cents per gallon, which was then above the domestic cost of production." It has been further urged that the present duty represents an increase over that period of a quarter of a century approximately double. That increase was on a parity with other agricultural import duty rates. It was one of the increases resulting from an aroused agricultural demand that agricultural import duties be brought to a parity with the protection long afforded other industries of the country. While the rate on wine represents a double duty, many agricultural rates were increased far more in a shorter period of time. For example, I refer you to the following rates of duty:

Commodity	Under the Tariff Act of—			Percent Increase
	1913	1922	1930	
Cattle.....	10 percent ad valorem..	1½ cents per pound..	2½ cents per pound..	166
Oats, per bushel.....	6 cents.....	16 cents.....	16 cents.....	150
Beans, per pound.....	3 cents.....	1 cent.....	3½ cents.....	1250
Hay, per ton.....	\$2.....	\$4.....	\$5.....	150
Hops, per pound.....	16 cents.....	24 cents.....	24 cents.....	65
Butter, per pound.....	2½ cents.....	8 cents.....	24 cents.....	960
Apples, per 60-pound bushel.....	10 cents.....	25 cents.....	26 cents.....	150
Wheat, per bushel.....	Free.....	30 cents.....	42 cents.....	
Wine (1908).....	60 cents.....	\$1.25.....	\$1.25.....	100 plus

<sup>1</sup> From 1922 to 1930.

<sup>2</sup> From 1908 to 1930.

These very just increases registered aroused agriculture in the United States, and there is no more reason—indeed, less reason because of the tremendous imports ready to enter the country at the present time at the presently prescribed rates—for cutting down the rate upon wines than there is for cutting down other prescribed agricultural duties.

*Suggested legal provisions.*—The following roughly drawn provisions are suggested:

### I

That in addition to other duly prescribed methods of sales, wines of not greater than 24 percent alcoholic content, may be sold direct from a bonded winery or storeroom to hotels, restaurants, clubs, and bona fide eating places, for consumption on the premises with regularly served meals, and to the home, by the cask, barrel, demijohn, or other suitable container, under rules and regulations to be prescribed by the duly constituted authorities.

(For supporting reasons see Hearings, pp. 221–225.)

### II

No vinous liquor shall be imported into the United States unless it is made to appear to duly constituted authorities for licensing or otherwise permitting such imports that vinous liquor of the same kind and class produced, together with that in storage, in the United States is not sufficient to meet such needs.

III

That no still wines shall be imported into the United States save for use in bonded wineries and storerooms for blending with wine of domestic production and sold under domestic labels.

(For supporting reasons II and III see Hearings, pp. 217-218.)

Very respectfully submitted,

MARION DE VRIES,  
Representing WINE PRODUCERS ASSOCIATION,  
*Southern Building, Washington, D.C.*

DECEMBER 21, 1933.

Distilled spirits excise taxes

	Tax per gallon	Period tax rate was in force	Collections		Number of gallons tax paid for consumption	Population of United States	Gallon average per capita consumption
			Fiscal year (internal revenue went into operation Sept. 1, 1862)	Amount			
All distilled spirits.....	\$0.20	July 1, 1862, to Mar. 6, 1864.....	1863 at \$0.20.....	\$3,229,990.79	16,149,953	31,443,321	0.51
Do.....	.60	Mar. 7, 1864, to June 30, 1864.....	1864 at \$0.20.....	11,372,719.13	56,963,595	31,443,321	2.71
All distilled spirits except grape.....	1.50	July 1, 1864, to Dec. 22, 1864.....	1864 at \$0.60.....	17,059,078.70	28,431,797	31,443,321	.42
Spirits distilled from grapes.....	.25	July 1, 1864, to Mar. 31, 1865.....	1865 at \$0.25.....	973,270.57	3,893,082		
Do.....	.50	Mar. 4, 1865, to July 13, 1866.....	1865 at \$0.50.....	2,989.76	5,960	31,443,321	.42
All spirits except grape.....	2.00	Dec. 23, 1864, to Mar. 3, 1865.....	1865 at \$1.50.....	10,178,302.64	6,785,535		
All spirits except grape, apple, and peach.....	2.00	Mar. 4, 1865, to July 13, 1866.....	1865 at \$2.00.....	4,853,153.00	2,426,576	35,000,000	.42
Spirits distilled from apples or peaches.....	1.50	Mar. 4, 1865, to July 13, 1866.....	1866 at \$0.50.....	44,740.70	89,481		
Spirits distilled from grape.....	.50	Mar. 4, 1865, to July 13, 1866.....	1866 at \$1.50.....	238,759.14	159,173	35,000,000	.21
All spirits.....	2.00	July 14, 1866, to Mar. 2, 1867.....	1866 at \$2.00.....	29,198,578.15	14,599,289		
All spirits except grape.....	2.00	Mar. 3, 1867, to July 20, 1868.....	1867 at \$1.00.....	13,069.56	13,069	35,000,000	1.92
Spirits distilled from grape.....	1.00	Mar. 3, 1867, to July 20, 1868.....	1867 at \$2.00.....	29,151,339.78	14,575,669		
All spirits.....	.50	July 21, 1868, to June 6, 1872.....	1868 at \$1.00.....	158,885.62	158,885	35,000,000	.62
Do.....	.70	June 7, 1872, to Mar. 3, 1875.....	1868 at \$2.00.....	14,131,845.36	7,065,922		
			1869 at \$2.00.....	317,061.38	158,531	38,558,371	1.60
			1869 at \$0.50.....	33,418,262.30	66,836,524		
			1870 at \$0.50.....	39,245,099.04	78,490,198	38,558,371	1.62
			1871 at \$0.50.....	31,157,314.15	62,314,628		
			1872 at \$0.50.....	33,117,788.99	66,235,578	38,558,371	1.62
			1873 at \$0.70.....	43,131,064.78	61,615,806		
			1874 at \$0.70.....	43,807,093.70	62,581,562	38,558,371	1.67
			1875 at \$0.70.....	38,868,838.36	55,526,911		
			1875 at \$0.90.....	8,009,099.34	8,898,999	44,500,000	1.28
			1876 at \$0.90.....	51,390,490.43	57,100,545		
			1877 at \$0.90.....	52,671,291.34	58,523,657	44,500,000	1.19
			1878 at \$0.90.....	45,626,533.06	50,696,148		
			1879 at \$0.90.....	47,709,463.24	53,010,515	50,155,783	1.38
			1880 at \$0.90.....	55,918,928.34	62,132,143		
			1881 at \$0.90.....	62,212,575.98	69,125,418	50,155,783	1.53
			1882 at \$0.90.....	64,778,754.80	71,976,394		
			1883 at \$0.90.....	69,085,856.73	76,762,063	57,000,000	1.26
			1884 at \$0.90.....	71,655,211.33	79,616,901		
			1885 at \$0.90.....	62,242,221.27	69,158,024	57,000,000	1.18
			1886 at \$0.90.....	63,766,219.61	70,851,355		
			1887 at \$0.90.....	60,642,351.66	67,380,391	57,000,000	1.26
			1888 at \$0.90.....	64,408,937.37	71,565,486		
			1889 at \$0.90.....	69,447,173.84	77,168,529		1.35

All spirits.....	.90	Mar. 4, 1875, to Aug. 28, 1894.....	1890 at \$0.90.....	76,539,602.62	85,043,336	62,947,714	1.35	
			1891 at \$0.90.....	79,626,093.51	88,473,437		1.41	
			1892 at \$0.90.....	85,541,209.01	95,045,788		1.51	
			1893 at \$0.90.....	89,231,300.05	99,145,889		1.58	
			1894 at \$0.90.....	79,899,647.52	88,777,386		1.41	
			1895 at \$0.90.....	37,232,644.32	41,369,605		62,947,714	1.20
			1895 at \$1.10.....	37,604,751.89	34,156,138			1.00
			1896 at \$1.10.....	75,325,870.01	68,478,064		70,000,000	1.00
			1897 at \$1.10.....	76,922,071.11	69,929,155			1.14
			1898 at \$1.10.....	87,741,223.85	79,764,748		1.22	
			1899 at \$1.10.....	93,638,085.27	85,125,532		1.25	
			1900 at \$1.10.....	104,375,921.46	94,887,201		1.33	
			1901 at \$1.10.....	110,554,703.40	100,777,003		1.38	
			1902 at \$1.10.....	115,285,115.90	104,804,651		1.51	
			1903 at \$1.10.....	125,862,518.08	114,420,471		1.55	
			1904 at \$1.10.....	129,564,242.49	117,785,675		1.55	
			1905 at \$1.10.....	129,512,628.19	117,738,753		1.50	
1906 at \$1.10.....	136,965,911.49	124,514,465	1.64					
1907 at \$1.10.....	149,749,338.63	136,135,762	1.46					
1908 at \$1.10.....	133,626,276.45	121,478,433	1.41					
1909 at \$1.10.....	128,315,181.45	116,650,165	1.40					
1910 at \$1.10.....	141,523,554.06	128,657,776	1.46					
1911 at \$1.10.....	148,050,212.34	134,600,193	1.48					
1912 at \$1.10.....	149,409,468.07	135,826,789	1.56					
1913 at \$1.10.....	157,542,061.75	143,220,055	1.51					
1914 at \$1.10.....	153,052,351.38	139,138,501	1.35					
1915 at \$1.10.....	136,570,695.59	124,155,178	1.38					
1916 at \$1.10.....	149,849,180.47	136,226,527	1.66					
1917 at \$1.10.....	181,131,770.62	164,665,245	99,000,000	1.94				
1918 at \$1.10 <sup>1</sup> .....	54,850,656.36	49,864,233		1.85				
1918 at \$3.20.....	119,715,570.75	37,411,116	99,000,000	.85				
1918 at \$2.20.....	11,699,701.06	5,318,046						
1919 at \$2.20 <sup>1</sup> .....	26,380,029.17	11,990,922	99,000,000	.85				
1919 at \$3.20.....	188,022,961.47	58,757,175						
1919 at \$6.40.....	88,562,475.89	13,837,887	105,710,620	.28				
(?).....								
1920 at \$2.20.....	63,993,175.63	29,087,807	105,710,620	.18				
1922 at \$2.20.....	42,254,256.49	19,206,480						
1924 at \$2.20.....	24,825,033.46	11,284,106	114,000,000	.09				
1926 at \$2.20.....	23,752,221.57	10,796,464						
1929 at \$1.10.....	11,589,582.74	10,535,984	123,202,660	.08				
1930 at \$1.10.....	10,717,262.01	9,742,965						
1932 at \$1.10.....	7,906,945.22	7,188,132	123,202,660	.06				
1933 at \$1.10.....	6,774,923.17	6,159,021						
Beverage spirits.....	3.20	Oct. 4, 1917, to Feb. 24, 1919.....						
Nonbeverage spirits.....	2.20	Oct. 4, 1917, to Dec. 31, 1926.....						
Beverage spirits.....	6.40	Feb. 24, 1919, to June 30, 1919 (prohibition effective).....						
Nonbeverage spirits.....	1.65	Jan. 1, 1927, to Dec. 31, 1927.....						
Do.....	1.10	Jan. 1, 1928, to Dec. 5, 1933.....						
All spirits.....	1.10	Dec. 6, 1933.....						

<sup>1</sup> Floor tax collections, not included, amounted to \$113,727,536.32 for 1918 and \$40,914,532.14 for 1919.

<sup>2</sup> Nonbeverage (several years omitted).

## TAX ON INTOXICATING LIQUOR

## Excise tax on fermented malt liquors (beer)

	Tax rate per barrel of 31 gallons	Fiscal year (Internal revenue went into operation Sept. 1, 1862)	Amount collected	Number of barrels tax paid for consumption	Population of United States	Average per capita consumption (barrels)
Sept. 1862 to Mar. 3, 1863.....	\$1.00	1863	( <sup>1</sup> )			0.63
Mar. 4, 1863 to Mar. 31, 1864.....	.60	1863	\$1,558,083.41	2,696,806	31,443,321	.118
	.60	1864	2,223,710.73	3,706,199		
Apr. 1, 1864 to June 13, 1868.....	1.00	1864	( <sup>1</sup> )			
	1.00	1865	3,057,181.06	3,057,181	35,000,000	.116
	1.00	1866	5,115,140.49	5,115,140		.116
	1.00	1867	5,819,345.40	5,819,345		.166
	1.00	1868	5,685,663.70	5,685,664		.162
	1.00	1869	5,860,400.98	5,866,401		.168
	1.00	1870	6,081,520.54	6,081,520		.156
	1.00	1871	7,159,740.20	7,159,740		.186
	1.00	1872	8,009,969.72	8,009,970		.208
	1.00	1873	8,010,823.83	8,010,824		.231
	1.00	1874	8,880,829.68	8,880,830		.230
	1.00	1875	8,743,744.02	8,743,745	.227	
	1.00	1876	9,159,675.95	9,159,676	.296	
	1.00	1877	9,074,305.03	9,074,306	.294	
	1.00	1878	9,473,360.70	9,473,361	.213	
	1.00	1879	10,270,352.83	10,270,353	.231	
	1.00	1880	12,346,077.26	12,346,077	.216	
	1.00	1881	13,237,700.03	13,237,701	.294	
	1.00	1882	15,680,678.54	15,680,678	.312	
	1.00	1883	16,426,050.11	16,426,050	.327	
	1.00	1884	17,573,722.88	17,573,723	.370	
	1.00	1885	17,747,000.11	17,747,000	.354	
	1.00	1886	19,157,612.87	19,157,613	.336	
	1.00	1887	21,387,411.79	21,387,412	.375	
	1.00	1888	22,829,202.90	22,829,203	.400	
	1.00	1889	23,235,803.04	23,235,804	.408	
	1.00	1890	25,494,798.50	25,484,798	.495	
	1.00	1891	28,192,327.69	28,192,328	.418	
	1.00	1892	29,431,408.06	29,431,408	.467	
	1.00	1893	31,962,743.15	31,962,743	.508	
	1.00	1894	30,834,674.01	30,834,674	.493	
	1.00	1895	31,044,304.84	31,044,305	.493	
	1.00	1896	33,139,141.10	33,139,141	.473	
	1.00	1897	31,841,362.40	31,841,362	.455	
	1.00	1898	34,480,524.23	34,480,524	.524	
	1.00	1899	4,404,627.40	2,202,314	.524	
June 14, 1898 to June 30, 1901.....	2.00	1898	67,675,301.31	33,836,651	75,994,575	.484
	2.00	1899	72,762,070.56	36,381,035		.479
	2.00	1900	74,959,593.87	37,478,297		.493
	2.00	1901	71,174,025.22	47,449,750		.624
July 1, 1901 to June 10, 1902.....	1.60	1902	46,654,823.11	46,654,823	83,000,000	.634
July 1, 1902 to Oct. 22, 1914.....	1.00	1903	48,208,132.56	48,208,132		.634
	1.00	1904	49,459,539.93	49,459,540		.651
	1.00	1905	54,651,036.63	54,651,037		.658
	1.00	1906	58,540,110.69	58,540,111		.705
	1.00	1907	58,747,680.14	58,747,680		.708
	1.00	1908	56,303,496.68	56,303,497		.678
	1.00	1909	59,485,116.82	59,485,117		.647
	1.00	1910	63,216,851.24	63,216,851		.687
	1.00	1911	62,108,633.39	62,108,633		.675
	1.00	1912	65,245,544.40	65,245,544	.719	
	1.00	1913	66,105,444.65	66,105,445	.719	
	1.00	1914	78,460,380.97	59,740,701	.659	
Oct. 23, 1914 to Oct. 3, 1917.....	1.60	1915	87,875,672.22	58,583,781	99,000,000	.592
	1.60	1916	91,094,677.70	60,729,785		.614
	1.60	1917	26,259,032.45	17,506,422		.597
	1.60	1918	98,005,121.20	32,669,374		.597
Oct. 4, 1917 to Feb. 24, 1919.....	3.00	1918	64,374,010.47	21,691,537	105,710,620	.289
	3.00	1919	83,129,285.60	8,854,894		
Feb. 25, 1919 to Proh. July 1, 1919.	6.00	1919	93,193,719.67	18,638,754	123,202,660	4.154
Mar. 22, 1933.....	6.00	( <sup>2</sup> )				
Dec. 6, 1933.....	6.00	( <sup>3</sup> )				

<sup>1</sup> Not recorded.

<sup>2</sup> Collector figures lumped, barrels shown on p. 44, Annual Report of Commissioner, 1915.

<sup>3</sup> 1918 floor tax, \$1,462,827.51, not included.

<sup>4</sup> 8 months calculated (April to November) year 1933.

<sup>5</sup> Two thirds of year.

## AMERICAN CHAMPAGNE

## THE BRANDS PRODUCED IN NEW YORK, OHIO, AND MISSOURI

At the time prohibition went into effect, the American manufacturers of naturally fermented-in-the-bottle champagnes had won a splendid reputation for their effervescent wines. The World War stopped French importations on a large scale, and for 4 or 5 years the firms that specialized in the making of champagne in this country had the American market practically to themselves.

Very little sparkling wine has been made during the prohibition era, but now that repeal is almost here, there is great activity in many of the eastern plants and undoubtedly much champagne will be bottled again, especially in New York State which produced the bulk of the natural sparkling wines in the United States. The American producers will undoubtedly make every effort to retain this business, for they feel their splendid product merits the patronage of the American people. Besides they will be able to offer their wines at a much less price per bottle than the foreign champagnes which now pay a duty of \$8 per gallon.

It is estimated that about two thirds of the 3,000,000 bottles of the genuine, or fermented-in-the-bottle champagne manufactured in the United States, before prohibition was made in New York State, the other third being produced in northern Ohio, Missouri, and California.

In referring to an old file of material the writer collected on American champagnes, we find many advertisements, articles, booklets, and trade letters of the various firms that specialized in sparkling wines. In this article we intend to quote from them so our readers will know the names of the popular old brands and the claims that were made for them.

## NEW YORK CHAMPAGNE PRODUCERS

In 1865 the Pleasant Valley Wine Co., whose vineyards of American varieties of grapes are located at Rhelms, in the very heart of Pleasant Valley, at the head of Lake Keuka, began the manufacture of sparkling wines. Their Great Western champagne was finished in several grades, from the sweetest to absolutely no sugar at all, so it was possible for them to suit all palates.

After 35 years of experiment, they succeeded in overcoming many obstacles. The "foxy" flavor, which was objectionable to the discriminating consumer, was practically eliminated. The Great Western champagne which was offered to the public prior to prohibition was a very fine wine, and in recommending it to the American public the Pleasant Valley Wine Co. declared it deserved preference over the imported article, because "when you buy a foreign wine you get only 50 percent of wine value—the United States custom office gets the other half, and the quality is not in any sense superior to the American product."

The Urbana Wine Co., whose vineyards and winery are also located in the Lake Keuka district, Steuben County, western New York, claimed that its Gold Seal, Special Dry, and Brut was equal to any foreign champagne in purity, and superior to many of the brands of imported wine which found a market in this country on an inflated reputation.

In reply to the question, "Isn't there a difference between Gold Seal and Imported Wines?" the Urbana Wine Co. said: "Yes, and we frankly admit it; but the difference is in price. The foreign article costs about 2½ times as much. As every judge of champagne knows, no two brands of French champagne are alike; they differ in bouquet and taste. This is due largely to the dosage, which, in France, consists of a flavoring of cordials, liqueurs, and fruit sirups in the finishing sirup, and which varies for the different brands of wine; while the Urbana Wine Co.'s Gold Seal depends entirely upon the blending of the wine from different grapes for its bouquet and flavor.

"The only fair way to judge of the merits of any article is to try it. The best way to judge of the superior quality of Gold Seal is to drink it. If satisfaction results, why not buy Gold Seal at less than half the price of an imported wine, unless it is the label and not the wine which the purchaser desires? There was a time when American champagne was virtually tabooed. Thousands are now loud in their praises of Gold Seal, and it is to be found on the wine lists of the leading hotels of the country, at exclusive clubs, and on the tables of the most discriminating of American families."

The Roualet Wine Co., whose plant is also located at Hammondsport, N.Y., did not manufacture its champagne entirely from the American varieties of

grapes. Its Dry Imperial brand was a blend of the two grapes grown in the Lake Keuka district and strictly an American product. "The grapes", they announced, "are the finest that we can procure and the juice used is the first pressing only, ensuring a fine flavor and perfect fermentation."

Their Prince Consort brand, on the other hand, was a blend of still champagne wine, imported from Epernay, France, and the juice of the costly native Delaware grape. "This product", they announced when it was ready to put on the market, "is something extraordinary in American champagne making, from the fact that it is very difficult to get a proper blend of the two wines. This wine has been in tlerage in our cellars for the past 6 years receiving the proper age, and produced by us for competition with the foreign brands. We anticipate a large sale of this particular brand in the near future, from the fact that the price is much less than the imported champagne."

The Germania Wine Cellars, of Hammondsport, N.Y., whose Grand Imperial, Sec was a well-known brand of American champagne, did not ship any of its products until it was at least 3 years old.

The writer who prepared their literature evidently decided to leave no stone unturned to impress possible consumers, for here is the enthusiastic manner in which he described the Germania's output: "To say that a certain brand of wine is the finest American champagne means more in these days than it did a few years ago. Time was when the only recognized brand of the article came from the little district of France from which the wine took its name. But that time has passed. In latter years American champagne has been coming more and more into public favor, and it has won a justly merited position beside the imported wine. So when a wine is pronounced the finest champagne, it means practically that it has no equal for purity, excellence, and flavor. The famous Grand Imperial, Sec of the Germania Wine Cellars, of Hammondsport, has been pronounced by connoisseurs to be the finest product of its kind on this side of the Atlantic. It fills all the qualifications of the finest American champagne and is used in many of the best hotels, homes, and clubs in preference to established foreign vintages."

The White Top Champagne Co., of Hammondsport, N.Y., which advertised itself as "the only exclusive champagne producers in America", was a bit more modest. It declared its product was the "peer of any", but based its claims principally on the fact that its White Top was a "true champagne, fermented and matured in the bottle by the natural process, and an absolutely pure product."

Some years ago, through the courtesy of L. L. Farwell, we visited the plant of the Brotherhood Corporation at Washingtonville and saw thousands of bottles of Brotherhood Extra Dry and Vin Crest Brut, finished and in tlerage, in the underground cellars. It seemed a crime to find this big store of sparkling wine lying practically dead, for the demand for medicinal purposes has been limited. The Brotherhood Corporation was one of the first establishments to manufacture champagne in the United States. They produced fine effervescent wines which were the pride of the late Edward R. Emerson.

MERITS OF OHIO CHAMPAGNE

The Hommel Wine Co., whose vineyards and winery are located in the Lake Erie grape district of Ohio, insisted that "the difference between Hommel's champagne and the imported article are all in favor of the former." Here were their arguments: "Imported champagnes brought to our American markets must be fortified very strongly in order to prevent them from spoiling in their trans-Atlantic voyage; and another thing, nearly all imported champagnes are flavored, which leads many people to believe that it is the real flavor of the grape. It is these strong, highly flavored wines that give those terrible headaches in the morning, which we guarantee you do not get after drinking Extra Dry or White Star, providing you do not mix your drinks. There is also a difference in the price, imported champagne being twice as much as the White Star and three times as much as the Extra Dry. That our wines rank the first among the first, is indicated by the awards given them over all other American champagnes wherever they were exhibited."

We understand that the Hommel Wine Co. have on hand some 20,000 cases of their White Star champagne which will be offered the public when repeal is effective.

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## A POPULAR MISSOURI CHAMPAGNE

The American Wine Co., of St. Louis, Mo., which manufactured Cook's Imperial, Extra Dry champagne, the best-listed American champagne in the United States, thus advertised its effervescent wine:

"America has the rich, fertile soil, the sun and the rains to produce perfect Catawba grapes. And it does—the finest in all the world.

"We have the expert champagne makers, trained in the best French methods to convert those perfect grapes into Cook's Imperial Extra Dry, the true representative American champagne—so pure, so delicious, so mildly bracing that physicians prescribe it as a tonic.

"Cook's is the equal of any foreign champagnes, the superior of many.

"Besides all this, you can get about twice as much of Cook's as of any imported brands for the same money.

"For your palate's sake, for your health's sake, and for your pocketbook's sake begin to drink Cook's now, Today!"

In the December 1932 report of the Commissioner of Industrial Alcohol, there were in storage in New York State, 262,166 quarts of champagne, 611,477 pints and 8,739 half pints; in Missouri, 85,189 quarts and 304,425 pints; in New Jersey, 80,591 quarts, 118,172 pints, and in Ohio, 31,342 quarts, 95,112 pints and 664 magnums.

## CHOICE CALIFORNIA CHAMPAGNES

## HOW THE INDUSTRY DEVELOPED BEFORE PROHIBITION

Before prohibition practically stopped the manufacture of champagne in the United States, this country was producing annually about 3,000,000 bottles of sparkling wines. The bulk of the champagnes were made in the East, our output being only about 1,000,000 bottles. But we always claimed that our product more nearly approached the French champagne because it was made from the European types of grapes which do not grow east of the Rocky Mountains. Everyone had to admit that the eastern champagnes were pure and delightful beverages, but they had a different aroma, bouquet and flavor, because they were made from American varieties of grapes that differ in every essential from the true champagne grape.

The story of the manufacture of champagne in California since 1857 is intensely interesting. The experiments of Don Pedro Sansevain, M. Debanne, Col. Agoston Haraszthy, the Buena Vista Co., and Arpad Haraszthy marked the early stages of the solution of California's champagne problem.

## IN THE SANTA CLARA VALLEY

Thirty years before the advent of prohibition, Paul Masson, of San Jose, began making champagne and it was not very long before he produced sparkling wines that won the admiration of connoisseurs all over the country. His Paul Masson, Extra Dry was produced from the first run of the juice of the Petit Pinot grape without pressure, and depended solely on the wine for its bouquet, dryness, and lightness. It was a natural wine, called in France Vin Brut, and was lighter, drier, purer, and better than most of the standard champagnes.

Paul Masson sparkling Burgundy was also produced from the Petit Pinot grape and was made by pressing the grapes and fermenting the wine on the skins, thus extracting the beautiful ruby color of the wine and all the essentials of pleasant astringency, bouquet, and flavor characterizing the Burgundy.

Mr. Masson's pink Oeil de Perdrix (eye of the partridge) was made under exceptional conditions only, that is, when the Petit Pinot arrived at absolute maturity and produced what is known and very rare in viticulture, the Pourriture Noble (Noble Rot, *i. e.*, Overripeness). It was processed in the same manner as all true champagnes, and took from 5 to 7 years in the bottle to perfect. The Oeil de Perdrix was a favorite with the fair sex, its exquisite bouquet, color, and lightness making it an ideal wine for luncheons and receptions.

## IN SONOMA COUNTY

In 1901, Korbel & Sons, at their beautiful vineyard near Guerneville, in Sonoma County, first started producing champagne by the natural process. They began on a small scale, bottling only a few thousand bottles. Of course,

like all beginners, they had their troubles and failures, for the pioneers are always the ones who have the hardest time. The first four years were devoted mostly to experimenting. After that time they made 100,000 bottles a year, and disposed of it all through their Chicago house, which was their distributing point.

All of their cuvee was made from grapes grown on their own hillside vineyards. The vines are all of the French variety, having been imported especially for the production of champagne. The sparkling wines in tirage remained in the vaults 2 years and then were finished. They were kept on hand at least one-half year, so that when they reached the consumers as Korbel, Sec, or Grand Pacific, the wine was at least 3 years old. The storage capacity of their vaults was one half million bottles.

#### A "GRAND PRIX" CHAMPION

For years the Italian-Swiss colony experimented at Asti, in Sonoma County, in the production of a natural champagne, their best-known brand being their Asti Special, Sec, which, while it enjoyed a large sale, did not satisfy their ambitious directors.

Feeling certain that since California had the proper soil, climate, and grapes for the production of beautiful champagne, P. C. Rossi decided to enter the sparkling-wine field in real earnest in 1909. Accordingly the colony erected a special building, secured the costly services of M. Charles Jadeau, one of France's most celebrated champagne experts, used the finest California wines, and procured the latest and most modern machinery and appliances for the bottling, fermenting, racking, disgorging, and maturing of champagne.

The first cuvee consisted of 150,000 bottles of champagne and 100,000 bottles of sparkling Burgundy. M. Jadeau, who arrived in California with grave forebodings, soon became enthusiastic and predicted that he would produce a champagne that would be able to hold its own with any manufactured anywhere. That this prophecy was based on sound judgment was conclusively proven when in October 1911 the Turin International Exposition awarded the coveted Grand Prix to the new champagne, which was put on the market as Golden State, Extra Dry.

California wines had won medals and diplomas in former French, German, Italian, and Belgium expositions, but this was the first time in the history of California's viticultural industry that a native champagne had reached the very top of the ladder in an international exposition.

In the midst of the general rejoicing at this new honor won by California came the shocking news that Mr. Rossi had accidentally been thrown from a buggy at Asti and the injuries sustained had resulted in his untimely death. It was a sorrowful ending that came just at the moment of his hard-earned success, and proved once again the irony of fate.

Connoisseurs all over the United States and Europe praised the colony's Golden State, Extra Dry, expressing surprise at its delicate aroma, its exquisite bouquet, its delicious flavor, and its excellent sparkle.

During the 1915 exposition it was served at many splendid banquets when celebrities from all parts of the world were entertained, and they were unanimous—even the foreign visitors—in pronouncing this new colony product superb. They also liked their Asti Rogue (Sparkling Burgundy).

#### IN SOUTHERN CALIFORNIA

In closing this article on California champagnes, we must not omit mention of the output of the Italian Vinyard Co., which was also successful in making some very fine naturally fermented-in-the-bottle champagnes and sparkling Burgundy at their plant in San Bernardino County.

In a recent issue of the California Grape Grower we told of seeing some beautiful shots of their champagne vaults in a "news" reel which made us realize that it will not be long before the public will again have a chance to enjoy effervescent Gualti wines.

In our October issue we intend to give a history of the development of champagnes in the Eastern States, where the bulk of American sparkling wines were produced in preprohibition days.

The CHAIRMAN. The next witness is Eugene R. Pickrell, representing the Importers of Beer & Wine Association, on the subject of wine and beer importation.

**STATEMENT OF EUGENE R. PICKRELL, REPRESENTING THE IMPORTERS OF BEER & WINE ASSOCIATION**

Mr. PICKRELL. Mr. Chairman and gentlemen, I represent the Importers of Beer and Wine Association, with offices in New York City. This association has among its members some of the leading importers and dealers in beer in this country.

This association respectfully asks for a decrease in the rate of duty of \$1 per gallon on beer as assessed in the Tariff Act of 1930. The tariff acts of 1909 and 1913 assessed import duties of 23 cents per gallon on beer in barrels, and 45 cents per gallon on beer in bottles. The tariff act of 1897 assessed import duties on beer of 20 cents per gallon in barrels and 40 cents per gallon in bottles. According to statistics compiled by the United States Tariff Commission, the annual consumption in the United States of beer during the period 1910 to 1914, was approximately 2,000,000,000 gallons. According to the same authoritative sources, the annual imports of beer during the period 1910 to 1914 were approximately 7,200,000 gallons. Therefore, the annual imports of beer into the United States during the period 1910 to 1914 were approximately four tenths of 1 percent of the domestic consumption.

According to the report of the Ways and Means Committee, dated March 14, 1933, to the United States House of Representatives on the Cullen beer bill, representatives of the domestic brewery industry informed the Ways and Means Committee of the Seventy-second Congress that they could produce a barrel of beer and deliver it at the point of consumption for approximately \$6.26, exclusive of Federal, State, and local taxes.

Senator HARRISON. May I ask you whether or not you are informed whether the Tariff Commission has investigated the question of reducing the tariff on beer? Whether their report has been filed?

Mr. PICKRELL. Yes, Senator Harrison; I am going to mention that a little later. I understand the report has been filed and is with the President at the present time.

Senator HARRISON. What is the suggestion you make as to what should be the tariff on beer?

Mr. PICKRELL. I expect to make the suggestion a little later that the tax should be—the import duty should either be free of duty plus an internal-revenue tax of \$5 a barrel, or—

Senator HARRISON (interposing). In other words, put them on the same basis as the domestic producer?

Mr. PICKRELL. Or 16 cents per gallon duty, without any internal-revenue tax.

Mr. TREADWAY. May I ask you a few questions at this point? I would like to ask you this question: Has there ever been a time when the manufacturers of beer in the United States—when it was legal to sell beer—that they could not supply all kinds and quantities? In other words, let me ask you this from the tariff standpoint: Why should we want to import into this country foreign beer when there

is just as good beer made in the United States by American people and from American materials? You have come to one wrong man to ask for any sympathy for no duty on beer. I will tell you that before you make out your case.

Mr. PICKRELL. Mr. Treadway, there has always been a limited market in this country for imported beer.

Mr. TREADWAY. It should be limited. I am glad you appreciate it.

Mr. PICKRELL. And there have always been some people who believe that imported beers are better quality beers.

Mr. TREADWAY. They are mistaken, mightily mistaken.

Mr. KNUTSON. Would it not be a good idea to fix the duty so it would cultivate a taste for the domestic product?

Mr. PICKRELL. That is possible.

Senator HARRISON. Mr. Pickrell, there are some of us that may believe that \$31 a barrel is too high a tariff on beer, that being about six times the tax that we impose here; and there are some of us that may believe that you ought not to bring it in free, putting it on the same plane as the domestic producer, but is there not something betwixt and between that you think might be fair?

Mr. PICKRELL. Well, Senator Harrison, let me ask you a question before I answer that.

Senator HARRISON. We are doing that with reference to wines and liquors, and it would seem logical to do it with reference to beer.

Mr. PICKRELL. Would there be any internal revenue tax on imported beer? At the present time there is not, and there was not before prohibition.

Mr. HILL. I did not get that answer, if it was given.

Mr. PICKRELL. I asked the Senator a question as to whether or not there would be any internal revenue tax law on imported beer. There is none today, and there was none before prohibition.

Senator HARRISON. It is my viewpoint, if you are asking me, that there ought to be an internal revenue tax on beer, and it ought to be the same as it is on the domestic product, and then we ought to have a tariff on beer also. But I do not believe in any such tariff as \$31 a barrel. I think that is preposterously high. That was a prohibition measure, anyway.

Mr. PICKRELL. Of course, Senator, the freight rate on beer is exceedingly high. It costs \$2 a barrel to bring a barrel of beer from Germany to the United States, and that is approximately 30 percent duty on the domestic cost of beer, \$6.26, so that in itself is practically a tariff. The present import duty of \$1 per gallon, or \$31 per barrel, is approximately five times the cost of a barrel of domestic beer delivered to the point of consumption.

There have been limited importations of beer into the United States during the first few months after April 7, 1933, the effective date of the Cullen Beer Act. These importations were chiefly from Canada and from Germany. The importations totaled 236,871 gallons in April, 734,438 gallons in May, 354,801 gallons in June, 137,698 gallons in July, and 57,486 gallons in August.

Recently, the importations of beer have practically ceased, amounting to only 20,350 gallons for the month of October. I know it to be a fact that on two occasions at least, imported beer in bonded warehouse has been abandoned to the United States, since the duty

of \$31 per barrel retarded the sale of such beer in this country, and therefore made it commercially more advantageous to abandon the beer to the Government than to enter the same for consumption, paying the enormous duty of \$31 per barrel.

On August 22, 1933, the United States Tariff Commission held a hearing under the flexible tariff provisions of the Tariff Act of 1930, pursuant to applications by a concern in Detroit, Mich., and by another concern in Seattle, Wash., for a decrease in the rate of duty on imported beer. The United States Tariff Commission has undoubtedly completed its investigation pursuant to these applications and made its report to the President of the United States. Undoubtedly this report will disclose that during the few months since the enactment of the Cullen Beer Act, Canada was the principal competing country on beer, and the rate of duty of \$1 per gallon was more than sufficient to equalize the difference in the cost of production of beer in the United States and in Canada. Unquestionably, that report will show that an import duty of considerably less than 50 cents per gallon will compensate for the difference in cost of production of beer in the United States and in Canada.

I have been advised by brewers in Germany that it costs practically as much to brew a barrel of beer in Germany today as it does to brew a barrel of beer in the United States. I have been further advised that beer today in Germany, as sold to the consumers, is approximately three times the price it was before the war. I was in Germany during July and August of this year, and beer was retailed to the consumers in the hotels and in the restaurants at 30 to 90 pfennigs per stein, equivalent to 10 cents to 25 cents per stein. The price varied, depending upon the brand of the beer, and the class of hotel or restaurant in which it was served.

Mr. CROWTHER. How would that compare with 10 cents a glass?

Mr. PICKRELL. It is a little larger. It is about a 12-ounce stein.

The freight rate on a barrel of beer from Germany to the United States is approximately \$2.00. In view of this freight rate, I believe in the event beer is either placed on the free list and subject to an internal revenue tax of \$5.00 per barrel, or made dutiable at 16 cents per gallon and not subject to any internal revenue tax, the importations of same would not exceed one half of one percent of domestic consumption, as was the ratio of imports to domestic consumption of beer for the period 1910 to 1914. There will always be, provided the difference in price between domestic and imported beer is not too great, a limited market in the United States for imported beer. There will always be some people who will be willing to pay a slightly increased price in order to obtain what they consider better quality beer.

Since the wholesale price of domestic beer today is \$12 to \$18 per barrel delivered at the customer's place of business, the import duty of \$1 per gallon is twice the wholesale price of domestic beer.

The customs duty of \$1 per gallon on beer under the Tariff Acts of 1922 and 1930, enacted during the existence of the prohibition amendment, must have been considered by Congress as a penalty and not as a tax. The Federal Court for the Eastern District of Pennsylvania held on February 15, 1924, in the case of the United States versus American Brewing Co., 296 Federal 772, that the tax

on fermented liquors containing one half of 1 percent or more of alcohol imposed by the Revenue Act of 1919 and continued in force by the Revenue Act of 1921, since the enactment of the National Prohibition Act, was a penalty and not a tax.

Mr. HILL. Have you concluded your statement, Mr. Pickrell?

Mr. PICKRELL. I have, Mr. Hill.

Mr. HILL. The committee thanks you very much for your statement.

Mr. DICKINSON. Mr. Pickrell, under the head of beer do you include ale and porter?

Mr. PICKRELL. I do. All of the fermented malt liquors.

Mr. CULLEN. Do I understand you to classify ale and porter with beer?

Mr. PICKRELL. As fermented malt liquors. The tariff duty on all fermented malt liquors is the same. Of course, they are different in alcoholic content.

Mr. CULLEN. Beer is entirely different from ale.

Mr. PICKRELL. But as to tariff classification they have always had the same rate of duty.

Mr. CULLEN. What was the tariff on imported beer prior to prohibition?

Mr. PICKRELL. During the Act of 1909 and 1913 it was 23 cents per gallon in barrels, 45 cents in bottles.

Senator HARRISON. What was that again?

Mr. PICKRELL. 23 cents a gallon in barrels and 45 cents a gallon in bottles.

Mr. McCLINTIC. When beer is sent over in barrels, do they ship the barrels back?

Mr. PICKRELL. Yes, sir.

Mr. McCLINTIC. And the same with glass bottles?

Mr. PICKRELL. No, not glass bottles; just barrels.

Mr. HILL. The next witness is George K. Black, on the subject of beer, tax, and alcoholic content.

#### STATEMENT OF GEORGE K. BLACK, BOSTON, MASS., REPRESENTING THE MASSACHUSETTS BREWERS' ASSOCIATION

Mr. HILL (presiding). State your name and address.

Mr. BLACK. George K. Black; 35 Congress Street, Boston. I am representing the Massachusetts Brewers' Association.

As far as the record appears before you gentlemen, there is not as yet a great deal of reason to state my views here.

There has been some mention today of establishing a differential in beers—that is, a taxation of beer of an alcoholic content of 3.2 percent, or below, at a certain rate, and that above that at a certain rate. While this may seem fair on its face, I beg you gentlemen to consider such a proposal as it affects my particular territory.

I am informed directly that at least two speakers in favor of certain brewers who are to follow me will address you gentlemen in favor of such a measure.

In Massachusetts we have to pay \$1 in addition to the Federal tax, together with an annual license fee of from two to five thousand dollars. I cannot too urgently ask you gentlemen to reduce taxes

on beer, but I ask you gentlemen not to put on such a differential as would be advocated.

I understand that these gentlemen may advocate either 3.2 percent or 3.7 percent, or perhaps somewhere in there, and to compensate for this reduction will suggest that the tax on beers above that alcoholic content which they will propose should be allowed to remain at the present \$6, or perhaps even increase it to \$7 a barrel.

While this may seem fair on its face, I beg of you to consider the facts.

In Massachusetts, and more generally in New England, we are, practically speaking, an ale-drinking territory—an ale-producing and an ale-drinking territory. The reasons for this are varied—climatic conditions, the character of the people, and the water which is used—but irrespective of the reasons, which sometimes are hard to analyze, this is the fact; and even our brewers of German extraction, brought up under a lager-beer heritage, in New England brew an ale for that particular market.

Now, let me explain what I mean by an ale. I do not mean anything of the high alcoholic content which is often referred to as English ale. I do not mean 6, 7, or 8 percent. The only practical difference between an ale and a lager, gentlemen, that I know of, is that an ale is a top-ferment yeast, and a lager is a bottom-ferment yeast. I mean by that, gentlemen, that during fermentation your ale yeast rises to the top, and your lager goes to the bottom. There is a technical name, which I never was able to pronounce, for the difference in the type of fermentation. The one that goes to the top uses oxygen in fermentation, and the one that goes to the bottom does not.

The ales to which I refer vary between 4 and 5 percent. In our fermentation we use refrigeration, which is different from the English ales, which do not. In other words, in our processing all through our plant it is practically the same as a lager beer; but for some reason, gentlemen, we cannot produce an ale which is palatable under 4 percent. We were not down here at the 3.2 percent beer hearing. We appreciate very much what was done there. It enabled us to get going; but if this differential is put on us, it means the elimination of our industry in New England.

Mr. COOPER. Mr. Black, just in that connection I invite attention to the fact that, as I recall, the interdepartmental committee report which is under consideration here recommends that there be only one rate.

Mr. BLACK. Yes, sir.

Mr. COOPER. I did not know whether you were familiar with that or not.

Mr. BLACK. Yes; I am. I was going to mention that recommendation.

As I have stated, a good, palatable ale of the type to which I am referring—this is not the still ales of England, which are very heavy—runs between 4 and 5 percent. On the other hand, gentlemen, a good lager beer can be brewed at 3.2 percent. In other words, gentlemen, the brewers who may advocate such a differential, having regained their pristine glory by the act of March 22, 1923—most makers of lager beers before prohibition have advertised that they

were always under that alcoholic content—now ask, or will ask, I understand, that the taxes on their particular product should be reduced, and generously suggest that you should raise the tax on the products of their competitors.

Senator CLARK. May I interrupt there just a moment, Mr. Chairman? You say "on the products of their competitors." You just stated that this was a peculiar condition in New England which caused you to make ale.

Mr. BLACK. Yes, sir.

Senator CLARK. Do you compete in lager-beer territory, or do the lager-beer manufacturers compete in your territory?

Mr. BLACK. No. They are in our territory now, coming into New England.

Senator CLARK. You mean since this 3.2 percent law went into effect?

Mr. BLACK. Yes, sir.

I understand that the interdepartmental committee has recommended a \$5 tax on all beers. While the amount of this tax is high, we are in favor of a single rate for all beers. Previously, there was never a suggestion of a differential of any nature. Bearing in mind that the average alcoholic content for beers all over the United States, both lagers and ales, varied from 3 percent to 5 percent before prohibition, I suggest that it is hardly fair to adopt some standard within that small range which will in effect eliminate an industry of a locality, and prevent the people of that locality from obtaining the product to which they are accustomed, and which they have been seeking for some time past.

Mr. KNUTSON. Mr. Black, do you know of a single foreign beer that we cannot duplicate here so far as palatability goes?

Mr. BLACK. I am not, quite frankly, sir, a brewmaster. That is a pretty tough question to put to me. I will say that at times they have not been successful in duplicating some of the foreign beers. I must say that in all fairness. That is due sometimes to difference in water.

Mr. CROWTHER. Is that one of the advantages of the British ales—water?

Mr. BLACK. I do not know that I would go that far. We had in the United States some very good ales before prohibition.

Mr. CROWTHER. P.B.?

Mr. BLACK. We had P.B. in Boston and some very good ales. You see, gentlemen, the average basis of selling is just a difference in taste. Some people like, say, a Liggett's chocolate soda, and some like a Schraff's. That is the way beers were sold before.

Mr. KNUTSON. We can manufacture Pilsner here that compares favorably with the foreign product; can we not?

Mr. BLACK. I believe so.

Mr. CULLEN. Mr. Black, you seem to have made a close study of the alcoholic-content differential between ale and beer. What do you consider a good alcoholic content for a good glass of ale such as we used to get prior to prohibition?

Mr. BLACK. As I stated, those varied between 4 and 5 percent.

Mr. CULLEN. Did it not run as high as 8 per cent?

Mr. BLACK. Some of those bottled ales did; but what I am talking about particularly is also between 4 and 5 percent in alcoholic content

by weight. While they were ales insofar as they were a top-ferment rather than a bottom-ferment, by the average public they were not even considered an ale. They came into a place and asked for a bottle by the trade name—a bottle of Haffenreffer, or a bottle of P.B. That was distinctly driven home to me back last April, when I argued with my board of directors for lager. They said to me, "What are you talking about? You know that our big production before was our half stock." I said, "Yes; is not that a lager?" They said, "No; it is an ale." That is a brewery which has a large German following, and, you see, I was reasoning, from the fact that it was a German following, that perhaps they wanted a lager; and that was the answer which was given.

In other words, in the public's mind on these products of which I am speaking, there was never any distinct differentiation. In other words, I mean that up in that territory it was a question of the taste, and the people wanted this particular product. They never looked upon it as an ale, something away up here, and a lager away down there; and from the little I have studied of brewing manuals you will find that while originally, because of the difference in processing which was developed in Germany and that which was developed in England, the ales were up here and the lagers were down there, through the course of years they have come together. There is very little difference.

Mr. CULLEN. That produces the old-fashioned lager, which is a pretty good drink. Now, in regard to the ales, you admit that in the United States in the old days, at least, we produced as good ale as any of the imported ales, and which compared favorably with any of them?

Mr. BLACK. Oh, yes; quite distinctly.

Mr. CULLEN. The alcoholic content was running from 8 to 12 percent?

Mr. BLACK. As I stated, there were a few of them in there; but what I am speaking of here, gentlemen, is this: There is a difference, say, between your bottled goods, which may run up there and compete with your imported ales, but there was not very much of them that I know of on draft. There was not very much of your ales brought in on that. I am only speaking in the narrow range from 3 to 5 percent, right in there, that there should not be a differential. In other words, I am only asking that if there is going to be a differential, we should be enabled in our industry to brew in some product to take care of our own market. In the case of these ales, it costs us in the additional malt about \$1.10 more right now, in your grain used. There, in itself, is something to take care of; but if you put a differential in the tax on there in addition, we will be driven right out from your own markets. There is another reason for no differential, gentlemen, which I understand the Interdepartmental Committee has pointed out to you, and that is the added cost of administration. You will have to have men all over the country checking alcoholic content, for one thing.

Mr. McCORMACK. Is the cost of making ale larger than the cost of making the ordinary beer?

Mr. BLACK. Yes, sir.

Mr. McCORMACK. Are there more ingredients used?

Mr. BLACK. More barley and more malt are used.

Mr. McCORMACK. So that the more ale is drunk, the better it will be for the farmer?

Mr. BLACK. Exactly, sir. There are more farm products used. I will state that as far as I could figure it today there is 80 cents to \$1.10 more malt used, and when corn sugar is used there is 30 to 40 cents more. Some do not use it. Some only use the complete malt product; and hops are 18 cents more. There is a higher malt flavor in it.

Mr. McCORMACK. Why are you disturbed about a differential? I should like to find out. The gentleman who was here from the Rockefeller Institute was the first one I have heard make any intimation as to that. Why are you disturbed about a differential? Are there any other forces or groups in this country that you think are going to try to bring about such a distinction within the industry?

Mr. BLACK. Yes, sir; there are.

Mr. McCORMACK. They had better not do it, because they are liable to injure the whole industry. If they are going to start differentials which will result in discrimination, they are going to create a feeling of prejudice against the whole industry; and I will give them a little bit of warning now, that they had better be careful, if they have not appeared before the committee yet. If they are trying to have us use the power of taxation for one section or one group of gentlemen within an industry to get an advantage over the others, they had better be careful that they are not all hit.

Mr. HILL (presiding). You have consumed 10 minutes. Are you through?

Mr. BLACK. I was just glancing over my notes for a moment. I believe for the most part I have said what I desired to say.

Mr. CROWTHER. You just stated that it cost more to make a brewing of ale than it did to make a brewing of lager beer.

Mr. BLACK. Yes, sir.

Mr. CROWTHER. Are you sure about that? Do I understand that the process of ale-making is different from the old process where it was all done in a natural temperature? Do you now use a refrigerating process?

Mr. BLACK. Yes; we ferment at about 45 to 50, to a large extent.

Mr. CROWTHER. That is a rather long process; is it not? How old is that ale before it is fit to drink?

Mr. BLACK. An ale is over 2 months old; but you must differentiate between fermentation and storage and aging. It stays in your fermenting room about 7 or 8 days. From there it drops into your storage.

Mr. CROWTHER. That is a new method, of late years, because the ales you described, like P. B., Frank Jones, and that kind of ale, were fermented in the natural temperature of a cellar. There was no refrigerating apparatus used in those days. The refrigerating apparatus was only used in a lager-beer brewery.

How old is lager before it is fit to drink, after the beer has been lagered in that cold fermentation process, slow fermentation? Three months or so?

Mr. BLACK. I do not believe it has been.

Mr. CROWTHER. It ought to be 3 months; ought it not?

Mr. BLACK. There is a dispute of technical experts on that. You heard Dr. Doran say that there had been advances in aging liquor, due to heat and shaking in the distillery.

Mr. CROWTHER. I was wondering if the long-time process of development of a really lagered beer would take up the slack in the difference in the material in the original brewing?

Mr. BLACK. No, sir.

Mr. CROWTHER. You do not think so?

Mr. BLACK. No.

Mr. CROWTHER. The difference in the original brewing would be a matter of specific gravity; would it not? If you had a brewing of ale, and say you had 360 bushels of malt, in the same amount of lager beer in the boiling kettle you would have perhaps 220 bushels of malt?

Mr. BLACK. Yes.

Mr. CROWTHER. So there is a difference in the specific gravity of the fluid?

Mr. BLACK. Yes.

Mr. DICKINSON. Let me ask one question. Prior to prohibition days there used to be sold in this country English ale in yellow bottles, and at the same time there was an American ale called "pale ale." What was the alcoholic content of the English ale and also of the American pale ale, if you know?

Mr. BLACK. I am afraid, sir, that I am stumped on that.

Mr. DICKINSON. It was too early for you?

Mr. BLACK. I'm afraid it was.

Mr. McCORMACK. At this time may I incorporate in the record the fact that Congressman William J. Granfield, of Springfield, sent me a wire asking me to enter his opposition to any proposal to establish a differential in the beer industry?

Mr. HILL (presiding). It is in the record now.

Mr. McCORMACK. Thank you.

Mr. HILL (presiding). I have a letter from Edward G. Lowry, the chairman of the Interdepartmental Committee on the taxation and control of alcoholic beverages, addressed to the President of the United States, in which briefly he summarizes the recommendations of that committee as to certain rates on beer, spirits, natural wines, etc. If there is no objection I will ask that it be incorporated in the record.

Senator HARRISON. That ought to go as a supplemental report, I imagine.

Mr. HILL (presiding). Yes.

Senator HARRISON. I think that was to be published as a supplement.

\* Mr. HILL (presiding). That is right.

Mr. BACHARACH. Right at this time, if I may, I should like to state that I have been informed that one of our witnesses, Mr. C. H. Lipsett, publisher of the "Daily Metal Reporter", the "Brewers' News", and the "American Wine and Liquor Journal", is ill and not able to be here; but he sent a brief, which, without objection, I presume may be placed in the record.

Mr. HILL (presiding). Without objection, it may go into the record.

\* This report was made a part of Mr. Lowry's testimony, page 62.

BRIEF OF C. H. LIPSETT OF NEW YORK, PUBLISHER OF DAILY METAL REPORTER, BREWERS NEWS, AMERICAN WINE AND LIQUOR JOURNAL

My object in presenting this to the committee is to bring home the need to them of a low liquor tax which in my view will prove a far greater revenue producer for the Government and at the same time stimulate business in general. I am cognizant of the fact that the Government is in urgent need of revenue. There is a great danger however, in expecting the liquor industry to shoulder this entire burden. The suggestion has been made that the Government impose a tax of \$2 to \$2.60 a gallon on whiskey. If the committee will consider the various aspects of such a tax and the consequences that it may entail, I feel quite certain that it will negative such a suggestion. For one thing, such an exorbitant tax would be a means of stimulating bottlegging and rum running, evils which the country would very much like to be rid of and which it was hoping that the Twenty-first amendment would eradicate. I need not go into detail as to why bootlegging would flourish if the tax on liquors were high.

The liquor industry of course should be taxed, but the tax should be a reasonable and equitable one. If the Government contemplates securing a revenue of \$400,000,000 by taxing the sale of 200,000,000 gallons of liquor at \$2 a gallon, the Government may achieve that particular objective but lose far more in the long run through depriving thousands of people of work. By that I mean that there is every reason to believe that were the tax limited let us say to about \$1.30 a gallon, the Government could still obtain its revenue of \$400,000,000, that would come from a greater consumption of liquor. Lowering the tax may make it possible to sell 300,000,000 gallons of liquor instead of 200,000,000 gallons.

There is no gainsaying the fact that as far as liquor is concerned, the greater the production the lower is the cost, and the lower the cost the larger is likely to be the consumption. The newspapers throughout the country have raised a hue and cry during the past week or more that liquor prices were mounting sky-high, and beyond the reach of the average worker. Supply and demand are of course the determining factors and at the moment the demand may appear to be in excess of the supply. But that is a situation I believe which will right itself in the near future. However, if liquor is to be sold at a reasonable price level, at a price which is within reach of the average citizen, the Government will have to keep its taxes down to the absolute minimum and reasonable level. That in itself will obviate any excuses on the part of the liquor industry that its high prices are the result of excessive taxation.

In December 1932 I appeared before the House Ways and Means Committee during its public hearings on the modification of the Volstead Act. I appeared then as a publisher of trade papers that cater to a multitude of industries and I spoke on behalf of such industries, pointing out the great importance to them of having the Volstead Act modified. I take this same point of view now in urging moderation in taxing the liquor industry, realizing as I do, that the industries to which my periodicals cater, which include iron, steel, metal, machinery, paper, textiles—have numerous ramifications with the liquor industry and that any activity in the latter is bound to be reflected by improved business in other fields. It is now almost ancient history that the modification of the Volstead Act stimulated business all along the line. Thousands of new jobs were created. Men who had been out of work again found gainful employment. Manufacturers of equipment and machinery whose plants had been idle, found themselves able to resume operations. I think that the twenty-first amendment will serve to put hundreds of thousands of more men back to work as soon as the facilities are arranged for the distribution, manufacture, and retailing of wines and liquors. It will also serve to stimulate business for those plants manufacturing equipment and supplies, which in itself will mean additional employment to thousands of men.

As publisher of trade papers I think I can make the safe assertion that the iron, steel, and metal business, the paper and glass industries, and even the textile industry, is looking forward to an increase in activity in their respective plants as the result of the repeal of the eighteenth amendment. These expectations I believe can be realized and will be realized if the Government does not burden the liquor industry with prohibitive taxes.

From a trade survey which my organization recently conducted, I am convinced that there is bound to be a renewed demand for raw materials and that the real estate and hotel properties are bound to gain in value, if the liquor industry is permitted to develop under reasonable control. The imposition of a low tax in my mind will serve more than any other factor to stimulate the liquor industry and also remove the evil influences that were so rampant during the past 13 years.

Mr. HILL (presiding). Mr. William F. Smith, representing the Wholesale Liquor Dealers, of New York, is the next witness.  
(Mr. Smith submitted the following brief in lieu of testimony.)

Brief by WILLIAM F. SMITH, representing the Wholesale Liquor Dealers Committee, of New York City

Mr. CHAIRMAN. I am William F. Smith, a member of this committee and a senior partner of the firm known as the Liquor Brokerage Syndicate, of 60 East Forty-second Street, and I offer the following resolution, to wit:

Whereas the wholesale liquor dealers committee of the city of New York made public its report on December 4, which report covered the findings of an extensive survey on the liquor situation, revealing the existence of a distillers' trust or combine in the United States and disclosing a conspiracy of the distillers' trust to monopolize and flood the United States with a concoction of artificially colored water and alcohol, fraudulently labeled "fine old blend whiskies", at outrageously high prices, and

Whereas the committee's report disclosed startling revelations with respect to how the distillers' trust caused governmental and State regulatory measures and regulations to be adopted for their own financial gain and benefit, so that no wholesale liquor dealer can obtain whisky in any form except bottled in glass, and such as to the effect that no wholesaler be permitted to conduct a blending and rectifying business, and

Whereas many of the principal sponsors of the liquor trust were men who have heretofore been indicted by the Government for evading taxes and for other frauds and deceptions, and

Whereas the principal sponsors of the whisky trust have directly and through their lobbyists and other influential and powerful political affiliations, caused Federal and State regulations to be adopted which would give them the right and privilege to divert raw industrial alcohol into so-called whisky by magic—for instance, we quote from a letter in our possession, written by Dr. James M. Doran on October 6, 1933, to an important distillery, one paragraph of which reads as follows:

"Alcohol produced at an industrial-alcohol plant and thereafter removed to a rectifying house may be reduced with pure water only in a 27-B package to 110 proof, or less, and be denominated as whisky. The rectifier will not be liable to the tax at the rate of 30 cents per proof gallon on the alcohol thus reduced."

and whereas the material covered in the committee's report was published in more than a thousand newspapers and was forcibly brought to the attention of the health commissioner of the city of New York and was also mailed to the Governor of the State of New York and to every Member of Congress and the United States Senate, and

Whereas it now appears that the wholesale liquor dealers committee of the city of New York has done a very commendable service to the people of the United States by turning the light of day on the liquor situation as it now exists, and by mobilizing powerful forces to carry on its exposé,

Now therefore be it resolved that the wholesale liquor dealers committee of the city of New York, now in session, adopt a resolution urging a senatorial investigation of the relations that have heretofore existed between the sponsors of the American whisky trust and one Dr. James M. Doran, former Commissioner of Industrial Alcohol and now head of the Distillers Institute, and

Be it further resolved that the wholesale liquor dealers committee urge a New York State investigation into the relations between a New York Stock Exchange firm known as Lehman Bros., and the sponsors of Schenley's Distillery, and the obvious influential and political forces therein affiliated.

Respectfully submitted,

WM. F. SMITH,  
Wholesale Liquor Dealers Committee of New York City,  
Suite 757, 60 East Forty-second Street.

Mr. HILL (presiding). The next witness is Mr. Charles H. Taylor, representing Thomas McMullen & Co., importers, speaking on the liquor tax.

**STATEMENT OF CHARLES H. TAYLOR, NEW YORK CITY, REPRESENTING THOMAS McMULLEN & CO., IMPORTERS**

Mr. HILL (presiding). Give your name and address and connections to the reporter.

Mr. TAYLOR. My name is Charles H. Taylor. I am representing Thomas McMullen & Co., Inc., 1123 Broadway, New York City.

Mr. Chairman and members of the Senate Finance and House Ways and Means Committees: As importers of malt beverages, especially Bass ale and Guinness stout from the United Kingdom and Irish Free State, we respectfully request your consideration of the present high rate of duty imposed under the Tariff Act of 1930, schedule 8, paragraph 805, which reads:

Ale, porter, stout, beer, and fluid malt extract, \$1 per gallon; malt extract, solid or condensed, 60 per centum ad valorem.

This rate means the importers of ale, porter, stout, and beer must pay \$31 duty per barrel compared with the domestic internal-revenue tax of \$6 per barrel on beverages containing more than 3.2 percent alcohol by weight. In addition to the duty on the beverage, if ale, stout, etc., is imported in bottles, as is practically the case at present, the bottles are subject to a duty under paragraph 810 at a rate of one third the rate provided on the bottles or jugs if imported empty or separately.

Senator HARRISON. Mr. Taylor, just for the purpose of the record. I think you misstated the situation there. While it is true that the beer now carries a tariff duty of \$31.50 a barrel, there is no additional \$6 or \$5 a barrel internal-revenue tax.

Mr. TAYLOR. No.

Senator HARRISON. I think you made that statement there.

Mr. TAYLOR. No; what I intended to convey, sir, is compared with the duty of \$6 on the American beverage.

The rate of duty on empty bottles, schedule 2, paragraph 217, is-- if holding more than 1 pint, 1 cent per pound; if holding not more than one pint and not less than one fourth of one pint, 1½ cents per pound; if holding less than one fourth of one pint, 50 cents per gross.

The combined duty on the beverage and weight of glass amounts to about \$1.05 for each imported gallon. This duty is therefore over five times the internal-revenue tax on domestic beers.

Owing to the high costs of imported beers, due to ocean freight charges, customs brokers' fees, bonds, extra handling, and other charges, plus the heavy duty, the retail cost per bottle to the consumer is more than 5 times the price of the domestic beverage. The imports of ale, porter, stout, and beer, in preprohibition days were small in comparison with the domestic production, and the American brewer did not suffer from such import trade. The rate of duty prior to prohibition was 45 cents per gallon in bottles or jugs; 23 cents per gallon in other containers.

The total imports for a year prior to prohibition, taking 1913 as an example, were, in bottles and other than bottles, 7,668,846 gallons, while domestic production was 2,025,071,156 gallons, the importations thus being less than one half of 1 percent of domestic brewed beers.

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Thomas McMullen & Co. in preprohibition days, when ale and stout could be imported at 23 cents per gallon in cask, had a bottling plant in New York City and employed American labor; about 150 men as bottlers, packers, craters, salesmen, clerical force, etc., who were forced to seek other employment when prohibition came in. Other lines of trade, such as bottling and bottle-washing machinery, label printers, barrel and box makers, were benefited. In addition to the McMullen bottling plant, there were others of large capacity operated by various companies. With the present \$1 per gallon rate of duty applying to malt beverages, whether in bottles or other containers, there is no prospect of the bottling being resumed in this country.

We would also call attention to the fact that large quantities of American barley, hops, and timber, averaging over 15 million dollars yearly are purchased by the British and Irish breweries, thus benefiting the United States farmer and lumber man. We attach statistics of these exports from the United States for the years 1922 to 1931. With the importation of ale and stout resumed in the United States these purchases will now increase. We feel quite sure that with a continued high rate of duty on ale, porter, stout, and beer, the volume of imports will not be great enough to bring in a fair amount of revenue, but with a total tax similar to the preprohibition rates of 45 cents per gallon in bottles and 23 cents per gallon in other containers, we feel the average consumer of imported malt beverages can purchase in larger quantities at reasonable retail prices and the United States revenues will benefit thereby. Imported beverages such as Bass Ale and Guinness Stout having a totally distinctive character do not compete in any way with the American brews.

(Mr. Taylor submitted the following statement for the record:)

*The value of the imports into the United Kingdom and the Irish Free State from the United States of America of barley, hops, and timber for each of the last 10 years*

Calendar years	Barley			Hops			Timber (hard oak) to United Kingdom
	To United Kingdom	To Irish Free State	Total	To United Kingdom	To Irish Free State	Total	
1922.....	£2,846,954		£2,846,954	£1,382,069		£1,382,069	£1,018,355
1923.....	2,919,134		2,919,134	14,156		14,156	1,554,566
1924.....	3,493,605		3,493,695	782,403	£204,267	986,670	1,969,265
1925.....	3,223,363	£74,368	3,297,749	624,279	65,849	690,128	1,860,651
1926.....	1,736,448	6,596	1,743,044	249,293	184,822	434,115	1,775,755
1927.....	3,047,712	19,316	3,067,028	467,421	164,120	631,541	2,198,288
1928.....	2,599,617		2,599,617	252,434	125,342	377,776	2,226,091
1929.....	2,163,988	74,312	2,238,300	210,450	110,337	320,787	2,215,920
1930.....	1,524,448	85,472	1,609,920	146,233	87,925	234,158	2,196,142
1931.....	1,289,873	( <sup>1</sup> )		103,717	( <sup>1</sup> )		1,584,172

<sup>1</sup>Not stated.

NOTE.—The source of the above information is the annual statement of the trade of the United Kingdom with foreign countries and British countries, 1926 and 1931 respectively, compared with previous years. Vol. II, imports.

Mr. SHALLENBERGER. Mr. Taylor, I should like to ask you one question. What is the tariff on beer that has an alcoholic content of less than 3.2 percent? Is there a tariff on that?

Mr. TAYLOR. Yes; if it is one half of 1 percent, the tariff is \$1 a gallon.

Mr. McCLINTIC. What is the average alcoholic content of imported beers?

Mr. TAYLOR. They run from 7 to 8 percent.

Mr. McCLINTIC. Are the importers that you are interested in engaged in any other line of business?

Mr. TAYLOR. No; we are confined to just the imported ales and stout.

The CHAIRMAN. Are you through, Mr. Taylor?

Mr. TAYLOR. Yes, sir.

The CHAIRMAN. We thank you for your attendance and the information you have given the committee.

The CHAIRMAN. The next witness is Harry S. Radcliffe, representing the Original Pilsner Beer Importing Co.; subject, beer tariff.

**STATEMENT OF HARRY S. RADCLIFFE, MONTCLAIR, N.J., REPRESENTING THE ORIGINAL PILSNER BEER IMPORTING CO., INC., NEW YORK, N.Y.**

The CHAIRMAN. Give the reporter your name and address and the role in which you appear, sir.

Mr. RADCLIFFE. My name is Harry S. Radcliffe. My residence is No. 7 Oxford Street, Montclair, N.J. My present occupation is that of import manager of the Original Pilsner Beer Importing Co., Inc., of No. 11 West Forty-second Street, New York City.

Our firm is the exclusive American selling representatives of the world-famous breweries located at the city of Pilsen, in Czechoslovakia. Prior to the World War, the imports of Pilsner beer amounted to approximately one-third of all importations of malt beverages into this country. The peak year was 1913 when the imports were less than 2,900,000 gallons in comparison with the domestic production in this country in the same year was 2,025,000,000 gallons, so that the imports constituted a very small part of the American consumption of beer—in fact less than  $\frac{1}{4}$  of 1 percent.

Genuine Pilsner beer is produced only in the city of Pilsen in Czechoslovakia, where the inherent qualities of the water are such as to blend in fermentation at a proper temperature with the malt and hops to produce a light beer that has for generations constituted a standard for perfection in malt beverages. It has been aptly said that original Pilsner beer is the goal and despair of the brewmasters of the world. Repeated attempts have been made in many other countries to duplicate this brew without an approach to the elusive qualities of real Pilsner. It is recognized by the medical profession, especially in Europe, for its absolute purity, and is frequently prescribed in cases of diabetes, liver, kidney, stomach and other ailments to the exclusion of all other beverages containing alcohol.

Incidentally, the alcoholic content of Pilsner beer happens to be approximately 3.65 percent by weight. I say "happens to be" for the reason that, contrary to the general impression, beer is not ordinarily produced simply for its alcoholic content. To produce a beer of finest quality, with certain characteristics of flavor, body, and so on, experiments were made years ago, and the resultant per-

centage of alcohol is merely the natural result of the methods employed in the brewing of that particular beer. For many decades Pilsner beer has contained about 3.65 percent of alcohol by weight, but the efforts of the brewmasters at Pilsen, Czechoslovakia to continue to produce the finest light beer of the world were not directed to the production of the alcoholic content.

In spite of the universally recognized excellence of Pilsner beer, there is definite limit to the price which an American consumer will pay for a glass or bottle of any imported beer. Of course, there are some people who would not hesitate to pay 35 to 50 cents per glass for Pilsner beer if they want it, but the annual demand by such people might be estimated as a very few hundred thousand gallons. In pre-war years the special demand for Pilsner as well as other imported light beers arose from people of modest incomes who had acquired an appreciation of these beverages, and who were willing to pay slightly higher prices to indulge their taste. For example, if the domestic brews were offered at 10 cents per glass or bottle, many people would be willing to pay 15 to 20 cents for a glass or bottle of imported beer. We are thoroughly aware of the fact that the number of people who are of that disposition is infinitely smaller today than before prohibition. The former patrons of imported brews have long since forgotten their preferences, and the new generation that has learned to use alcoholic beverages during prohibition have little or no appreciation of the delicate qualities and the sensitive attributes to be found in light wines and good beers. It will require, in my opinion, several years to teach those who are accustomed to judge beverages by alcoholic shock or "kick" received, the proper appreciation of the qualities of light beers. For these reasons it would be a serious mistake to assume that an immediate return to the preprohibition volume of imports of malt beverages may be calculated.

Another factor that must be taken into consideration is the present exaggerated foreign costs of malt beverages due to the foreign exchange situation. For illustration, the par value of the Czechoslovakian crown was established at 2.96 cents per crown. The present quotation in the foreign-currency exchange markets is a rate of 4.70 cents per crown, or approximately 59 percent above par. The value of Pilsner beer has not been reduced in Czechoslovakia to offset this difference, and thus the fluctuations of the relations of the American dollar and the crown cause an artificial—but nevertheless real—increase in the foreign costs of about 50 percent over the pre-war costs as an item in total landed values.

In the years before the World War, imports from Pilsen were tabulated under Austria-Hungary. The bulk of these imports were in barrels and thus were dutiable at a rate of duty of 23 cents per gallon. I have totalled the number of gallons imported as shown in the statistics compiled by the U.S. Tariff Commission last month, and compared this total with the total value given for the same period, and find that the average value per gallon from 1900 to 1914 of imports from Austria-Hungary, the bulk of which was Pilsner beer, was about 34 cents per gallon. At the same value today, the foreign cost translated into dollars at present exchange rates would be about 54 cents, which high foreign price would in itself tend to

limit the possible importations even if a rate of duty was placed at a few cents per gallon.

The present Tariff Act of 1930 carries the same duty rates for malt beverages as the act of 1922. The rate for ales, porters, stouts, and beers, as we have heard today frequently, is \$1 per gallon, and then by the provisions of paragraph 801 (b) adds to that rate the entire amount of the internal revenue tax, which is \$6 per 31 gallon barrel, or about 19 cents per gallon, and then further by the provisions of paragraph 810 adds a duty on the weight of the bottles when any malt beverage is imported in bottles or jugs equal in the case of beer to about 5 cents per gallon, or a total of duties and taxes of about \$1.24 per gallon. However, I believe it is well realized that this combination of assessments would throttle commerce in malt beverages, and at present does in fact constitute a veritable embargo against imports.

In that connection I might say that although under the quota arrangement the malt beverages are free of limitations, there have been, to my knowledge, very few applications for permits to import beers.

A small sample shipment of Pilsner Urquell beer consisting of only 65 barrels is today being placed upon a steamer destined for this country, but with the full knowledge that future shipments depend entirely upon the rates of duties to be determined by the Congress. We believe that just rates should be provided that will permit importation of the modest quantities that would normally be demanded by this market. We submit that the popularity and encouragement of the increased use of all types of beers has admittedly in the past and will doubtless in future be assisted by the limited distribution in this country of such splendid products as genuine Pilsner beer and other imported malt beverages. It is a fact that in preprohibition times, multitudes of our citizens first recognized the satisfaction to be obtained in the use of beer through the drinking of imported beer and then for purely economic reasons turned to the domestic brews. We feel that in the present situation, such imported malt beverages as Pilsner beer may in a small way assist in the general objective of enticing those who have acquired abnormal drinking habits during the prohibition era to adopt more rational social customs. It must be remembered that not every one who has been drinking cheap bathtub gin will be able to afford legal whisky, but the experience of other countries justifies the expectation that if light wines and thoroughly good beers are made attractive, the use of illicit liquors will decrease.

In this connection, one of the conclusions of the Rockefeller report made by Raymond B. Fosdick and Albert L. Scott is significant. On page 18 of this report, contained in the book entitled "Toward Liquor Control" it says:

2. The experience of every country supports the idea that light wines and beers do not constitute a serious social problem.

On August 22 of this year, a public hearing was held before the United States Tariff Commission during a cost of production investigation with respect to malt beverages. I testified at that hearing and presented details of statistics of malt beverages imports compared with the domestic production over a period of 25 years. It may be

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interesting for this Committee to have the figures as contained in the brief we submitted for the typical years 1910 to 1914 which are the years selected as representative for the basis of quotas on other alcoholic beverages. The comparison is as follows:

Fiscal year	Domestic production	Importations	Ratio import/ domestic
	Gallons	Gallons	Percent
1910.....	1,844,038,627	7,301,417	0.395
1911.....	1,961,776,813	7,240,066	.369
1912.....	1,927,477,514	7,169,358	.372
1913.....	2,025,071,156	7,668,912	.379
1914.....	2,051,873,663	7,170,506	.340

It will be noted that the volume of importations did not exceed four tenths of 1 percent of the domestic production, although the figures given for imports included ales, porters, stouts, and beers, whereas the domestic production was of beers. The duty rate during this period, and under stabilized foreign-exchange rates, was 23 cents per gallon in barrels and 45 cents per gallon in bottles. Of the very small volume of total imports, the statistics show approximately 75 percent of the imports were in barrels at the lesser rate.

The statement has been made at the outset of these hearings that the interested parties would, as a matter of course, seek the lowest possible taxation and tariff rates on all classes of alcoholic beverages. Under ordinary circumstances that might be a natural objective, but we are sincere in our desire to reestablish the former volume of demand for Pilsner beer and at the same time disclaim any purpose to profit at the expense of needed revenue to the Treasury. We came here prepared to suggest that the rate of duty be placed as high as might be consistent with the general movement to encourage the use of light wines and beers in the future beverage habits of our citizens.

It seems clear that the total tariff upon imported beer cannot exceed the margin between actual net landed costs, ex duty, and the highest obtainable wholesale net selling price without the inevitable result of forcing the article into more exclusive sales channels which in turn must reduce the quantities imported. A high duty rate may therefore easily produce less actual revenue than a more moderate rate of duty.

From information contained in the public press, we understand that the interdepartmental committee has included in its report a recommendation that the duty rate upon beer be placed at 16 to 50 cents per gallon if the final rate is to be determined as a result of international bargaining, or at an arbitrary rate of 25 cents per gallon in the absence of reciprocity. It is not clear to us whether it is proposed to assess a Federal internal revenue tax in addition to these suggested rates, but if that were done it would add from 16 to 19 cents per gallon to the tariff rates proposed. That would mean that the lowest rate would be from 32 or 35 cents per gallon up to 69 cents per gallon for imported malt beverages. If this be the situation, we must differ from the conclusions of the interdepartmental committee.

Instead we urge that the taxation of imported light beer shall not exceed 18 cents per gallon, or \$5.50 per barrel of 31 gallons. Where the States have placed an excise tax of \$1 per barrel, as in New York, we may then reduce the amount available for Federal import duties to about 15 cents per gallon, or \$4.50 per barrel. In arriving at these figures we calculate cost of Pilsner beer at the breweries in Czechoslovakia, plus transportation and handling to the port of shipment, plus actual ocean freight, insurance, and usual importing expenses. The total of these costs together with the distribution costs to places of delivery in cities not remote from port of importation would cause a wholesale selling price of \$32.50 per barrel of 31 gallons, without duty or State taxes. We estimate that a fair wholesale selling price would be \$38 per barrel, which value is approximately the present retail price for domestic beer. The spread between that price of \$38 at wholesale which may be obtainable for Pilsner beer and the net delivered costs of \$32.50, ex duty, leaves a difference of \$5.50 per barrel for all Federal and States taxes. We feel that a wholesale price equal to \$38, including duties and taxes, is the maximum for any hopes of success in redeveloping the American market for genuine Czechoslovakian Pilsner beer.

The suggested flat rate of 25 cents a gallon would be equal to a duty of \$7.75 per barrel, and if the internal-revenue tax of \$5 or \$6 per barrel were to be added, a wholesale price about \$45 per barrel would result, which in comparison with the wholesale price for domestic beers of \$16.50 to \$18 per barrel, including taxes, would preclude the possibilities of normal cultivation of the American market.

In the light of all the facts, and with particular consideration of the vital factors of maximum revenue, social desirability, illicit trade elimination, and other elements that enter the equation of an equitable solution of the tariff on malt beverages, we venture to offer the following specific recommendations:

1. That paragraph 805, which relates to malt beverages, be amended to read:

Ales, porters, stouts, and beers, if in barrels or casks, 15 cents per gallon; if in other containers, — per gallon; fluid malt extract, — per gallon; malt extract, solid or condensed, — percent ad valorem.

2. That paragraph 801, which relates to the National Prohibition Act and to the imposition of internal-revenue taxes upon all beverages, be stricken out.

3. That paragraph 810, which relates to duties upon bottles or jugs containing alcoholic beverages, be stricken out.

We make no suggestions as to what rates may be desirable for malt beverages in other containers than barrels or casks, nor for malt extracts, because we do not know what rates may be proper.

We do believe that malt beverages should be separately provided for when imported in casks or barrels at the lowest possible rate.

As to the rather sweeping character of the suggestion to strike out the present paragraph 801, which pertains to the levying of existing or subsequent internal-revenue taxes upon all beverage imports, I wish to point out that these taxes upon the imported article were never assessed prior to prohibition. Moreover, the collec-

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tors of customs are accountable for the collection of duties and the collectors of internal revenue are responsible for the collection of internal revenue. Hence officials in the Internal Revenue Service are familiar with revenue laws, and under ordinary conditions are not expected to be acquainted with tariff acts. It would seem that if there is a reason to superimpose any internal-revenue taxes upon duties for any particular class of alcoholic beverages, it may be readily done by a proper provision in the internal-revenue tax laws that may be enacted from time to time. In fact, the Internal Revenue Act of 1918 did provide taxes on spirits and wines "produced in or imported into the United States" during the prohibition era.

The recommendation to strike out the general provision in the schedule for a separate duty upon all bottles or jugs containing beverages is made for the reason that bottles containing alcoholic beverages vary considerably in size, shape, and weight, and the amount of additional duty is a very small matter, amounting perhaps from 3 to 6 cents per gallon. If it is desired to apply some such provision to bottles containing nonalcoholic beverages in order to guard against the possibility of any importation of expensive bottles filled with cheap water to avoid payment of duty on the bottles, it might be feasible to do so, but on alcoholic beverages it may become an item difficult of calculation and administration.

In conclusion, we maintain that the importations of malt beverages must be entirely redeveloped in the American market and should be accorded the lowest possible rates of duty, without the additional imposition of internal-revenue taxes or empty-bottle duties, that may appear consistent with all considerations. We estimate that it will take a few years before the preprohibition volume, which did not exceed four tenths of 1 percent of the domestic production at any time, can be attained, and if reassurance on that point is needed are willing to cooperate under import quotas equal to the small prewar quantities. We suggest that the social desirability of encouraging an increasing public appreciation of the attributes of good, light beer be controlling, and firmly believe that the distribution of comparatively small quantities of such excellent products as Czechoslovakian Pilsner beer will assist all concerned.

We recommend a rate of 15 cents per gallon for beer when imported in casks or barrels, as the maximum margin between the delivered costs under present foreign-exchange conditions, and a wholesale price which is equivalent to the usual retail value of domestic light beer.

I thank the committee.

The CHAIRMAN. We appreciate your attendance.

The next witness is George R. Beneman, representing the United Brewers' Association; subject, beer tax.

(Mr. Beneman did not respond.)

The CHAIRMAN. The next witness is Munson G. Shaw, representing Wine and Spirits Importers; subject, distilled spirits and wines.

A GENTLEMAN. Sickness has prevented Mr. Shaw from being here. May I ask the privilege, for him, of filing a brief with your committee?

The CHAIRMAN. Yes; you have that permission.

(Mr. Shaw subsequently filed the following brief:)

Brief by **MUNSON G. SHAW**, representing the Wine and Spirit Importers Society of the United States

15 MOORE STREET, NEW YORK, N.Y.,

December 21, 1933.

*Honorable Ways and Means Committee, Washington, D.C.*

**GENTLEMEN:** The Wine and Spirit Importers Society of the United States, whose members before prohibition imported probably 90 percent of the total volume of wines and spirits imported into the United States, beg leave to recommend the following:

First. That imported wines, spirits, cordials, and beers shall not be subject to internal-revenue taxes.

Second. That customs duties shall be the only tax upon imported alcoholic beverages, and that the maximum rates shall be:

**DISTILLED SPIRITS, CORDIALS, LIQUEURS, AND ALL BEVERAGES CONTAINING OVER 24 PERCENT OF ALCOHOL BY VOLUME**

One dollar and fifty cents per proof gallon, or wine gallon if below proof, over the rate of internal-revenue tax on domestic counterparts, provided that the rate on domestic spirits does not exceed \$2 per gallon; plus the present duty on glass bottles.

**CHAMPAGNES AND OTHER SPARKLING WINES**

Six dollars per case of 12 bottles, not exceeding 2.44 gallons to the case, and proportionate rates for smaller or larger bottles, over the rate of internal-revenue tax on domestic sparkling wines, provided that the rate on domestic sparkling wines does not exceed \$2.40 per case of 2.44 gallons. There shall be no duty on glass bottles.

**STILL WINES, VERMOUTHS, CONTAINING NOT OVER 14 PERCENT OF ALCOHOL BY VOLUME**

Forty-five cents per gallon over the rate of internal-revenue tax on domestic wines of the same strength; plus the present duty on glass bottles.

**STILL WINES, VERMOUTHS, CONTAINING OVER 14 PERCENT OF ALCOHOL BY VOLUME AND NOT OVER 24 PERCENT OF ALCOHOL BY VOLUME**

Sixty cents per gallon over the rate of internal-revenue tax on domestic wines of the same strength; plus the duty on glass.

**ALES, STOUTS, AND BEERS OF ALL ALCOHOLIC STRENGTH**

Duty not to exceed 45 cents per gallon whether imported in bottles or barrels.

**NO IMPORTED ALCOHOLIC BEVERAGES SHALL BE TAXED WITH ANY TAX OR IMPOST OTHER THAN THE UNITED STATES CUSTOMS DUTIES**

From the time when customs duties were first assessed on wines and spirits upon their admission into the commerce of the United States they were never subject to internal-revenue taxes until the Emergency Revenue Act of October 22, 1914.

The object of customs duties is the protection of domestic products, the revenue to be derived, and international commerce.

Internal revenue taxes are solely the revenue.

Under present conditions, even more than in the pre-war period, duties and internal-revenue taxes should be kept separate.

Customs duties should control imported wines and spirits so as to leave the rates flexible to meet foreign conditions.

Internal-revenue rates should apply to domestic products only, for in the next few years they may be vital factors to establish a legitimate liquor trade

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and to adjust required revenue. Hence, under the various conditions that may arise in foreign and domestic trade, tax rates on wines and spirits, imported and domestic, should not be tied together. There should be one tax only on imported wines and spirits, i.e., customs duties, and one tax only on domestic wines and spirits, i.e., internal-revenue tax. This was the practical and satisfactory method up to 1914 and is more necessary now than then.

The basic idea of duties and internal-revenue taxes is to secure the largest revenue. In each class of merchandise there is a rate which will permit the growth of an industry and product the most money.

It has been demonstrated many times that higher rates of duties or taxes above a given point produce less revenue.

Under the circumstances facing the return of the wine and spirit business there is an additional and most important factor to be considered in the fixing of the tax rates besides finding the exact rates that will give the most revenue, namely, to find the rate of duty and the rate of internal-revenue tax which will preclude the operation of illegal dealers, either to smuggling imported wines and spirits, or to make them here.

Taking a broad vision of the liquor trade, we have four classes:

- (a) Distilled spirits, including cordials and liquors.
- (b) Champagne and other sparkling wines.
- (c) Still wines, not over 24 percent of alcohol by volume.
- (d) Ales, beers, and stouts.

The illicit trade in class (c) and (d) need not be considered, for the low prices at which these wines and beers are sold and the great cost and difficulty of imitating them does not offer the illicit trade sufficient profit.

Class (a). There are two problems here: First, the illicit distilling in competition with domestic spirits and, second, smuggling in competition on imported spirits.

Let us consider.

#### NO. 1. SPIRITS

Whiskies or gins in a crude way can be made illicitly at about \$1 per gallon. The licensed distiller can produce pure whiskies or gins from the best materials at from \$1 to \$2 per gallon, but must age same for years, at an enormous capital investment and overhead and keen legitimate competition.

In addition, it is necessary to take into consideration the custom that has grown since prohibition of the home production of gin, the cost of which during this period was about 50 to 60 cents per bottle of one fifth gallon, and unless distilled gins can be sold to the consumer for about \$1 per bottle, the production of gin in the home will continue and the revenue from gins will be very small.

Therefore, if the distillers have to pay over \$1.10 per gallon, the illicit manufacturer starts equal to the distiller with his production, costing him nothing. He also has the added advantage of paying no Federal or State licenses.

Our recommendation is that for a period of at least 1 year the internal-revenue tax on domestic distilled spirits should not exceed \$1.10 per proof gallon.

Let us consider:

#### NO. 2. IMPORTED DISTILLED SPIRITS

The duty before prohibition on distilled spirits, cordials, liqueurs, and all beverages containing over 24 percent of alcohol by volume was \$2.60 per proof gallon or per wine gallon if under proof. This rate was established in August 1909 and imported spirits were not subject to internal-revenue taxes until the Emergency Revenue Act of October 1914. Since that date imported spirits have been assessed with the internal-revenue taxes as well as customs duties.

In the Tariff Act of 1922, when no foreign spirits could be imported under the Willis-Campbell Act, the duty was raised to \$5 per proof gallon.

The rates now prevailing (after repeal) on imported spirits are:

	<i>Per proof gallon</i>
Customs duties -----	\$5.00
Internal-revenue tax -----	1.10
And the duty on bottles	

so that one case of imported whisky, brandy, gin, etc., which contains about 2.4 gallons is:

Duty.....	\$12.00
Internal-revenue tax.....	2.64
Duty on glass.....	.06
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	14.70
To which must be added State taxes, which are variable and which we may estimate at approximately \$1 per gallon or per case.....	2.40
	<hr/>
Total.....	17.10

equivalent to \$1.42½ cents a bottle, whereas at the rates advocated by us, namely \$2.60 per gallon customs duty and no internal-revenue tax, a case of imported spirits would have to pay:

Customs duty.....	\$6.24
Duty on glass.....	.06
	<hr/>
	6.30
Plus estimated State tax.....	2.40
	<hr/>
	8.70

Imported whiskies can be smuggled into the United States from St. Pierre, Miquelon, and other points at about \$8 per case, and probably less if necessary. Therefore any tax, the total of which, Federal or State, is more than \$9 per case, permits the smuggler to continue in business under better conditions than the legitimate trade, for in addition to the money, the licensed importer is controlled under the present quota system in the volume of his supplies. He is limited in his distribution to licensed legal vendors and subject to State and Federal licenses.

You will realize that under the present rates, \$17.10 per case, the smuggler would have an actual profit of \$9 per case by avoiding duties, internal-revenue taxes, and State taxes, to say nothing of his saving on Federal and State licenses.

NO. 3. CHAMPAGNE AND OTHER SPARKLING WINES

Present internal-revenue tax for a case of 12 bottles.....	\$5.76
Customs duty at \$6 per gallon.....	14.64
Duty on glass.....	.12
	<hr/>
	20.52
Plus estimated State tax.....	1.00
	<hr/>
Total.....	21.62

Before prohibition, on a case of champagne of 12 bottles (2.44 gallons) the customs duty was \$6 per case and it was not subject to internal-revenue tax. Under this rate the Government revenue was large and increasing.

We believe that the internal-revenue tax should not exceed \$1 per gallon on domestic wines. This will encourage the protection and use of American sparkling wines. One dollar per gallon is equal to \$2.44 per case, and if you give the American producer a margin of protection of \$6 per case—

	<i>Per case</i>
The customs duty would be.....	\$8.50
Plus estimated State tax of.....	1.00
	<hr/>
Total.....	9.50

The smuggler can bring in a case of champagne at the same cost as whisky, namely about \$8 per case or less. Therefore, to destroy the illicit dealer and smuggler of foreign champagnes the total Federal and State tax must not exceed \$9.50 per case.

NO. 4. STILL WINES AND VERMOUTHS, CONTAINING NOT OVER 14 PER CENT OF ALCOHOL BY VOLUME

	<i>Per case</i>
Present internal-revenue tax.....	\$0.04
Present customs duty.....	1.25
<b>Total.....</b>	<b>1.29</b>

To encourage the production and consumption of naturally fermented wines in the United States and to place good sound light wines in the homes of the consumer, the internal-revenue tax on this class should not be more than 10 cents a gallon. In fact, the rate we advocate is to double the present rate and establish a rate of 8 cents per gallon.

It is sometimes argued that the internal-revenue tax on light wines should at least be equal to the rate established on beer. This argument is not sound, for the volume of beer is sold by the glass and under this method the consumer does not realize the amount of tax he pays, whereas wine is bought by the bottle and is used in the home usually with the meal and to encourage this use a good bottle of wine should retail for not over 50 cents and this price cannot be established if the internal revenue is over 10 cents. With the cost of distribution, the bottling, casing, and shipping adds materially to the cost of the wine and does not begin to enter in the same degree as the cost of beer. There are certain fixed centers in the United States for the production of wines—California, Missouri, Ohio, Michigan, New York State, New Jersey, and several other States, so that the wine is produced in these points and the cost of shipping from there to the centers of population is a large item, whereas beer can be produced locally in every large center of population.

The customs duty on imported wines of this class was formerly 45 cents a gallon and not subject to internal-revenue tax and there should be a protection given to the domestic trade and the customs duty fixed at 55 cents per gallon, which is equivalent to:

Case of 12 bottles (24 gallons).....	\$1.32
Duty on glass.....	.06
<b>Total.....</b>	<b>1.38</b>
Estimated State tax.....	.24
	<b>1.62</b>

Foreign light wines in this class can afford to pay the duty on glass.

NO. 5. WINES AND VERMOUTHS, OVER 14 PERCENT AND NOT OVER 24 PERCENT OF ALCOHOL BY VOLUME

	<i>Per gallon</i>
Present internal-revenue tax.....	\$0.10
Present customs duty.....	1.25
<b>Total.....</b>	<b>1.35</b>

We advocate a rate on domestic fortified wines of 45 cents a gallon, which we believe they can afford to pay, and that the Government's revenue from domestic wines in both classes will be bigger by establishing the 10-cent rate on wines not exceeding 14 percent and 45 cents on fortified wines than if there was a higher rate established on light wines and a proportionately lower rate established on fortified wines. Fortified wines are not consumed by the bottle. A bottle lasts the average family some little time, and, therefore, the slight increased cost necessitated by a higher rate of internal-revenue tax is not considered.

The old customs rate on imported fortified wines was 60 cents a gallon, and we believe that the domestic production is entitled to this protection, so that the customs rate should be \$1.05 per gallon, plus the duty on glass if imported in cases.

NO. 6. BEERS, ALES, AND STOUTS

The question of protection on American beers is not one that seems to us to enter into the question of the rate of duty which should be assessed on imported beers, ales, and stouts, as the higher cost of the foreign products,

together with the cost of transportation from abroad to the United States is very heavy.

The rates established on domestic beers we believe are being considered purely from the point of the amount of revenue that they will yield to the Federal Government. We do not, however, feel that there should be any distinction made in the rate of taxes based on the relative alcoholic strength of the beer.

The former rates of duty on imported beers were 23 cents per gallon if imported in bulk and 45 cents per gallon if imported in glass. At that time there was no duty on the glass bottles.

The foreign manufacturers of beer, particularly Guinness' stout and Bass ale, are very large users of American barley, hops, and timber, and this business should be encouraged with a reasonable rate of duty, giving a fair amount of protection to the domestic brewers, but we feel that the customs duty should under no circumstances exceed 45 cents per gallon and that there should be no tax on the glass bottles.

We shall take the liberty of submitting to you in the near future certain administrative suggestions, which will be prepared with a view to turning more business into the United States and for the benefit of not only those Americans who are interested in importing foreign wines, spirits, etc., but also allied industries and labor.

We trust that you will give our suggestions due consideration, and we take this opportunity to place ourselves on record that when the distribution of wines and spirits is accomplished in an orderly manner and the illicit trade is disorganized, we are prepared and will advise you of the rates of the customs duties on foreign wines and spirits which we believe will produce the greatest revenue to the United States.

Respectfully submitted.

WINE AND SPIRIT IMPORTERS SOCIETY OF THE UNITED STATES,  
MUNSON G. SHAW, *President*.

The CHAIRMAN. The next witness is Dr. F. W. Buck, representing the Federal Dispensary Tax Reduction League; subject, liquor tax.

**STATEMENT OF DR. F. W. BUCK, WASHINGTON D.C., REPRESENTING THE FEDERAL DISPENSARY TAX REDUCTION LEAGUE**

The CHAIRMAN. Give your name, address, and whom you present.

Dr. BUCK. My name is Dr. F. W. Buck. I represent the Federal Dispensary Tax Reduction League. My address is 1410 G Street, Northwest, Washington.

Mr. Chairman and gentlemen of the committee, it has been 12 years since I started attending the school of prohibition and the liquor problem. I think this is the best post-graduate course I have ever taken—these few days here before this committee. I am going to present to you, and give you my reasons for it. I am going to advocate that for a 4-year period you practically let down the bars on imported whisky; and I have, I think, good reasons for suggesting that course. In attending the code hearings, Dr. Doran testified that with all the distilleries now in production, and with those that will soon be in production, those that are being built, the possible potential production of American distilleries now is 105,000,000 gallons a year.

Mr. CROWTHER. May I interrupt the doctor just to ask a question? Your opening statement was, "Let down the bars on foreign whisky."

Dr. BUCK. Yes.

Mr. CROWTHER. How far down—take them all down, or reduce them?

Dr. BUCK. No; I am going to suggest that you reduce the tariff on imported whisky to \$2.50 a gallon.

Mr. CROWTHER. You suggest a modification of the tariff, then? That is what I want to know. I wanted to know your premise.

Dr. BUCK. And that you get your revenue for 4 years from the foreign importations, which will amount to more than the revenue you are figuring on for American products.

I want to show you, if possible, that you will not injure the American manufacturer, except the rectifier. As far as the rectifiers are concerned, only a few of them are now in business, and if this law is changed at the present time you will do very little damage to the rectifiers.

On looking over the American Statistical Digest—to give you some idea of what this 105,000,000 gallons means—I find that in 1913 the production of spirits was 185,000,000 gallons. I am leaving out the extra figures.

In 1914 it was 174,000,000 gallons; in 1915 it was 132,000,000 gallons; in 1916 it was 249,000,000 gallons; in 1917 it was 277,000,000 gallons. The amount removed for denaturization in 1913 was 16,000,000 gallons; 1914 is blank; in 1915 there was 15,000,000 gallons removed; in 1916 there was 84,000,000 gallons; in 1917 there was 93,000,000 gallons. An average of 55,000,000 gallons a year, for those 4 years, was removed for denaturing.

There was an average of 203,000,000 gallons over the 5-year period of production, leaving 146,000,000 gallons for consumption of whisky.

You have had considerable testimony on rectified spirits. I have made the statement before many medical societies in the past 11 years that during my practice I never had seen a case of delirium tremens caused by pure whisky before prohibition. I have yet to see the first physician who can say that he has ever seen or treated a case of delirium tremens that was not caused by gin or by rectified spirits.

Dr. Doran informed you people yesterday that whisky could be rectified at the rate of 10 to 1 and apparently make a potable drink; and it can be. Whisky, aged whisky, is capable of being rectified to the point of 50 to 1, if the man's conscience goes that far; and your law, if you please, leaves the rectifier to use his own conscience on the proportion of alcohol he uses in rectifying his whisky. He puts that product in his casks, ages it for a few days, goes through the process of rectification, and sells it to you for whisky or blended whisky that you can drink and not be killed. You may get drunk on it, and have a headache the next day different than you would if you got drunk on real whisky; but you are not drinking the right kind of whisky for the American citizen to drink.

I have been fighting 11 years steadily, trying to get good whisky where the American people could have it, and have it right. We are not going to have any good whisky for the next 4 years, because it takes 4 years to age it. If you allow all the distilleries in the country today to start manufacturing, what they make during the coming year will be ready for consumption in 1938. What they make the next year will be ready in 1939. What they make the next year

will be ready in 1940, and so on. We will soon have, in 4 years' time, good American whisky that no one need be ashamed of.

During that period, if you allow importations of the amount of whisky that the American public will consume, I think it will be far in excess of what we averaged, 146,000,000 gallons, during the pre-prohibition years, because people have become whisky minded. They have been accustomed to drinking it. We found that out in our beer bill. The beer bill is not producing the revenue or the consumption that it was estimated it would, for the very reason that the people are not beer drinkers any more. They have had 12 years' drought of that. They are accustomed to whisky, and they are drinking it, and will continue to drink it.

Now, the bootlegger will not be able to copy the foreign brands in such a way that a chemist cannot detect it; and your licensing system, whatever is set up in the different States for selling liquor, will be able to detect the imitation liquor; while if you allow the rectification to go on, and our drinking is done in the form of rectified liquors manufactured by the rectifiers here, there is no way in which any chemist, even, can tell whether the bottle of liquor that has the same label has been rectified by a good rectifying plant, or whether it has been made by the bootlegger in the same way that the rectifier will make it.

So I appeal to you to take that into consideration; and I do not think you will be hurting the American farmer or the American manufacturer of pure whisky by establishing a process of that kind; and you will not be hurting the foreigner, because he will understand that his importations will be ruined at the end of 4 years' time.

The CHAIRMAN. Thank you, Doctor.

The next witness is Joseph Garneau Ringwalt, representing the Joseph Garneau Ringwalt Co.; subject, wine and liquor.

**STATEMENT OF JOSEPH GARNEAU RINGWALT, NEW YORK CITY,  
REPRESENTING THE JOSEPH GARNEAU CO.**

The CHAIRMAN. Give the reporter your name and address.

Mr. RINGWALT. My name is Joseph G. Ringwalt. My address is 1819 Broadway, New York City.

Mr. Chairman and gentlemen, I should first like to ask for certain relief, as an importer, from the administrative features of the tariff act.

At the present time the importer pays duty on the actual contents of a package as it arrives in this country, with the exception of an arbitrary amount of 2½ percent, if your actual outage exceeds that amount. If your actual outage is less than 2½ percent, you are allowed your actual outage. If it is more than that, you are only allowed 2½ percent. There is an exception. If your outage is over 10 percent in any single package, you may then make claim within 5 days for a refund of your duty.

We would like, if possible, to pay duty on the quantity of wine withdrawn from customs bond, or at least to be given an allowance

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for outage such as is now allowed on domestic whiskies and domestic wines. That outage varies from  $2\frac{1}{2}$  to 5 percent a year.

We should also like, gentlemen, to have the privilege of bottling in customs bonded warehouses. In that way the merchandise may be purchased abroad and stored here. The purchase price is cheaper. Your storage facilities are better. Your aging is quicker. The use of bottles, cases, caps, corks, labels, and above all labor, is a part of this industry in this country. It brings work here.

In that connection I should like to ask that the bonded period on imported goods be extended from three years to ten years.

Senator CLARK. If I may interrupt, what is the reason for that?

Mr. RINGWALT. The reason for asking the extension?

Senator CLARK. Yes. What is the reason for the extension?

Mr. RINGWALT. For example, I understand that the vintage in the cognac district this year was splendid. If an importer wished to buy some casks of brandy of this vintage, he could buy it today very cheaply. If he brought those casks to this country, with the heated warehouses we have here, it would age more quickly than it would abroad; but under the present customs the duty must be paid within 3 years. If you want a real aged cognac you should keep it 6, 8 or 10 years.

Mr. CROWTHER. How much of the cognac that was formerly sold in this country was really as old as that?

Mr. RINGWALT. I think a small proportion.

Mr. CROWTHER. Very small.

Mr. RINGWALT. Although the real fine cognac is at least that old, sir.

I should also like permission to sell for ships' stores in bond; that is, to those ships engaged in foreign commerce. That is a business which goes entirely to foreign dealers in alcoholic liquors, because we can only sell to ships under the American flag engaged in foreign commerce at an in-bond price. That brings business to an American merchant. It allows us, with the exception of the freight which we would have to pay to this country, to compete with the English shippers. With the privilege of your bonded warehouse facilities, we could then have in this country a business which has been built up in London, and is known as the London Docks. It allows them to age wine and liquors for an indefinite period in bond there.

It is my opinion, gentlemen, that imported wines, spirits, liquors, beer, etc., should not be subject to internal-revenue taxes. They were not so subject prior to 1914, when the so-called war-time tax was placed thereon. I also feel that the duties on imported alcoholic beverages should be sufficiently high to give full protection to the domestic products and to encourage domestic industry.

Usually, the figure for duties is or should be determined by the point of diminishing return, or the saturation point. I believe that there is always a point in taxation beyond which the consumption of that article is reduced, and the tax thereby is also reduced. I believe that the importing trade wants to give to the Government all the revenue that is possible; but at the present time I believe that the rates should, say for a year, be placed at a point sufficiently low to make smuggling and illicit manufacture unprofitable.

When this business of smuggling and bootlegging, so highly organized, is disrupted, and the distributors of wines and liquors in the hands of the licensed trade have an opportunity to be organized, I believe that the rates may be increased to that saturation point.

On the question of malt beverages—it has been covered rather fully—I should like to urge a tariff and an internal-revenue tax of 25 cents a gallon. I am not trying to differentiate between the two.

On champagne and sparkling wines, the present duty and internal-revenue tax amounts to \$20.52 a dozen. In addition to that, we have a State tax in New York of 40 cents a gallon, or 98 cents a case, making a total of \$21.50 a dozen. This rate is prohibitive from the sales point, and cannot fail to keep the bootlegger and the smuggler in business on this item.

I have heard that the cost of bringing down a case of champagne from the Island of St. Pierre is about \$8. I believe that the duty in St. Pierre is about 35 cents on a case of champagne. During prohibition there were very large amounts smuggled into this country. Under normal conditions, I believe that champagne could stand a total tax—that is, Federal and State—of \$12 a case; but at this time, to drive out the bootlegger, the total tax, in my opinion, should not exceed, for Federal taxes—tariff and internal revenue—\$3.50 per gallon, which would be equivalent to \$8.70 per case; and when you add to that the New York State tax (and others are more or less equivalent) of approximately \$1, you get \$9.70 a case, which we ask for at this time.

Mr. CROWTHER. As against the \$8 which you said it cost them to smuggle it in?

Mr. RINGWALT. Yes, sir. I have enough confidence in the American people to think that they will pay some, although not a prohibitive, excessive amount for legal goods.

The CHAIRMAN. Have you about completed your statement?

Mr. RINGWALT. I should like a few minutes more, sir, if I may have your indulgence.

The CHAIRMAN. About how many?

Mr. RINGWALT. Five.

The CHAIRMAN. All right.

Mr. RINGWALT. On whiskies and other spirits, the same thing applies with respect to the smuggler. I think that the present duty and internal-revenue tax and State tax amount to \$17.10. Normally I think whiskey could pay \$4, or \$9.60 a case. At the present time, though, the Federal tariff and internal-revenue tax should not exceed \$2.60, and the State tax of 40 cents brings the total to \$3 a gallon, or \$7.20 a case.

Gentlemen, when it comes to still wines, I should like to urge you to make again a differential in the tariff between still wines under 14 percent and wines from 14 to 21 percent. I believe in the interest of temperance that should be done. I think the American people should be permitted to buy light wines as cheaply as possible; and I should like to urge, though it is a little out of my province, that the internal-revenue tax on domestic natural wines under 14 percent shall not exceed 10 cents a gallon.

It is really immaterial on the imported product. We pay so much tariff anyhow; but our idea is that the more domestic wine is consumed, natural wine, we will get our small proportion, which I

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think has never exceeded 10 percent, and probably is ordinarily about 5 percent of the wine consumed in this country.

I think Judge DeVries' point that there may be dumping is entirely illusionary. Even with the free importation, other than duties, I think that imported wines were never more than 10 percent of the domestic production. The shipment of grapes I believes indicates a consumption of something like 140,000,000 gallons of domestic wines; and with the quota and limits already put, I see no reason for further restrictions such as the Willis-Campbell Act, restricting importations by law. They are already restricted and will be restricted by tariffs.

Thank you very much, gentlemen.

The CHAIRMAN. We thank you, Mr. Ringwalt for your attendance and the information you have given the committee.

The next witness is Hon. George P. McCabe, representing the American Brewers' Association; subject, beer tax.

If the memory of the Chair is correct, Mr. McCabe was at one time Solicitor of the Department of Agriculture, and has frequently appeared before the Committee on Expenditures in the Department of Agriculture, of which the present chairman of this committee was a member; and he would like to say that Mr. McCabe's statements were always very interesting.

Mr. McCABE. Thank you, Mr. Chairman.

#### STATEMENT OF GEORGE P. McCABE, WASHINGTON, D.C., COUNSEL FOR THE AMERICAN BREWERS' ASSOCIATION

The CHAIRMAN. Please state your name and address, and whom you represent.

Mr. McCABE. My name is George P. McCabe, attorney, 705 American Security Building, Washington, D.C. I am counsel for the American Brewers' Association.

Mr. Chairman and gentlemen, I have here a short prepared statement which I should like to read; and then there are some points that I wish to discuss that have been brought out in the testimony today regarding the brewers, and the products which they manufacture. I seem to be the only representative of the brewers who is present. Testimony has been received from wholesalers regarding the brewers, and also from importers; and I should like briefly to answer a few of those things.

We are informed the interdepartmental committee has recommended an excise tax of \$5 per barrel on all beers, regardless of alcoholic content. In other words, it is proposed that the nonintoxicating 3.2 percent alcohol beer pay the same excise tax as the high-power beer. We are opposed to this position.

The well-considered opinion of all who have studied the problem of alcohol taxes is that weight must be given to the social welfare aspect. That is the primary consideration. While the need for revenue exists it must not be the controlling factor. From the social welfare side the tax should favor the nonintoxicating product, and thus encourage its consumption displacing the beverage of higher alcoholic strength, and encouraging temperance throughout the Nation. The same rate of tax on nonintoxicating 3.2 percent alcohol beer as on the high alcohol beer entirely disregards the prin-

ciple and runs counter to the conclusions of the reports of state legislative bodies and of reputable private investigators.

Some of the States in recent legislation and in bills now pending before the several legislatures, Missouri for example, have defined 3.2 percent alcohol beer as nonintoxicating, and have levied taxes on its sale much lower than the license and vendor taxes imposed on the sale of high-power beer.

In the Rockefeller report the recommendation is that the tax on 3.2 percent be sharply less than the tax on the high-power beer. In this report the authors say:

The primary objective of taxation should be social control, not revenue. Taxes should be levied not with the idea of filling the Public Treasury at whatever cost to public morality and efficiency, but as a method of reducing the consumption of alcohol. (Par. 5, p. 10.)

Every consideration of social control suggests the frank acceptance and treatment of beer containing not more than 3.2 percent of alcohol as a non-intoxicating beverage. While this line may not be drawn with strict scientific accuracy, it has been popularly accepted as a result of the Act of Congress of March 22, 1933, permitting the sale of 3.2 percent beer. Since that date the Nation has been a laboratory in which a remarkable experiment has been tried. During this time such beer was sold, even in populous centers like New York City, with little restraint. For some weeks it was obtainable like ice-cream at any soda fountain. It has been drunk in enormous quantities. Yet the testimony is almost unanimous that there has been no increase in drunkenness, no disorder, no increased resort to illicit hard liquor. The evidence, as we have found it, is all the other way. Bootleggers have lost part of their patronage; in some places arrests for drunkenness have positively declined.

The continued, unrestricted sale of beer having an alcoholic content of not more than 3.2 percent is clearly the part of wisdom. Such beer should be obtainable by the bottle, for off-premises consumption, practically without limitation. Its sale should be allowed by grocery stores, drug stores, delicatessen and general stores, and indeed by any merchant who so desires. A vendor's permit should be required, but the cost should be low and there should be no restriction on the number of permits. The sale of such beer by the glass, with or without meals, should be permitted in restaurants, hotels, beer gardens, clubs, and, indeed, in any reputable establishment. (Pages 31-32.)

On the subject of the high-power beers, the report states:

In dealing with the sale of heavier beers, fortified wines, and spirits, we are confronted with a question infinitely vexatious and complex. Indeed, it is the heart of the liquor problem, and for many centuries its attempted solution has brought grief and disillusionment. If light beers and wines were the only alcoholic beverages consumed, the social implications of the liquor trade would present but few difficulties and the task of the legislator would be simple. It is, primarily, the distilled liquors and, secondarily, the heavier beers and wines that create the real problems. (Par. 1, p. 35.)

Commenting specifically upon the rates of tax to be imposed on the two kinds of beer, the Rockefeller report recommends:

That the excise tax on 3.2 percent beer be placed at not more than \$3 per barrel. This is comparable with a moderate retail sales tax of not more than 10 percent.

That the excise taxes upon other alcoholic beverages be rationally related to the above rates with reference to their alcoholic content, price, undesirability of consumption, and luxury-use factors, as shown in the accompanying table. (Paras. 1 and 2, p. 128.)

The table referred to shows a recommended tax of 10¢ per gallon on the 3.2 percent alcohol beer and a tax of 30¢ per gallon on the high-power beer.

In general these recommendations of the Rockefeller Committee are supported by other investigators, public and private. We are

unable to understand the reasoning upon which the Interdepartmental Committee based its recommendation for no differential in tax between the two kinds of beer, unless it is for ease of administration in the collection of taxes. It is feasible and simple to collect the proper rate of tax for each kind of beer, even in a brewery which manufactures both the 3.2 percent alcohol beer and the high-power beer. This has been demonstrated by the collection of the taxes on cereal beverages and on 3.2 percent beer manufactured in the same breweries since April 7, and also by the collection of the \$5 rate and \$6 rate since repeal.

The brewers I represent are of the firm opinion that there should be a sharp differential in tax between the 3.2 percent beer and the high-power beer. They believe that the sale of 3.2 percent beer should be encouraged by a low tax of not more than \$2 per barrel. The question is of great importance to the brewers because, while the sale of 3.2 percent beer is now legal in 44 States, there are but 21 States in which the sale of beer containing more than 3.2 percent alcohol by weight is legal.

The tax of approximately \$9 per barrel on beer containing over 3.2 percent alcohol by weight, as recommended by the Rockefeller Committee, is too high. It would result in encouragement of illicit traffic in the product of wildcat breweries, defrauding the revenue and harming the legitimate brewer. We believe that a tax of \$5 per barrel on beer containing over 3.2 percent alcohol is as high tax as should be levied.

Senator CLARK. May I interrupt you, Mr. McCabe?

Mr. McCABE. Yes, Senator.

Senator CLARK. What is the American Brewers' Association?

Mr. McCABE. The American Brewers' Association is an association of brewers with breweries extending from the East to the West, and from the North to the South.

Senator CLARK. What I am trying to get at is, is it limited to the manufacturers of 3.2 percent beer?

Mr. McCABE. Oh, no, sir. Every brewery manufactures both the 3.2 percent and the high-power beer.

Senator CLARK. Did you not formerly have a United States Brewers' Association?

Mr. McCABE. There was, and is yet, a United States Brewers' Association. Mr. Beneman was to precede me on the program, but he was detained in Chicago, and I think has asked for permission to appear tomorrow morning.

Senator CLARK. All I was trying to find out was whether there was any disagreement between the two organizations?

Mr. McCABE. Without endeavoring to anticipate, the position of the United States Brewers is identical with the position I have presented here.

Senator CLARK. That is just what I was trying to find out—whether there was a conflict between the United States Brewers Association and your association?

Mr. McCABE. Over 90 percent of the brewers in the United States favor a differential in tax.

I want to speak next on the charge of sectional discrimination.

Mr. JENKINS. May I ask a question?

The CHAIRMAN. Certainly.

Mr. JENKINS. Does it cost any more to make 6 percent beer than it costs to make 3.2 percent beer?

Mr. McCABE. Yes—the added cost of the additional material, and it is always sold for more. At every place in the United States today where 3.2 percent beer and over 3.2 beer—5 percent and 6 percent beer—is being sold there is a differential of about twice the difference in tax in the price of the two products.

Mr. JENKINS. I can see that it would be sold for more, because it more nearly approaches intoxication; but I thought you took the alcohol out when you made it, and if that is the case it should not cost any more.

Mr. McCABE. No; 6 percent beer is about as high a percentage of beer as can be brewed by the ordinary methods of fermentation. Of course, when we speak of beer we speak also of ale and porter and stout. There is no discrimination against any section contemplated by this, or against any brewer. As a matter of fact, there is as much or more ale being manufactured today in the Midwest as is being manufactured in New England. Also, there is now, or at least was until the date of repeal, being manufactured in New England, by the largest brewery in New England, one of the finest ales that has ever been brewed in this country. I do not want to give the gentleman, who is a close personal friend of mine, any advertising; but that ale is still on the market, and it commands a very exceptional price, selling here in the city of Washington at \$5 per case as against the sale of beer at something like \$2 or \$2.50 a case.

Senator DICKINSON. What percent of alcohol is there in that?

Mr. McCABE. That has contained, of course, 3.2 percent. I think it has been extended. The brewers themselves have been forced by public demand to increase the amount of alcohol in their beer—not that any better beer can be made by having a higher percentage of alcohol, but the people are alcohol-minded, and they look on the label, and they think that if a 3.2 percent beer is six times as good as a one half of 1 percent, if they can get something that has 6 percent in it, it will be twice as good as the 3.2 percent. One of the importers who testified today for one of the finest brands of beer that is made, testified that his beer, with no limitation whatever on the amount of alcohol that might be in it, I think he said, contained 3.6 percent, or 3.65 percent. The differential in price, gentlemen, is something that should be considered. In every place where high-power beer is being sold in competition with 3.2 percent beer, it commands a higher price. There was some discussion this morning, Mr. Chairman—I will not take but a moment more—on the subject of the price that the brewers were charging for beer, the apparently high price; and one of the witnesses who was not a brewer, under questioning which he may or may not have understood, was led, I believe, to make the statement that he believed that the price of beer was due to an agreement.

I want to tell you that in the whole United States there is no profiteering in beer going on at the present time. Perhaps there was some; perhaps it was inevitable that there should have been some immediately after the 7th of April, but there is none now. Let us examine the figures for a moment.

At the session of your committee on the Cullen bill, you gentlemen will remember the testimony of Mr. Huber. Mr. Huber is vice

president of the Anheuser-Busch Co., and probably one of the best-posted men in the brewing industry in the United States. He was asked to give the cost of manufacturing and delivering at the point of manufacture of a barrel of beer, and then to break that cost down; and he did it, breaking down the several items, I think, into 30 different items, and he arrived at a cost of \$6.26. That, of course, was based on the then present price of materials. Now, the brewers do not get their material for nothing. They have to buy it. The price of malt has more than doubled since Mr. Huber made that estimate, and the price of bottles is higher. The price of cases is higher. The price of grits is higher. The price of everything that goes into the manufacture of beer is higher. So that if Mr. Huber's statement was correct then, and it would cost \$6.26 to make and deliver a barrel of beer at point of consumption, certainly something can be added to that now. But let us pass that. Let us take the \$6.26.

In the State of Ohio today, beer is selling uniformly for \$12 a barrel. In one section of Ohio it is selling for \$8. The man who is selling that beer for \$8 a barrel of course is losing money, because it costs him, we will say, \$6.26 to manufacture it; he pays a Federal tax of \$5, which is \$11.26, and he pays a State tax of \$1 in Ohio; and 3.2 percent beer is selling throughout Ohio for \$12 a barrel.

The CHAIRMAN. How can he continue in business at \$8?

Mr. McCABE. The man there is just out to raid a market.

Mr. VINSON. What do they get for it at retail?

Mr. McCABE. I will come down to that. The brewer, of course, does not sell any beer at retail.

Mr. VINSON. I understand; but the consumer buys at retail.

Mr. McCABE. They were talking here today about 496 glasses to a barrel of beer. It is not there. The best testimony I have been able to obtain shows that they get about 400 glasses out of a barrel of beer; and those would be, of course, the same size of glass that you used this morning, Mr. Cooper. What was it—8 ounces or 10 ounces?

Mr. COOPER. Eight ounces, as I recall.

Mr. McCABE. They get about 400 glasses of beer. The rest is wastage, and what the bartender scrapes off with the ruler when he fills it, etc., and the beer that goes stale, and that sort of thing. So there are 400 glasses to a barrel of beer.

Mr. COOPER. At 10 cents a glass, that is \$40.

Mr. McCABE. Yes, sir.

Mr. COOPER. And the testimony given by the witness whom I interrogated was that it cost him \$15 a barrel.

Mr. McCABE. Right.

Mr. COOPER. What explanation is there for that difference—that spread of practically 300 percent?

Mr. McCABE. I do not know. I am not in the business. I suppose that it depends on the sort of a place he runs. For example; you can go down to the Occidental and pay 15 or 20 cents for a glass or a stein of local beer, or you can buy a stein of imported beer for 40 or 50 cents. The same prices, or a little higher, prevail at the Mayflower. There are plenty of places in Washington—of course they would not be known to Members of Congress—where

beer is selling at 5 cents a glass. I went through Baltimore the other day, and the uniform signs in the windows all through were "14 ounces of beer, 5 cents." Nickel beer has arrived in Baltimore, and nickel beer as far as 3.2 percent beer is concerned is on its way for the whole United States, because right now there is more beer being produced than is being consumed.

Mr. COOPER. As I recall, you appeared before the committee on the beer bill.

Mr. McCABE. I did, sir.

Mr. COOPER. Is it not fair to state now that we were assured during that hearing that if the tax was placed at \$5 a barrel, a substantial-sized glass would be sold for 5 cents.

Mr. McCABE. My recollection is exactly the same as yours, except that I think it was qualified, that the glass would not be too substantial. It would be a small glass of beer—a "fair-sized" glass of beer, I think they said.

Mr. VINSON. How many ounces?

Mr. McCABE. Eight ounces.

Mr. COOPER. You heard the testimony today?

Mr. McCABE. I did.

Mr. COOPER. The 8-ounce glass is selling for 10 cents.

Mr. McCABE. Yes.

Mr. COOPER. Now you say the 5-cent glass of beer is on the way.

Mr. McCABE. Yes.

Mr. COOPER. If the beer people want to keep faith with the assurances that were given at the time, why has it not been here all along?

Mr. McCABE. It has not been here all along for several reasons. One has been due to the increase in the price of materials—not wholly, but that has been a part of the reason. Another reason is that the brewer does not control the retailer. On that subject of price, Mr. Cooper and gentlemen of the committee, I want to tell you this:

Judge Shallenberger raised this morning this question of the control under the codes. The brewers, after 3 months of hard work on their part, had a code approved by the President on the 4th, effective on the 5th, and the machinery for administering the code is now in process of organization. That code contains a provision, put in there at the insistence of the brewers, that the Federal Alcohol Control Administration can absolutely declare ineffective and refuse to allow the sale of beer which is sold at a price which is oppressive to the consumer or which is destructive price-competition. In the one case we are trying to get the retailers that are gouging their customers, and in the other we are trying to get these fellows like the man I told you about who is selling beer at \$8 a barrel in Cleveland, which is \$3.50 or \$4 below his cost of production. That authority for the control of prices is absolutely set and rigid in the code, and it has the support of at least 90 or 95 percent of all the brewers in the United States, and we are going to see that it is enforced. It is not for the interest of the manufacturing brewer to have the public gouged. He wants to encourage consumption. He does not get any more for the beer whether the retailer charges 10 cents or 5 cents a glass for it.

Mr. KNUTSON. Mr. Cooper wanted to know what became of the spread. It might be a good idea to have the record show at this time that part of the spread is taken up with rent, heat, light, labor,

bartenders, waiters, repairs, local license fee, and I understand in some cases they are serving free lunch, all of which costs money.

Mr. McCABE. Absolutely—absolutely.

Senator CLARK. Mr. Chairman, may I ask just one question?

The CHAIRMAN. Yes, sir.

Senator CLARK. Mr. McCabe, you will recall that when the argument was on here last spring between 3.05 and 3.2 percent beer, the brewers came around and explained that the beer they would actually put on the market would be about 3 percent beer, which would be a good beer.

Mr. McCABE. Yes.

Senator CLARK. That they needed a margin of tolerance.

Mr. McCABE. Yes.

Senator CLARK. That the 3.05 percent beer did not give them sufficient margin of tolerance to put a 3 percent beer on the market.

Mr. McCABE. Right.

Senator CLARK. It was on that basis, largely, that 3.2 percent was enacted into law after a considerable fight.

Mr. McCABE. Yes.

Senator CLARK. Now, as a matter of fact, the beer that they actually put out was a 2.6 or 2.7 percent beer; was it not?

Mr. McCABE. Yes, it was, and most of the beer that is on the market now does not run over 3 percent; that is, prior to repeal.

Senator CLARK. It does not run 3 percent, does it?

Mr. McCABE. I can answer that question in this way: I saw a statement of 45 beers analyzed by a chemist in one of the Southern States, and the lowest beer that was there was 2.7 percent and the highest was 3.12 percent.

Senator CLARK. Your information is much later than mine. The last I heard was about 3 months after the act went into effect; there had been an analysis of about 40 beers, and the highest was 2.6 percent.

Mr. McCABE. There were a couple of reasons for that. In the first place, it was difficult to produce the beer all at once. In the second place, they were in mortal terror of getting over 3.2 percent, for the internal revenue statutes provided for the forfeiture of the brewery if they exceeded that percentage.

Senator CLARK. I understand. I was just trying to get what the actual fact was.

Mr. McCABE. Senator Harrison was discussing today the question of tariff duty, and one of the gentlemen pointed out how much the price of beer had increased for American consumption due to the change in exchange. I just want to call attention to the fact that if you have a \$15 duty, with no revenue tax here, it costs the fellow who buys his \$67 abroad \$9 to pay that tax.

Senator HARRISON. You may not have that condition always as to exchange. You are speaking of present conditions?

Mr. McCABE. Yes; or on a devaluation of the dollar at 50 cents, of course, he would be paying something considerably less than that.

The CHAIRMAN. Mr. McCabe, of course you realize that this committee cannot lose sight of the revenue feature of this matter.

Mr. McCABE. No, sir.

The CHAIRMAN. Have you any opinion or have you made an estimate as to the loss of revenue to the Treasury that would result from the tax you recommend or suggest?

Mr. McCABE. No; I have not, Mr. Chairman. I heard the testimony this morning that it would be \$24,000,000. Of course I realize that you must consider revenue; but in view of the nonintoxicating qualities of 3.2 percent beer, absolutely demonstrated in the last several months, I do not think there is very much more excuse from a social standpoint for charging \$3 for 3.2 percent beer than there would be for charging \$3 for a barrel of Coca Cola, or—not to mention any particular soft drink—for any soft drink.

Mr. VINSON. Did you say \$24,000,000 reduction in revenue?

Mr. McCABE. I did not say it. That was what one of the witnesses said this morning. I had no information about that.

Senator CLARK. Dr. Gulick said that.

Mr. VINSON. I think that figure is in error. For the 8 months the \$5 tax has brought in \$84,000,000 plus. Two fifths of that would be around \$31,000,000 loss.

Mr. McCABE. But, of course, there are a good many variable factors.

Mr. VINSON. Then you would have 4 more months to go, and assuming same yield it seems to me it would figure the reduction to be \$45,000,000 for 12 months.

Mr. McCABE. You can figure it at almost any amount, Mr. Vinson.

Mr. VINSON. Just take your lead pencil there and figure what a 40 percent cut would be on \$125,000,000.

Mr. McCABE. I think it would be just what you said; but of course there may be some increase in consumption. When the April 7 act was passed there were 182 breweries in the United States. There are 552 now, and probably by the 7th of next April there will be at least 1,000.

Mr. CULLEN. Does the consumption fall off in the winter very much?

Mr. McCABE. Oh, yes. We have passed the peak season, of course.

The CHAIRMAN. Are you through, Mr. McCabe?

Mr. McCABE. Yes, sir.

The CHAIRMAN. We thank you for your attendance, and the testimony you have given the committee.

The next witness is Seabury Mastick, representing the Interstate Commission on Conflicting Taxation; subject, Federal liquor tax.

Mr. H. W. TOLL. Senator Mastick is chairman of the New York State Commission on the Revision of the State Tax Laws. That commission is holding hearings today in Syracuse on the question of liquor taxes in New York State. Accordingly, Senator Mastick has requested me to present to the committee his regrets that he is unable to be present.

#### STATEMENT OF H. W. TOLL, DENVER, COLO., REPRESENTING THE AMERICAN LEGISLATORS' ASSOCIATION

Mr. TOLL. My name is Henry W. Toll. I am the next speaker on the calendar. My address is Denver, Colo.

I appear in connection with a matter which is not receiving a great deal of discussion in connection with the present topic, but which we believe is a matter of vast national significance.

At the risk of repeating some information which is familiar to some of the members here, I think it is necessary for me to explain the origin of the proposal which I am about to present to you, which is the proposal of the Interstate Commission on Conflicting Taxation.

The American Legislators' Association is an organization which is conducted entirely by State legislators, and which has been developed during the past 8 years. During the latter part of 1932 the members of that organization became very much interested in the difficulties which the States were encountering as a result of the conflict between State and Federal tax systems, and in that connection the association called a so-called "interstate assembly", which met here in Washington last February.

The matter commended itself to the favorable consideration of the President-elect at that time, President Roosevelt, and he issued a statement saying that he hoped that each State would send its delegates to that assembly.

Each State was invited to send 3 delegates—1 from the senate, 1 from the house, and 1 a fiscal official named by the governor. Largely as a result of the President's approval, the majority of the States sent their delegates to that meeting.

That meeting set up the Interstate Commission on Conflicting Taxation, a commission of 17 members, some of whom are State fiscal officials and some of whom are State legislators. It includes the principal fiscal officials of New York State, Pennsylvania, Virginia, Massachusetts, and legislators from various parts of the country who are men of training and standing in their communities, most of whom are men who have had especial experience in the tax field.

That commission has as its prime desire the hope of developing means for the coordination of the revenue systems of the Federal Government and of the State governments, and indirectly of the local units of government, and has desired to cooperate as fully as may be with the members of this committee. I may say that it has been a very agreeable undertaking on account of the many courtesies that have been extended by Mr. Doughton and by Senator Harrison and by Mr. Vinson, of the subcommittee on conflicting taxation, and by Senator King, and by other members; and we have had the privilege of informal conference with your committee.

After various meetings, this committee met here in Washington for two days last month. That time was devoted to a consideration of the question of liquor taxation, and we had a somewhat extended informal conference with representatives of the Treasury Department. During that discussion the plan which the Commission finally adopted originated in its general outline with Mr. Mark Graves, the present (during the past few days) tax commissioner of New York State. He has returned to the position of tax commissioner from being the chairman of the State commission.

These are the recommendations of the Interstate Commission on Conflicting Taxation:

## RECOMMENDATIONS CONCERNING THE TAXATION OF ALCOHOLIC BEVERAGES

(Adopted by the Interstate Commission on Conflicting Taxation at its meeting in Washington, D.C., Nov. 10, and 11, 1933)

*Resolved*, That it is the sense and the recommendation of the Interstate Commission on Conflicting Taxation:

1. That the social implications of the repeal of the eighteenth amendment greatly outweigh in importance the revenue aspects of repeal.

2. That the taxes on alcoholic liquors, as well as the taxes and license fees upon the traffic in such liquors, should be so devised as to promote temperance, and at the same time to discourage illicit trafficking in such beverages.

3. That there is grave danger that if both the Federal and State Governments, without regard to each other, impose taxes or other imposts on these commodities, or upon the traffic in them, the combined load of taxation will become so heavy as to defeat the foregoing objectives.

4. That volume taxes, or so-called "gallonage taxes", whether direct or indirect, should be imposed upon liquor by the Federal Government only, and only at a moderate rate.

5. That the rate of the volume tax should in no event exceed \$3 per gallon on spirituous liquors, and that the rate of taxes on beverages of lower alcoholic content should be correspondingly lower.

6. That of the combined gross revenue from the liquor traffic, derived by the Federal and State Governments from all sources, one half should inure to the benefit of the States and their localities, and the remaining half should be retained by the Federal Government.

7. That in applying the principle which is stated in the preceding paragraph, in the case of those States which adopt the State stores plan, or other form of State liquor monopoly, there should be substituted for gross revenue as defined in that paragraph the actual profit derived from State liquor transactions.

8. That the Federal Government should ascertain its total gross revenue from the liquor traffic derived from all sources, and divide that amount by the total population in all of the wet areas in the United States, thus establishing the Federal per capita. Similarly each State should ascertain its total gross revenue, including both State and local proceeds, and divide that amount by the total population in all of the wet areas in the State, thus establishing the State per capita. In the case of each State, the State per capita and the Federal per capita should then be added, thus establishing the combined per capita for that State. The State's minimum share should be one half of the combined per capita. Accordingly, the Federal Government should make payments to each State which contains wet areas, in accordance with the following formula:

Ascertain one half of the combined per capita.

Subtract from that amount the State per capita.

Multiply the difference by the number of the total population in all of the wet areas in the State, thus arriving at the amount to be paid by the Federal Government to the State.

9. That revenues from spirituous liquors which are sold for medicinal purposes should not be included in the foregoing computations, but should be separately handled, in accordance with the above stated principles, but in accordance with the method stated in the following paragraph.

10. In the case of each State, the Federal Government should compute the amount of revenue which the Federal Government derives, by taxation and licensing, from the sale of liquors for medicinal purposes in that State, and also the amount which the State derives from such licensing and sales, total the two amounts, and pay to the State such amount as will give it not less than one half of the total.

That report is signed by the following commissioners:

Senator Seabury C. Mastick, chairman, New York.

Hon. William B. Belknap, Kentucky.

Hon. Mark Graves, New York.

Hon. R. Beverley Herbert, South Carolina.

Hon. Anna Wilmarth Ickes, Illinois.

Judge Edward L. Leahy, Rhode Island.

Senator William Lee Knous, Colorado.

Senator Earl R. Lewis, Ohio.

Hon. Henry F. Long, Massachusetts.  
 Hon. Leon D. Metzger, Pennsylvania.  
 Hon. C. H. Morrissett, Virginia.  
 Senator Ben G. Oneal, Texas.  
 Senator Henry Parkman, Jr., Massachusetts.  
 Senator Alvin Reis, Wisconsin.  
 Hon. Harry B. Riley, California.  
 Hon. Estes Snedecor, Oregon.  
 Hon. Philip Sterling, Pennsylvania.  
 Senator Henry W. Toll, secretary, Colorado.

The great majority of those members were present at the adoption of this report.

Mr. DICKINSON. How are you going to determine the wet areas?

Mr. TOLL. I think by subtracting the dry areas.

Mr. DICKINSON. How would you get that—by the vote of the people?

Mr. TOLL. No, sir; it would be a census matter. If in the State of Nebraska there were certain areas which were wet, and certain areas which were dry—probably it would be a matter of counties—you would total the census population in the wet counties..

Mr. DICKINSON. How would you know unless you submitted it and had a full vote?

Mr. TOLL. I take it that in each State it will be the law, as to any given county, either that the sale of liquor is permitted in the county, or that it is not permitted.

Senator CLARK. What are you going to do with a State which may permit the manufacture of liquor but not the sale of it?

Mr. TOLL. Then the revenue goes only to the wet areas.

Senator CLARK. Suppose they have no wet areas? Suppose the sale of liquor is prohibited throughout the State, but they do permit the manufacture of it for use in other States?

Mr. TOLL. That problem would present itself, for instance, in Kentucky at the present moment.

Senator CLARK. That is the instance I had particularly in mind.

Mr. TOLL. Under this plan the State of Kentucky, which sells no liquor at retail, would receive no revenue from the Federal Government.

Senator CLARK. Then how would you prevent the State of Kentucky from putting on a gallonage tax of its own?

Mr. TOLL. How can they put on a gallonage tax when the State is dry?

Senator CLARK. They permit the manufacture, and they can put a gallonage tax on the manufacture.

The CHAIRMAN. In that connection, if they put on a gallonage tax, and other States did not, they could not very well compete in the market; could they? If they put on a gallonage tax, and other States did not put on a gallonage tax, they would be at a disadvantage in putting their commodity on the market.

Mr. TOLL. That question was considerably discussed, and the commission had considerable education in the matter of distillation of whisky.

Mr. HILL. How would it operate in cities where certain wards or certain portions of the city did not have any sale of liquor within those districts?

Mr. TOLL. It would be the population in the wet areas in the States; and if there were dry areas in the city, those areas—

Mr. HILL. Take, for instance, sections where they would not have sales.

Mr. TOLL. Presumably, if the population were ascertainable, it would be deducted. There might be refinements of that sort which would require working out; but I believe that they would be refinements, and that they would be administrative details.

Mr. HILL. Here in the city of Washington, just recently, we have been reading in the papers that certain sections are making protests against sales of beer or liquor within those sections. It is pretty hard to ascertain what that area will include—certain portions of the city, mostly residential, but not altogether, perhaps. It seems to me it would be a rather difficult thing to work out.

Mr. TOLL. It might be necessary, conceivably, to put it upon a county basis, including those counties in which the sale of liquor is permitted on the theory that one spring may supply an entire farm.

Mr. CULLEN. Are you not endeavoring to apply what I would consider local option on taxation in that regard?

Mr. TOLL. Mr. Cullen, I think the theory is that the community where the liquor is consumed is the community which is going to make the trouble. If you do not try to harmonize your Federal tax system with the local tax systems, those areas where the liquor is consumed are going to put on substantial taxes if you do not help out the situation; and the consequence would be that you would be taxing, and those consuming areas will be taxing, and the bootlegger will be back.

Mr. KNUTSON. You have no thought that that would work; have you?

Mr. TOLL. I am sure I would neither stultify myself nor insult the committee by presenting a suggestion that we do not believe would work.

Mr. KNUTSON. Do you really think that would work?

Mr. TOLL. Yes, sir.

Mr. REED. When you were speaking of the dry areas, you were figuring those areas determined to be dry by local option?

Mr. TOLL. Yes, sir.

Mr. REED. What would be the situation, for instance, in California, where, under a constitutional amendment, as I understand—it is all up to the State; the counties have no say in regard to that at all?

Mr. TOLL. I am not sure that I understand your question.

Mr. REED. Under the California constitution, they have no such thing as local option. I do not know whether the State can determine an area that is dry or wet. I do not know how that is intended to operate; but I was wondering, under those State amendments, whether you considered that in the plan that you are working out and presenting here.

Mr. TOLL. I presume that it will be known whether it is legal for liquor to be sold in any given county in the State, whether the humidity is determined by the State or by the county.

Mr. REED. I did not know whether you had taken into consideration that action by the States or not, and looked into their law to find out how it fitted into your plan.

Mr. TOLL. The plan was simply an attempt to arrive at distribution for those areas where, under existing law in the locality, liquor could be sold.

Mr. VINSON. How would you determine what was a wet area—by State law or Federal law? Take, for instance, a State that voted for the repeal of the eighteenth amendment: Would you consider that a wet area or a dry area?

Mr. TOLL. Mr. Vinson, I think that in a given locality either liquor will be sold legally or it will not be sold, and a policeman on the corner will know whether it is legal for liquor to be sold under existing law or not.

Mr. VINSON. The allocation under the plan suggested by you would come from the Federal Government to a State. Is not that correct?

Mr. TOLL. Yes, sir. Some States would not receive anything.

Mr. VINSON. But the allocation would come from the Federal Government to a State?

Mr. TOLL. Yes.

Mr. VINSON. Now, then, the State would do with that money as it saw fit?

Mr. TOLL. Yes.

Mr. VINSON. In other words, it seems to me that according to the thought suggested, when a State has shown that it is wet area so far as the eighteenth amendment is concerned, it would not be necessary to follow that money from the Federal Treasury into a State to see that it was properly apportioned in wet area or dry area.

Mr. TOLL. No; that certainly is true.

Mr. VINSON. In other words, take Kentucky, for instance: Kentucky voted 180,000 in favor of the repeal of the eighteenth amendment. Now, the legislature meets, and it will be some time before the people of Kentucky can vote upon the repeal of the State amendment; and as far as the money is concerned that comes from the Federal Treasury to the State treasury I cannot see why it is necessary to branch out into the subdivisions of the State, because it would be interminable, in the determination of what was wet area and what was dry area.

Mr. TOLL. An alternative proposal, I suppose, might be to include the entire State, if the sale of liquor was permitted in the State, regardless of whether there were some dry areas within it or not.

Mr. VINSON. Now in regard to the yardstick, as I understand the resolution adopted by the Commission, population alone is the yardstick.

Mr. TOLL. Yes; population alone.

Mr. VINSON. Did the Commission give consideration to the question of production and consumption?

Mr. TOLL. Yes, sir; it gave a substantial amount of consideration to that.

Mr. VINSON. Wherein did you reach a conclusion so vastly different from that which the Scott-Fosdick Committee reached?

Mr. TOLL. I can tell you. The proposal was discussed at length as to whether or not the production factor should enter in to affect the per capita factor; and in our discussions with Mr. Lowery, for instance, we were familiar with the fact that it was their disposition to have the production factor enter in.

In the first place, if you are going to inject the production factor into this matter of benefits from Federal taxation—I am sure this will not be obnoxious, either, to a Kentuckian—then are we not going to come to a point where the cigarette-producing States—this would not be obnoxious to a North Carolinian—should receive greater benefits from the Federal taxation on tobacco than other States, and the same as to those States from which a greater inheritance tax is acquired; and the same thing as to those States which produce gasoline?

Mr. VINSON. Of course we have not adopted this nationalization method, Mr. Toll; but if we were to do so, referring to tobacco, it seems to me that it certainly is not unfair to state that the State that produces the thing that is to be taxed should have some consideration in the allocation of the Federal money. Take, for instance, whisky. Take, for instance, tobacco. The State that produces the liquor under your plan or under the Fosdick-Scott plan yields something because of agreement to that plan. Is not that true?

Mr. TOLL. Yes; it would yield its right to a gallonage tax.

Mr. VINSON. Now, under the Scott-Fosdick report it is understood that if the Federal tax is the tax in toto, and there is to be an allocation, say, of 20 percent to the State, then that State will refrain from the enactment of laws affecting the taxation of that particular product. Is not that right?

Mr. TOLL. Yes.

Mr. VINSON. Now then, the State that produces this commodity that is taxed is yielding more than the State that does not produce it; and consequently, coming from Kentucky, which produces a tremendous amount of tobacco, and that has manufactured liquor that has a world-wide fame, it seems to me that production ought to be considered in making up the allocation.

Mr. TOLL. I participated yesterday in a pre-session conference with Kentucky legislators, and I know that there is that sort of sentiment there; but I am reminded of the motto on the bridge at Trenton:

Trenton makes, the world takes.

And in the matter of good Bourbon whisky, of course, Kentucky makes and the world takes. The country takes and pays the tax.

Mr. VINSON. Yes; but if this plan should be adopted, the State that produces it would be giving up more in the acceptance of the plan than the State that does not produce it. There cannot be any question about that.

Mr. KNUTSON. Mr. Chairman, of course Mr. Vinson's objection could be met by passing a law compelling Kentuckians to consume their own production; but that was not the point I wished to raise. In large centers of population the city councils will undoubtedly prescribe certain areas where intoxicating liquors may not be sold. They will be based largely upon controlled territory. That condition will not be along ward lines, but it will be bounded by certain streets and avenues. Would we not have to take another census to determine that?

Mr. TOLL. As I have been thinking that matter over while we have been talking, it seems to me quite clear that in such cases the municipality should be considered wet.

Mr. KNUTSON. Why not consider a State either dry or wet, and base it upon the population? Why go into all this complicated machinery? If Kansas wants to stay dry, do not give her any money. If New York wants to be wet, give her her per capita share.

Mr. TOLL. I think the suggestion is correct.

Mr. KNUTSON. I am sorry if I questioned your seriousness a while ago, Mr. Toll.

Mr. VINSON. Since you agreed with him, he wants to retract that. [Laughter.]

The CHAIRMAN. Are you about through your statement, Mr. Toll?

Mr. TOLL. I should like to have 5 or 6 minutes more.

The CHAIRMAN. We have taken so much of your time in asking questions that we will give you 5 minutes additional.

Mr. TOLL. I may say that we have made a computation as to how this would have operated before the war, in 1913. At that time there were 870 distilleries in the country, and 7,000 wholesalers, and 200,000 retailers. The Federal collections were \$230,000,000. The State and local collections were \$80,000,000.

Under this plan the Federal payment for the benefit of the States and their political subdivisions would have been \$75,000,000, or less than one third of the amount received by the Federal Government. The Federal per capita for the wet areas at that time would have been \$5.02. The State and local per capitās, of course, would have varied. In New Mexico it ran as low as 48 cents. In Florida it ran as high as \$10.44. The Federal Government would have paid to New Mexico \$2.25, and would have paid to Florida nothing. Now, I have simply stated the principle, the theory here, the proposal. I am very anxious to speak for just a few moments as to the issues that are involved, because I am sure they merit some thought by your committee. I may state that I received a telegram today saying that we now have gallonage taxes in Colorado of 80 cents, in New York of \$1, in Delaware of \$1, and in Indiana of \$2. If this committee acts without consideration of this subject, there is no question in my mind that we are going to have substantial local taxes, and we are going to build up a governmental cost in connection with revenue, as a result of an attempt to secure liquor revenues, which will certainly greatly increase the illegal traffic.

According to a newspaper report which I read on the train this morning, it was recommended by one of the responsible officials here yesterday that the Federal Government should try to secure 80 percent of all gallonage taxes collected under a rebating system, and under this plan would attempt to prevent the States and their political subdivisions from collecting gallonage taxes, and then they would receive simply 20 percent.

In other words, he would recommend that the Federal Government should say, for instance, "We will collect \$2.40 a gallon. We will give 48 cents for the States. This would give 16 cents for the cities 16 cents for the counties, and 16 cents for the States. Then we will keep for ourselves \$1.96." What could you expect if you followed such advice but that the States should spurn this allotment as "chicken feed", and should say, "We also will collect \$2.40, which we will divide three ways—for State, county, and municipal revenues"? You could not blame them. You could not stop them.

Every one knows what the consequence would be. You are in a position to prevent this if you will share reasonably. Now, what is reasonable? No one can mathematically demonstrate the exact correctness of any basis of distribution; but I call your attention to three facts:

First: The States and their political subdivisions have an absolute claim, as I see it, to sufficient revenues to reimburse them for their expenditures entailed by the liquor traffic for inspection, for policing, for the processes of adjudicating and punishing offenders, and for other institutional costs. The Federal Government should not begrudge them such reimbursement, since it will realize vast savings by being relieved of the task of prohibition enforcement.

Second: The States, the counties, and the municipalities have all been led to believe that they will receive substantial net revenues in the event of repeal, to offset some of their real-estate tax burdens. When I say "net revenues", I mean over and above reimbursement for their increased costs. The citizens have not unreasonably counted upon this as one of the incidents of repeal.

Third: Many States are in desperate financial straits. So also are hundreds of counties and hundreds of municipalities. While you are parceling out billions to banking corporations, to railroad corporations, to building and loan corporations, and to other corporations to prevent collapse, does not good statesmanship dictate the advisability of allowing sufficient funds to our corporations of government—our States, counties, and municipalities—to save them from collapse? You have it in your power to precipitate excessive liquor taxes and all of the misfortunes which will follow in their wake. You also have it in your power absolutely to prevent excessive liquor taxation by means of a reasonable sharing plan of a general pattern, such as this Commission proposes, or of far superior pattern such as you could devise.

The division of the governmental revenues which are to be derived from the liquor traffic tends to precipitate the problem which is being created by the Federal Government's recent assumption of functions which we have always understood were State functions. This expansion of the Federal claim of jurisdiction may have been necessary and it may have been proper; but the problem becomes more acute as the Federal Government takes not only the States' functions but also most of the available revenues.

The Federal Government is having its troubles in attempting to finance its manifold activities; but the fact must not be forgotten that almost every State and county and city is having its troubles, also. If you bankrupt the States and their political subdivisions, you do not strengthen the Nation. Practically without regard for the financial well-being of the States, the Federal Government—and the States have acted with equal disregard to the Federal well-being—has encroached upon their sources of revenue to a dangerous extent. I am not criticising. I am simply observing. You are now taking much of our inheritance-tax money. You are taking much of our potential gasoline money. You are taking much of every lucrative source of revenue within your reach. You are forcing us to look more and more to the only source of revenue which you cannot reach—the direct property tax.

Mr. KNUTSON. Right there, I should like to ask you a question. Why would it not be a good idea to leave the tax as it is, \$1.10 a gallon, and then let the States impose such taxes as they see fit; have the Government do away with the prohibition-enforcement organization, and just take \$1.10 a gallon? Have you given that consideration?

Mr. TOLL. It would be more judicious, I believe, than to have the Federal Government put on a \$2.60 tax or a \$3 tax without reasonable sharing.

Mr. KNUTSON. That would meet the local government's needs, would it not? Under that plan we would save money. We certainly would save a lot of money. I do not know how much prohibition enforcement has cost us. It has run into the hundreds of millions, if not billions. It would obviate the necessity of policing the entire country, and it would lead to better feeling, would it not? Then each State can handle it just as it sees fit. Why should not that be a good plan? It is much simpler, is it not?

Mr. TOLL. I should say that any plan which contemplates some reasonable sharing of revenues is infinitely preferable to any plan whereby the Federal Government would try to impose a large tax and take practically all of it, with the inevitable result that the States and their subdivisions will build it up.

Senator CLARK. Mr. Chairman, in the discussion I have listened to here there has never been any suggestion from any source of imposing a tax of \$2.60 to \$3 that did not contemplate an allocation to the States. In other words, the suggestion you just made is not in line with any other suggestion that has been made here—that the Federal Government might impose a tax of \$2.60 to \$3 and take it all.

Mr. TOLL. But you might as well take it all as to follow the suggestion which Mr. Lowry made yesterday, of giving the States only 20 percent.

Senator HARRISON. Mr. Toll, I am in entire sympathy with the proposition of the States getting credit; but prior to the adoption of the eighteenth amendment do you know of any State that imposed a gallonage tax? Were they not perfectly satisfied and did they not proceed on the theory of getting their revenue from the issuance of privilege licenses?—and that was quite an item. Do you know of any State, prior to the adoption of the prohibition amendment, that got any revenue from a gallonage tax; and did not all of the States in those days prior thereto permit the Federal Government to collect the gallonage tax?

Mr. TOLL. As to whether there were gallonage taxes I am not able to state, but the State revenues, as I have stated, run all the way from 48 cents to more than \$10 per State, by one form or another.

Senator CLARK. I asked the question for the purpose of attempting to dispose of the idea the Department had created that the Federal Government is trying to take away from the States some of their rights. In the report of the interdepartmental committee they suggest that these privilege licenses should be collected by the States and that should be left to them, and so forth. We are not trying to take that, but the Federal Government is merely trying to proceed along the same lines we had proceeded in collecting taxes prior to the adoption of the eighteenth amendment.

Mr. TOLL. Aren't you following the lines followed in dealing with the gasoline money?

Senator CLARK. No, and the object of the Federal Government is not the same as in the gasoline-tax proposition. That is an emergency proposition and we want to retire from it as soon as possible, and that is no reason why the States should raise objection to the Federal Government trying to get revenue under the same policy adopted before by the Government.

Mr. TOLL. But we are sharing this emergency with you, it is our emergency, too. The Federal Government has said, "We will take part of your gasoline money; we will take a very substantial part of your inheritance-tax money," which you were not then taking; "we will take other potential revenues by special sales taxes." I am not attempting to create any impression that either the Federal Government or the State governments have vested interests in any source of tax revenue, but the Federal Government has felt it was proper for it to participate in available revenues formerly enjoyed by the States. Then, when the States say, as an emergency matter, if you please, let us participate in this new source of revenue to which we have looked as well as the Government, and as well as the municipalities have looked, then, would it be consistent for the Federal Government to say, "Let us look back to the days of 20 years ago in that matter." In other words, they say, "In what is yours we will share with you, and what is ours, by tradition, is ours."

Mr. COOPER. I have great respect for your views and opinions, and I believe you can not be even suggesting here that the Congress of the United States, legislating, of course, for the Federal Government, should adopt a policy of just considering what the States will want to do and what they will want to take, and then let us take what is left to the Federal Government.

Mr. TOLL. No, sir; far from it. What I am saying is, that the Congress of the United States cannot fail to take cognizance of the fact that our Government is made up of one Federal Government and 48 State governments, 2,000 county governments, and almost countless municipalities, and that Congress of the United States, being concerned over the well-being of any of its political subdivisions, cannot disregard the well-being of its local units.

Mr. COOPER. Have you any impression that anybody intends to disregard the well-being of any of the units of the United States?

Mr. TOLL. No, sir; but I think they can imply that.

Mr. COOPER. We have had the 48 States, or proportionately, practically every since we have had the Government, haven't we?

Mr. TOLL. Yes, sir; and the States have never shown any great regard for the Federal Government in their taxes, and the Federal Government has never shown any great regard for the States in their taxes. It is inherent in the machinery, and what we are hoping for is simply that the local governments of the Federal Government may take more counsel together when it comes to the division of the revenue. If the revenue is derived by taxation on the national income, we have only one national income, and we have to all get together and split it up.

Mr. COOPER. Isn't it fair to state that the first duty of Congress is to properly finance the Government?

Mr. TOLL. The first duty of Congress is to consider the welfare of the Nation, and the Federal Government is only a part of that.

Mr. KNUTSON. You raise the question of the gas tax taken by the Government, and I would like to have the record show at this point we are taking in \$150,000,000 through the gas tax, and paying it back to the States, through the N.R.A., \$400,000,000, and I think this is the proper place to show that. In other words, we are giving them back \$3 for \$1, outside of what we had been giving them prior to that time.

Mr. TOLL. Yes. I think so.

The CHAIRMAN. Do you suggest that the task of the enforcement of the Federal prohibition law, the task of the enforcement of the additional laws that provide for the collection of the revenue, is expected from the States?

Mr. TOLL. No, sir; I was speaking of the enforcement of prohibition. We have had Federal prohibition, and it has devolved upon the Federal Government to enforce prohibition.

The CHAIRMAN. Now, the enforcement of the law providing for this taxation, against those who violate the Federal law in escaping the taxes, you do not take it the States will assume that, do you?

Mr. TOLL. No, sir.

The CHAIRMAN. You spoke of the State courts being burdened with that responsibility and that duty, and that expense, but I do not know in what connection you made that statement.

Mr. TOLL. I say that the reestablishment of the liquor traffic will cast a substantial expense upon the States, counties, and municipalities in the matter of the liquor control.

The principal burden of the control, that is to say, the task of the prevention of liquor sales, has been a Federal task. The task of local control will be a local task. Of course, in the matter of tax collection, that will fall upon the Federal Government, but that will be relatively insignificant, I take it.

The CHAIRMAN. The duty of apprehending and punishing those who evade the taxes will fall upon the Federal Government, will it not?

Mr. TOLL. Yes, sir.

The CHAIRMAN. Are you through, Mr. Toll?

Mr. KNUTSON. I would like to ask Mr. Toll why he spoke of the 20 percent inheritance tax as a very substantial amount, and why he spoke of the 20 percent of the liquor tax proposed to be given back as a negligible amount.

Mr. TOLL. Isn't the Federal Government receiving more than 20 percent on the inheritance tax?

Senator CLARK. No; they allow 80 percent credit back.

Mr. TOLL. But isn't there also a Federal inheritance tax now?

Senator CLARK. There is a gift tax, but it is very small. The State tax permits a credit of 80 percent back to the State.

Mr. TOLL. But the Federal Government is receiving further sums from the State inheritance tax in addition to that 20 percent, as I understand it.

Mr. HILL. The original credit was 80 percent of the tax paid to the State.

Mr. TOLL. But the Federal Government's take has now been increased over the former 20 percent.

Mr. HILL. We now have a supertax against which no credit for State inheritance tax is allowed.

Mr. KNUTSON. What I am trying to get at is this: Your proposition is when the Federal Government began to take the inheritance tax it was entering a field of taxation hitherto entirely occupied by the States, and now the Federal Government takes 20 percent of that. It is proposed for a State to participate in the allocation of the liquor tax, and the Lowry plan is to give the States 20 percent of that, which is exactly the same proposition, and in one of those, the inheritance tax, you stated that it is a substantial sum, and in the other, the liquor tax, you stated that it is a negligible sum.

Mr. TOLL. I question your statement that the Federal Government is not receiving from the inheritance taxes more than 20 percent, because it also has a supertax, as the result of which, if I understand the figures compiled for your committee, the Federal Government is receiving a very substantial share of the total revenue from taxation on inheritances.

Mr. VINSON. The supertax is 100 percent of the normal tax, and the State does not participate in that supertax which is levied by the Government.

Mr. TOLL. It is not a matter of four to one at all in that. My stand at the present time in the inheritance taxes, the Federal Government is actually getting a lion's share.

Senator CLARK. We have heard here a lot of details about which people may differ as to the percentages and so forth, but your general idea is, and that of the committee is, that there ought not to be two different agencies working in the matter of the collection of taxes, that there ought to be harmony, or otherwise it will do harm, and it would be better if we could give a percentage to the States.

Mr. TOLL. Yes, sir; if your plan could be followed that there should be a reasonable distribution.

If I seem to be in an argumentative mood, I want again to say that I would not be a true representative of this commission if I were not exceedingly appreciative of the consideration we have been shown, and if our attitude were anything else than a very eager desire to be fair minded and to try to improve our governmental set-up in the matter of coordination.

Senator CLARK. You will not be the first one, when you discuss liquor, that appeared to be in an argumentative mood.

The CHAIRMAN. This will conclude the hearing of evidence for the day. The Chairman having to be absent on other official duties in the morning, I have appointed Mr. McCormack to preside.

Senator HARRISON. There may be certain witnesses here who would prefer to take a minute of time to put in their testimony rather than come tomorrow.

The CHAIRMAN. We have cleared the calendar of all of the names, except, of course, if there are any witnesses here, besides the Members of Congress, who would like to make a statement or insert something in the record, it would be all right to come up, if you have something in mind.

Mr. CURRAN. I would like to make a statement.

The CHAIRMAN. Was your name included on the calendar?

Mr. CURRAN. It is on for tomorrow.

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The CHAIRMAN. What is your name?

Mr. CURRAN. P. J. Curran.

The CHAIRMAN. You would like to make your statement tonight?

Mr. CURRAN. Yes, sir.

The CHAIRMAN. How long will it take you?

Mr. CURRAN. Probably about 5 minutes.

The CHAIRMAN. All right, suppose you go ahead. Give your name and address to the reporter.

#### STATEMENT OF P. J. CURRAN, DETROIT, MICH.

Mr. CURRAN. My name is P. J. Curran, of Detroit, Mich. I represent several independent blenders and rectifiers. In listening to the testimony here, especially on the charge of \$4, which the Rockefeller Foundation claims to be the cost of producing some of the bootleg liquor, I would like to say there are several connections I know in Detroit where it is said the cost of protection and all, in the making of liquor, is really only about \$1.50 a gallon. That is a dollar which they claim goes to the gangsters, as I understand, through the friendship I have with one of them, goes for protection. The other 50 cents goes for the cost of the liquor through the several tenements who produce this sugar alcohol which they use in making the gin and other stuff.

In another report by Dr. Buck, he claimed that the rectifying of liquor was on a basis of 10 to 1. Years ago—and I am still interested in the blending and rectifying business—the basis of an ordinary blended whisky was about 3 to 1. On a 45-gallon barrel of blended whisky we used to use about 15 gallons of good rye whisky, and that would be a very reasonable whisky. Then, according to the price, it naturally would increase from 15 to 25 gallons in a barrel, and sometimes as much as 30 gallons in a rectified barrel of whisky.

Now, the blended whisky was a blend of whisky. It would be taking 2-, 3-, 4-, or 5-year old whisky of different makes and making a certain aroma and blend.

In all of my experience I never heard of anybody getting d.t.'s from rectified liquor except a confirmed liquor drinker.

I had some further data for tomorrow, but those few points are the ones I wanted to bring before the committee, so that when they make recommendations for the tax they will take into consideration a tax of \$1.10 which would keep the bootlegger out of the business, because the \$1.10 tax to the maker or the distiller, and the cost sent along to the wholesaler, will make a legitimate man go back in business and still make a comfortable living, for the reason he would not have to pay the big high protection which the bootlegger now has to pay, especially in my part of the country.

Mr. CROWTHER. In rectifying 15 gallons of good whisky, the other 30 gallons was whisky, too, it was not 30 gallons of alcohol?

Mr. CURRAN. It was distilled spirits broken down in combination with 6, 8, or 10-months old prune juice and peach juice and other softening, so that the liquor was not harsh liquor which you get at the present time, and it did not cut the membranes of the throat as it goes down, but slides down easily.

Mr. KNUTSON. And what did that cost per gallon?

Mr. CURRAN. From two to two and a half a gallon.

Mr. CROWTHER. Could that be made and sold for \$1 a quart?

Mr. CURRAN. It could be sold for \$1 or 90 cents.

Mr. CROWTHER. And you could drink it without losing your tonsils?

Mr. CURRAN. Of course, it was not as harsh as the liquor you get these days, and naturally this liquor you get is pretty harsh.

The CHAIRMAN. Is there anything further you wish to state?

Mr. CURRAN. No, sir; unless you want to ask some questions.

The CHAIRMAN. We thank you for your attendance and the information given the committee.

The hearing will be adjourned until 10 a.m. tomorrow.

(Whereupon, the hearing was adjourned until Thursday, December 14, 1933, at 10 a.m.)

### ADDENDA

Brief by E. S. UNDERHILL, Representing the Finger Lakes Wine Growers Association

HON. ROBERT L. DOUGHTON,

*Chairman, Ways and Means Committee, House of Representatives,*  
*Washington, D.C.*

DEAR SIR: Due to the inability of the Finger-Lakes Wine Growers Association to attend the meetings of your honorable body when you were considering domestic taxes on wines, we herewith submit a statement covering the wine produced east of the Rocky Mountains and request that it be made a part of the committee records.

In preprohibition days, the association produced approximately 80 percent of the sparkling or champagne types of wine produced in America. The State of California is admittedly the largest wine producing state in the United States, but those wines are approximately 90 percent still wines.

Prior to prohibition, these eastern wineries produced approximately 115,000 cases of sparkling wine per year, and approximately 800,000 gallons of still wine per year. The preprohibition cooerage capacity of these wineries were slightly better than 4,500,000 gallons of still wines, and the storage capacity was 7,450,000 bottles of champagne.

Due to prohibition, the market for both sparkling and still wines was greatly curtailed and use was limited to sacramental, medicinal and manufacturing purposes, so that there was little reason for production. In fact, the production of champagne was prohibited and still wine held to a very small gallonage. Stocks of wines that were on hand at the time prohibition went into effect were depleted over the prohibition period and Government records show that on December 31, 1932, there were less than 40,000 cases of domestic sparkling wine in the country and only 18,659,481 gallons of still wine.

About 7 years will be required to build the stock of American sparkling wine up to the preprohibition total. It had been the custom in the past to age sparkling or champagne types of wine 3 to 4 years before placing them on the market. American producers of champagne have been doing everything possible to build up their stocks, but in general the situation is pitiful.

Domestic wines are made from domestic grapes produced by American farmers. The effect of prohibition upon the wine grape grower of America is well known. The lack of demand was the cause of the destruction of thousands of acres of wine grapes. Wine grapes are not marketable as table grapes. Before prohibition, the wine vineyards of Lake Keuka alone in the Finger Lakes region of New York, totaled over 35,000 acres, but now they do not total one half that figure. The growers in that region alone can increase their production five times that of 1933 before the present productive capacity of the seller will be filled. This increase of acreage will mean a greatly increased return to the vineyardists. For the 5 years preceding 1933, the vineyardists in the Lake Keuka region received an average of \$20 per ton for their wine grapes. In 1933, the early wine types of grapes brought \$125 a ton and the late varieties, \$80 per ton, and an average of approximately \$95. In spite of this increased income to the vineyardists, Government assistance will be asked to enable the vineyardists to increase their grape acreage.

European nations, especially France, Germany, Italy, Spain, and Portugal, have for centuries been producers of all types of grapes. Nevertheless, the wine interests of this country at the time prohibition went into effect had reached the point where American wines and champagnes were recognized by connoisseurs generally as being equal or superior to foreign wines.

While the stocks of domestic wines are very low, the stocks of wines in Europe are very large, due to the loss of their American and Russian markets, as well as the undoubted decrease of consumption, especially in France because of the increased use of tea, coffee, and other types of beverages. That there are immense stock of these wines available, is a matter of common knowledge, and an article in the Saturday Evening Post, dated December 23, 1933, states that there are in France 170,000,000 bottles of champagne ready for export to other countries, and particularly the United States. Quotations received in this country reveal that these foreign wines can be bought at ridiculously low prices, because of the desire on the part of the owners of these foreign stocks to dump their great surpluses in order to secure cash. Good champagne can be bought in France for as low as \$5 a case f.o.b. winery.

Curtailment of production and consequent depression in the industry began as early as 1917, due to the correct assumption that prohibition would ultimately become effective. We therefore have had 16 years of depression, which is 5 times longer than any other industry in the United States. The application of the above statement must properly be made to the agriculturist growing grapes, as well as the producer of wine.

The internal revenue tax on champagne and all sparkling wines was placed at \$5.76 per case, or \$2.40 per gallon during the World War, and has never been reduced. This terrific tax is equivalent to more than \$700 per acre on the vineyardist. The tax on still wines from 7 percent to 14 percent alcohol was placed at 16 cents per gallon as a war measure, and on wines from 14 to 21 percent, at 40 cents per gallon at the same time. These still wine taxes were reduced to 4 and 10 cents, respectively, shortly after prohibition became effective.

We would suggest that the present tax on sparkling wines is exorbitant, and that it should be reduced to 80 cents per gallon. The high tax has been one of the factors in making wine of this class expensive, and a reduction in tax should be passed on fully to the consumer. We conceive of no reason why champagne should be considered a luxury. In all countries other than the United States the tax is kept down so that the average person is able to buy champagne to be used on joyous occasions.

The request submitted to you at your public hearing, covering domestic taxes on still wines, are generally in line with necessary requirements of eastern wine producers.

In our opinion, the matter of domestic or internal-revenue tax is bound hand and foot with the tariff rates on these same products. Neither the vineyardists or the wine producer can hope to recover from its 16 years depression unless the present adequate tariffs are maintained. It is a fact that the importers pay the tariff duty plus domestic tax, while the domestic producer pays the domestic tax. To lower the tariff will benefit the grape growers and wine producers of the foreign countries, as well as the importers, but injure the United States vineyardists and producers. If the domestic tax is reduced, the foreign vineyardist, wine producer, and importer, and the domestic vineyardist and wine producer will equally benefit, remaining in the same relative position from a price standpoint. We favor the continuation of the quota system now used for the regulation of and importation of foreign wine.

A code of fair competition under the Agricultural Adjustment Act has been accepted by the membership of the Finger Lakes Wine Growers Association and the same is now awaiting approval by the President.

There has also been submitted to the membership of this association a marketing agreement under the Agricultural Adjustment Act, which has been accepted to date by the individual members of the association to whom it has been presented. It is anticipated that within the space of 1 week's time the marketing agreement will have been accepted by all members of this association.

Respectfully submitted.

FINGER LAKES WINE GROWERS ASSOCIATION,  
By E. S. UNDERHILL, JR.

RESOLUTION OF THE AMERICAN MUNICIPAL ASSOCIATION

(The National Federation of State Leagues of Municipalities)

Presented by PAUL V. BETTERS, executive director, Chicago

Whereas the repeal of the eighteenth amendment will likely result in imposing upon cities and villages of this country tremendous responsibilities of regulation; and

Whereas prior to the enactment of the eighteenth amendment it was recognized that it was the municipalities of the country that were entitled to be the principal recipients of tax revenues from this source; and

Whereas this policy was reversed upon the legalization of the sale of beer in that the Federal Government appropriated for itself the major tax revenues and most of the State governments imposed additional taxes leaving to cities and villages only insignificant revenue from this source despite the fact that municipalities had the responsibilities of regulation; and

Whereas it now appears that the Federal Government will also endeavor to procure the major portion of tax revenues to be derived as a result of the repeal of the eighteenth amendment, with States making attempts to secure such additional taxes as may be warranted, leaving to cities and villages little or no revenue from this source; and

Whereas such a policy is very unfair, not only because the responsibilities of regulation will rest largely on cities and villages but also because it is the States and more particularly the Federal Government that, if one source of revenue fails, can freely choose another, while cities and villages are practically confined to the general property tax, therefore be it

Resolved that the American Municipal Association, representing 32 State Leagues of Municipalities comprising 5,000 American cities, urgently protest against any effort by the Federal Government and the States to appropriate most of the tax revenues from this source since it is just as important that municipalities be able to balance their budgets as it is in the case of the States and the Federal Government.

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# TAX ON INTOXICATING LIQUORS

THURSDAY, DECEMBER 14, 1933

HOUSE COMMITTEE ON WAYS AND MEANS  
AND SENATE COMMITTEE ON FINANCE,  
*Washington, D.C.*

## JOINT HEARINGS ON REVISION OF THE EXISTING INTERNAL REVENUE AND CUSTOMS LAWS DEALING WITH INTOXICATING LIQUORS

The committees met at 10 o'clock a.m., Hon. John W. McCormack presiding.

Mr. McCORMACK. The first witness we will hear is Hon. John J. Cochran, Member of Congress from Missouri.

### STATEMENT OF HON. JOHN J. COCHRAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. COCHRAN. Mr. Chairman and members of the Committee after working for years to bring about a change in the eighteenth amendment, I am somewhat alarmed over the statement in the papers to the effect that there is a feeling a high tax should be placed upon alcoholic liquor. I think that that will defeat the purposes of the repeal of the eighteenth amendment.

Those of us who labored all of these years, having in view temperance, and further than that, an idea to eliminate the bootlegger from the population of the country, feel that if you are going to place a tax upon liquor that is going to put the price so high the average person will be unable to purchase good liquor, then the bootlegger remains in the picture.

Now, I know from experience, and from experience prior to the passage of the Celler bill in Congress, that 16-year-old whisky could be secured from the drug store at \$33.50 a case, right here in the city of Washington, and I know from experience that since the passage of the Celler bill that same whisky has gone up in price at the rate of \$10 a jump, until last week the whisky sold for \$66.50.

I told those who advocated the passage of the Celler bill at the last session of Congress, that we were simply playing into the hands of those who held warehouse receipts, and they were going to gouge the public if that legislation was passed. And that is exactly what has happened.

I recall many years ago, back in 1905, 1906 and 1907, that the finest whisky a man wanted to drink could be bought in the city of St. Louis in 10-case lots by the distributor who distributed it to the retail trade, for nine, ten, eleven, and twelve dollars a case, and that

was the popular brands of whisky. Now, what has happened since the eighteenth amendment was repealed, in States where it is permitted to be sold? Take your adjoining State, unless you want to purchase a blended whisky, they want six and a half or seven dollars a quart, whereas the average man can't pay six and a half or seven dollars a quart for whisky.

Whenever you increase the Federal tax, which we undoubtedly will do, we increase the cost of that whisky to the consumer. We have found in applying the income tax law that where you were conservative in the upper brackets you received more money than you did where you put a real high tax in those brackets. I say that is just exactly what is going to happen now.

The States are going to demand their share, but if we can hold those taxes, the joint State and Federal taxes to \$3, it means you are going to get more revenue and you are going to put whisky in the reach of the average person.

Dr. Doran told me personally, before he resigned his position, and I think he will repeat it, if the tax would not go over \$3 there was no reason why the best whisky could not be sold at \$1.50 a quart. Seventy-five cents a pint alongside of what we have been paying for good whisky might be beneficial to the cause of temperance.

If you intend to place a high tax upon whiskey, then consider a graduated tax. consider a high tax for whisky that sells at a high price, if that be necessary. That might be hard to enforce and I would rather see a low tax.

I was amazed to receive a letter from one of my colleagues this morning, a man who fought around here for years for the repeal of the eighteenth amendment, sending me a copy of a letter he had written to the President in which he advocated a \$5 tax on whisky. I don't understand what is in the man's mind.

I say if we are going to make a success of this we are going to have to put good whisky within the reach of the poor man. If you don't do that, then Mr. Bootlegger remains in the picture. Further than that, we must all take into consideration that the eighteenth amendment can be placed back in the Constitution and we don't want any such reaction. We have had enough of the so-called prohibition, but just as sure as we are here today, if you don't place this liquor within the reach of all, you are going to have a reaction we are all going to be sorry for.

I thank you very much.

Mr. McCORMACK. I see Mr. Buck in the room, do you want to go on now, Congressman Buck?

Mr. BUCK. Any time you say, Mr. Chairman.

Mr. McCORMACK. We will call Congressman Buck.

#### STATEMENT OF HON. FRANK H. BUCK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. BUCK. Mr. Chairman and gentlemen of the committees, with your permission I am going to file a brief statement, so that I shall only cover one or two high-lights contained therein this morning, so as not to take up a lot of your time.

I am appearing here not merely as a representative of one of the largest wine grape growing districts in the United States, but also as

a vineyardist myself, and one who has had—although not at the present time interested in wineries—but who has had experience in the sale and distribution of grapes, both in the fresh state and in wine.

I address myself to the consideration of the tax to be placed on wine. I assume you gentlemen are aware the wine industry in particular is one that is in need of rehabilitation; that the grape industry throughout the United States has been prostrate for a number of years past; and that the impetus it received immediately after prohibition has worn itself out; that the grape growers and shippers have been complaining before Congress, the Interstate Commerce Commission and other bodies for a number of years past, in order to endeavor to earn an honest dollar.

Even though the grape growers and vintners themselves put forth their best efforts to rehabilitate the industry, they still need the friendly cooperation of governmental authorities, and at the present time it is necessary that they have the assistance and cooperation of all of the branches of the Government.

In the first place, during prohibition, as far as any wine is concerned, the average American citizen, you and I, either got a physician's prescription and went to the drug store and had it filled with some sort of port or sherry wine, or some wine with high alcoholic content, or bought one of these tonics based on sherry or port.

The taste for the dry wine, or the table wine, the wine we growers think should be rehabilitated, has entirely disappeared during the period of prohibition, and it is going to be a very hard thing to re-educate the public. The vintners realize that. They know they have a task on their hands, and they know they have got to distribute their sales throughout the United States where it does not conflict with local laws. And they know, beyond that, it is a case of trying to educate the consumer.

Now, let me show you completely what I mean. Before prohibition, if you suddenly decided you wanted to give a little dinner, and had some ducks, you went down to the family liquor store which existed in your neighborhood somewhere and said, "Mr. Jones or Mr. Smith, I am going to give such a dinner and I want to know what kind of wine to serve with it." Those men knew what they were talking about, and now there are very few of them in the United States today who can give you any concrete advice on wine and how to serve it. I have been somewhat amused recently at the articles in the newspapers and in the little booklets which have been distributed, telling what to serve and how to serve it.

I want you to remember one other thing before you get down to concrete figures. The manufacture of wine is strictly an agricultural proceeding. There is nothing added to a dry wine, by which I mean a still naturally fermented wine; it is the natural product of the grapes. The only investment there is is an investment in tankage, cooperage and crushing machinery, and all of the rest of it is the labor of growing the grapes, harvesting them, crushing them, and attending the gallonage after the wine is made.

The principle that this was agricultural was recognized prior to 1914 by the United States Government. It was also recognized to be the policy of the United States Government to encourage con-

sumption of wines in the United States. There was never any tax levied on wine prior to that time.

At the present time when all of the other agencies of the United States Government are being encouraged to aid the farmer, I want to say to you that the grape grower is just as much a farmer as people who raise wheat and cattle and such things. It seems to me there should be given consideration to the matter of distilled wines as purely agricultural products.

When you come to the sweet wines the same thing is true, practically, because all you add to the sweet wines, those above 14 percent alcohol, is brandy, which is the distilled product of the grape itself, so you are still really confining yourself to an agricultural product.

Mr. REED. May I ask a question, Mr. Chairman?

Mr. McCORMACK. I assume he will be glad to answer any questions, or you may wait until he is through, just as he prefers.

Mr. REED. I suppose you have the rule in force.

Mr. McCORMACK. Whatever is pleasing to the witness, I think, is the best way to proceed as far as he is concerned. Have you any objection to answering a question?

Mr. BUCK. No; none whatever.

Mr. REED. I just wanted to ask, isn't it a fact that the growers of grapes in a cooperative association borrowed many millions of dollars to help them over their difficulties, from the Government, through the Farm Board?

Mr. BUCK. I don't know what they did in the East, but a certain organization in the West did borrow a certain amount of money from the United States Government, but those loans, I think, for the most part, were made for the raisin grapes, and I am now talking definitely about wine grapes and wine production.

Mr. REED. I understand there were loans made, because the business was so desperately low that they couldn't carry on further.

Mr. BUCK. Loans were made for that reason, but I don't think they were made on wine grapes.

Mr. REED. I know the California growers borrowed a large sum of money.

Mr. BUCK. The Sun-Maid Raisins Association did, and the Fruit Industry did.

Mr. McCLINTIC. Would you care to express an opinion on the proposed policy of some of the States to levy an embargo against liquor or wine produced in other States.

Mr. BUCK. I had not heard of any such policy.

Mr. McCLINTIC. It is to be done through taxes. The State of Pennsylvania, if I understood the other gentleman correctly, has levied an embargo on liquor manufactured in other States causing that liquor to pay a certain amount of tax to cross the border. Have you developed any thought along that line?

Mr. BUCK. I have not developed any thought along that line, but I am willing to say if a thing of that nature is done, such a policy is a poor policy and a mistaken policy.

Mr. McCLINTIC. Do you believe that this is the beginning of a plan whereby the States will levy tribute against other States on other products?

Mr. BUCK. Primarily I don't see how my State or any other State can justify that under the Constitution of the United States.

Mr. McCLINTIC. I think they have already done it through a form of taxation.

Mr. BUCK. Whether it is constitutional or not, I think it is a wrong policy as far as that is concerned.

Now, if I may proceed in order, I am going to say I think any tax you impose upon the manufacture of still wines under 14 per cent alcohol is going to fall upon the grower of the grapes eventually if it is too high.

It may be urged that if beer is subject to a gallonage tax, that wines should be similarly subjected. The answer to that is that the brewer, with a broader sale, can put his business on a productive and paying basis in a relatively short time. Vintners have a far different problem. Some of those who had stocks on hand at the time of repeal may show a profit in a relatively short time, but most of them will not for years, because of the necessity of properly ageing their wines, and building up their inventories.

As I say, some of them may be able to cash in without very much delay, if they are good vintners, and by that I mean the men such as there are in California who have a reputation to conserve, who were in business before prohibition, and not some of the racketeers who have gone out and bought a winery and moved it in in the hope of immediate consumption. But the men who are the background of the industry desire to save the reputation of their products nationally, and those men for years cannot get back the investments they are putting in.

It is necessary to age wine before it can be put on the market. Four years is a good time for wine to mature, and wine put on the market before that, with the possible exception of one quick-maturing type, is not fit for human consumption.

Furthermore, wine, unlike your distilled stock, cannot be cut down and blended by the addition of sugar, water or anything, but you have got a time process, so that must be taken into consideration.

These circumstances explain the impossibility of putting wine in the same class with distilled products, and I want to tell you, I do not believe any tax at all should be assessed on still wines under 14 percent alcohol; that is, those that have not been fortified with brandy. These are the wines that remain in their natural agricultural condition, and I want you to consider that in whatever tax you put on.

I am willing to concede that the growers of grapes at the present time should be called upon to contribute something to the National Government in its emergency. But at any event, any tax you assess—and I want to drive this point home—should be as low as possible, because every dollar of tax you put on the wine means a dollar per ton on the grapes themselves. While originally the tax will be paid by the consumer this year, if it is so heavy as to interfere with the sales next year, the vintner will buy his grapes at a lower price, and so in the long run any tax that the consumer thinks is excessive will be borne by the grower. That is the inevitable rule, as far as I can find out, in all agricultural products, and I want you to consider this an agricultural product.

Mr. EVANS. May I ask a question there? What is the price of grapes this season, Mr. Buck?

Mr. BUCK. The price of California wine grapes varied from around \$12.50 a ton for the grapes that went into sweet wine to \$35 or \$45 per ton for the grapes used for the dry wine varieties.

Mr. EVANS. What is the present tax on sweet wine?

Mr. BUCK. The present tax on still wine of 14 to 21 percent alcohol is 10 cents per gallon; on wine of 21 to 24 percent, 25 cents per gallon; these are what are known as "sweet wines."

Mr. EVANS. That includes all other wines?

Mr. BUCK. No. Still wines under 14 percent, what I refer to as table wines, the tax is 4 cents.

Mr. EVANS. Four cents tax on dry wines?

Mr. BUCK. Yes, sir.

Mr. EVANS. And 10 cents on still wines?

Mr. BUCK. You asked me on sweet wines.

Mr. EVANS. Yes.

Mr. BUCK. Personally I would prefer to use the designation that the Internal Revenue Department uses, of wine under 14 percent, which is what you mean by dry wine. They take the alcoholic content and make that the dividing line, and under 14 percent alcohol it is 4 cents, from 14 percent to 21 percent, it is 10 cents, and from 21 percent to 24 percent, it is 25 cents a gallon.

Mr. EVANS. What is your opinion as to the fairness of the present tax for the purpose of carrying it forward into the bill?

Mr. BUCK. I think the present tax, if we can get one as low as that, is a perfectly reasonable tax.

Mr. EVANS. Is that the tax on wine before prohibition?

Mr. BUCK. There was no tax before prohibition on any kind of wine whatever.

Mr. EVANS. Do you know whether there was ever any tax prior to that?

Mr. BUCK. I don't know whether there was or not; there may have been one during the Civil War.

Mr. EVANS. When did we have the first tax on wines?

Mr. BUCK. 1914, as far as I know.

Mr. SHALLENBERGER. You say the tax put upon wine would be charged back against the grape grower; why couldn't the tax be added to the consumer's price?

Mr. BUCK. It will be, the first year, but if the vintner finds that will interfere with his sales the next year, he is going to come back and reduce the price to the grower.

Mr. SHALLENBERGER. The present theory, or the general theory on these various processing taxes on all products, is that the consumer pays it rather than take it out of the producer.

Mr. BUCK. That is supposed to be the theory of the process tax.

Mr. SHALLENBERGER. A low tax of 4 cents a gallon would not necessarily work against the seller of the wine would it?

Mr. BUCK. You are dealing with a product we hope we can put out at a cheap and reasonable price so that you can buy a quart bottle of wine for 50 or 75 cents anywhere in the United States.

Mr. SHALLENBERGER. My own judgment would be that if you create a large market for your wine because of the return of the sale

of wine legally, that would increase the price, because they would find a market for their product.

Mr. BUCK. It has created a market this year, but the market at the present time is purely speculative. As I stated at the beginning of my remarks, the American public has to be educated again up to drinking wine and nobody knows what the demand will be. There is a potential demand of seventy to eighty million gallons a year, and if that could be sold, it might follow that the taxes will make no difference.

Mr. SHALLENBERGER. The wine produced in California, is that produced by wine makers or by grape growers, or do they sell the grapes?

Mr. BUCK. They are generally sold to the wine maker, but almost every wine maker I know of has in connection with his winery a more or less extensive vineyard of his own.

Mr. SHALLENBERGER. So that the wine grape is sold to the vintner just the same as barley is sold to the brewer?

Mr. BUCK. Yes; that is so.

Mr. DICKINSON. You refer to the wine grape in California, what other grapes are grown there, and what do you do with your other grapes?

Mr. BUCK. The grapes grown in California are divided into three classes: The so-called table grape, the bulk of which are shipped outside of California, and those are the kind you are buying on the fruit stands in Washington, the tough-skinned grape packed in kegs, and during the earlier season you bought some tokay grapes, which are table grapes. They amount to about one third of the crop. Something over a third of the grapes are dried for raisins and a great many of those are exported, even. The remaining nearly one third are the soft, juicy grapes and are used for wine.

Mr. DICKINSON. What is the difference between your wine grapes grown in California and the wine grapes grown east of the Rocky Mountains, in Ohio, New York, and other States?

Mr. BUCK. There is practically no difference so far as I am concerned, they are all the same; but so far as the Internal Revenue Department is concerned, the vintners east of the Rocky Mountains are permitted to add, under specific rules, a certain amount of sugar and water to make up for the deficient sugar content of the eastern or native grapes.

Mr. DICKINSON. For that reason the California grape wine has an advantage over the wines east of the Rocky Mountains?

Mr. BUCK. In certain types; yes. The vintners east of the Rocky Mountains and the wine makers here have always been able to make a good type of champagne, and they made a very fair type of white wine. In other types of wine, I think, the California grapes do excel. They have been brought here from the foreign vineyards, and have never encountered the conditions that some cuttings encounter in the East, as to diseases.

Mr. DICKINSON. Do you mean to say that grapes grown east of the Rocky Mountains make a better champagne than those grown in California?

Mr. BUCK. I don't say they make any better; they make a very good champagne in New York, or at least they did before prohibition.

Mr. CLARK. There was a long and bitter controversy in Congress for years between the California wine grape growers and the growers from Missouri, Ohio, and other eastern States, in which the Missouri and the Ohio growers always contended that California slipped over a joker on them in the internal-revenue regulations which made it very difficult for them to compete.

Mr. BUCK. I think the competition, so far as production is concerned, is more or less nominal, in view of the gallonage that California produces as compared to the rest of the United States.

Senator CLARK. I might say within the last year I have had a letter from a man who was formerly the leading wine producer in Missouri, and in fact I think he had the biggest winery east of the Rocky Mountains and west of the Alleghanies, in which he said he had been put out of business before prohibition by this discriminatory legislation that California had been able to secure.

Mr. BUCK. I think if you will investigate that legislation you will find it is not discriminatory. I have been in consultation with some of the New York vintners within the last few days, and I don't think there is any intention to revive the argument that did exist in the Halls of Congress some years ago.

Now, if I may proceed, I think I will be able to finish in a few minutes.

You asked in regard to taxes. There was recently organized in California the California Wine Growers' Association, and I believe their representative appeared before you yesterday. While I don't know what concrete proposals he offered to you, I am willing to state on behalf of the North Coast Counties' Association and the State Chamber of Commerce, recognizing that at the present time some tax will no doubt be assessed against wine, and hoping you will make it as low as possible, they have asked me to present these as the maximum figures for you to consider, hoping you can see your way clear to make the taxes lower:

Still wine, under 14 percent alcohol, 10 cents per gallon.

Still wine, 14 to 21 percent alcohol, 20 cents per gallon.

Still wine, 21 to 24 percent alcohol, 40 cents per gallon.

Carbonated wines, 20 cents per gallon.

Naturally fermented champagnes, \$1.20 per gallon.

Brandy used fortification. 20 cents per gallon.

Such rates would not stifle production and sale.

I want to repeat the idea about the bulk of this wine being sold cheaply. While there will be made fine champagnes, and while there are in storage in California today some 55,000 gallons of champagne, still champagne is not the only wine.

During prohibition some 25,000 cars of grapes were shipped out of California that went into the States from Omaha, Nebr., or I should say from Colorado east, and those grapes were crushed by Italians and Slovaks and workmen generally, and made into home-made wine which they aged rapidly and drank probably within a year, but it was not good wine. It is true they had the right to do it under existing provisions of the revenue law, but probably they never filed any intention that they could make 200 gallons. Of course, anybody that makes 200 gallons can just as well make a thousand or two thousand and bootleg it out at a comparatively low price, and that is what I am afraid of.

If the tax is put too high, California, Ohio, and the other eastern wine-grape growers will lose that business, it will disappear entirely and there will not be any tax for the Government, and there will not be any sale for the manufacturer of legitimate wines.

I don't know whether you gentlemen are going to consider the tariff on wines or not. The people of the district I represent, the wine-grape growers, and those in the adjoining district—and I want to say to you gentlemen that over half of the wineries in California are in my district and in Mr. Lea's district, and they manufacture something like 75 or 80 percent of what Mr. Evans calls dry wine, and what I call under 14 percent alcohol—all of these people consider that as far as they are concerned they do not want the wine schedule changed at all. We feel that this schedule is already high and should not be increased, because any increase will encourage illicit importations, because Federal revenue will be diminished by making import duties prohibitive and because the present schedule affords ample protection to the producer.

We consider the importation of foreign wines to a limited degree beneficial. It will induce the vintner to produce a high quality of wine, of which he is capable and for which California was famous before prohibition.

On July 1, 1933, this year, there were some twenty-five million gallons of wine of all varieties in storage in the United States, with 22,500,000 gallons of these in California. Some thirty to thirty-two million gallons of wine will be pressed in California this year. Fifty million gallons could have been pressed had the cooperage been in existence, but during prohibition cooperage has been destroyed or diverted to other uses all over the country, and there is not a golf course in California that hasn't a big tank at the present time, derived from former wine cooperage.

Some eight million gallons of cooperage was constructed this year and more will be constructed next, so that eventually California can easily supply 60 or 65 million gallons of wine a year, and the East can come back to its former production of 5 or 6 million gallons.

This year's vintage, however, as I have pointed out before, must be aged before it is at its best for consumption, so that for a period what California produces can not supply what we believe will be the normal demand.

Senator CLARK. How long do you age it?

Mr. BUCK. Four years, talking about dry wine. Sweet wine can be put on the market within a year, fortified with brandy.

After the taste for wine becomes prevalent the American wine producer should be able to benefit when he can deliver the wine. In the meantime, we do not believe it advisable to erect barriers or embargoes against wine, or to increase the tariff protection.

Mr. EVANS. Mr. Buck, have you spoken on the proposed reciprocal arrangement for duties on wines?

Mr. BUCK. No, sir.

Mr. EVANS. What are your views on that?

Mr. BUCK. I think in view of the fact we have so many countries that are desirous of sending their products into this country, we have a very good starting point to talk to them with.

Mr. EVANS. Are you in favor of yielding that market?

Mr. BUCK. I mean just what I said, and we believe for a period of years this country cannot supply its own demand, and we feel that would be better to have the taste of the American people educated to wine now, and we believe eventually we can compete on favorable terms with the existing tariff protection. If it is necessary to make some reciprocal concession at the present time, and we can gain something for the farmer along those lines, I am in favor of it.

Mr. EVANS. You believe we cannot supply the demand for the next year or so, the demand that will come for the various types of wine?

Mr. BUCK. The demand is here if we can supply it. We shipped out of California 25,000 carloads of grapes on an average year during prohibition. Multiply that by 15 tons a car and you will have your tonnage. Then multiply that by 150 gallons, the number of gallons you can get from a ton of California grapes, and you will see the enormous gallonage manufactured and consumed in the eastern part of the United States. That market is there if we can put out a good cheap wine without too much expense.

Senator CLARK. Can they really make better wines in Europe than in the United States?

Mr. BUCK. They make certain varieties that are better, but they are all made in very limited quantities. It is like trying to find vintage wines in California before prohibition. It was there and I have drank them, put up in certain wineries and kept there.

Mr. EVANS. How many States produce wine grapes in substantial quantities?

Mr. BUCK. Outside of California, New York, Ohio, Michigan, Missouri, and Arkansas, I think are the principal producers—and Pennsylvania produces some, too.

Mr. EVANS. The potential capacity of production of wines in this country is almost unlimited?

Mr. BUCK. It is limited only by the consumptive capacity.

Mr. EVANS. How many years would it take to develop production in this country to the extent it would satisfy any reasonable expectation of consumption?

Mr. BUCK. The average production in the United States before prohibition was between fifty-five and sixty million gallons a year. California produced forty-five to fifty million gallons of that, and the rest was produced in the balance of the country. That remained fairly steady for some 10 years before prohibition. I don't know what the imports were during those years. If the figures given on yesterday represent the imports of that period, that would be about eight or ten million gallons of wine imported each year.

Mr. McCORMACK. That included champagne?

Mr. BUCK. Yes; that included champagne. Champagne is a wine, speaking of them generally.

Mr. JENKINS. Were you here yesterday when the other gentleman spoke?

Mr. BUCK. Mr. DeVries, no; I wasn't here.

Mr. JENKINS. He thought we ought to give consideration to the suggestion of wine being classified as a food instead of a drink. What do you think about that?

Mr. BUCK. I think that is absolutely true, as far as table wines under 14 percent are concerned, that is an agricultural product pure and simple.

Mr. JENKINS. Has your association developed any plan whereby you could sell it? You would have to sell it differently from liquors, and classify it for sale.

Mr. BUCK. We are very much disappointed in the decision of the New York Liquor Commission that wine cannot be sold in bulk. Prior to prohibition it was sold in barrels, and could be sent to grocers and drawn off in a jug or a wicker demijohn or something of that kind and taken home for dinner. Personally I think that is the proper way to treat wines, and not to put them in the same classification as hard liquors.

Mr. McCORMACK. Are there any further questions?

Mr. McCLINTIC. I believe you said the New York commission had adopted a regulation detrimental to the interest of the wine growers of California?

Mr. BUCK. Detrimental to all wine growers.

Mr. McCLINTIC. The same thing is true in Pennsylvania with respect to the production of liquor.

It seems to me that the main important point developed by this hearing is the proposed plan of certain States to levy embargoes by collecting taxes on certain commodities produced in other States, and if all of the States would carry that out it seems that would and if all of the States would carry that out it might apply to other commodities, and leave forty-eight States in the future that will be levying embargoes against other States, thus setting up a tax system and invading the field that used to belong to the United States Government.

That development will probably affect not only wine, but every commodity produced in the various States.

Mr. BUCK. Do you think the States have the authority to do that under the interstate commerce clause of the Constitution?

Mr. McCLINTIC. They can do it by taxation like they did in Pennsylvania. Testimony was given before this Committee that four breweries had closed their doors because they were not allowed to have an open market.

Mr. DICKINSON. That would be doing it indirectly.

Mr. McCLINTIC. If they can do it with whisky or any form of liquor, they can do it with other commodities.

Mr. BUCK. I am still doubtful in my mind as to the legality of it, but if it is held to be legal, I repeat what I said before, it is very reprehensible.

Mr. McCORMACK (presiding). Thank you, Mr. Buck, for your testimony.

The next witnesses listed are Congressman Celler and Congressman O'Connor. Is Mr. Beneman here? Mr. Beneman has asked permission to file a brief, and without objection it will be allowed.

(Mr. Beneman subsequently submitted the following brief:)

**BRIEF OF GEORGE R. BENEMAN, REPRESENTING THE UNITED STATES BREWERS ASSOCIATION**

This statement is filed on behalf of the United States Brewers Association, an organization whose membership represents about 60 percent of the present brewing capacity of the United States. The membership is of course interested in the tax on beer, ale, porter, stout, and other fermented malt liquors.

At the present time cereal beverages containing less than one half of 1 percent of alcohol by volume are taxed  $1\frac{1}{4}$  cents per gallon by the Federal Government; fermented malt liquors containing one half of 1 percent or more by volume and not more than 3.2 percent of alcohol by weight are taxed \$5 per barrel of 31 gallons; and fermented malt liquors containing more than 3.2 percent of alcohol by weight are taxed \$6 per barrel of 31 gallons. The cereal beverage or "near beer" containing less than one half of 1 percent of alcohol by volume cannot stand a real tax. That question was fully considered by both the Ways and Means Committee and the Finance Committee when the law levying the present tax was considered. In view of the record then made and more particularly in view of the fact that the sale of such "near beer" is so limited in volume we will not deal herein with that product in detail.

The United States Brewers Association is vitally interested in maintaining a differential in tax between the nonintoxicating beer containing not more than 3.2 percent of alcohol by weight and beer of higher alcoholic content. The association is interested in the maintenance of a differential in tax so that the resultant differential in consumers' cost will encourage the consumption of the low alcoholic product, which it has now been demonstrated is in fact nonintoxicating. This fact has been demonstrated not only by the experience of the country since April 7 last, but the fact has been found by much scientific investigation. It is felt that encouragement of the consumption of such nonintoxicating beer will aid in the maintenance of temperance, which is so much to be desired.

With the present Federal tax of \$5 per barrel, to which the States have added on the average about \$1 per barrel, it is not possible with the overhead in the large majority of retail establishments to sell the nonintoxicating beer at 5 cents a glass.

Custom has made the nickel the unit of beer costs. If the tax is such that it cannot be profitably be sold at 5 cents per glass, it will sell at 10 cents per glass. Human nature and long-established custom cannot be changed.

Beer is the working man's drink. It is a temperance drink when kept at not more than 3.2 percent of alcohol by weight and it should be available at 5 cents per glass.

During the preprohibition period when 5-cent beer was generally sold, the Federal tax was \$1 per barrel, and the States did not tax the product, the States confining themselves to a license tax.

Today under the Code of Fair Competition or President's Reemployment Agreement covering the labor at the breweries, labor costs are higher than they were during the normal preprohibition period. The average increase in labor costs per hour of labor is almost 100 percent over the 1914 scale. Raw material costs are on the whole somewhat higher than they were in 1914. Malt, the chief ingredient, has increased from 12 to 16 percent. Other cereal grains used to a smaller extent are somewhat lower in cost than they were in 1914, but on the whole the raw material costs are as high as they were in 1914, if not higher.

Barrels and bulk containers which are a material part of the cost of beer manufacture and distribution are now selling for more than double the 1914 costs. It is, therefore, obvious that with higher production costs than prevailed during the normal preprohibition period and with State taxes now imposed that were then not imposed, the Federal tax cannot exceed by much the normal preprohibition rate if 5-cent per glass beer is to be available. The association, therefore, respectively recommends that on beer and other fermented malt liquors containing one half of 1 percent or more by volume and not more than 3.2 percent of alcohol by weight the tax be fixed at \$2 per barrel of 31 gallons. This is double the tax imposed during the normal preprohibition period. It is believed that with the \$2 per barrel tax, which should result in a 5-cent glass of beer at a large majority of retail establishments, consumption of the nonintoxicating beer will increase so as to result in a total equal to the estimated yield from the beer tax.

In 1914, when beer sold at 5 cents per glass, the total consumption was 66,105,445 barrels. The population of the country since 1914 has increased about 14 percent.

Even under present economic conditions it is estimated that during 1934, if 5-cent beer is available, there should be consumed a total of 30,000,000 barrels of such beer, i.e., beer containing not more than 3.2 percent of alcohol by weight) which would produce a revenue of \$60,000,000.

As to beer containing more than 3.2 percent of alcohol by weight, it is believed that a 10-cent glass is not unreasonable. The differential will tend to create temperance and encourage the consumption of the lower alcoholic content, non-intoxicating beer. It is believed that with the \$5 per barrel of 31 gallons Federal

tax a 10-cent glass of beer is possible even with the State taxes now imposed. The association, therefore, respectfully recommends a tax of \$5 per barrel of 31 gallons on beer containing more than 3.2 percent of alcohol by weight. It is estimated that at least 20,000,000 barrels of such beer should be sold during the year 1934, which would produce a Federal tax of \$100,000,000, or a combined tax on the beer of low and higher alcoholic content totaling \$160,000,000.

By the Cullen Act, modifying the Volstead Act so as to legalize the sale of beer containing not more than 3.2 percent of alcohol by weight, pending repeal of the eighteenth amendment, a tax of \$5 per barrel was imposed on such beer. The language used was such that the Bureau of Customs rules that said tax was not collectible on imported beers. Heretofore, the Internal Revenue tax was collectible on imported beers in addition to the customs duty. That rule should be maintained, else cost of the domestic product is not properly computed in determining a fair import duty, and it is suggested that whatever internal revenue tax is to be now imposed on both the beer of not more than 3.2 percent of alcohol by weight and beer of higher alcoholic content, it be made applicable to imported as well as to domestic beers.

There is one other aspect of the matter which the association would like to call to the attention of the committees. Under the present law, if a barrel of beer is removed from the brewery premises, as technically defined, and goes no farther than the bottling house, it cannot be returned to the brewery premises without being twice taxpaid. Leaky packages, escaped carbonic acid gas, and other similar conditions frequently necessitate return of the barrel to the brewery premises and it is, therefore, respectfully suggested that a provision be incorporated in the pending measure somewhat as follows:

"Where beer, lager beer, ale, porter, and other similar fermented liquor which has been sold or removed for consumption or sale is returned to the brewery premises where same was produced because the condition of the product or the container renders the same unsalable, the Commissioner of Internal Revenue shall, under the rules and regulations promulgated by him, with the approval of the Secretary of the Treasury, make refund of the tax paid thereon to the brewer who originally paid the same."

Respectfully submitted.

Mr. McCORMACK (presiding). Mr. Berthold, will you permit another gentleman to have 5 minutes ahead of you and I will call you next?

Mr. BERTHOLD. Yes, sir; certainly.

Mr. McCORMACK. Mr. H. H. Smith, of Kentucky, your friend Mr. McClintic has interceded for you very effectively. Will you come forward and state your name?

#### STATEMENT OF HARVEY H. SMITH

Mr. SMITH. My name is Harvey H. Smith, a lawyer, and I represent a group of four distillers, the O'Flarity Distillers, Inc., the Old Blue Ribbon Distilling Co., and Old Woods Distilling Co., and the Lincoln Springs Distillery, all in Kentucky.

Now, gentlemen, in Kentucky we do not drink wine, so I am not interested in that phase of the situation.

These distilleries were organized by independent capital for the purpose of making whisky for profit, and for the purpose of manufacturing whisky as pure as it could be made, and at the lowest price it could be made.

If there is a whisky trust, which we think there is, we are entirely outside of the whisky trust. We found there was one when we attempted to finance these industries and applied to the Government for aid but did not get it.

Now, we have certain ideas about the questions that are going to arise before this Committee and that is why I came here. I am not a distiller myself. I have always been interested in the product, but as a matter of fact I have spent the greater part of the year in investigating all of the phases of this question. We had recently sent a man to Europe to investigate the production of whisky in Europe with the idea of ascertaining what influence the production of whisky in Europe is going to have on the product in this country. I have not had his report yet except by telephone, and I am on my way now to New York to meet him. But that relates entirely to the importation of whisky.

However, that will also affect the character of whisky produced in this country, at least in the next 4 years, and is a very important matter for this committee, in our opinion, to consider.

The whisky which we propose to manufacture, and the reason there are four distilleries is to manufacture it—the different kinds of whisky I am referring to now—at the very lowest price and put it out as the purest product.

If the figures are correct that have been sent out prior to this administration, you will be able to count on no native whisky in the United States in the next 2 years, and very possibly in the next 4 years, so that the blending of whisky and the rectifying of whisky, which are two distinct things, is a matter of very great importance to the industry.

We can manufacture a barrel of whisky in this locality for about \$6.71, provided we manufacture our own barrels.

Senator CLARK. \$6.71 a barrel?

Mr. SMITH. Yes, sir. Barrels today cost \$7.50, and they can be manufactured by us for anywhere from \$1.81 to \$2.40. We find that the Whisky Trust has about all of the white-oak timber cornered that they can get for the purpose of controlling the barrel industry.

Our financing arrangement covered the production of barrels at about \$2 a barrel.

Very few distillers now are prepared to make whisky, and those that are making whisky have given very little consideration to the economical production of whisky or to the quality of whisky. They are proceeding very largely on the old method of manufacturing whisky, while we have evaluated every element that enters into the production of whisky.

In other words, our plants are supplied with natural gas for fuel, which saves about 50 cents a barrel. The water where these distilleries are located, according to the University of Kentucky test, will manufacture about two and a half gallons more to the barrel than in the Louisville district.

We have arranged to feed cattle brought into the production of whiskey, which is an important element to reduce the cost of production. A single steer will fatten at the rate of four pounds per day, estimated, and they run from three to five pounds per day, on the residue of one barrel of whiskey for about ten days; in other words, ten steers will live one day and fatten on the residue of a barrel of whiskey.

It takes about ten bushels of corn and one, two or three bushels of rye to make a barrel of whiskey, outside of the yeast malt. Now,

the feeding of these cattle is a very simple process and requires very little overhead or expense, and ordinarily will net about \$4.15 in the way of reducing the cost of a barrel of whiskey.

In other words, a barrel of whiskey manufactured in the Louisville district where they have no preparations or facilities for feeding cattle, will cost about \$12.50 today, against about \$6.71 in this locality.

These various elements I speak of enter into the cost of a barrel of whiskey.

Mr. McCORMACK. In other words, you are able to dispose of the residue, thereby reducing the cost of production?

Mr. SMITH. Yes, sir.

Mr. McCORMACK. This \$6.71 per barrel, will you break that down for us?

Mr. SMITH. Yes, sir. In other words, a barrel of whiskey will cost you around \$10.00 without the cattle feeding, where the residue goes into the Ohio River, or where they attempt to create the dry feed. That is expensive, but it will reduce the cost per bushel about 8 cents. The cattle feeding will reduce the cost about 31 cents to the bushel of corn.

At the present time corn is worth 42½ cents per bushel. When these figures were made for me it was worth 47½ cents per bushel. Rye, I believe, is, of course, about 60 cents, and when these figures were made it was worth 70 cents. I am sorry to say under this administration it is no higher, but I don't know why. Anyway, you can figure with the fluctuation in the price of corn, it will always affect the price of a barrel of whisky.

Now, I will break it down for you. Assuming a barrel costs \$2 and you are manufacturing the barrel, then if you have natural gas, as we have, where the fuel cost is nominal, we figure about 10 cents a barrel. By the use of coal at \$2.06 a ton, which is the present price, the fuel would cost you about 30 cents. The corn at 42½ cents, the present price, would cost you \$4.20. The rye will cost you, at the maximum, which is a heavy bourbon, 3 bushels added to the corn, making the cost \$1.80. The labor cost will be about 50 cents to the barrel. The yeast cost is about 85 cents a barrel. You understand I am speaking from memory on these figures.

Now, you understand that the distiller makes up his yeast out of various things, barley and other things he wants to put in. If you make light bourbon, you don't put in any barley, and if you make heavy bourbon you put in the barley.

I believe that is all that goes into a barrel of whisky.

Senator CLARK. I notice in stating the cost of making a barrel of whisky they always use the cost of the barrel outright. You use those barrels over and over again, don't you?

Mr. SMITH. No, sir; you do not.

Senator CLARK. That is what I wanted to find out.

Mr. SMITH. Those barrels are charred, and they cannot be used in the reproduction of another barrel of whisky. They can be used, and have a value for oil purposes and certain other things, and they have a retail value now of about \$2 against \$7.50 when they are new.

Now, the water is an important matter in the production of whisky.

Mr. McCORMACK. Do you figure the cost per barrel there?

Mr. SMITH. No; we do not figure on that. We have an abundance of water there, but it is a water that has a low amount of mineral salts in it. One of these springs tested by the University of Kentucky has less than any distillery in the United States by four or five points. If the spring comes from 50 or 60 feet under the ground and filters through the sand that reduces the salt matter, and the better filtered it is, the more whisky it will make. We tested thirty springs, and our chemist figured as high a difference as four gallons to the barrel.

Mr. McCLINTIC. When you broke down that cost you had a total of \$5.30, and you must take from that your profit, and you also have your overhead and depreciation.

Mr. SMITH. Your overhead is included in that, and there is nothing except depreciation and interest on your capital. One million and a half dollars invested in these four distilleries would earn a million dollars when the distillery in the Louisville district with the same capacity was selling at cost, so we are interested in the tax question as vitally as anybody else.

Mr. McCLINTIC. We were trying to get your cost broken down, and we got it down to \$5.30. Now, what is your depreciation?

Mr. SMITH. I would say depreciation and interest on capital 50 cents a barrel.

Mr. VINSON. You omitted the storage charge.

Mr. SMITH. We have our own storage, and that is included in the whole overhead and capital.

Mr. VINSON. It might be included in the overhead, but it has been stated here that the 4 years' storage during which whisky is aged is 5 cents a year or 20 cents for the 4-year period per gallon.

Mr. SMITH. At the present time the concentrated warehouses charge 10 cents per barrel per month, as I understand, which is, of course, \$1.20 a barrel per year. But what this Committee ought to recommend to Congress, and I think it is entirely practical in our case, because we build our own warehouses which will cost about \$2.25 a barrel; in other words, a warehouse that will hold 30,000 barrels will cost around \$70,000, or \$67,000 in exact figures is our cost, and of course interest on that capital and depreciation is all we pay for storage, provided the legislation by Congress is not such that we are forced to ship our whisky and have this additional cost of the concentrated warehouses at Louisville, and there would be no sense in that. But that is what has to be done under the present circumstances.

Mr. SHALLENBERGER. I would like to ask this question. You figure \$6.70 a barrel, and we have had testimony of Dr. Doran and others here that the average cost was about 50 or 55 cents, so that their testimony would be \$25.00 a barrel. How do you account for such a difference?

Mr. SMITH. I will answer that question by a little historical statement. The head distiller we have was the head distiller for the Canadian Distillery, Ltd., of Canada, which is the largest distillery in the world at the present time. He was there for 9 years. He transported the old Greenbrier Distillery to Montreal and started on a 50-barrel distillery, and I think they produce about a thousand barrels a day now. Now, his judgment ought to be worth a good deal more than mine, and he says that he manufactured whisky before prohibition at the Greenbrier and White Mills Distilleries

and sold it for 15 cents a gallon and the only profit they made was the profit out of feeding cattle, which ran about \$30 to an 800-pound steer.

Those steers are fed for 3 months and must be sent to the market then, because they cannot be fed longer than that.

Mr. SHALLENBERGER. Of course, they have to depend on the cattle market and there may be losses in that.

Mr. SMITH. No doubt about that, and it will happen some times, but you will make up for whatever loss you may have in a period of years.

At the present time there is a difference in Texas of 2 cents on cattle and the price in Chicago, where you would market them. In other words, you get 2 cents profit on every pound he weighs when you put him in the pen, and you get practically 6 cents a pound for every pound you put on him, which would be about 360 pounds in the 3 months.

Mr. McCLINTIC. If I understand you correctly, you said you had to dispose of them after about 3 months. I take it feeding excess mash to steers has the same effect as feeding cottonseed meal, it causing them to go blind?

Mr. SMITH. I don't know that they go blind, but they get what they call the diarrhea just like a man that drinks too much whisky and doesn't eat anything as he goes along.

Mr. SHALLENBERGER. And you say that you can make whisky under those circumstances at \$6.71 a barrel?

Mr. SMITH. I tell you, I will make this proposition if you gentlemen are in a position to accept it, which, of course, I know you are not, but we would be glad to sign a contract for 10 years to manufacture whisky and sell it to you for \$5 a case, provided you did not make the taxes too high.

If you make the tax \$2.50 or \$2.60, which I understand from the press is problematical, and I suppose you are looking for tax money, that is a poor way to get it, in my judgment. If you make the tax too high you simply keep the bootleggers and gangsters who are practically now in control of the business. The whisky business in the United States, with the exception of 1 or 2 financial houses in New York, is controlled and owned by foreigners today. We don't know their names, but we have made a very special and careful examination of it, and we are satisfied that is true. You can go into a drug store today and buy what you call a bottle of blended whisky, but it is a bottle of rectified whisky.

A barrel of blended whisky is a blend between old whisky and new whisky, and a barrel of rectified whisky may have everything from asafetida to neutral spirits in it.

Now, we have in our No. 1 distillery, which cost us approximately a half million dollars, a neutral spirits plant, and if you understand neutral spirits the way I understand it, it is pure alcohol denuded of its alcoholic taste. It is redistilled so that when you take a drink of it it tastes like nothing. An old barrel of whisky that has probably 21 gallons in it will be blended into 9 or 10 barrels of neutral spirits, and when you buy a pint of whisky today in a drug store for \$2 you will buy neutral spirits practically and no whisky.

Now, in my opinion, this committee ought to give to the distillers the right to manufacture neutral spirits in their own plants so that

they are not subject to the trust, and they ought to be permitted to bottle and blend in their own plants one barrel of old whisky and one barrel of neutral spirits, and no more. You absolutely destroy the value of whisky when you permit them to, I will say, put more than two barrels of neutral spirits in an old barrel of whisky.

Mr. COOPER. Will you be kind enough to give us some idea of what neutral spirits are?

Mr. SMITH. I am not a chemist, but I will give you the off-hand opinion given me by the chemist. Neutral spirits is nothing more than alcohol manufactured in the distillery, then denuded of what they call the fusel oil at a very high point of heat, and it practically neutralizes the vegetable taste in alcohol, so that when you taste neutral spirits you don't know whether you are tasting water or neutral spirits, and you don't find out until the next morning, when you have a headache.

Mr. COOPER. The figure you gave a moment ago, stating you could sell what I understood to be a good quality of straight whisky at \$5 a case, what was the figure you gave, or what constituted the cost of production of that whisky per gallon?

Mr. SMITH. I was talking to you about pure whisky and giving it time to age. Our investigations prove this, that there are a dozen chemical processes, where you throw some chemical into the whisky and age it momentarily, say in 24 hours. We have found none of those amount to anything. The only process that amounts to anything in ageing whisky is to apply it to your warehouse, so that you can age your whisky by natural heat. When I say natural heat I want to distinguish it from sun heat. In other words, putting pipe in the walls so that the heat does not come into direct contact with the whisky, which is not so good—steam heat, we will say—and you can age a barrel of whisky which ordinarily under the old process took four years, and Congress fixed the 4-year period when whisky was fit to drink. I understand you can buy what is called the ozonation process, which is the process of natural heat fixed at, say, 72 degrees for the year round, at an even temperature—age it in about 8 months, where it used to take 4 years to do that.

That is the plan we have adopted after years of investigation.

Now, you ask what those elements are. If that process works all right—and it is working in Canada—you will be able to manufacture a barrel of whisky and put it on the market in 12 months, and that will be pure whisky fit to drink.

Mr. COOPER. What does it cost you per gallon?

Mr. SMITH. I haven't figured the gallonage, but I will say it would cost us from 11 to 15 cents per gallon.

Mr. COOPER. And that is a good, standard brand of whisky?

Mr. SMITH. Well, the brands do not mean anything, as you understand. It is quality whisky you get, and the brand is a name by which it is advertised.

Mr. COOPER. That would be good quality?

Mr. SMITH. Yes.

Mr. COOPER. That would be the cost at the time it leaves the distillery?

Mr. SMITH. Yes; at the distillery.

Mr. VINSON. Right in that connection, Dr. Doran yesterday stated that in the code recently signed, they were agreeing to pay 75 cents a bushel for corn.

Mr. SMITH. Well, that might be. I am talking about the present prices.

Mr. VINSON. I understand. I am taking your statement. You referred to 42 cents a bushel for corn.

Mr. SMITH. That is the present price for corn, offered to us in the city of Louisville.

Mr. VINSON. At 75 cents a bushel, if you make  $4\frac{1}{2}$  gallons to the bushel, that would be  $16\frac{2}{3}$  cents per gallon for the cost of the corn.

Mr. SMITH. If you add enough to the price of the bushel of corn you can make it a dollar. The more you add the higher it is.

Mr. VINSON. If you take 45-cent corn, it makes 10 cents a gallon.

Mr. SMITH. Suppose the man buys his own corn in the community. If he has to pay 75 cents he has to add that to the price of the whisky.

Mr. VINSON. That would make  $16\frac{2}{3}$  cents a gallon. Now it has been testified here that the price of the corn was approximately 30 percent of the cost of the liquor to the manufacturer.

Mr. SMITH. Yes.

Mr. VINSON. Are you in position to take issue with that statement?

Mr. SMITH. Yes; I would to a certain extent take issue with it, and I would rely upon our distiller. I am simply figuring upon the actual price of corn now; and Dr. Doran, as of course you understand, is figuring on the price that the distillers are going to pay for the corn.

Mr. VINSON. At 45 cents a bushel for corn, it makes 10 cents a gallon for whisky.

Mr. SMITH. It takes 10 bushels of corn to make a barrel of whisky.

Mr. VINSON. If you take smaller quantities I can follow it a little better. Forty-five-cent corn, with  $4\frac{1}{2}$  gallons to the bushel, figures out exactly 10 cents a gallon.

Mr. SMITH. Yes.

Mr. VINSON. How do you figure that you could manufacture whisky for between 11 and 15 cents when the cost of the corn, with corn at 45 cents a bushel, is 10 cents a gallon?

Mr. SMITH. I have the figures there. The price of corn in a barrel of whisky, at your price, would be \$7.50 a barrel. The price I am figuring on would be \$4.20. That represents the difference in gallonage, of course, when you get down to gallons. Now, if you figure \$4.20 a barrel for corn, it just depends upon how much rye you put in there, whether you add to that bushel of corn. If it is a heavy Bourbon, you put in 3 bushels of rye.

In other words, there are just two kinds of Bourbons generally made in Kentucky—a Bourbon whisky with 30 percent rye or 25 percent rye, and the balance in corn, except about 5 percent of malt. That is all that goes in the barrel of whisky. I will furnish the exact cost under the N.R.A. Code—which will increase the \$6.71 price \$1.

If you figure heavy Bourbon, you will figure barley. If you figure light Bourbon, you do not figure barley. In figuring the heavy

Bourbon barrel of whisky, you figure a heavier, larger percent of rye than 25 percent. It depends on where you are going to sell it. If you are going to sell it in the South, you want to sell light Bourbon. If you are going to sell it in the East, you sell heavy Bourbon.

Mr. VINSON. You say a new barrel costs \$7.50?

Mr. SMITH. A new barrel costs \$7.50.

Mr. VINSON. After you have used it for the production of liquor, you say the retail value is something like \$2?

Mr. SMITH. Yes.

Mr. VINSON. There is a difference of \$5.50; and when you translate that into gallons that figures out about 10 cents a gallon.

Mr. SMITH. We are going to make our own barrels at a cost of less than \$2. We are not going to pay \$7.50. I am figuring on a \$2 barrel instead of a \$7.50 barrel. It takes so many staves to make a barrel. The wood is \$12 a cord today in Kentucky.

Mr. VINSON. Where?

Mr. SMITH. Anywhere; \$12 a cord for white-oak timber.

Mr. VINSON. Delivered at the mill?

Mr. SMITH. Delivered at the mill; yes. Bond Brothers, a concern that you know, the largest people in the country, have a small plant at this town where we have these distilleries, and they are paying \$12 a cord for white-oak timber to make staves out of.

Mr. VINSON. It is pretty scarce, is it not?

Mr. SMITH. Yes, sir; and it has been very hard for us to find any white-oak timber. We always find some man who does not spell his name like mine that has a contract for all the white-oak timber in almost all the lands in Kentucky and Tennessee, and we may have some difficulty when it comes to getting barrels at the cost that we figured, although we have a sufficient number of contracts for a supply of 1 year; and it will cost us about \$75,000 to erect the factory that we contemplate, with a capacity of 400 barrels a day. These 4 distilleries have a capacity, working 8 hours, of 500 barrels a day; and working 24 hours, a capacity of 1,500 barrels a day.

Senator CLARK. Just on that point, Mr. Smith, the more continuously you run the cheaper the whisky is made; is it not?

Mr. SMITH. Yes.

Senator CLARK. Do you contemplate continuous operation on these figures?

Mr. SMITH. Yes, sir; and we can save from 50 to 65 cents a barrel by running continuously and not shutting down. We may have to pay the labor a little bit more; but in this community labor is about 40 percent less than it is in the city of Louisville, figured according to our contractor who has just built the courthouse in Hardin County—the same contractor.

Mr. COOPER. Mr. Smith, you say the present cost of white oak by the cord is \$12?

Mr. SMITH. Yes, sir. That is for white-oak timber; and \$6 for red-oak timber, which cannot be used for whisky.

Mr. COOPER. Figuring it at the present price of a cord, \$12, can you still make your own staves, then?

Mr. SMITH. Yes, sir.

Mr. COOPER. And produce a barrel for less than \$2?

Mr. SMITH. Yes, sir. That is what we are figuring on, the \$12 price. I do not say it will stay at that price. The probability is

that it is going to get higher, but that will only benefit the man who has the tree.

Mr. COOPER. One other question: Can you give us some fair estimate as to what a gallon of whisky such as the type you have been speaking of here would cost, delivered at the distillery, based upon what we have received here as being the code price of 75 cents a bushel for corn? What would be your estimate of what it would cost you to produce a gallon of whisky on that price of corn?

Mr. SMITH. I am not very good at figuring with a pencil; but figuring it offhand, you would simply add the difference in the price of the corn to a \$6.71 price and the extra code price for labor.

Mr. COOPER. It would be about six and a fraction cents more per gallon?

Mr. SMITH. Yes; about six and a fraction cents more per gallon. Our distiller figures that whisky will cost us 15 cents a gallon; but figuring against the actual bid cost of everything that goes into a barrel of whisky, it would figure \$6.71 rather than his figures.

For instance, now, a distillery that is run at double shift—that is, 16 hours—will make 100 barrels of whisky a day. It will take 12 men to run that distillery on each shift; in other words, it will take 24 men to run it for 16 hours; and you can figure out the number of barrels, and figure the cost of labor against the number of barrels.

The wages of those 12 men at the present figure amounts to about \$635 a month. That excludes the distiller, who is paid a salary. Considering all those things, we have figured out exactly what it will cost. \$7.70 code—\$6.71 without code.

Mr. COOPER. Of course you understand that this committee is primarily interested in the question of what would be a fair tax on this commodity.

Mr. SMITH. Yes.

Mr. COOPER. What would be your idea as to what would be a fair and proper tax per gallon to be fixed on whisky?

Mr. SMITH. I think \$1.50 is as far as the committee ought to go. When they go beyond that line they put the industry in the hands of the moonshiner, who is the bootlegger. He makes his whisky today, and he starts a little fire in his cellar, and he sets his little barrels of whisky around the stove and starts up a heat, and in three or four days he is starting that whisky to mature; and it tastes pretty good if you have not had a drink of whisky for a few days. He gets his whisky on the market in a week's time in the hands of the bootlegger, and that is pure whisky—very pure whisky. Of course it has a great amount of fusel-oil in it, which is the dangerous thing about new whisky; and they have organized pretty well over the country to dispose of a very large product of that whisky.

If you make the retail price of whisky so high that the average man would prefer to buy it from the bootlegger, he would buy it from the bootlegger, who would be a little different type of a man; and the result will be that the larger portion of the consumption of whisky will come from the moonshiner and not from the legitimate distillery, and the Government will be defeated in net result of the tax that they ought to get from the industry.

I think that a quart of whisky ought to be sold in a drugstore for \$1; and if you put the whisky at \$1.50 a gallon tax you can sell it for \$1 and make plenty of money. That is as far as it ought to go.

If you are going to make whisky so high that the average man today that wants to drink it, cannot buy it, he either will not buy it or he will buy a cheaper product, and a poorer product, from the bootlegger. You can very easily do that by a high tax. In other words, you will get a larger amount of revenue at \$1.50 out of the industry than you will get from \$2.60, in my opinion. It is somewhat a matter of speculation. You will have to work it out by practical experience.

Now, let me refer to what Dr. Doran said.

Dr. Doran is no doubt referring to the manufacture of whisky and computing the cost per gallon on the basis of \$7.50 barrels, and such like, and the extremely high salaries which are paid by the present head distillers in the United States. Fifty thousand dollars is nothing. The highest-priced man that we pay is the distiller, who gets \$6,000 a year. I might say that I get more than that as counsel for the four companies; but that is all computed in the cost.

I sold the Jim Pepper Distillery to the Schenley syndicate for \$850,000. If I am correct in reading their circular, they got \$3,700,000 for the stock that represented that whisky. I may be mistaken about the exact figures, but figuring the market price of the stock, I figure that they got \$3,700,000. In that circular they set out that they were paying \$181,000 in salaries, the Schenley Distributors. If we paid \$181,000—and we could much more afford to do it than they could—we would consider that we were robbing somebody. Probably in the end we would rob the consumer. He is generally the fellow that gets robbed; so I assume that we would follow the same method. But the total of the salaries that we would pay would be about one tenth, with twice the capacity that they have. So that when Dr. Doran is talking about the cost of a gallon of whisky he is talking about all those things, while we are not talking about them. We are talking about the exact price of labor, the men that we have selected; we are talking about salaries. We are talking about \$1.10 tax instead of \$1.50, and if you increase the tax we would have to add that to the \$6.71.

There is another phase of this proposition to which I want to call the Committee's attention.

Mr. JENKINS. Mr. Chairman, may I ask the gentleman a question or two just along that line? Mr. Smith, I, for one, am greatly interested in your discourse. You have brought to us some information that I have never heard from anybody else. I should like to know how you figure this situation:

Here you are. You say you can make whisky at \$6.71 a barrel.

Mr. SMITH. Yes; provided we make our own barrels.

Mr. JENKINS. In that connection you say that the trusts are holding you up for \$7.50 a barrel, or they are seeking to.

Mr. SMITH. I do not know whether they own the barrels or not, but you cannot buy a new barrel now for less than \$7.50.

Mr. JENKINS. In that connection, do you wish to give us the impression that it costs them \$7.50, or is there a big, wide profit in the making of the barrel?

Mr. SMITH. There is a big, wide profit in the making of the barrel.

Mr. JENKINS. Who gets that profit?

Mr. SMITH. Somebody gets it. I cannot tell you who gets it.

Mr. JENKINS. Is it safe for us to assume that the distiller gets it?

Mr. SMITH. Yes; if he is interested in the cooperage plant. The cooperage plant which we are taking over is an old plant, and that old plant made enough money to retire all of its stock, so that they have it in the treasury today, and we took it over. They did not owe a cent to anybody. They owned the property. They had distributed the capital stock back with 100 per cent profit. They sold the barrels for \$3.50 prior to prohibition. They did not pay as much for timber as we are paying today, and very likely labor was a little cheaper than it is now; but they made plenty of money.

Mr. JENKINS. Now, when they have given us the figures of \$25 a barrel, or even up to \$120 a barrel, here—we got some figures to that effect—it strikes me that somebody is very unfair in the presentation of the matter of costs.

Mr. SMITH. There is no doubt about it.

Mr. JENKINS. In that connection, it seems to me as if it would be the duty of this committee, if we could, to levy such a tax as to see to it that distillers and companies like you say you represent, if there are any, have an ample opportunity to furnish your product to the country; and it will be our duty to the consumers to protect them against these other people whose prices are so high.

Mr. SMITH. Yes, sir.

Mr. JENKINS. In that connection, do you think if we were to levy a high tax, such as some people advocate, that would come off these distillers, or would they be able still to carry that right on to the consumer?

Mr. SMITH. They have got to meet the competition which they meet in the bootlegger; and they have either got to depreciate the article they sell or lose money, or sell at near cost, because you can figure that the bootlegger is here, organized. He has the distributing capacity today. That is a powerful thing. He has the distribution today. He has the avenues of selling whisky today; and there are still some gangsters around these large cities that will control this product to a certain extent, unless you make it possible for the legitimate distiller to manufacture whisky at a fair price.

Whatever committee Congress creates ought to be given by Congress authority to do certain things, if the Constitution permits it. Nobody pays much attention to the Constitution these days, so what is the use of talking about the Constitution? Let us talk about what you can do.

I am opposed to boards and commissions; but if Congress creates a board that will go and look into these industries, it should be a board that has no relation to the whisky business. No man ought to be on a board of this kind that has any connection with the whisky business, the manufacture of whisky, or the marketing of whisky. That is the exact trouble, no doubt, today that you are going to run up against.

Now, if Congress will create a commission, for instance, you let us have our own warehouse there. These four distilleries manufacture different kinds of whisky. One manufactures rye. You cannot shift from rye to Bourbon, low Bourbon and high Bourbon, heavy Bourbon and light Bourbon, and then to rye, and then get over to neutral spirits in one distillery, and manufacture a high-class product, and manufacture cheaply. You have got to have a distillery

which manufactures nothing but rye in one plant, low Bourbons in another, and high Bourbons in another, and warehouse it at their distillery, at their one plant, because you have Government guards there, and you have got this and that when you have a single distillery by itself, which adds to the cost of a barrel of whisky.

These things we have all figured out thoroughly; and we are told that we are not going to be allowed to warehouse any whisky at these four distilleries. It has got to be sent to Louisville.

Mr. JENKINS. So somebody can get a graft on it?

Mr. SMITH. Yes, sir.

Senator CLARK. That is what was always done before prohibition. They had the warehouse at the distillery.

Mr. SMITH. Yes; and that is the way it ought to be now.

Mr. JENKINS. Let me ask a question in that connection. It seems to me, from the picture you have painted for us here, that your organization is going to be "sitting pretty." All you need is to have good advertising and good agents, and you can sell all you can make, and many times over, if the price is going to be any consideration.

Mr. SMITH. Our difficulty is not going to be in the manufacture, but in the selling of it. We go right up against the proposition I have alluded to two or three times.

For instance, we have very low taxes in this county—half the taxes there are in Jefferson County. No doubt the taxes in the county of my friend over here, Mr. Vinson, are the same, probably as they are in Hardin County; but in Hardin County, where these distilleries are located, the water is better, the labor is cheaper, they have absolutely no bonded indebtedness. There is this one county out of seven in the State where they are free of any taxes, and we are permitted to make whisky in this particular district where we located. They have no school-bond indebtedness. They have nothing to collect money out of us for. All of that has got to go into a barrel of whisky, and those are facts that we have considered in the manufacture of whisky which these other gentlemen who are going loping along, building distilleries, and starting old plants, are not thinking about.

Then our distilleries are constructed on a scientific basis, where one man can handle as much stuff as five men could handle under the old system of building a distillery. Everything is done almost automatically.

Mr. McCLINTIC. Are you familiar with the provisions of the new code that relates to this industry?

Mr. SMITH. No, sir; I have not read it, because I have figured that Congress in 30 days is going to dispose of that code. That is the reason I have not read it.

I am a pretty thorough-going Democrat, as my friend, Mr. McClintic, knows. I served in the legislature in Oklahoma with him many years ago. I did not raise quite as much sand as he raised, but I raised enough. [Laughter.] I have been practicing law in New York, Washington, and Kentucky now for 20 years, and I am familiar with a lot of things that I would not like to talk about before this committee. It would not be proper, and it would not be ethical; but they relate somewhat to the manufacture of whisky. I refer to the trust and its ramifications.

If I had the time, I should be glad to make a comparison of the cost of a barrel of whisky in this county under our plans and in the Louisville district. You would be astonished at the difference. We have worked out the problem. We have reduced the cost to a minimum, taking advantage of everything.

Mr. JENKINS. Let me ask you a question right there, Mr. Smith. When you make your whisky and sell it, you cannot retail it. You are not in the retailing business.

Mr. SMITH. No, sir.

Mr. JENKINS. Your whisky, then, would fall into the hands of these people who retail your cheap whisky—cheaply-made whisky, but good whisky.

Mr. SMITH. Yes, sir; but we reserve the right to fix the retail price.

Mr. JENKINS. It will be sold at the great, big, high prices with these blended and rectified whiskys, and the result is that the poor consumer has lost out and never gets a chance to drink your good whisky; has he not?

Mr. SMITH. No, sir. I thank you for bringing up that question; that gives us the idea of taking wise precaution.

Mr. McCORMACK. You can put the comparison you refer to in an extension of your remarks, if you desire.

Mr. SMITH. I thank you. I shall be very glad to do it.

We intend to keep control of our marketing organization. I am going to New York now for the purpose of creating that organization; but we wanted a report from abroad of actual distilling conditions—not what you get on paper, and not what some expert can testify, but actually what the industry is going to do in England and other countries. We expect to have that report, because we have to import old whisky into this country. We cannot buy it in the United States.

I may frankly say to you that I have a lawsuit now. My associate and myself bought a certain distillery in Kentucky—it was as fair and square a buy as ever was made—for just a little under \$1,000,000, and put the money in the bank, and supposed the trade was made. We are suing now for specific performance. The only reason in the world why that deal was not made was because the trust interfered, knowing what we were intending to do, and prevented that sale from being consummated.

Senator CLARK. Mr. Smith, you have referred here several times to this trust. I wish you would tell us something about that trust. I am very much interested in that subject.

Mr. SMITH. I would rather have a little more information, and I will furnish it to you in writing and give you the details and the names of the corporations and the men. My friend McClintic knows that I proffered the impeachment charges in the Oklahoma Legislature, and he knows that they went over 100 percent. He was in the senate; and I would rather be in a fortified position where, when I name a name, you can count on it 100 percent. I am not in that position now, but I will be in that position. I shall be glad to furnish it to you, because it is very important.

Senator CLARK. I should like very much to have it.

Mr. SMITH. The class of men that are in the independent industry that I am talking about are an entirely different class of men than

are in the trust; and I assume that if they would show all their faces in Congress, Congress would have no trouble in picking out and accepting the 100 percent Americans. They are church men who make good whisky and good prayers.

Mr. SANDERS. Would you mind putting that information in the record?

Mr. SMITH. Yes, sir; I will put it in the record and prepare it for you just as soon as I get to New York.

Now, I am a great believer in Congress—not so much in governors, nor Presidents, nor generals, nor captains, nor people of that kind. I rather believe in the democracy of this Congress that represents all of the people. If you do the fair thing—which I am sure you are going to do when you get all the facts—by the men engaged in the independent manufacture of whisky and selling a pure product to the public and fixing a fair price and not permitting it to be raised—if they are protected the industry will go along as fine as silk in the next 5 or 6 years; and if you do not, it will not. It will be worse than prohibition; and most of you know how bad that was.

There are two other points I want to make before I conclude.

Mr. McCORMACK. I do not like to interrupt Mr. Smith, but I called him out of order. Would it be in order to suggest to Mr. Smith that we did call him out of order, and to bring his remarks right to the point, because we are holding back two witnesses who really should have preceded him?

Mr. SMITH. All right; I will just make these two points very quickly.

It is necessary to import old whisky to blend whisky and make a good blend of whisky. This board that is going to be created, I imagine, ought to have the power to suspend or lower the tariff to meet that exigency. Whether you think that is wise or not, I do not know; but I am merely making that suggestion. I think we are going to find ourselves in a bad fix when we start to turn out whisky in the next year before our new whisky is aged, and before we can put any whisky that is aged on the market.

The next proposition I want to refer to is this:

If whisky is taxed \$2.60, you are producing \$130 first on that barrel of whisky when it goes into the warehouse for the Government of the United States. If it is \$1.10, you are producing, at 45 gallons to the barrel, \$52.70 for the Government of the United States.

I do not know of any industry—not even Mr. Dawes's bank in Chicago—that is paying back loans so fast as that situation could pay it back. I should like very much to suggest to the committee, therefore, that with an industry like this that creates a market for cattle, a market for corn, labor employment, a high-class product of whisky to be sold at a fair price to the public, that creates a large amount of revenue for the United States Government, I do not know why the Reconstruction Finance Corporation, which seems to be thoroughly organized to furnish working capital to competent industries, could not furnish us a little money to carry on our business after we are ready to go, under the strict supervision of the Government, with the opportunity to pledge warehouse receipts, after a barrel of whisky is put in the warehouse, for money that is borrowed.

If there is any reason why that should not be done, I should like to know what that reason is. I have not been able to find any. I have been to the Agricultural Bureau. I have been to the Reconstruction Finance Corporation. They say it is not within the scope of the bill. I think it is, but maybe I do not read the lines right. If it is not there it ought to be there, and it ought to be loaned to these industries. They ought to be kicked out entirely, banned from public existence, or they ought to be treated like anybody else, especially when they produce your security for your money every 24 hours; and they ought to have the permission and the authority to borrow money on the same basis as anybody else; and there should not be any prejudicial discrimination or legal discrimination or political discrimination against loans to that industry.

I thank you, gentlemen, for your attention.

(Mr. Smith subsequently submitted the following extension of his remarks:)

WASHINGTON, D.C., December 14, 1933.

To the Committee on Ways and Means and Senate Committee on Finance:

GENTLEMEN: In response to your request for substantiating figures governing the present estimated cost of a barrel of bourbon whisky, in Kentucky, made under the most modern methods, in plants properly and scientifically equipped, with steam, water, and electrically driven machinery of the most desirable kind for the type of business, I am pleased to submit the following figures, per gallon:

	Per gallon
Cost of barrel, \$2 (50 gallons).....	\$0. 04
Corn (42 cents, present price per bushel) 10 bushels.....	. 08½
Rye (55 cents, present price per bushel), 2 bushels.....	. 02
Yeast (including barley), \$1.....	. 02
Labor (continuous run).....	. 01
Supervision, distiller, yeastman.....	. 00½
Fuel (natural gas and coal).....	. 00½
Repairs, interest on plant, taxes.....	. 00½
Obsolescence, insurance, depreciation.....	. 00½
Office expense.....	. 00½
<b>Actual net cost.....</b>	<b>. 20</b>
Rebate on profit from feeding spent mash to cattle and hogs.....	. 05
<b>Corrected net cost (where cattle are fed).....</b>	<b>. 15</b>
Add 1 cent per gallon for dry feed.....	. 01
<b>N.R.A. code cost.....</b>	<b>. 16</b>
Reasonable profit on investment.....	. 10
<b>Selling price to trade on contract in 1,000-barrel lots.....</b>	<b>. 26</b>

This would make, according to the figures on page 1, a barrel of whisky containing 50 gallons cost the large contractors for it \$13 laid down in the United States bonded warehouse on the premises.

Now, gentlemen, in order to prove that this report is not exaggerating the situation under discussion, there is incorporated with this memorandum, for the perusal of your committee, the following excerpts, to wit:

(1) A copy of an independent comparative estimate covering practically the same ground, by Mr. A. J. Shreiner and Mr. F. L. Shreiner, former head distillers for Canadian Distillers, Ltd., Montreal, governing the cost of bourbon whisky and showing their ideas of the advantages that our plants to be located in Meade and Hardin Counties, Ky., will have over and above competitive plants making bourbon whisky of like character in and around the city of Louisville, Ky. This quotation is taken from page 3 of Report on Distilleries Nos. 1, 2, 3, and 4 of Kentucky Distilleries, Inc., Vine Grove, Ky.

"The fact that whisky from these four plants is to be warehoused at no. 1 also is an economical arrangement that will lessen the cost per barrel of the manufacturer's product. These various factors will enable this combination of distilleries to manufacture whisky at a saving of about \$4 per barrel. So that if the cost of a barrel of whisky manufactured in the Louisville district is \$12 per barrel, the cost in these distilleries would be \$8 per barrel. If the daily average production is 400 barrels, this will mean a saving of \$1,600. If we deduct 8 cents per bushel, the amount realized from the residue by Louisville distilleries, we still have approximately a saving of \$1,000 per day in the operation of these plants.

"Considering the advantages in this district that I have enumerated above, both my father and I estimate the above cost as approximately correct. We also feel that a better quality of whisky can be made here than elsewhere in Kentucky. We have had a large experience as distillers both in Canada and the United States.

"The price difference of \$4 does not take into account that barrels are costing Louisville distillers \$5,<sup>1</sup> whereas these distilleries make their own barrels at a cost of \$1.81—a difference in favor of Vine Grove of \$3.19; nor does it take into consideration the extra gallons per barrel manufactured at Vine Grove by reason of the water.

"Yours truly,

"F. L. SCHREINER.  
"A. J. SCHREINER."

The attention of your committee is also called to a statement made by the officials of the combined four plants, in estimates of slight differences in costs between their several distilleries, and their explanation of these differences in cost appearing on page 22 of the same report.

"The actual cost of making a barrel of whisky computed on the coal fuel in all of the four plants is \$6.71 per barrel.

"At no. 4 the cost is \$5.22 per barrel, due to less fuel costs, investment, and cattle-feeding equipment.

"Counting 50 gallons to the barrel. This is approximately 11 cents per gallon.

"Estimating the cost at double shift, the cost would be reduced 50 cents per barrel, due to less labor costs.

"Twenty-five cents per gallon is the general cost in the Louisville district. The figures of Mr. Schreiner are based on higher costs than actually must be allowed at these plants, and he estimates that in a well regulated plant the cost should be 15 cents per gallon.

"Where barrels are made by the corporation, cattle fed by them, and providing the cost of cattle at the pen is 2 cents less than they are sold for when fat, the cost at no. 4 is not to exceed 11 cents per gallon. No. 4 has no school tax as the case with no. 3; neither has it any fuel cost to speak of."

A member of your committee asked for a list of the distilleries now operating in Kentucky, which follows:

No. 1. George T. Stagg & Co., Frankfort, Ky. (Operated by the Schenley Distributors, Inc.)

No. 2. Brown Forman Distilling Co., Louisville, Ky. (Hallgarten & Co., bankers, New York.)

No. 3. Frankfort Distilleries, Louisville, Ky. (Jones interests.)

No. 4. A. H. and P. H. Stitzel, Louisville, Ky. (The Stitzel and Frankfort are operating under a contract by which, if they sell out, Brown Forman have the privilege to buy at the stipulated price.)

No. 5. Belmont Distillery, Louisville, Ky. (Owned in Chicago.)

No. 6. American Medicinal Spirits Co., Louisville, Ky. (National Distillers Products Co.)

No. 7. Glenmore Distillery, Owensboro, Ky. (I am reliably informed that all of these plants named above operate under a price and sales agreement.)

No. 8. J. W. Dant Distilling Co., Louisville, Ky. (Nearly ready to operate.)

I believe this fully covers the situation in Kentucky, and the facts can be verified by the committee, if they request this information from the Treasury Department. My information is from data on hand November 20, 1933.

<sup>1</sup> The present price of barrels is \$7.60, I understand.

The CHAIRMAN. The next witness will be Hon. John J. O'Connor, Member of Congress from New York; subject, liquor tax.

**STATEMENT OF HON. JOHN J. O'CONNOR, REPRESENTATIVE FROM THE SIXTEENTH DISTRICT OF NEW YORK**

Mr. O'CONNOR. Mr. Chairman and members of the committee, I mailed you last night a long statement. I do not suppose you have had the fortitude to peruse it yet. It is much more voluminous than I intend to be this morning; but some of you may know that I have given some thought to this subject over a period of 10 or 11 years, and I appear here solely in behalf of the Government and the consumer.

I do not represent any distiller, or any wholesaler, or any retailer, or any bootlegger. I put them all in the same class. Neither am I counsel for any of them.

To state my conclusion as a premise, I believe that we obtained the repeal of the eighteenth amendment by assuring the people of this country that we needed revenue in these days of depression. I believe that if we did not have this depression and the dire need for revenue we would not have repealed the eighteenth amendment for at least 10 years. In that connection I believe we have a solemn obligation—I take it solemnly—to get as much revenue out of this business for the Government as we can. Of course, it is not a legitimate business anyway. It is an illegitimate business, and always was. You do not license or tax highly a legitimate business.

The previous speaker talked about preserving the \$1.10 tax, and selling whisky at a dollar a quart with \$1.10 tax. Well, we have \$1.10 tax today, and whisky is selling for from \$5 to \$10 a quart; and the distillers, this trust—I know who some of them are—propose to keep this field.

Whisky, as I understand it, is in a different sphere from beer. You can make beer anywhere, but you cannot make whisky anywhere. Geographically, the field for making whisky is limited in this country. These two big companies, National Distillers and Schenley, have a monopoly today of from 75 to 90 percent of the domestic supply of whisky.

Now let me say this:

I have seen bromides grow up in this country. I have seen the bromide of "doing away with the saloon" grow up merely by constant repetition. We are just witnessing now the dissipation of an old slogan, the gold standard, that was fed to the people so long. They disposed of that. But by persistent propaganda and constant repetition the distillers sold this slogan to the American people and to most people in Washington—that "high taxes mean the continuation of the bootlegger."

I believe that sound reasoning and a careful consideration of that subject will show that it is false; that it is deliberately stated here by these people who appear here with selfish interests to line their own pocketbooks.

The bootlegger has been doing business with these people. They know the bootlegger. For years the bootlegger has been their customer and client. We in New York, or you people in the other cities, have not been buying moonshine. You have been either buying

whisky out of the distilleries of the United States, controlled by this trust, the heads of which trust have been arrested—the last speaker referred to them as the “legitimate” distilleries—or you bought your whisky from the Canadian distillers, who sold it to the bootleggers, and who are now coming into this country and setting up their distilleries.

Do you mean to say that these distillers who now come here and denounce the bootlegger did not know that they were dealing with the bootlegger, when the big operators of this country—Big Bill in New York, and Al in Chicago, and Waxey in Jersey, and Joe in Boston—had \$1,000,000 credit in any one of these distilleries or in Canada? Do they mean to say that these distillers did not know they were doing business with the bootlegger? Do they mean to say that the distilleries in Canada which are now building plants in this country, when they loaded ship after ship at St. Pierre, did not know where that stuff was going? Now they are in no position to denounce their old pal, the bootlegger.

They fear that their client is going to become a competitor. That is all they fear. They have made money out of him and they are making money today. Right at this moment the Whisky Trust is negotiating to buy the supply of the bootlegger, because they propose to cut it at least 10 to 1. Right at this moment the trust is negotiating for 77,000 gallons of American whisky in one item, not so far away, and 54,000 gallons of Canadian whisky. They will know, if they are listening, what I mean. This American whisky, this one item—it is only a small item of 77,000 gallons—was sold by a distillery in this country, the head of which used to bear a distinguished name and hold high public office, to bootleggers. They knew they were bootleggers. Now, the trust is proceeding to buy back that whisky, because it is much more valuable today, if they can get the right price. The trust sold it for about \$3 a gallon. This morning they offered \$14 for it. They will probably go to \$20, because what are they going to do? Cut it 10 to 1.

I have heard this talk about getting a dollar and a half for blended whisky. What is that “whisky” going to be? Just figure this up. These are not Chinese figures. These are actual figures.

Before prohibition straight whisky sold for \$9 or \$10 a case, or, we will say, retailed for \$1 a quart. That was good straight whisky. You could buy some for 75 cents a quart right at the stores in New York. That whisky, sold for \$1 a quart, was straight whisky. That whisky today is being sold, if you can buy it, at from \$6 to \$8 a quart in New York. The distillers propose to put forth \$1.50 blended whisky.

Just to quote Mr. Seaton Porter, the president of National Distillers—he is not the “big shot”; the fellow at 52 William Street, Weikopf, or something like that, is the “big shot”—they say, “We are going to cut it 10 to 1, and we are going to sell that to you for \$1.50.” In other words, for \$1.50 you are going to get today what was worth 10 cents before prohibition.

I was in Peoria, Ill., which is a home of distillers, and they showed me whisky that had been cut 24 to 1—2 gallons of whisky and 48 gallons of alcohol. At 24 to 1 you are going to pay \$96 for what you paid \$4 for before prohibition.

The formula in between, which they use mostly, is 18 to 1—1 part of whisky, 9 parts of alcohol, and 9 parts of water. So when they say they are going to give you a "blend" they are not giving you whisky.

Schenley just recently sold some whisky to a drug store here in Washington for medicinal purposes. When it came in, the druggist by minute inspection found a little word "blend" there. The public will never be able to see the word "blend" on these labels. He had it analyzed, and of course it was not fit to prescribe in answer to a doctor's prescription for *spiritus frumenti*. It did not comply with the U.S. formula. It was a cut whisky.

Now, of course these distillers talk about blending and rectifying. The bootleggers had another word for it. They were frank about it. They cut it.

If the Government is going to reap anything out of the repeal of the eighteenth amendment, this is the year to do it.

Everybody who has talked here against raising the tax from \$1.10 will admit that with \$1.10 tax today you are paying \$40 to \$100 a case for whisky. And the bootlegger? They are criticizing the bootlegger, their old client. Why, the bootlegger today is selling at one half the price that the trust is charging the American people.

If anybody wants to consume whisky, I am in favor of his not being exploited. Between the 5th of December and the time you can pass a tax bill there will be hundreds of millions of dollars wrung from the people of America by this trust which controls the whole situation.

Mr. JENKINS. May I ask a question, Mr. O'Connor?

Mr. O'CONNOR. Yes.

Mr. JENKINS. I infer from your testimony that you think that this trust is still more powerful than the bootlegger, and that the trust has been supplying the liquor largely to the bootlegger.

Mr. O'CONNOR. Surely.

Mr. JENKINS. If that is the case, do you not think that the trust will be able to put the bootlegger out of business any time they want to by cutting off his supply?

Mr. O'CONNOR. The bootlegger cannot go into the distilling business unless he goes into it in the way these people describe as legitimate. Our experience with beer of course was a sad one, as far as I am concerned. I think we threw away \$100,000,000 this year by not putting the \$7.50 tax on it; but what happened? The racketeer brewer, the racketeer beer fellows, went into the brewery business legitimately.

Mr. COOPER. In that connection let me ask you one question. Where is the bootlegger going to get his supply if the distillers make a concerted effort to put him out of business?

Mr. O'CONNOR. The only thing that will put the bootlegger out of business is the price; and the fallacy that has pervaded Washington is that the tax enters into the price.

If there were no tax on whisky today, or if the tax were \$10 a gallon, the price to the public today would be the very same price, because the distillers sit down and start at the top. They say, "How much will the public stand for? What will the traffic bear?" Of course there is a point beyond which they cannot go. With \$10 a

gallon, that would stop them somewhere; but as between no tax and \$5 or \$6 a gallon, the price is not affected at all.

Now, the bootlegger—if you call him a bootlegger—will be willing to pay all the Government taxes at this price. As long as the exorbitant prices are maintained, the bootlegger can go into the so-called "legitimate distillery business."

Mr. McCORMACK. Will not the law of supply and demand take care of that?

Mr. O'CONNOR. In time; but here is what I am getting at:

You will never have in this country anywhere near as much whisky drunk as there was before prohibition. You can cut it right in half, in my opinion. We cut beer more than in half. The best authorities figured that as against the 68,000,000 barrels of beer sold in the peak year of 1918, I think it was, 30,000,000 barrels was sufficient to figure on; and I do not think that was a wrong estimate, because I do not think there will be over 30,000,000 barrels of beer sold this year; and so with whisky. You can cut it right down, in my opinion, to one half, at least. I do not believe you will sell over 80,000,000 gallons of spirits.

If you are going to get the revenue that you promised the American people you were going to get, you have got to put a tax, in my estimation, of at least \$5 a gallon on this whisky, and you will not continue the bootlegger. The bootlegger will stay in the business as long as this trust which controls the supply keeps the price high enough; but he will be in it legitimately. He will pay the taxes.

The bootleggers now who have in this country these millions of gallons of Canadian whisky or Scotch whisky will walk right into Uncle Sam's office today—they are down here now—they will walk right in and say, "We will pay you the tariff and the tax. We will pay you the \$18.30 a case" (right now they are offering it to the Government) "because we can get \$40, \$60, or \$80 a case for it."

If you want to carry out what I consider a mandate, if you want to keep faith with the American people to whom we sold the idea that we needed repeal to get revenue to this country, you cannot possibly fall for the distillers who have only a selfish interest. If you wipe out the tax altogether, it will not affect the price. If you put \$5 on, as I advocate, the price will be taken care of by competition. But this year is the year to get it, when "the getting is good," because we might not need that revenue after this year. During this first flurry, when the people are demanding liquor now, is the time to get it. We can reduce the tax later on, if necessary.

That proposal of no tax this year, or a low tax and graduating up, is the most ridiculous thing I ever heard. It is just the opposite of what we should do.

Mr. McCORMACK. If I understood the gentleman correctly, he said that the illegitimate producer of beer immediately became a legitimate producer, either by using some brewery that had been making illegal beer, or by building a new one. What is the gentleman's idea with respect to the illegitimate producer of liquor at the present time? Would he follow the same steps that were taken by the producer of beer?

Mr. O'CONNOR. He will as long as this price keeps up. The racketeer is not going to become a moonshiner.

Mr. McCLINTIC. Does not the gentleman think that that will be the solution—that sooner or later those who were interested in this industry illegally will become legal?

Mr. O'CONNOR. That is very likely as long as the price keeps up; less than the margin of profit to which they have been accustomed will not attract them after a while. We still have the same racketeers running breweries in New York. Waxey Gordon never went out of the beer business after the 6th or 7th of last April. He still stayed in the business and ran his breweries. It is the same way with the boys in New York. And those breweries in New Jersey which were licensed after they were supposed to get the new crowd in. It was the same old crowd still running them.

Mr. McCLINTIC. I wonder if the gentleman has any particular information in respect to these cooking plants that produce denatured alcohol, and as to the percentage of alcohol of that character that is being used in the manufacture of liquor?

Mr. O'CONNOR. I think it is infinitesimal insofar as the metropolitan centers of the country are concerned. I believe all the alcohol used by the big operators was bought from these distilleries—these legitimate distilleries. That is the only place they bought it, or they bought it from Canada.

You have heard it said here—I do not have to repeat it at any length—that the high taxes in England and the high taxes in Canada never created the bootlegger.

The Treasury Department officials, on the beer bill and on the whisky bill, draw a parallel between income taxes and liquor taxes. They say the higher the tax, like an income tax, normal and surtax, the less the return. I believe that is a fallacy in considering the liquor tax, because the people must have whisky, especially this first year. They will pay any price to get it; and for the Government to sit back and see all that profit going into the hands of distillers I believe is bad faith to the people they represent, because mark you this:

A lot of that money is going to go out of this country. The Canadian crowd have a big interest in distilleries here. Stockholders there, through subsidiary companies, own some of these distilleries. People in Great Britain have an interest in distilleries here.

Dr. Doran suggested to me, when I talked to him about it some time ago—I do not mind stating it here; he then held an official position—he agreed that this was extortion, and said, "I would put an excess-profits tax on them. You cannot reach them by a gallonage tax."

Mr. McCORMACK. That is what the Rockefeller Institute man recommended.

Mr. O'CONNOR. Yes; and that reminds me to bring up this point: I agree also with the Rockefeller Institute that taxes on liquor should be based on alcoholic content. If that is so, there should be a fair proportion between the taxes on these different liquors.

Now you have got a tax on beer of \$5 a barrel. If you do not put a high tax on your whisky, you will have the brewer in here—brewers who have been making 8 or 9 times as much per barrel as they made before prohibition—and they will demand a reduction of that tax, and they will have an argument.

Mr. CROWTHER. They already have.

Mr. O'CONNOR. That means there is a tax of 2 cents on a glass of beer. On a glass of whisky, at \$1.10 a gallon tax, you have a tax of less than 1½ cents a drink. At \$2.60, the figure suggested—and there seems to be some backing up from that; of course I consider that a ridiculously low figure—that is about 3 cents tax on a drink of whisky.

Now, mind you, the American people are going to pay 4 or 5 times as much for a drink of whisky as they do for a glass of beer. Those taxes are not fair in relation to each other.

I do not know how you are going to get \$350,000,000 out of a tax on whisky on any \$1.10 tax, or any \$2.60 tax.

When we passed the Celler-Copeland medicinal liquor bill, we overlooked a bet. Of course the smart fellows down here that were retained by the whisky trust knew what they were doing; but we wets who were just working for the American people, and carrying out a principle, did not see it. We took off the restrictions on physicians prescribing for people. We forgot to raise the tax of \$1.10 a gallon. Immediately the cost of whisky rose from \$25 a case to any figure you would pay—\$70 or \$100 a case.

Where did that whisky come from? National Distillers, Schenley, and so forth. Did they think that whisky was going to sick patients in hospitals? Of course they did not. They knew where it was going, and they knew where it went. They raised their price immediately from about \$18 to a druggist to \$42.50 a case. We have lost all that revenue. That liquor all went into bootleg channels. They knew it was going there, and they got the benefit of the increase in price.

I hope the committee, and I certainly hope Congress is not going to fall for the propaganda of the distillers. I know that the political party to which I belong, and I believe the other great political party—as far as I recall, every wet in Congress—told the American people, "Repeal the eighteenth amendment and get this revenue for the Government. We need it. That is our appeal to you. The Government should have this revenue at this time, and we will reduce other taxes."

As I said before, I am going to keep faith with the American people, and I am not going to be sold the idea of low taxes by any whisky trust or any other interests which have their own selfish interests at heart, and not the real interests of the Government. If nobody else speaks for the consumer here, I will speak for him; and let me say this:

I do not think that anybody yet has spoken for the Government; and if they have, I do not believe they have had the Government's interest at heart as they would have the interest of a client or anybody else they represent.

I ask you gentlemen sincerely to consider a \$5 a gallon tax on whisky before you are through with these hearings, or before you make your report to the House.

Mr. DICKINSON. May I ask a question?

Mr. O'CONNOR. Yes.

Mr. DICKINSON. During prohibition days, what did prescription whisky sell for to the consumer?

Mr. O'CONNOR. Fifty cents a pint was the top.

Mr. DICKINSON. Out in my State it sold for \$4.50 a pint.

Mr. O'CONNOR. Oh, during prohibition?

Mr. DICKINSON. Yes.

Mr. O'CONNOR. I thought you said before prohibition. During prohibition it sold, not counting the cost of the prescription, for from \$3 a pint up. Recently it has been much more, since we passed the Celler-Copeland medicinal liquor bill.

Mr. DICKINSON. Counting the cost of the prescription, which was \$3, the consumer had to pay at the rate of \$39 a gallon out in my country.

Mr. O'CONNOR. Yes. That compares with a price of 75 cents a quart, about \$3 a gallon, before prohibition.

Thank you.

The CHAIRMAN. We thank you for your attendance and the information you have given the committee.

The CHAIRMAN. The next witness is Mr. K. H. Berthold, representing the Importers of Beer and Wine Association; subject, wine and beer.

#### STATEMENT OF K. H. BERTHOLD, REPRESENTING THE IMPORTERS OF BEER AND WINE ASSOCIATION

Mr. BERTHOLD. Mr. Chairman and members of the Ways and Means Committee, I wish to make a very brief statement for the sake of clearing the record as to any misconception of the position of the several importers concerning the tariff on fermented malt beverages.

Testimony offered here yesterday might lead some of you gentlemen to believe that the various importers have recommended different tariff rates. Without any desire to be presumptuous, without speaking authoritatively for those witnesses testifying here yesterday, I desire to point out that, although various rates were suggested, that these rates are not at variance and can easily be reconciled. One witness suggested the duty be \$5 per barrel, which is equal to 16 cents per gallon; another gentleman recommended 15 cents per gallon, and the other witness urged a duty rate of 25 cents per gallon.

I believe the first two gentlemen referred to the logical duty rate for malt beverages when imported in barrels, while the other witness had reference to malt beverages in bottles.

Prior to prohibition there were different duties for ales, stouts, porters, and beers when imported in bottles, from duties assessed when imported in barrels. Some importers handled mostly bulk beer in barrels, while most importations of ales, porters, and stouts were made in bottles. When goods were imported in barrels the container is returned to the exporting country, and in the other the bottles remained in this country.

All of the testimony of the three witnesses pointed out that the average annual importations of beers, ales, etc., prior to prohibition, and also the short period under the Cullen Act amounted to less than one half of 1 percent of the total domestic beers and ales, and that, due to the higher price necessarily charged for the imported product, future importations could not exceed that small amount.

The highest possible amount that the traffic will bear by way of customs duty is 15 cents per gallon when brought into the country

in bulk and 25 cents per gallon when imported in bottles. This is a matter of practical fact well realized among the importing malt beverage trade through actual experience, dearly paid for, in the attempts to import beer and ales during the past 8 months.

My own experience in importing beer since the enactment of the Cullen Act last March has taught me that foreign beer will not be sold in this county to any great extent with prices two times that of domestic beer. In the meanwhile, the actual cost of the imported beer abroad has increased due to depreciation of the United States dollar, so that right now the landed cost, ex-duty, would be \$16 per barrel in contrast to the domestic wholesale price of \$9 per barrel, ex-tax. (Six months ago the foreign article's landed cost was \$11, ex-duty.)

Now, if the rate of duty is established by Congress at the same level as the internal revenue excise tax for domestic brews, we would have the comparable minimum wholesale value of \$14 per barrel for domestic beer and a minimum wholesale value of \$25 per barrel for imported beer, and it is submitted that from the standpoint of both revenue and protection of the American brewer a fair principle might be adopted that the total of all imposts on imported ales, stouts, porters, and beers should not exceed a maximum of 150 percent of the internal revenue assessed on domestic beers.

Thus, if domestic beer should be taxed at \$3 per barrel as suggested, the impost duty should not exceed \$4.50 per barrel on the foreign product. If the \$5 per barrel excise on domestic beers be retained, then the impost duty should not exceed \$7.50 on the foreign product. In the one case, the proportional duty idea would be equivalent to about 15 cents per gallon and in the other the total imposts would amount to about 25 cents per gallon. I believe this explains the basis of the suggestion of yesterday's testimony for the importers of malt beverages. The witnesses above referred to might be reconciled, as they arrived at their various conclusions by different routes.

In conclusion, I wish to be clearly understood that the importers are assuming that the unusual and patently punitive device of adding to the tariff duties an assessment of Federal internal revenue excises will be discontinued. Such double taxation never pertained before prohibition, and if it were to be established now it will not be possible to carry on any trade in imported beers, ales, stouts, and porters.

Mr. TREADWAY. Do I understand the gentleman, in his last paragraph, to say that he assumes there will not be internal-revenue tax and tariff?

Mr. BERTHOLD. Not in addition to the duty. Before prohibition—

Mr. TREADWAY. You are saying that you do not think imported articles should pay any tariff, and then—

Mr. BERTHOLD. No; I do not.

Mr. TREADWAY. Wait a minute; see if I understand you—and at the same time not pay the same internal-revenue tax that domestic articles pay?

Mr. BERTHOLD. No, sir. I mean that they should pay 150 percent; not more than that.

Mr. TREADWAY. Why should not the imported articles pay anything we see fit to assess against them?

Mr. BERTHOLD. Certainly, they should.

Mr. TREADWAY. Well, they will, too.

Let me ask you this: Is there any claim made that there is any reason for going out of this country to secure any beer? Can we not make all the beer right here in the U.S.A. that the people are going to drink here?

Mr. BERTHOLD. You possibly can. You can make very good beer here. I was in the brewing business before prohibition myself, and we made good beer for 11 cents a gallon.

Mr. TREADWAY. And now you want to favor the importer over the American producer?

Mr. BERTHOLD. I do not want to favor the importer, sir.

Mr. TREADWAY. I say you do when you say we should not levy a tariff against him.

Mr. BERTHOLD. We are perfectly willing to pay a reasonable tariff.

Mr. TREADWAY. What we may think is a reasonable one, and what you may think is a reasonable one, may not jibe. Is not that true?

Mr. BERTHOLD. I quite agree with you.

Mr. TREADWAY. I, for one, never have seen any reason to favor the manufacturers abroad in preference to our own home people, and I particularly do not approve of that policy as regards beer. Let us give them a chance to make all the beer they are going to need here.

Mr. BERTHOLD. We do not require any favoritism.

Mr. TREADWAY. You are asking for it.

Mr. BERTHOLD. We are not.

Mr. TREADWAY. Then you and I do not hitch.

Senator HARRISON. You are not the first witness that does not hitch.

The CHAIRMAN. The Chair thinks the witness has a right to express his opinion regardless of the views of members of the Committee.

Mr. BERTHOLD. We feel that if \$5 a barrel is assessed as an excise tax on domestic brews, certainly a maximum of \$7.50 is not favoritism, or favoring German beer, or Czechoslovakian beer, or English ales or porters.

The CHAIRMAN. Have you concluded your statement?

Mr. BERTHOLD. I thank you.

The CHAIRMAN. We thank you for your appearance and the information you have given the committee.

The CHAIRMAN. If there are no further witnesses, the Chair will state that Hon. Emanuel Celler has requested the privilege of inserting in the record his remarks rather than making a personal appearance. Without objection, that permission will be granted.

The CHAIRMAN. Senator Harrison, have you anything to say?

Senator HARRISON. No.

The CHAIRMAN. The Chair wishes to state that the joint hearings so far as they have been held have been entirely satisfactory in every way. It has been a very pleasing session. We are delighted to have had the members of the Finance Committee present to aid us and cooperate with us in conducting these hearings.

Senator HARRISON. Mr. Chairman, I desire to say for the Finance Committee that we appreciate the invitation. Our attendance upon the hearings will save us, I am sure, much unnecessary work.

The CHAIRMAN. We are pleased that the joint session has been so harmonious and so successful.

Mr. HILL. Mr. Chairman, I move that the committee now adjourn until 10 o'clock tomorrow morning.

(The motion was agreed to.)

(Thereupon, at 12:30 p.m., the committee adjourned until tomorrow, Friday, Dec. 15, 1933, at 10 a.m.)

## ADDENDA

BRIEF OF LEWIS LANDES, ATTORNEY FOR THE WHOLESALE LIQUOR DEALERS COMMITTEE OF THE CITY OF NEW YORK

DECEMBER 15, 1933.

*Honorable Members of the Ways and Means Committee of the House of Representatives and Senate Finance Committee:*

The following is respectfully submitted in behalf of a group of wholesalers and a number of prospective wholesalers in the city of New York, in support of their assertion that the control of the production and distribution of alcoholic beverages is vested in and monopolized by a "liquor trust." These points are submitted as a result of an investigation conducted by a committee headed by the Hon. Richard E. Enright, former police commissioner of the city of New York.

### I. THE ACTIVITIES OF THE LIQUOR TRUST ARE EXTENSIVE IN THEIR SCOPE AND IN VIOLATION OF THE PROVISIONS OF THE NATIONAL INDUSTRIAL RECOVERY ACT

About September 1 of this year, the committee undertook the task of making a survey of wholesale liquor dealers' situation. At the very beginning of the investigation, we found unmistakable proof that there is a Distillers' Trust, or combine, existing and operating in the United States at this time. The trust is headed by Daniel K. Weiskopf, Esq., of New York City and Richard Wathen, Esq., of Louisville, Ky. The functioning of the trust is conducted through a chain of subsidiary corporations with interlocking directorates, and the parent corporation is the American Medicinal Spirits Co., Inc., of 52 William Street, New York City.

This monopoly, or trust, has cornered and controls about 90 percent of all of the liquor in the United States, consisting of the following well-known brands of whiskeys: Gwynnebrook Maryland Rye, Old Rosebud Rye, Mount Vernon Maryland Rye, Spring Garden Maryland Rye, Rewco Rye, Susquehanna Rye, Sunny Brook Rye, Black Gold, Old Grand Dad Bourbon, Bourbon De Luxe, Old Taylor, Golden Premium and Bond & Lillard, Cedar Brook, Cedar Run, Chicken Cock, Crab Orchard, Green River, Tea Kettle, Hill & Hill, Lewis Hunter, Kentucky Colonel, Old McBrayer, Mellwood, Old Prentice, Old Ripy, Old Rosebud, Roxbury, Spring Hill, Old Stone, Sunnybrook, and Willow Springs, and many other well-known brands. Your committee finds that this trust, or combine, has boosted the prices of these various brands of bottled in bond whisky to the exorbitant amounts of from \$80 per case, nearly three times the prices for which good straight, bottled in bond Canadian whiskeys can be purchased from the wholesale bootlegger in New York City today. Any condition that promotes the interest of the bootleggers and illegitimate dealers in liquor is a detriment to the legitimate liquor interests and tends to defeat the policies and principles behind the repeal of the eighteenth amendment. Many of the proposed laws and regulations which will become effective upon the repeal of the eighteenth amendment seem to favor the Whisky Trust, the wholesale bootleggers, and other illicit dealers in liquor and to the exclusion and detriment of the legitimate wholesale and retail liquor dealers.

The committee finds that another group of men, operating under the name of Schenley's Distillery, has also cornered considerable whisky and is conducting its business along practically the same lines as the American Medicinal Spirits Co. For instance, the exorbitant prices quoted by Schenley's range about the same as the American Medicinal Spirits Co.

The committee finds without any question of a doubt that the consuming public, as regards alcohol beverages, is being gouged in the most ruthless manner;

that the retail liquor dealer is being compelled to sell whisky at a price far in excess of its commercial value, and that the wholesale liquor dealer is not only being forced to sell whisky at an exorbitant figure, but an attempt was made to eliminate his end of the liquor industry entirely, by unfair trade practices. This condition has been brought about by reason of the fact that the so-called "American Whisky Trust," meaning the National Distillery interests and the Schenley distillers group, have cornered nearly all of the straight American rye and Bourbon whisky in the Nation and have shot the prices of straight liquor up to the exorbitant amount of \$80 a case, and having the control of nearly all of the straight whisky in the country, they are automatically in a position to control the price of blended whiskies.

2. THE STATEMENT RELEASED BY EXECUTIVES OF THE NATIONAL DISTILLERS CON-  
TROVERT THE ALLEGATIONS THAT THERE IS ANY SHORTAGE OF WHISKY

All of the bugaboo about the shortage of whisky is without foundation. There is no shortage of Bourbon or rye or blended whisky in this country, and all the propaganda about a shortage of whisky was created and fed to the public by the Distillers Trust directly and indirectly so as to give the trust an excuse to boost the price and profiteer.

To substantiate this seemingly impossible statement, your committee quotes from the New York Herald-Tribune, December 5 issue, a statement released by executives of the National Distillers. This committee feels that the executives of the Distillers' Trust must have been out of their minds when they released this particular story. It is entirely contrary to the millions of lines of propaganda they have caused to be published, declaring that there was a shortage of American rye and Bourbon whisky. Please note carefully that this story, released by the Distillers' Trust, reads as follows:

"DISTILLERS SURE LIQUOR ON HAND WILL FILL WANTS

"BLENDERS MEET PROBLEM—NEW PROCESS ALSO CUTS AGING TO 12 TO 14 MONTHS

"There will be no shortage of liquor in New York today, thanks to the magic blender's art, whereby 1 quart of bonded whisky may be expanded to become 5 quarts, 10 quarts, or even more of a rectified product.

"At the offices of the National Distillers Products Co., 52 William Street, the largest owners of domestic whisky in the country, officials said no one knew exactly how much whisky, domestic and imported, there was in the Nation, but all were confident there was enough to meet the demand.

"The whisky distillers of the country plan to make 150,000,000 gallons of whisky yearly for the next 2 or 3 years in order to build up reserves. This output will be more than twice the amount distilled annually in the 4 years prior to prohibition, when the yearly average was about 72,000,000 gallons.

"Officials of National Distillers estimated that there were about 15,000,000 gallons of domestic whisky in the country, of which about 2,000,000 gallons were distilled prior to 1920.

"Albert Heller, an executive of National Distillers, one of the best-informed men in the country on blended whiskies, made the following answer to a question on the amount of straight whisky that went into the average blended product: 'That's a trade secret. If you asked a cook how he made a soup you liked, do you think he would tell you? Or a candy manufacturer whose products pleased you?'"

3. THE DISTILLERS ARE ENCREACHING UPON THE FIELDS OF THE WHOLESALER AS  
WELL AS THE RETAILER

The committee found that this Whisky Trust which controls nearly all of the liquor in the country, has endeavored to have Federal regulations adopted which would give them an exclusive monopoly on the rectifying and blending business precluding the wholesaler. In fact, these distillery interests are also trying to usurp not only the rectifying business, but they have gone further. They have actually tried to usurp the wholesale liquor dealers' business by selling direct to the retail liquor dealers. They have even tried to cripple the business of the retailer by selling whisky to the consumers and, last but not least, they are starting to invade the importing business. The committee has further found numerous instances where liquor has been sold by the Distillers Trust to retailers direct, such as hotels, restaurants, and clubs, and if this unethical and unfair practice continues, your committee sees no hope for the wholesale liquor business.

4. THE PRICES BEING CHARGED ARE ENTIRELY OUT OF PROPORTION TO THE TRUE VALUE BEING OFFERED TO THE PUBLIC

As to the blended whiskies, we quote from the price list of the American Medicinal Spirits Co.—Green River blend whisky, as follows: \$42 per case to the consumer; \$31.50 per case to the retailer. To the preferred retail buyers, in 100 case lots \$29.30 per case. To the unfortunate wholesale buyer, who must purchase a minimum of 600 cases \$26.77 per case, spot cash.

The actual value of this blended whisky is \$9 per case.

This committee finds that the people of the United States voted for repeal because they wanted to do away with bootlegging and racketeering and profiteering and illegitimate trafficking in spirituous liquors, believing that a repeal of the eighteenth amendment would lower the prices of liquor to the consuming public, in line with the prices charged for whisky 15 or 20 years ago—15 cents per drink and \$1 per quart—but this is not the case. The price, in some instances, is even higher than it was under the bootleg era. So high, in fact, that the bootlegger is destined to become a serious competitor to the legitimate liquor business. The simple fact remains that good, straight, American-type Canadian whisky can be purchased in the bootleg market today for \$20 per case, as against legitimate American whisky of a like quality at \$70 per case.

5. WHOLESALERS ARE HAMPERED IN THEIR EFFORTS TO DEVELOP AND PROMOTE THE SALE OF THEIR OWN PRIVATE BRANDS

The committee reports herewith another arbitrary ruling of the whisky trust which shows how impossible it is for the wholesale dealer to exist under the present circumstances. For instance, the New York State law prohibits a wholesaler from purchasing whisky in bulk with which to do his own bottling and the distillery combine will not bottle whisky for a wholesale dealer under the wholesale dealer's own label or trade name, unless the wholesale dealer gives the distillery interests complete control of his brand or label.

6. DISTILLERS ARE PERMITTED TO BLEND WHISKIES, WHICH PRACTICE IS CONTRARY TO THAT WHICH WAS IN FORCE IN THIS COUNTRY PRIOR TO THE ADVENT OF PROHIBITION

The committee found that under the normal and proper functioning of the liquor business in general, prior to prohibition, and under the laws existing at that time, the business of the distilleries was to manufacture spirituous liquors and sell them, at a reasonable profit, to the rectifiers and the wholesale liquor dealers, and that the wholesale liquor dealers' business was to resell the merchandise, at a reasonable profit, to the consuming public. Our lawmakers, prior to the adoption of the national prohibition law, found, from long experience, that it was not to the best interest of the men engaged in the liquor industry and to the public in general, to permit distilleries to rectify or blend the whisky they manufactured. The Government did, however, in some cases, permit distilleries to blend and rectify, provided the blending and rectifying business was conducted on another property, and at a distance of not less than 600 feet away from the distillery.

7. THE DEGREE OF BLENDING OR RECTIFYING IS CONDUCTIVE TOWARD THE PRODUCTION OF A VASTLY INFERIOR PRODUCT

In the story reported in the Herald Tribune supra, the American Whisky Trust admits that there are about 15,000,000 gallons of straight whisky in the country. They also admit that they can make 10 gallons or more of blended whisky out of 1 gallon of straight whisky, by adding water and alcohol. They also state that 90 percent of the whisky consumed prior to prohibition was blended whisky. From these admissions, we need only multiply 15,000,000 gallons of whisky now on hand, by 10, making a total of 150,000,000 gallons of blended whisky now available. In other words, there is no shortage of alcohol, and there is no shortage of distilled water, and when 15,000,000 gallons of straight whisky is stretched to 150,000,000 gallons of blended whisky, there is an overproduction.

8. THE DISTILLERS CAME INTO POSSESSION OF THE LIQUOR IT HAS ON HAND FOR RIDICULOUSLY AND UNUSUALLY LOW PRICES

The committee finds that the American Whisky Trust gradually fell into possession of nearly all of the American whisky in the country by unfair means and

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at a very reasonable figure. Great quantities of this whisky were sold to the American Whisky Trust, or its agents, at auction, due to the fact that many thousands of original owners of whisky certificates were unable to obtain physical possession of their liquor after the eighteenth amendment was adopted, and believing that the prohibition law would never be repealed, naturally neglected to pay storage charges, and the whisky was sold, for nonpayment of storage, at ridiculously low prices, to dummies or agents for the American Whisky Trust.

#### 9. THE RETAILERS ARE COMPELLED TO OPERATE AT A VERY SMALL MARGIN OF PROFIT

Much propoganda has been spread which tends to confuse and mislead the public into believing that there appears to be a concerted action on the part of the retailers to gouge and exploit the public.

This kind of propoganda indicates clearly to your committee that the Distillers' Trust is attempting to make the goat out of the retailers for the high prices of liquor charged to the consumer. Your committee finds that the retail liquor dealers are making a very small profit when the price he pays is taken into consideration, plus the cost of his license and the red tape he is compelled to comply with, and your committee finds that the retail liquor dealers would be very happy reduce their prices if they could obtain a better price from the distillers.

The committee recommends your honorable body to conduct an investigation which would be most conducive toward the eradication and elimination of the evils characterizing the control of the liquor industry, so that the American people will not be gouged and exploited by the improper acts of this monopoly.

Respectfully submitted.

LEWIS LANDES,  
*Attorney for the committee.*  
JACK W. MAYER,  
WILLIAM F. SMITH,  
LOGAN BILLINGSLEY,  
*Members of the committee.*

Brief by BENJAMIN MILLER, representing Federal Bar Association of New York, New Jersey, and Connecticut

#### *To Federal Bar Association of New York, New Jersey, and Connecticut:*

On the 25th day of October 1933 Mr. Henry Ward Beer, president of the Federal Bar Association of New York, New Jersey, and Connecticut, appointed a committee to make a thorough investigation of the liquor question with a view to submitting recommendations for legislation to the Congress and the legislatures of the respective States.

In pursuance of this provision a committee was appointed, consisting of members of the association, who have conducted this inquiry by holding public hearings and private investigations to evolve recommendations, with the following points in view:

1. Provide revenue.
2. Safeguard the public welfare.
3. Protect the consumer.
4. Eliminate the bootlegger, smuggler, racketeer, the illicit vendor, and, in general, to eliminate lawlessness.
5. Assist the establishment of the liquor industry without its former evils.
6. Devise a practical plan that would make for temperance.

These recommendations are made preliminary to the final report in the hope that they may in some measure contribute to the determination of the most important aspect of the entire problem, namely, the raising of revenue. It is in this instrumentality that its solution must be sought.

#### I. SOURCES

The Committee has availed itself of the following sources:

1. *Examination of witnesses.*—Among those heard were judges having had experience with violators of the prohibition act, district attorneys, legislators, liquor commission administrators, lawyers, economists, statisticians, labor leaders, leaders in civic organizations interested in the subject, toxicologists, physi-

clans, educators, social workers, employers, experts on tariff and taxation, men of every stratum of the liquor industry, representatives of foreign governments, accountants, persons with opinions against the sale of liquor, hotel associations, and many others with interests on both sides of the question, as well as those whose opinion would be of assistance in arriving at reasonable conclusions.

2. Private investigations made by the members of the Committee.

3. Memoranda from bureaus, Federal and State. Memoranda consisting of statistics pertinent to the question under consideration and statutes, were furnished by State and Federal bureaus.

4. Reports and statistics from foreign countries. Not only were persons in the diplomatic and consular service of foreign countries heard at the open meetings, but reports, statistics, and other information were presented bearing on systems of manufacture and distribution of liquor and the mechanics of liquor control in foreign lands.

5. *Surveys.*—Use was made of recent surveys and reports of commissions and committees in this country and abroad. Statements and suggestions volunteered. Manuscript statements, plans, charts, proposals, and suggestions have been sent to us by volunteers from many countries and have received due consideration.

6. *Printed books, papers, and pamphlets.*—Voluminous literature on every phase of prohibition and liquor control has been carefully studied and collated with other material before us.

Members of the Committee have also interviewed well-informed persons and have availed themselves of such observation and experience.

Among those who have appeared before the committee or have submitted reports are: Henry Ward Beer, president of Federal Bar Association; Pierre S. DuPont, Wilmington, Del.; George Z. Medalle; Samuel Untermyer, lawyer; Nicholas Murray Butler; Jouett Shouse; Rockefeller Liquor Control Studies Commission; Judge Brodsky, magistrate; Judge S. Sabbatino, magistrate; Judge Howell, surrogate's court of Mincola; William Frederick Varney, former nominee for President of United States of America on Prohibition Party; Mr. O. G. Marrell, representative of Swedish consular office; Mr. Schnapps, Consul General of Denmark; Major Rudd, British Chamber of Commerce; Congressman Peyceer; Dr. Grossman, German Embassy (international law consul); Professor Sellgman, Columbia University; Dr. Haven Emmerson, Columbia University; Louis S. Posner, department of education; Robert Daru, counsel Racketeering Committee; Dr. Martin, president of Nassau County Medical Society; Samuel Ungerleider; Miss Louise M. Gross, Women's Moderation Union; Mr. Engelhart, of International Geneva; Mr. Shutz, of International Geneva; Mr. Ingraham, Boston, Mass.; Mr. T. P. Clarke, representative of United States Brewers Association; Captain Saunders; Mr. Horwath, of Horwath & Horwath, hotel accountants; Mr. Frank K. Boland, counsel to American Hotel Association; Mr. Sozzi, Italian Chamber of Commerce; Mr. Burke, Catholic Temperance Union; Mr. Lippsett, editor of trade papers; William Millar, representative Greater New York Federation of Churches; Harry S. Radcliffe, firm of Wm. L. Howitz Co.; Mr. Charles W. Walker, Hempstead Commercial Association, and Mr. Milton L'Ecluse, private citizen.

## II. PROBLEM

The enactment of legislation submitting the proposed twenty-first amendment for ratification and the subsequent Cullen bill, legalizing 3.2 beer, together with the final approval in convention of the thirty-sixth State on December 5, 1933, have completely eliminated most of the restrictions cast about the manufacture, distribution, sale, and consumption of alcoholic beverages. The old nefarious evils that gnawed at the body politic and eventually shaped public opinion for the eighteenth amendment again threatened. Legislatures were faced with the perplexing problem of passing laws that would prohibit the recurrence of these mala actiones of prohibition and at the same time permit all who desired to consume alcoholic beverages to do so without undue restriction. If nothing more can be said at this early date on the evaluation of prohibition, it must be conceded that it achieved the elimination of the saloon, which no person desires to revive in any shape or form.

## III. TAXATION

The National Industrial Recovery Act made provision for revenue to meet the unemployment and relief measures therein contained and stipulated that

upon the happening of either of two conditions, these taxes shall abate at stated times. On December 5, 1933, one of these conditions, namely, the repeal of the eighteenth amendment, became effective, and with it some \$227,000,000 of revenue will cease between January 1 and July 1934. Replacement of these taxes as well as the rapidly rising public debt, which is about to exceed the war peak of 26 billions of dollars, and an accumulating deficit, coupled with other factors, have created an imperative necessity for more revenue.

There are many people who advocate the charging of the requisite payments for these emergencies to the manufacture, distribution, and sale of alcoholic beverages. The necessity of raising revenue is not in anywise minimized by this committee, but it deems the public weal the paramount consideration of legislation in this field and the raising of revenue to be subordinate thereto and permissible only insofar as compatible therewith. To encourage the indiscriminate levying of taxes would be tantamount to indirectly doing the very things which are openly condemned. It would be the sanction of a force that would engulf all the benefits through the manifold efforts of all people.

(a) *Uniform State laws.*—Various States that have adopted the twenty-first amendment have passed tax laws with the avowed purpose of raising revenue, being guided, to a great extent, by the necessity. Few seem to have adopted the same schedules of taxes, and adjacent States have widely different rates, thereby encouraging bootlegging across the State lines.

In the interest of the public welfare, it is recommended that the Federal Government encourage, as far as practicable, the consideration and enactment of uniform State laws amply comprehensible to the application of the needs of the various States. To convey concretely the chaos that reigns, here is set forth the tax of two eastern adjoining States, to wit, New York taxes hard liquor \$1 per gallon, whereas Pennsylvania taxes the same commodity \$2. It is a positive incentive for a resident of Pennsylvania to cross the border for the purchase of liquor and return. Other flagrant examples abound. Here is bootlegging in its familiar forms. Uniform State laws would eliminate this evil and establish uniform rates of taxation with its multitudinous benefits. Conventions of representatives of the wet States should be immediately called for the drafting of such laws. Ample precedent exists in uniform sales laws, negotiable instrument laws, etc.

(b) *Federal taxation.*—The amount of revenue to be raised by the Federal Government shall be that maximum rate that will not make the price of liquor to the consumer too high, low enough not to focus public attention on liquor and eliminate that margin of profit that enabled the bootlegger to thrive.

It is believed that alcoholic beverages should be classified by strength of alcoholic content and those of a higher alcoholic content should be discouraged by a relatively higher tax than those of a lower alcoholic content, with the hope that in time the public may become accustomed to drink milder alcoholic beverages. In some foreign countries this plan has been conspicuously successful. The rates for the first year that seem most reasonable are as follows:

*Proposed Rates of Taxation*

Content	Beer	Wines	Hard liquors
	<i>Per bbl.</i>	<i>Per gal.</i>	<i>Per gal.</i>
Up to 3.2 percent.....	\$3.50	-----	-----
3.2 percent and over.....	5.00	-----	-----
Up to 14 percent.....	-----	\$0.35	-----
14 to 21 percent.....	-----	.80	-----
21 percent and over.....	-----	2.00	\$2.00

*Proposed Rates of Tariff*

	<i>Per gal.</i>		
Up to 14 percent.....	\$0.45	\$0.45	-----
14 to 21 percent.....	-----	1.20	-----
21 percent and over.....	-----	3.00	\$3.00

(c) *Taxation for education.*—2 percent of the gross amount of internal revenue received from liquor should be set aside for education of the general public in temperance, leaving the administration thereof to the Commissioner

of Education of the United States. This fund shall be placed and utilized to the best welfare of the public.

The conclusions of the committee may be briefly stated as favoring a uniform State law on taxation as well as liquor control and regulation. The rates proposed for internal revenue are advanced in a belief that they will make it unprofitable for the bootlegger, will keep the price of alcoholic drink within the reach of all people, and at the same time to educate the public in the preference for liquor having lower alcoholic content. The raising of revenue is secondary to these considerations of public welfare. The tariff rates have been determined so that enough liquors may be imported to meet the current needs without encouraging cutting and dilution of inventories. The educational recommendation is made in the hope of promoting temperance.

Dated, December 19, 1933.

Benjamin Miller, chairman, John J. Quinn, Emil K. Ellis, John Grimshaw, Jr., John J. Ackerman, Elliott S. Burston, I. Herbert Levy, Jay Cohen, committee.

UNITED STATES SENATE,  
COMMITTEE ON EDUCATION AND LABOR,  
December 18, 1933.

HON. ROBERT L. DOUGHTON,  
*Chairman House Ways and Means Committee,  
1801 New House Office Building, Washington, D.C.*

MY DEAR CHAIRMAN DOUGHTON: I am enclosing two letters which I wish you would incorporate into the joint hearings held before the Senate Finance Committee and the House Ways and Means Committee on the liquor taxation.

The letters are in refutation to statement made by Harvey H. Smith, of Vine Grove, Ky., counsel for certain independent distillers.

With appreciation of your taking care of this for me,

Sincerely yours,

DAVID I. WALSH.

SOUTHPORT CORPORATION, INC.,  
NEW ORLEANS BANK BUILDING,  
New Orleans, December 16, 1933.

HON. SENATOR D. I. WALSH (of Massachusetts),  
*Senate Office Building, Washington, D.C.*

DEAR SIR: We note with a great deal of interest the press reports concerning the joint hearing on liquor taxation by the Senate Finance Committee and the House Ways and Means Committee, and particularly the charges of Mr. Harvey H. Smith, of Vine Grove, Ky., counsel for certain independent distillers.

Mr. Smith (according to newspaper reports) states that the so-called "Whisky trust", in addition to "cornering" liquor has obtained control of the lumber from which barrels are manufactured. This is not correct because our firm, being large and responsible manufacturers of cooperage, is in no way affiliated with any distilleries or whisky manufacturers, and is in a position to supply large quantities of whisky barrels to all distillers, both independent or otherwise, at competitive market prices.

However, the price of around \$2.40 for whisky barrels, as indicated by Mr. Smith, is entirely out of reason and an absolute impossibility, and in illustration of this we beg to give you the following facts:

The timber from which whisky barrels are made must be the very finest white-oak timber obtainable and is becoming more scarce and more difficult to secure from month to month. Most of the timber used for the manufacture of these barrels originates in the Ozark Mountains in Arkansas and Missouri, and a large percentage is actually cut from timber owned by the United States Government in the national forest reserves of this area.

It is our understanding that the United States Government is now selling this timber to stave and heading manufacturers at a price of \$23 per 1,000 feet, standing in the forests and located 30 to 50 miles from any railroad. Added to this cost, the charges for felling the trees, transporting to the stave and heading mills, manufacturing into staves and heads and transporting to the railroad for eventual shipment to cooperage plants brings the cost of the raw and unfinished staves per unit of one barrel to right around \$3 each. In

addition to this, the following items must be taken into consideration to arrive at the final cost of whisky barrels:

Transportation to cooperage plants  
 Kiln-drying  
 Planing  
 Jointing staves and heads  
 Circling heads  
 Manufacturing barrels  
 Cost of accessories, i.e.: Hoops, rivets, hoop fasteners, bungs, etc.  
 Transportation from cooperage plant to distilleries  
 Selling expense and overhead

From the foregoing you will see that the price indicated by Mr. Smith is entirely out of line and cannot be done.

We respectfully ask that this communication be brought to the attention of your committee and publicity be given to same for the benefit of independent distillers in order that an erroneous impression may be corrected both with respect to price and a source of supply.

Thanking you for your consideration, we beg to remain

Respectfully,

E. E. RICHARDS,  
*Vice President.*

EEB:EC

THE ASSOCIATED COOPERAGE INDUSTRIES OF AMERICA,  
*St. Louis, Mo., December 15, 1933.*

Senator D. I. WALSH,  
*United States Senate, Washington, D.C.*

DEAR SENATOR WALSH: Was talking with Mr. E. E. Richards of the Southport Corporation, New Orleans, La., regarding the hearing in Washington with reference to the supposed "Whisky trust", which we are confident does not exist in any way, as the coopers throughout the country stand ready to supply barrels at a fair margin of profit, and same is true with the manufacturers of cooperage materials which are furnished the barrel makers, and this is all competitive from the material to the finished barrel.

Enclosed herewith is copy of telegram which was sent out today to Mr. Choate, as we understood from Mr. Richards you were going to appear before this committee in their behalf and he asked us to give you any information we had on the subject.

The telegram is self-explanatory, and will appreciate hearing from you if we as an industry can help to correct the wrong which has been perpetrated through the daily papers of the country.

Yours truly,

G. I. FRAZIER,  
*President.*

DECEMBER 15, 1933.

JOSEPH H. CHOATE,  
*Chairman Federal Alcohol Control Board,  
 Washington, D.C.*

Press reports quoting Attorney Harvey Smith carry unfair and untrue representation cooperage situation. Recent sale, Government-owned stumpage from forest reserve in Ozark Mountains, exceeds \$23 per thousand feet in tree, 30 to 50 miles from railroad transportation. The cost of timber in 1 barrel from this stumpage in the tree alone is better than \$3. White oak timber supply and barrel manufacturers are positively not controlled by distillery interests. Cooperage stock manufacturers and barrel makers are attempting to operate under proposed cooperage stock manufacturers and barrel makers are attempting to operate under proposed cooperage code in line with N.R.A. expectation. This alone has increased costs materially. All barrel costs except stumpage represent labor. The published statement with reference to whisky barrels being manufactured for \$2 is ridiculous. Prior to prohibition, whisky barrels sold at about \$4—if such statements as appear in the press today are to be given serious consideration by your committee The Associated Cooperage Industries of America desires an opportunity to be heard. There is no profiteering in cooperage but an earnest desire to cooperate with the Government and put men to work.

THE ASSOCIATED COOPERAGE INDUSTRIES OF AMERICA,  
 G. I. FRAZIER, *President.*

## SUPPLEMENT

### PART I

#### REPORT TO THE SECRETARY OF THE TREASURY OF FINDINGS OF FACT AND LAW OF THE INFORMAL INTERDEPARTMENTAL COMMITTEE RELATIVE TO TAXATION AND CONTROL OF ALCOHOLIC BEVERAGES

##### INTRODUCTION

This report sets forth as briefly as possible the findings of an informal interdepartmental committee named to study problems of taxation and control of alcoholic beverages. It supersedes the preliminary draft report dated October 14, which was submitted to the committee for its consideration.

In the course of the investigation of the problems here discussed conferences were held with various persons engaged in the industries studied. The major portion of the statistics given in the report were compiled by the Tariff Commission.

The subjects studied in this report will be divided into six parts as follows:

Part I. The legal effect of repeal of the eighteenth amendment.

Part II. A statistical study of the alcoholic beverages industry.

Part III. The problem of illegal alcoholic beverages.

Part IV. The problem of State taxation.

Part V. The pre-repeal administrative problem.

Part VI. The post-repeal import problem.

Conclusion.

#### PART I. THE LEGAL EFFECT OF REPEAL OF THE EIGHTEENTH AMENDMENT

##### A. INTRODUCTION

The twenty-first amendment will probably become part of the Federal Constitution on December 5, 1933. This amendment provides:

"SECTION 1. The eighteenth article of amendment to the Constitution of the United States is hereby repealed.

"SEC. 2. The transportation or importation into any State, Territory, or possession of the United States for delivery or use therein of intoxicating liquors, in violation of the laws thereof, is hereby prohibited."

The eighteenth amendment which will thus be repealed provides:

"SECTION 1. After 1 year from the ratification of this article the manufacture, sale, or transportation of intoxicating liquors within, the importation thereof into, or the exportation thereof from the United States and all territory subject to the jurisdiction thereof for beverage purposes is hereby prohibited.

"SEC. 2. The Congress and the several States shall have concurrent power to enforce this article by appropriate legislation."

On the date of this report conventions in 29 States out of a necessary 36 have already ratified the twenty-first amendment. Four more States have elected conventions pledged to its ratification and three of these conventions will have voted on or prior to December 5, 1933. By November 7, 6 more State conventions will have been elected and by December 5, 5 of these will have voted, thus making a total of 37 State conventions which will have voted on or before that date.

Unless, therefore, an unexpected change in public sentiment takes place, the eighteenth amendment will have been repealed and the twenty-first amendment will have been adopted by December 5, 1933. If some States should unexpectedly go into the dry column the thirty-ninth convention will have voted by December 8, 1933, which gives a leeway of three States on that date.

Upon the repeal of the eighteenth amendment, and on the basis of State statutes in force on the date of this report, intoxicating liquors may be legally manufactured and sold for beverage purposes in 10 States. These States will be: New York, Massachusetts, Rhode Island, Connecticut, New Jersey, Delaware, Maryland, Louisiana, Indiana, Illinois, Wisconsin, New Mexico, Arizona, Colorado, Montana, Washington, Oregon, Nevada, California. No effort has yet been made in this study to determine what other States will probably have amended their local laws between now and December 5.

#### SUMMARY OF CONCLUSIONS AS TO LEGAL EFFECT OF REPEAL

The repeal of the eighteenth amendment will affect existing statutes as follows:

1. All statutes imposing taxes on alcoholic beverages and regulating the administration of the taxing system will remain in effect.
2. All statutes relating to alcoholic beverages enacted prior to the adoption of the eighteenth amendment by virtue of some other power of Congress will remain in effect to the extent that they are not in direct conflict with the National Prohibition Act as amended and supplemented.
3. Title III of the National Prohibition Act relating to industrial alcohol and the administrative and penalty provisions of the prohibition statutes necessary to enforce that title will remain in effect nationally.
4. The prohibition statutes will remain in effect in all territories subject to the plenary legislative jurisdiction of Congress.
5. With the above exceptions all so-called prohibition statutes will cease to be in effect.

The committee has been informed that the Attorney General has indicated his agreement with conclusions of law. The authorities and legal reasons by which these conclusions were reached are set forth in appendix A to this report.

## PART II. STATISTICAL STUDY OF THE ALCOHOLIC BEVERAGES INDUSTRY

### A. INTRODUCTION

Statistics relating to beer, spirits, and wines have been compiled for the years 1900 through 1933 and for convenience of comparison have been consolidated on a single chart, hereto annexed (chart no. 1). For the purpose of interpreting these statistics in the light of economic conditions there have also been compiled and consolidated on the same chart statistics showing population, per capita wealth, industrial activity, the progress of State prohibition, and Federal revenues for the same years.

For further convenience of reference and comparison, the following charts, hereto annexed, have been prepared from the compiled statistics shown on chart no. 1.

Chart no. 2. Trend of population, wealth, industrial production, consumption of beer and excise tax on beer for the years 1900 to 1919.

Chart no. 3. Trend of population, wealth, industrial production, consumption of spirits and excise tax on spirits for the years 1900 to 1919.

Chart no. 4. Trend of population, wealth, industrial production and consumption of wines for the years 1900 to 1919.

Chart no. 5. Trend of comparative consumption of beer, spirits, and wines for the years 1900 to 1919.

Chart no. 6. Trend of consumption and importation of beer for the years 1900 to 1919.

Chart no. 7. Trend of consumption and importation of spirits for the years 1900 to 1919.

Chart no. 8. Trend of consumption and importation of wines for the years 1900 to 1919.

In addition the following charts have been prepared from information and estimates believed by the committee to be taken from the most reliable sources available, and to be reasonably accurate:

Chart no. 9. Relation between import duties and estimated domestic costs of production of beer, spirits, and wines.

Chart no. 10. Stocks on hand and estimated domestic production, consumption, and importation of beer, spirits, and wines.

Chart no. 11. Comparative cost to ultimate consumer of legal and illegal beer, spirits, and wines.

Chart no. 12. Existing tax rates and estimates based thereon.

It is anticipated that these charts will be useful for reference purposes, and as a means of checking the many statements and predictions relating to alcoholic beverages which will undoubtedly be made to the administration.

For the purposes of this study, the merit of brevity appears to justify limiting the statistical period to the years 1900-33. Charts nos. 2, 3, 4, 5, 6, 7, and 8 have been limited to the years 1900-19 to avoid the dislocating factor of national prohibition.

The unusual factors in the light of which the statistics presented must be considered are (1) the World War, (2) the introduction of the present system of Federal income and inheritance taxation, (3) the period of war prohibition beginning July 1, 1919, (4) the National Prohibition Act of October 28, 1919, and the subsequent period of enforced abstinence during which the drinking habits of the country may have changed materially, and (5) the present world-wide depression.

A preliminary investigation of these charts reveals the following information of considerable general interest:

1. Total receipts from excise and import taxation of alcoholic beverages rose from \$192,000,000 in 1900 to a maximum of \$484,000,000 in 1919 (chart no. 1).

2. Prior to the enactment of the income-tax law of 1917 Government revenues from liquor taxation represented an average of approximately 37 percent of total revenues (chart no. 1).

3. On a volume basis, an average of approximately 90 percent of all alcoholic beverages consumed in this country during the period 1900-19 was beer; approximately 7 percent was spirits; and approximately 3 percent was wine (chart no. 1).

4. Taxation of spirits, however, during the period 1900-1919 yielded approximately twice as much revenue as taxation of beer. During the same period revenue from taxation of wine was negligible (chart no. 1).

5. Imports of spirits, beer, and wine have been negligible both in volume and in duty paid. Total import duties collected ran from \$8,000,000 in 1900 to a peak of \$19,000,000 in 1914, and then fell off sharply during the war years (chart no. 1).

6. The consumption of beer, spirits, and wines followed, in general, the trend of population, wealth, and industrial activity from 1900 to 1917 and then fell off sharply in the war period. Consumption trend appears to lag approximately a year behind the trend of industrial activity (charts nos. 2, 3, 4).

7. Present import duties appear to tend toward a policy of exclusion rather than toward a policy of protection or revenue (chart no. 9).

#### B. ESTIMATED REVENUES

The Division of Financial and Economic Research of the Treasury on September 20, 1933, supplied to the Director of the Budget an estimate of anticipated Federal revenues for the calendar year 1934 from the taxation of spirits and wines. This estimate and its supporting data are annexed to chart no. 12, which sets forth estimates of Federal revenues from the taxation of all alcoholic beverage for the period December 5, 1933—December 31, 1934, at present excise, import, and miscellaneous rates.

The accuracy of the division's recent estimate of anticipated revenues from the taxation of beer by the use of a substantially similar estimating method has caused the adoption of the division's spirits and wine estimate as the basis of the estimates in this chart with the adjustment necessitated by a change from a calendar year basis to the December 5, 1933—December 31, 1934, basis.

Receipts from the beer tax to date have averaged slightly over \$13,000,000 per month, or at the rate of approximately \$156,000,000 per year.

Estimates in chart no. 12 are based upon actual receipts from taxation of beer to date, with a downward adjustment of these receipts on the basis of an anticipated 10 percent decline in the rate of beer consumption with the advent of legal spirits and wines. Such a decline would be in line with prohibition comparative consumption experience (chart no. 1).

Receipts for occupational taxes are based upon estimates of the Bureau of Industrial Alcohol and the Tariff Commission.

It will be noted that the estimates in chart no. 12 are based on a per capita tax paid consumption substantially below that of the preprohibition period (chart no. 1). These estimates rest upon the following assumption:

(a) Altered drinking habits as a result of the prohibition period which will probably carry over into the first year of the post-repeal period.

(b) The present low ebb of consumer purchasing power; and

(c) The growth of the practice of home manufacture of beers and wines during the prohibition period. There is some indication, for instance, that a substantial amount of home-made beer is still being produced in spite of the availability of the legal product.

The estimates of consumption set forth in chart no. 10 do not represent the consensus of opinion of the entire committee. Mr. Lourie feels that the estimated consumption of spirits should be increased to 140,000,000 gallons and the estimated consumption of beer to 1,000,000,000 gallons.

#### C. THE LIQUOR SUPPLY

The estimates of consumption used as a basis of calculating revenue receipts (chart no. 13), have also been used in chart no. 10 setting forth the relation between the estimated supply of and demand for alcoholic beverages. From this chart it would appear that the domestic production capacity will be able to supply the domestic market with what for purposes of convenience in this report will be termed basic alcoholic beverages, i.e., beer, the less expensive grades of blended and rectified whiskys, gins, and the cheaper grades of new domestic wines.

On the other hand stocks on hand and the production capacity of the better grade of whisky and wines will be insufficient to meet the initial demand.

Practically no domestic "aged" whisky, i.e., straight whisky over 4 years old, will be available for consumption. The small stocks on hand will undoubtedly be used almost entirely for rectifying and blending with new distillations or with grain alcohol.

The present limited production capacity and the desire for immediate profits in the initial market will probably cause new stocks of domestic aged whisky to be accumulated somewhat slowly.

Stocks of wine on hand appear to be inadequate to the first year's demand, although domestic producers will probably attempt to fill that demand using this year's press without sufficient aging. A considerable immediate demand, however, may be expected for the better foreign wines and champagnes, both for immediate consumption and for cellar purposes.

Estimated stocks of brandy amount to approximately 2½ million gallons of potable but not excellent quality. This brandy was originally made primarily for the fortification of wines. Stocks of rum are negligible.

With the repeal of the eighteenth amendment there will therefore be a temporary market for substantial quantities of foreign aged whiskeys, good gins, wines, and champagnes. In addition, there will be a less substantial market for foreign brandy, rum, and the better liqueurs and cordials. The market for imported alcoholic beverages has in the past always been comparatively limited (chart no. 1). While there will undoubtedly be a substantial initial demand for all types of imported alcoholic beverages there is perhaps a question as to whether the long term import market will be more substantial in the post-repeal period than it was in the preprohibition period, particularly with a public which has been accustomed to alcoholic beverages of the prohibition standard.

The State and Commerce Department, however, are of the opinion that if import duties are reasonable the volume of imports of alcoholic beverages will be substantially in excess of the preprohibition period.

#### PART III. THE PROBLEM OF ILLEGAL ALCOHOLIC LIQUORS

While information on the subject of the illegal liquor industry is necessarily inexact and founded largely on opinion, it would nevertheless appear that the illegal industry is entrenched, organized, and efficient, with a smoothly operating system of production and distribution. There is considerable evidence that the illegal industry throughout the latter portion of the prohibition period has been actively engaged not only in supplying the domestic market, but in exporting its product as well.

An investigation by the Bureau of Prohibition of the Department of Justice in 1930 indicated that the production of illegal liquor in the fiscal year 1930 amounted to approximately 35 percent of the legal production in 1914—the peak pre-prohibition year.

The national retail liquor bill for the year 1914 appears to have been approximately \$2,000,000,000. Estimating from comparative production figures, therefore, and making adjustments for (a) the substantially higher prices charged for the illegal product, and (b) the comparative cheapness of home-made wines and beers, it would appear to be conservative to estimate the national 1930 bill for illegal liquors at \$1,000,000,000. The national bill for shoes for the same year was approximately the same figure.

The existence of this industry presents three aspects of the same problem:

1. The protection of dry States from the introduction of legal alcoholic beverages from wet States pursuant to the mandate of the twenty-first amendment.

Statutes forbidding the shipment of alcoholic beverages into dry States were enacted prior to the adoption of the eighteenth amendment and will remain in effect after adoption of the twenty-first. These statutes (already set forth in full in part I of this report) are: The Wilson Original Packages Act of August 8, 1896; the Webb-Kenyon Act of March 1, 1933; the Reed bone dry amendment of March 3, 1917.

2. The protection of the legal liquor industry in wet States from the competition of the illegal industry operating in dry States and shipping its surplus product into wet States and the consequent protection of the Federal revenues.

Revenue statutes now in existence will supply the necessary legal justification for Federal attempts to suppress this traffic. Enforcement of these statutes in States permitting a free beverage market may be expected to be reasonably effective.

3. The assurance by tax adjustment and other means of an adequate supply of inexpensive legal alcoholic beverages which will be able to drive out the illegal competing production by price competition.

The attempts to control this illegal industry solely by policing the production and sale of illegal alcoholic beverages have not been wholly satisfactory. The enforcement problems of the prohibition period will still remain in those States which continue to be dry after the repeal of the eighteenth amendment. It is believed that the price of legal liquor to the ultimate consumer in the post-prohibition period will be one of the important factors in determining the success or failure of the general effort to eliminate the illegal industry. This competitive factor, of course, will only operate in those States which permit the manufacture and sale of alcoholic beverages.

Moreover, the prices which will determine the issue will be the prices of the basic alcoholic beverages already referred to in this report. Unless the price of the more expensive domestic and imported spirits and wines is made unreasonably high by excessive taxation it is not believed that trade in illegal imitations or smuggling of the genuine product will be substantial.

The comparative prices at which legal and illegal basic alcoholic beverages can be supplied to legal and illegal retail dealers would indicate that the legal industry will be able to carry a substantial tax burden and still meet the competition of the illegal industry if it is willing to forego excessive profits (chart no. 11). Price estimates in this chart for legal alcoholic beverages were obtained from available statistics of the Tariff Commission; price estimates for the illegal alcoholic beverages are based on estimates made for the Rockefeller report.

Chart no. 11 divides the prices of illegal liquor to the retailer into two categories; i.e. prices to the local bootlegger and prices to the organized illegal industry. Prices to the local bootlegger are not considered of primary social significance on the ground that the small illegal liquor peddler does not carry with him the evils of organized crime. In any event, if the estimates here used are reasonably accurate, there would appear to be little possibility that the legitimate industry can compete on a straight price basis with his activities.

For the purposes of this report, therefore, the prices of illegal liquor which will be considered will be the prices to the organized illegal industry. It will be noted that these prices are materially higher than prices to the local bootlegger. The explanation would appear to be that the former price represents large-scale operations requiring a large overhead for protection, organized violence, etc.

In measuring the competition between the legal and the illegal liquor industries other factors beside competitive prices must be considered. (a) The

illegal industry must make a substantially higher gross and net profit on its sales than the legal industry. If it does not, it will not be profitable to run the risks involved. (b) As between legal and illegal products of substantially similar price the buying public will have greater confidence in and will prefer to buy the legal product.

It seems reasonable to suppose that a more drastic price competition by the legal industry will be necessary in the earlier post-prohibition period while the illegal industry is still organized and well financed. It would probably require considerably higher prices to revive a defeated illegal industry than it would to keep a well entrenched one in business. This price competition could be facilitated by keeping the tax burden on legal alcoholic beverages comparatively low in the earlier post-prohibition period in order to permit the legal industry to offer more severe competition to its illegal competitor. When that competitor has been driven from business the tax burden could be gradually increased. Investigators for the Rockefeller Report estimate that it will require three years of such competition to break the organization of the illegal industry.

Any such tax program, however, requires the cooperation of the legal industry which must be persuaded to resist the desire to demand high prices and large profits in the post-repeal market.

To have the assurance, therefore, that the legal liquor industry will offer its product to the ultimate consumer at prices substantially below the level at which the illegal liquor industry can operate at a profit it is not sufficient to keep the taxes on legal liquors at reasonable figures. It is also necessary that the legal industry as a whole shall accept a reasonable margin of profit and not take advantage of the prospective keen demand by exacting high prices from the ultimate consumer. There is reason to believe that the producers of the various types of alcohol beverages will be able to control in large measure the prices charged by wholesalers and retailers and thus to control the price of alcoholic beverages to the ultimate consumer.

Representatives of the legal industry have indicated that the legal industry, particularly the producers of distilled spirits, intend to use this power to maintain price levels which will eliminate an important and unscrupulous competitor. On the other hand it is not altogether unlikely that keen popular demand, limited supply, and the temptation of sudden profits will cause unreasonably high prices in the initial post-repeal market. Any such period of price dislocation, however, would probably be comparatively short. Competition fostered by potential production capacity and a reasonably liberal import policy should shortly correct any temporary evils which may occur.

Unless measures are taken to prevent the sale of distilled spirits in bulk, the competition of the illegal industry in this type of alcoholic beverages in the post-repeal period will probably be greater in the case of alcoholic beverages in bulk than in bottles due in part to the greater ease of handling bulk goods and in part to the greater difficulties attendant upon distinguishing the legal and illegal product in that form.

Unless measures are taken to aid its prevention a substantial trade in such goods will probably be carried on through unscrupulous rectifying and blending establishments. Such establishments will be able to purchase comparatively small quantities of legally produced wines or spirits and under the cloak of this legitimate trade to blend the legally purchased product with substantial quantities of the illegal tax-free product. Such establishments will thus be a means of injecting the illegal product into legitimate channels of trade.

#### PART IV. THE PROBLEM OF STATE TAXATION

Control of the price of basic alcoholic liquors to the ultimate consumer by control of the tax burden is not a matter within the exclusive province of the Federal Government. The problem includes a consideration of the coordination of State and Federal taxation. The most careful Federal program can be dislocated by an uncoordinated system of State taxation superimposed upon the Federal system. In the pre-prohibition period the States as a matter of policy did not attempt to tax alcoholic beverages per se, but limited themselves to occupational taxes on its manufacture and sale. These taxes were not generally high enough to have any substantial effect on the price of alcoholic beverages to the ultimate consumer.

It is to be anticipated, however, that the present need of the States for new sources of revenue will lead to State taxation of alcoholic beverages

per se. It is clear that an effort should be made, therefore, to coordinate State and Federal liquor taxation on some basis equitable to both, which will permit the formulation and administration of a reasonably uniform and orderly taxing system.

#### PART V. THE PREREPEAL ADMINISTRATIVE PROBLEM

Section 2 of the act of November 23, 1921 (42 Stat. 222), provides in part:

"No spirituous liquor shall be imported into the United States, nor shall any permit be granted authorizing the manufacture of any spirituous liquor, save alcohol, until the amount of such liquor now in distilleries or other bonded warehouses shall have been reduced to a quantity that in the opinion of the commissioner will, with liquor that may thereafter be manufactured and imported, be sufficient to supply the current need thereafter for all nonbeverage uses: Provided, That no vinous liquor shall be imported into the United States unless it is made to appear to the Commissioner that vinous liquor for such nonbeverage use produced in the United States is not sufficient to meet such nonbeverage needs. \* \* \*

Pursuant to this provision the Commissioner of Industrial Alcohol has limited domestic production and foreign imports of spirits and wines to the requirements of the nonbeverage market.

In the recent past, however, manufacturers and authorized wholesale dealers in spirits and wines have withheld their stocks from the nonbeverage market in anticipation of the repeal of the eighteenth amendment. In the case of manufacturers and dealers in whisky this withholding has taken the form of a rise in price from approximately \$30 a case to approximately \$75 a case. The chief purpose of this withholding appears to be a desire to use the whisky withheld for blending and rectifying with neutral spirits for sale in the post-repeal market.

The question arises as to what administrative policy within the statutory discretion of the Commissioner of Industrial Alcohol should be followed prior to repeal relative to (a) the domestic manufacture of spirits and wines and (b) the importation of spirits and wines.

The determination of the limits of the Commissioner's discretion as set forth in the above quoted section depends upon interpretation adopted of the words "sufficient to supply the current need thereafter for all nonbeverage uses."

If the standard set up by this provision is interpreted to refer to actual supplies of alcoholic beverages within the United States, relatively few permits for manufacture or importation can be issued, because there is a temporarily sufficient quantity of wines and spirits now in this country to supply the nonbeverage market.

If on the other hand the standard set up by this provision is interpreted to refer to the actual offerings of wines and spirits in the nonbeverage market, substantial increases in the supply of domestic and/or imported wines and spirits could be authorized because, as has been already stated, the supplies of wines and spirits now in this country are being withheld from the nonbeverage market.

If this latter interpretation were adopted, authorized increases could be far beyond the actual nonbeverage needs, because the increased stocks would not in fact be offered in the nonbeverage market until beverage stocks for the post-repeal market has been materially built up.

The application of the latter interpretation in relation to permits for either domestic manufacture or foreign import, or both, would make it possible for the administration to permit a reasonable preparation for the post-repeal market.

#### PART VI. THE POST-REPEAL IMPORT PROBLEM

As has already been pointed out in this report (part II) there will be an initial substantial post-repeal market for foreign aged whiskies, good gins and the better wines and a less substantial, but nevertheless important market for foreign brandy, rum, and the better liquors and cordials. On the other hand, domestic production capacity will be able to supply the domestic demand for the basic alcoholic beverages. The determination of the resulting post-repeal import problem appears to involve a consideration of five major factors:

1. The inadequate domestic supply of certain alcoholic beverages and the adequate supply or adequate domestic production capacity of others (chart no. 10).

2. The reasonable protection of the American producer and the consequent protection of a substantial market for the American grain farmer.

3. The prevention of smuggling by the adoption of rates of duty low enough to make that activity unprofitable.

4. Revenue.

5. The obtaining of reciprocal trade advantages in foreign markets for American exports in return for a share of this new import market.

The first four factors do not require further elaboration except to note that the present rates of duty were imposed in the prohibition period and are roughly double the rates which were last in effect in the pre-prohibition period (chart no. 1). They cannot be said to bear any relation to the cost of production of the corresponding domestic beverages (chart no. 2).

The fifth factor, however, requires further consideration.

The growing competition for world markets has caused many countries to adopt stringent trade regulations, a large number of which discriminate against American exports. The prospective reopening of a new American market for imported alcoholic beverages offers an opportunity for the adoption of a system of import control which can be used in trade negotiations with foreign countries looking to the adjustment of these discriminations in return for a share of that market. This possibility has been urged by the Departments of State, Agriculture, and Commerce and by the Agricultural Adjustment Administration.

In order to place the Administration in a favorable bargaining position to take advantage of this opportunity, it becomes necessary to consider the means by which the control of imports may be placed substantially within executive discretion. It also becomes necessary to take measures to prevent substantial importation prior to the conclusion of bargaining agreements with the exporting countries involved. As has already been pointed out the initial alcoholic beverage market will be the most substantial, and, therefore, the most desirable from the point of view of the exporting countries. If, therefore, an effective bargaining position is to be maintained this market must be preserved intact until those countries have agreed to reciprocal favors in return for a share of it.

In general import control measures for bargaining purposes may be classified as those designed to effectuate

(a) Volume control, e.g., tariff duties.

(b) Origin control, e.g., tariff classifications.

(c) Volume and origin control, e.g., import quota and licensing provisions.

This bargaining process may be divided into three phases:

1. The pre-repeal period. While time is perhaps too short to conclude substantial agreements in this period the flexible permit powers of the Commissioner of Industrial Alcohol discussed in Part V of this report is available to the Administration for that purpose.

2. The period between repeal and the adoption of a permanent tariff regime by legislative action. Import control in this period may be effectuated by trade agreements and the licensing powers of the Secretary of Agriculture under section 8 of the Agricultural Adjustment Act. By section 8 (3) of that act the Secretary has power:

"To issue licenses permitting processors \* \* \* and others to engage in the handling in the current of \* \* \* foreign commerce of any agricultural commodity or product thereof."

3. The permanent régime. Import control in this period could be established by the enactment by Congress of a flexible tariff, a classification system or quota or licensing provisions or a combination of two or more of these plans.

In addition to the licensing power of the Secretary of Agriculture as a means of import control in the period between repeal and the adoption of a permanent régime the committee has considered the possibility of the employment of two other means of import control. These are:

1. The continuation of the present import-permit system. The continued local effectiveness of the present import system after the repeal of the eighteenth amendment, however, is open to considerable doubt. There is, therefore, a practical danger that its continued enforcement might be enjoined by the courts. A statement of the legal reasoning leading to this conclusion appears in appendix B to this report.

2. The agreement and licensing provisions of section 4 of the National Recovery Act. The President's licensing powers under this section, however, cannot be exercised in anticipation of the influx of foreign alcoholic beverages. He can only act after public notice and hearing and when he finds as a fact that "activities contrary to the policy of this title are being practiced."

Finally it should be noted that any system of reciprocal trade favors involves a consideration not only of the favors received but of the needs of the domestic producer. On the one hand an import control system calculated primarily to protect the domestic producer and the farmer who supplies his war material will so lessen the potential American market for the imported product as to materially lessen the favors obtainable from exporting countries. On the other hand a system calculated to make the American market more attractive to export countries will, of course, afford less protection to the domestic producer and the domestic grain farmer.

It is perhaps possible in considerable measure to reconcile the resulting conflicting interests by adopting a more liberal bargaining position with regard to those alcoholic beverages which the domestic producer cannot supply and a more restrictive position with regard to those which the domestic producer can supply. (See Part II of this report.) Moreover the present rates of duty on alcoholic beverages are so far out of line with domestic costs of production as to afford a substantial bargaining range (chart no. 9).

#### CONCLUSION

The Federal Government will be in a position to make the transition from prohibition to repeal with a surprisingly small shock. There will be effective statutes imposing taxes and import duties on alcoholic beverages and effective administrative statutes to enable these taxes to be collected on legally manufactured alcoholic beverages. The so-called prohibition legislation will automatically cease to be in effect. There exists an effective means of controlling the volume and origin of imported alcoholic beverages. While the administrative machinery of tax collection will be pressed to secure a trained personnel to make it function, the nucleus of such a personnel is available and can probably be expanded rapidly enough to keep pace with the expansion of the liquor industry. While many changes in the system will be desirable in the light of the changed legal status of alcoholic beverages, in general the system will work well enough until Congress can overhaul it at the next regular session.

In the meantime it is desirable that the immediate prerepeal administrative policy to be pursued relative to the issuance of permits for the domestic manufacture and foreign importation of alcoholic beverages in preparation for the postrepeal market be decided.

In addition it is desirable that administrative recommendations be considered and formulated relative to the following:

1. The post-repeal import policy and the mechanics and rates of duty best calculated to effectuate that policy.
2. The rates of excise tax on all alcoholic beverages and on pure alcohol used for commercial purposes.
3. The most effective means to eliminate the illegal liquor industry, including the most effective means:
  - (a) To control sales of illegal liquor in the legitimate market;
  - (b) To control the rectification and blending process;
  - (c) To assure reasonable supplies of legal alcoholic beverages at prices with which the illegal product cannot compete.
4. The coordination of State and Federal taxation of alcoholic beverages.
5. The necessary changes in the administrative machinery of taxation and supervision of alcoholic beverages to meet their change in status.

Respectfully submitted.

Edward G. Lowry, Special Assistant to the Secretary, Treasury Department; J. M. Doran, Commissioner of Industrial Alcohol, Treasury Department; D. Spencer Bliss, head of the Sales Tax Division, Miscellaneous Tax Unit, Bureau of Internal Revenue, Treasury Department; J. D. Nevius, general counsel, Customs, Treasury Department; Herbert Fels, economic adviser of the State Department; John C. Wilen, counselor of embassy; Harry L. Lourie, chief economic analyst, Tariff Commission; South Trimble, Jr., Solicitor of the Department of Commerce; William L. Thorp, Director of the Bureau of Foreign and Domestic Commerce, Department of Commerce; W. A. Tarver, chief counsel, Division of Investigation, Department of Justice (unit of Prohibition); Harris E. Willingham, chief, beverages section, Agricultural Adjustment Administration, Department of Agriculture.

DEPARTMENT OF STATE,  
OFFICE OF THE ECONOMIC ADVISER,  
October 28, 1933.

In signing, the representatives of the State Department understand that this report does not contain or forecast the committee's recommendations, but is intended to be only a statement of fact. The recommendations of the committee will appear in a supplementary report.

In consenting to the employment of the term "import control" on page 24 we understand this phrase to be used in the sense of "regulation" and to have a general meaning inclusive of all types of Government law or action that might influence the terms on which imports may enter.

Further, in particular reference to pages 24 and 25, we understand that this report in its present form is solely for confidential governmental use.

Lastly, in reference to the analysis contained on page 27 of some of the considerations bearing upon the reciprocal tariff policy, we believe that note might also be taken in the analysis of the immediate need of our main agricultural interests for the restoration of foreign outlets and secondly, of the desire of the consumer to secure various foreign wines and spirits at a not unreasonable price. It is our view that as a matter of fact, there is no conflict of interest between the agrarian interests of this country and a policy permitting reasonable imports of foreign wines and spirits; it is our view rather that there is a harmony of interest.

HERBERT FEIS.  
JOHN C. WILEN.

TREASURY DEPARTMENT,  
OFFICE OF THE SECRETARY,  
SECTION OF FINANCIAL AND ECONOMIC RESEARCH,  
Washington, September 20, 1933.

Memorandum to Mr. DOUGLAS,  
*Director of the Budget.*

Subject: Estimated revenue from taxes on distilled spirits and wines during the calendar year 1934.

The attached report presents an analysis of the important factors affecting the consumption of distilled spirits and wines during the calendar year 1934, assuming that repeal of prohibition will be effective on or before January 1, 1934.

In the following tabulation estimates are shown of probable revenue from distilled spirits at a constant import duty and variable rates of excise tax. The estimate of revenue from wines is based on import duties and excise taxes effective at the present time. Estimates of revenue from wines at variable rates of duty and tax are not included for these would be dependent on the rate of tax on distilled spirits as well as the rate of tax on wines.

*Estimated revenue from distilled spirits and wines at variable rates of tax, calendar year 1934*

Distilled spirits					Wines		Distilled spirits and wines. Estimated total revenue (million dollars)
Tax rates per proof gallon		Estimated revenue (million dollars)			Estimated revenue (million dollars) <sup>1</sup>		
Import	Excise	Customs	Internal revenue	Total	Customs	Internal revenue	
\$5.00	\$1.10	100	116	216	23.6	6.7	246.3
5.00	1.50	97	140	237	-----	-----	-----
5.00	2.00	95	170	265	-----	-----	-----
5.00	3.00	88	218	306	-----	-----	-----
5.00	4.00	84	263	347	-----	-----	-----
5.00	5.00	81	300	387	-----	-----	-----

<sup>1</sup> At present rates.

ESTIMATED REVENUE FROM TAXES ON DISTILLED SPIRITS AND WINES

During the calendar year 1934 it is estimated that import duties and excise taxes on distilled spirits and wines should provide approximately \$246,000,000 of revenue under prevailing rates of duties and taxes, distributed as follows:

	<i>Million dollars</i>
Customs:	
Distilled spirits.....	100.0
Wines.....	23.6
Internal revenue:	
Distilled spirits.....	116.0
Wines.....	6.7
<b>Total</b> .....	<b>246.3</b>

In addition about \$6,000,000 may be obtained from special taxes and license taxes.

In deriving the above estimates, the following import duties and excise taxes, effective under present laws, were applied:

	Import duty per gallon <sup>1</sup>	Excise tax per gallon
Distilled spirits.....	\$5.00	\$1.10
Still wines.....	1.25	
14 percent alcohol or less.....		.01
Over 14 percent to 21 percent alcohol.....		.10
Over 21 percent to 25 percent alcohol.....		.25
Champagne and sparkling wine.....	6.00	2.12
Artificially carbonated wine.....		2.06
Sweet wine fortified with grape brandy.....		2.06

<sup>1</sup> In addition to excise tax.

<sup>2</sup> Per half pint.

#### METHOD OF ESTIMATE

*Distilled spirits.*—Prior to 1907 distilled spirits in this country were taxed at \$1.10 per gallon and therefore no experience was available showing the effect of varying rates of tax on consumption. There was, however, a marked variation in per capita consumption with changes in general business conditions, and this movement varied from 1.50 gallons in prosperous years to 1 gallon in years of depression. The experience in the United States is shown in table 1.

In order to estimate the effect of varying tax rates on domestic consumption an analysis was made of the experience in the United Kingdom and in Canada where varying rates of tax have been in effect. The United Kingdom has increased the tax on distilled spirits at different times from \$2.02 in 1914 to \$12.88 in 1922 per United States proof gallon. As shown in table 2, the consumption was reduced as the rate of tax increased, but the revenue was greatly increased due to the inelastic demand for this product. The same type line of relationship between tax rates and per capita consumption was applied to derive the expected experience in this country, although at a somewhat higher level to allow for a higher rate of consumption for a given rate of tax as shown by preprohibition experience. From this line of relationship estimates of consumption were derived for periods of prosperity and depression and are presented in the following tabulation. The depression series is used as the basis for estimating probable consumption in 1934.

*Estimated revenue from the consumption of distilled spirits at various tax rates*

#### HIGH BUSINESS ACTIVITY

Tax rate per gallon	Per capita consump- tion (gal.)	Estimated population (millions)	Total con- sumption (mil. gal.)	Revenue (million dollars)
\$1.10	1.50	120	180	208
1.50	1.32	-----	160	248
2.00	1.17	-----	147	294
2.50	1.07	-----	135	337
3.00	.99	-----	125	375
3.50	.93	-----	117	409
4.00	.88	-----	111	444
5.00	.80	-----	101	505
6.00	.74	-----	93	558

*Estimated revenue from the consumption of distilled spirits at various tax rates—Con.*

LOW BUSINESS ACTIVITY (BASIS OF 1934 ESTIMATES)

\$1.10	1.02	126	129	142
1.50	.90	-----	113	170
2.00	.80	-----	101	202
2.50	.73	-----	92	230
3.00	.67	-----	84	252
3.50	.63	-----	79	277
4.00	.60	-----	76	308
5.00	.54	-----	68	340
6.00	.50	-----	63	378

The above schedules indicate a reduction in consumption and increase in revenue as tax rates increase. As prices increase only the higher income groups could continue to consume the same quantity while the lower income groups would consume less of the legalized product and increase their consumption of wines and illegal liquor. At high tax rates it is probable that the Government would obtain the revenue indicated but it is also probable that the sale of illegal spirits in the lower income groups would be stimulated.

These estimates assume that a supply of domestically distilled spirits of preprohibition quality sufficient to meet the demand would be available and that the same methods of distribution and drinking customs would apply. During the first year of repeal the supply of good quality domestic spirits would be limited and a sizeable volume of imported whisky will be necessary for blending and for direct sale. Because of this situation an estimate of consumption is difficult. If no supply were available in this country it is possible that about 63,000,000 gallons would be imported at a tax of \$6.10 per gallon (\$5 import duty plus \$1.10 excise tax). However, the competition offered by the lower priced domestic product would reduce this amount and after discussing the matter with Dr. Doran it is estimated that about 20,000,000 gallons will be imported during 1934. The higher priced foreign product will increase the average price of all distilled spirits sold which together with possible restrictive methods of sale and changed drinking customs should lower the per capita consumption as compared with the preprohibition rate. It is therefore estimated that in 1934 approximately 105,000,000 gallons of distilled spirits will be consumed providing \$216,000,000 of revenue. The estimate in detail is shown below.

*Estimated revenue from the consumption of distilled spirits in the calendar year 1934*

Excise tax.....	per gallon.....	\$1.10
Import duty.....	do.....	\$5.00
Per capita consumption.....	gallon.....	0.83
Population.....	million.....	126
Total consumption.....	million gallons.....	105
Imports.....	do.....	20
Consumption of domestic product.....	do.....	85
Revenue from import duty.....		\$100,000,000
Revenue from excise on imports.....		\$22,000,000
Revenue from excise on domestic product.....		\$94,000,000
Total revenue.....		\$216,000,000

*Wine.*—A similar type of analysis was applied in estimating the probable revenue from the consumption of wines during 1934. Prior to 1934 domestic wines were not taxed and imported wines subject to import duties, formed a small proportion of the total consumption. The experience within this country is too limited to provide a basis for determining the effect of variable tax rates on consumption. As in the case of distilled spirits the experience in the United Kingdom was examined and showed that wine consumption varies with business conditions, the tax on distilled spirits and the tax on wines. With uniform business conditions the consumption of wine in the United Kingdom increased materially as the tax on distilled spirits increased and declined moderately as the tax on wines was increased. It is probable that under similar conditions in this country a similar result will obtain.

At present the taxes on domestic wines are the same as those operative under the 1916 Revenue Act, and are relatively low. The duties on foreign wines

were greatly increased by the Tariff Act of 1922 and amount to \$6 per gallon on champagne and sparkling wines and \$1.25 per gallon on still wines.

It is estimated that about 49,000,000 gallons of wine will be consumed in 1934. If a sufficient volume of good quality domestic wines were available imports would be relatively small but it is probable that not more than 34,000,000 gallons of domestic wines will be consumed, requiring about 15,000,000 gallons of foreign wines despite the high rates of duty. It is estimated that this amount will consist of 14,000,000 gallons of still wines and 1,000,000 gallons of champagne and sparkling wines. The following tabulation presents the estimate in detail and table 3 presents the past experience in the United States.

*Estimated revenue from the consumption of wines in 1934*

Per capita consumption.....	gallons.....	0.39
Population.....	million.....	126
Total consumption.....	million gallons.....	49
Consumption of domestic wines.....	do.....	34
Consumption of imported wines.....	do.....	15
Revenue from imports.....	million.....	\$23.6
Revenue from excise taxes.....	do.....	\$6.7
Total revenue.....	do.....	\$30.3

*License taxes.*—There is no basis for estimating the revenue from the manufacture sale of distilled spirits and wines inasmuch as the methods of distribution may vary from the practice during preprohibition years. The revenue from license duties in 1914 approximated \$6,000,000 and may be used as a rough approximation of potential revenue in 1934.

*General comment.*—It should be noted that the method of estimate explained in this report is similar to that used in estimating the revenue from beer. For each product the experience in the United Kingdom was used as a basis for estimating probable consumption at varying tax rates. Although the Treasury's beer estimate was criticised as being too low, experience thus far indicates that actual collections should closely approximate the estimate.

TABLE 1.—Distilled spirits United States tax rates, taxable consumption and revenue

Fiscal year ending June 30	Tax per proof gallon	Import duty per proof gallon	Imported for consump- tion (thous- and proof gallons)	Total consump- tion (thous- and proof gallons)	Per capita consump- tion (proof gallon)	Receipts (thousands of dollars)		
						Customs	Internal revenue	Total
1891.....	\$0.90	\$2.50	1,603	91,158	1.43	3,438	76,574	80,012
1892.....	.90	2.50	1,180	97,302	1.49	2,949	85,546	88,495
1893.....	.90	2.50	1,397	101,288	1.52	3,184	89,240	92,424
1894.....	.90	2.50	1,064	90,541	1.34	2,448	79,913	82,361
1895.....	1.10	1.80	1,497	78,655	1.14	2,504	74,839	77,343
1896.....	1.10	1.80	1,542	70,726	1.01	2,625	75,329	77,954
1897.....	1.10	1.80	2,231	73,030	1.02	4,013	78,970	80,983
1898.....	1.10	2.25	810	81,594	1.12	1,927	87,777	89,704
1899.....	1.10	2.25	1,388	87,433	1.18	3,031	93,556	96,587
1900.....	1.10	2.25	1,705	97,357	1.28	3,727	104,395	108,122
1901.....	1.10	2.25	1,941	103,455	1.31	4,186	110,876	115,062
1902.....	1.10	2.25	2,182	107,726	1.34	4,671	115,305	119,976
1903.....	1.10	2.25	2,439	117,670	1.43	5,164	125,890	131,054
1904.....	1.10	2.25	2,056	121,087	1.45	5,577	129,617	135,194
1905.....	1.10	2.25	2,730	120,870	1.42	6,737	128,573	135,311
1906.....	1.10	2.25	3,108	127,862	1.47	6,556	137,067	143,624
1907.....	1.10	2.25	3,782	140,084	1.53	7,917	150,064	157,981
1908.....	1.10	2.25	3,758	125,379	1.39	7,687	133,919	141,606
1909.....	1.10	2.25	4,396	121,130	1.32	8,808	128,665	137,473
1910.....	1.10	2.60	4,341	133,139	1.42	9,110	141,990	151,100
1911.....	1.10	2.60	3,837	138,580	1.40	9,093	148,588	157,681
1912.....	1.10	2.60	3,545	139,496	1.44	8,942	149,934	158,876
1913.....	1.10	2.60	4,122	147,740	1.50	10,470	158,069	168,539
1914.....	1.10	2.60	4,221	143,447	1.43	10,780	153,546	164,326
1915.....	1.10	2.60	2,952	127,169	1.25	7,637	137,155	144,792
1916.....	1.10	2.60	3,721	139,974	1.35	9,078	150,526	160,304
1917.....	1.10	2.60	3,060	167,740	1.60	7,946	182,124	190,070
1918.....	3.20	2.60	1,250	93,860	.88	3,758	186,266	190,024
1919.....	6.40	2.60	601	85,106	.79	1,004	302,965	304,024

<sup>1</sup> Other than license duties.

<sup>2</sup> In addition to internal revenue tax.

TABLE 2.—Distilled spirits; United Kingdom tax rates, taxable consumption, and revenue

Year ending Mar. 31st	In British units			In United States units			
	Tax per British proof gallon	Quantity retained for consumption Th. British proof gallon <sup>1</sup>	Net receipts <sup>4</sup> Th. £	Tax per British proof gallon <sup>2</sup>	Tax per U.S. proof gallon <sup>3</sup>	Per capita consumption U.S. proof gallon <sup>5</sup>	Average receipts per U.S. proof gallon <sup>6</sup>
1912.....	14 9	30,877	22,727	\$3,589	\$2.62	0.93	\$2.615
1913.....	14 9	30,735	22,599	3,589	2.62	.92	2.611
1914.....	14 9	32,596	23,975	3,589	2.62	.97	2.611
1915.....	14 9	34,345	25,275	3,589	2.62	1.01	2.615
1916.....	14 9	35,588	26,834	3,589	2.62	1.05	2.679
1917.....	14 9	23,996	18,015	3,589	2.62	.71	2.668
1918.....	14 9	14,681	10,596	3,589	2.62	.42	2.565
1919.....	30 0	15,591	24,242	7,300	5.33	.47	5.521
1920.....	50 0	24,267	58,803	12,167	8.88	.73	8.612
1921.....	72 6	20,162	71,035	17,641	12.88	.59	12.470
1922.....	72 6	17,664	62,831	17,641	12.88	.51	12.612
1923.....	72 6	15,162	53,667	17,641	12.88	.47	12.576
1924.....	72 6	15,293	54,037	17,641	12.88	.47	12.541
1925.....	72 6	14,501	51,054	17,641	12.88	.44	12.505
1926.....	72 6	14,188	49,928	17,641	12.88	.44	12.505
1927.....	72 6	12,454	43,553	17,641	12.88	.38	12.434
1928.....	72 6	13,500	47,368	17,641	12.88	.41	12.434
1929.....	72 6	13,031	45,667	17,641	12.88	.40	12.434
1930.....	72 6	12,225	42,599	17,641	12.88	.37	12.363
1931.....	72 6	11,669	40,639	17,641	12.88	.34	12.363
1932.....	72 6	10,117	34,926	17,641	12.88	.30	12.256

<sup>1</sup> Includes customs and excise.  
<sup>2</sup> Converted at rate: 1 £ = \$4.8666.  
<sup>3</sup> Converted at rate: 1 British proof gal. = 1.3698 U.S. proof gallon.  
<sup>4</sup> From Apr. 23, 1918.  
<sup>5</sup> From May 1, 1919.  
<sup>6</sup> From Apr. 20, 1920.

TABLE 3.—Wines—United States consumption and revenue

Fiscal year ending June 30	Imported for consumption (thousands of gallons)	Total consumption (thousands of gallons)	Per capita consumption (gallons)	Receipts (thousands of dollars)		
				Customs	Internal revenue	Total
1891.....	5,347	29,083	0.46	5,148	.....	.....
1892.....	5,231	28,265	.43	5,059	.....	.....
1893.....	5,245	31,636	.48	5,144	.....	.....
1894.....	3,842	21,883	.32	3,706	.....	.....
1895.....	4,275	20,804	.30	3,698	.....	.....
1896.....	4,102	18,701	.27	3,463	.....	.....
1897.....	4,331	35,271	.53	3,376	.....	.....
1898.....	3,114	20,568	.28	3,195	.....	.....
1899.....	3,525	26,300	.35	3,241	.....	.....
1900.....	3,746	29,968	.39	3,816	.....	.....
1901.....	4,388	28,397	.36	3,981	.....	.....
1902.....	5,020	49,764	.61	4,492	.....	.....
1903.....	5,605	38,239	.47	4,933	.....	.....
1904.....	5,772	43,311	.52	4,829	.....	.....
1905.....	5,690	35,060	.41	5,040	.....	.....
1906.....	6,638	46,485	.53	5,465	.....	.....
1907.....	7,660	57,739	.65	6,042	.....	.....
1908.....	7,700	52,122	.68	5,185	.....	.....
1909.....	8,170	61,780	.67	5,050	.....	.....
1910.....	9,884	60,648	.65	6,462	.....	.....
1911.....	7,204	63,859	.67	5,495	.....	.....
1912.....	5,805	56,425	.58	5,809	.....	.....
1913.....	6,044	55,327	.56	6,284	.....	.....
1914.....	7,445	52,418	.52	6,509	.....	.....
1915.....	5,656	32,912	.32	4,505	2,307	6,812
1916.....	5,358	47,687	.46	4,825	2,632	7,457
1917.....	5,083	42,723	.41	4,758	5,164	9,922
1918.....	3,334	51,698	.48	2,976	9,124	12,100
1919.....	1,964	54,273	.50	1,437	11,474	12,911

## APPENDIX A

## MEMORANDUM RELATING TO THE EFFECT OF THE REPEAL OF THE EIGHTEENTH AMENDMENT ON EXISTING FEDERAL STATUTES

With the repeal of the Eighteenth Amendment the question will arise as to what Federal statutes relating to the taxation and control of alcoholic beverages will continue in force and effect. In seeking the answer to this question certain general conclusions appear to be free from serious doubt.

First: All statutes imposing excise, import, or miscellaneous taxes upon alcoholic beverages or the liquor industry, will remain in effect. An elaborate system of liquor taxation was in effect prior to the adoption of the Eighteenth Amendment. It remained in effect and was actively administered and amended during the prohibition period as a purely revenue matter. It will clearly remain in effect in the post-prohibition period.

On the other hand, certain so-called "taxes" which have been held to be penalties for violation of the prohibition legislation will not remain in effect. *Lipke v. Lederer*, 250 U.S. 477. These so-called taxes are:

1. The double tax for illegal manufacture of alcoholic beverages. (Sec. 35, title 2, National Prohibition Act.)
2. The \$6.40 tax for diversion to beverage purposes. (Sec. 900 of the Revenue Act of 1926.)

Pursuant to these principles the excise, import, and miscellaneous tax rates shown on chart no. 12 will remain in force after the repeal of the Eighteenth Amendment. The statute imposing each rate shown is indicated in a footnote on the chart.

Some doubt has existed as to whether the excise rate of \$1.10 for distilled spirits as shown on this chart is correct.

Supplement 6, Code of Laws of the United States, title 26, section 1150 (Revenue Act 1926, sec. 900), provides as follows:

"(1) *Distilled spirits generally.*—There shall be levied and collected on all distilled spirits produced in or imported into the United States an internal revenue tax at the rate of \$1.10 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon, to be paid by the distiller or importer when withdrawn from bond.

"(2) *Distilled spirits for beverage purposes.*—On all distilled spirits which are diverted to beverage purposes or for use in the manufacture or production of any article used or intended for use as a beverage there shall be levied and collected a tax of \$6.40 on each proof gallon or wine gallon when below proof, and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon, to be paid by the person responsible for such diversion. \* \* \*

It has been held in *Regal Drug Co. v. Wardell*, 260 U.S. 386, that subsection (2) above quoted constitutes a penalty and not a tax. As a penalty it would appear to be repealed when the thing which it penalizes is no longer illegal, and that view has been adopted in this report.

Second: All Federal statutes relative to the administration of the taxing statutes will remain in effect.

Pursuant to this principle in addition to the foregoing specific rates of tax the following administrative and enforcement provisions contained in Code of Laws, supplement 6, title 26, will remain in effect for the purpose of administering and enforcing the collection of the taxes thus imposed.

Chapter 18, liquor; chapter 19, occupational taxes; chapter 20, provisions common to miscellaneous taxes; chapter 21, information and return; chapter 22, assessments; chapter 23, collections; and chapter 24, abatements, credits, and refunds.

Third: Statutes relating to alcoholic beverages enacted prior to the adoption of the eighteenth amendment by virtue of some other legislative power of Congress will remain in effect except to the extent that their provisions may be in direct conflict with the National Prohibition Act, as amended.

Section 5 of the Willis-Campbell Act of November 23, 1921, provides in part:

"All laws in regard to the manufacture and taxation of and traffic in intoxicating liquor, and all penalties for violations of such laws that were in force when the National Prohibition Act was enacted, shall be and continue in force, as to both beverage and nonbeverage liquor, except such provisions of such laws as are directly in conflict with any provisions of the National Prohibition Act or this act \* \* \*."

This provision reenacts pro tanto provisions of any prior legislation repealed by the provision of section 359, title II, of the National Prohibition Act, that—  
 "All provisions of law that are inconsistent with this act are repealed only to the extent of such inconsistency." (*U.S. v. Stafford*, 260 U.S. 477.)

Pursuant to this principle statutes relating to alcoholic beverages which will thus remain in force are:

1. Various acts relative to the sale of alcoholic beverages at Army posts, cantons, military camps, on naval vessels, in Indian Territory, at immigration stations, and to aboriginal natives in the Pacific Islands.

2. Various acts relative to the labeling, delivery, and mailing of packages of alcoholic beverages.

3. Various acts relative to the shipment of alcoholic beverages into dry States. Because these acts will be important in carrying out the provisions of section 2 of the twenty-first amendment forbidding the transportation or importation of intoxicating liquors into dry States they are here quoted in full:

**The Wilson Original Package Act of August 8, 1890:**

"All fermented, distilled, or other intoxicating liquors or liquids transported into any State or Territory or remaining therein for use, consumption, sale, or storage therein, shall upon arrival in such State or Territory be subject to the operation and effect of the laws of such State or Territory enacted in the exercise of its police powers, to the same extent and in the same manner as though such liquids or liquors had been produced in such State or Territory, and shall not be exempt therefrom by reason of being introduced therein in original packages or otherwise."

**The Webb-Kenyon Act of March 1, 1913:**

"The shipment or transportation, in any manner or by any means whatsoever, or any spirituous, vinous, malted, fermented, or other intoxicating liquor of any kind, from one State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, into any other State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, or from any foreign country into any State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, which said spirituous, vinous, malted, fermented, or other intoxicating liquor is intended, by any person interested therein, to be received, possessed, sold, or in any manner used either in the original package or otherwise, in violation of any law of such State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, is hereby prohibited."

**The Reed bone-dry amendment of March 3, 1917:**

"Whoever shall order, purchase, or cause intoxicating liquors to be transported in interstate commerce, except for scientific, sacramental, medicinal, and mechanical purposes, into any State or Territory the laws of which State or Territory prohibit the manufacture or sale therein of intoxicating liquors for beverage purposes shall be fined not more than \$1,000 or imprisoned not more than 6 months, or both: *Provided*, That nothing herein shall authorize the shipment of liquor into any State contrary to the laws of such State: *Provided, further*, That the provisions of this section are made applicable to the District of Columbia."

In addition to the provision of the Reed bone-dry amendment above quoted, that amendment originally contained the following further provisions:

"That no letter, postal card, circular, newspaper, pamphlet, or publication of any kind containing any advertisement of spirituous, vinous, malted, fermented, or other intoxicating liquors of any kind, or containing a solicitation of an order or orders for said liquors or any of them, shall be deposited in or carried by the mails of the United States, or be delivered by any postmaster or letter carrier, when addressed or directed to any person, firm, or corporation or association, or other addressee at any place or point in any State or Territory of the United States at which it is by the law in force in the State or Territory at that time unlawful to advertise or solicit orders for such liquors or any of them respectively."

This provision was amended by an act of October 3, 1917, making further extensions relating to ethyl alcohol for governmental, scientific, medicinal, mechanical, manufacturing, and industrial purposes and mail orders by ordained ministers ordering wines for sacramental purposes.

The question as to whether this provision as amended relating to advertising is now in force and effect is being considered by the Attorney General's office. The compilers of Supplement 6 of the Code of Laws have left it out, presumably as being no longer in effect, but no indication of any grounds for such an assumption is given, nor do any reasons suggest themselves.

The effect of the repeal of the eighteenth amendment upon the manufacture, transportation, and sale of alcoholic beverages in the District of Columbia, Alaska, Hawaii, the Virgin Islands, the Canal Zone, Puerto Rico, and the Philippine Islands will be considered under another heading of this report. The effect of repeal therefore upon statutes enacted prior to the adoption of the eighteenth amendment relative to alcoholic beverages in these Territories will not be discussed at this point.

Fourth: The problem to be considered, therefore, is here narrowed down to the effect of the repeal of the eighteenth amendment on the following statutes:

The National Prohibition Act of October 28, 1919; the act supplemental to the National Prohibition Act of November 23, 1921; the Jones-Stalker Act of March 2, 1929 (the "five and ten" law); the Willis-Campbell Act of January 15, 1931, prescribing minor penalties for minor prohibition violations; the rider to the Treasury appropriation act of June 30, 1933, relative to the concentration of spirits; the acts of March 3, 1927, and May 27, 1930, relative to the creation of various prohibition enforcement bureaus within the Treasury and the Department of Justice; Tariff Act of 1930, paragraph 814, relative to imports of alcoholic beverages; the Beer Act of March 22, 1933 (except sec. 1 relative to taxation), the act of March 31, 1933, liberalizing prescriptions.

Substantial portions of this so-called prohibition legislation could have been enacted by Congress without the authority of the eighteenth amendment. Thus similar legislation relative to permits for manufacture, transportation, and sale has been enacted relative to narcotics and oleomargarine under the power to protect the revenue. Congress could have prevented the entry of foreign alcoholic beverages into this country under its power to regulate interstate and foreign commerce. It could have prevented the interstate transportation of alcoholic beverage under the same power. It could have enacted administrative and penalty provisions reasonably calculated to carry out such permit, import, and transportation provisions.

With the repeal of the eighteenth amendment, therefore, the prohibition legislation will consist of a series of statutes in part constitutional and in part unconstitutional. The present inquiry, therefore, can again be narrowed to the question of the separability of the constitutional from the unconstitutional portions of each statute.

The general principle by which such separability is to be determined has been set forth in several decisions of the Supreme Court. Its application to specific cases, however, is extremely difficult. The principle has been stated as follows:

"It is an elementary principle that the same statute may be in part constitutional and in part unconstitutional, and that if the parts are wholly independent of each other, that which is constitutional may stand while that which is unconstitutional will be rejected. But \* \* \* if they are so mutually connected with and dependent on each other as conditions, considerations, or compensations for each other as to warrant a belief that the legislature intended them as a whole, and that, if all could not be carried into effect, the legislature would not pass the residue independently, and some parts are unconstitutional, all the provisions which are thus dependent, conditional, or connected must fall with them." *Allen v. Louisiana*, 103 U.S. 80, 83.

Such separability is a matter of substantive effect—not a matter of technical drafting.

"As one section of a statute may be repugnant to the Constitution without rendering the whole act void, so, one provision of a section may be invalid by reason of its not conforming to the Constitution, while all the other provisions may be subject to no constitutional infirmity. One part may stand, while another will fall, unless the two are so connected, or dependent on each other in subject matter, meaning, or purpose that the good cannot remain without the bad. The point is not whether the parts are contained in the same section, for, the distribution into sections is purely artificial, but whether they are essentially and inseparably connected in substance—whether the provisions are so

interdependent that one cannot operate without the other." *Loeb v. The Township Trustees*, 179 U.S. 472, 490.

Such separability rests on the intent of the legislature.

"It is undoubtedly true that there may be cases where one part of a statute may be enforced as constitutional, and another be declared inoperative and void because unconstitutional, but these are cases where the parts are so distinctly separable that each can stand alone, and where the Court is able to see, and to declare, that the intention of the legislature was that the part pronounced valid should be enforceable, even though the other part should fail. To hold otherwise would be to substitute for the law intended by the legislature one they may never have been willing by itself to enact \* \* \*." *Poindester v. Greenhow*, 114 U.S. 270, 304.

The inquiry in this report, therefore, may be finally narrowed down to the question of congressional intent. Would Congress have enacted those portions of the statute in question which can be supported on other grounds than the eighteenth amendment; and was it the intention of Congress that such portions "should be enforceable even though the other portions should fail"?

Before attempting to answer that final question one observation should be made. To speak of congressional "intent" with regard to the problem under consideration is a judicial illusion. Congress never had any "intent" with regard to this problem because it never contemplated the possibility of its arising. The determination of that "intent", therefore, is simply a means of reaching a practical result in a novel situation.

In determining the probable intent of Congress the Court will take into consideration the circumstances and purpose of the legislation under scrutiny:

"It is the duty of this Court to give effect to the intent of Congress. Primarily this intent is ascertained by giving the words their natural significance, but if this leads to an unreasonable result plainly at variance with the policy of the legislation as a whole, we must examine the matter further. We may then look to the reason of the enactment, and inquire into its antecedent history and give it effect in accordance with its design and purpose, sacrificing, if necessary, the literal meaning in order that the purpose may not fail." *Ozawa v. United States*, 200 U.S. 178, 194.

"Again, another guide to the meaning of a statute is found in the evil which it is designed to remedy; and for this the Court properly looks at contemporaneous events, the situation as it existed, and as it was pressed upon the attention of the legislative body." *Holy Trinity Church v. U.S.*, 143 U.S. 457, 463.

The Court will seek a practical rather than a technical answer to the problem.

"Moreover it must not be overlooked that this legislation is experimental. Even in construing the terms of a statute, courts must take notice of the history of legislation, and out of different possible constructions, select and apply the one that best comports with the genius of our institutions, and, therefore, most likely to be the construction intended by the law making power \* \* \*." *Texas and Pacific Railway v. Interstate Commerce Commission*, 162 U.S. 197, 218.

The Court will if necessary limit the apparent general scope of the legislation under scrutiny if it determines that such apparent scope is wider than Congress intended.

"\* \* \* It is a familiar rule, that a thing may be within the letter of the statute and yet not within the statute, because not within its spirit, nor within the intention of its makers. \* \* \* This is not the substitution of the will of the Judge for that of the legislator, for frequently words of general meaning are used in the statute, words broad enough to include an act in question, and yet a consideration of the whole legislation, or of the circumstances surrounding its enactment, or of the absurd results which follow from giving such broad meaning to the words makes it unreasonable to believe that the legislator intended to include the particular act. \* \* \*." *Holy Trinity Church v. U.S.*, 143 U.S. 457, 459.

Finally the Court may hold some provisions of these statutes to be separable while others may not be separable. Such partial separation of provisions of the Employers' Liability Act of June 11, 1906, was made in: *Employers' Liability Cases*, 207 U.S. 463; and *El Paso Railroad Company v. Gutierrez*, 215 U.S. 87.

Previous applications of the foregoing principles by the Supreme Court unfortunately afford almost no assistance in determining how it will apply them in the present instance.

A statute forbidding persons or corporations to conduct mixed black and white schools was held to be enforceable as to corporations although unconstitutional as to persons. *Berea College v. Kentucky*, 211 U.S. 45.

A statute regulating gas rates; requiring the maintenance of certain pressure; and imposing certain penalties was held enforceable as to rate provisions and unenforceable as to pressure and penalty provisions. *Wilcox v. Consolidated Gas Company*, 212 U.S. 19.

A Federal statute regulating employers' liability was held not separable as between State and interstate commerce, *Employers' Liability Cases*, *supra*; but was held enforceable as to its application in the Territory of New Mexico. *El Paso Railroad Company v. Gutierrez*, *supra*.

A statute forbidding foreign corporations to do business within a State without a license and from suing in the State Courts until such license was obtained is held to be inseparable as to the license and litigation provisions. *International Text Book Company v. Pigg*, 217 U.S. 91.

A statute regulating pilotage and containing special provisions relative to coasters operating between ports in South Carolina, Georgia, and Florida was held inseparable as to the general and special provisions. *Sprague v. Thompson*, 118 U.S. 90.

A statute restricting the right of negroes to vote on a basis including race, color, and previous condition of servitude was held unenforceable as to the exclusion provisions based on other grounds. *U. S. v. Reese*, 92 U.S. 214.

A statute regulating trade marks in State and interstate commerce was held unenforceable as to the interstate features. *Trade Mark Cases*, 100 U.S. 82.

In the face of this uncertainty the best guide to judicial prophecy would appear to lie in the pronouncements of the Supreme Court that the intention of Congress should be determined in the light of history, common sense, and practicability. The conclusions in this report, therefore, will frankly be based on the assumption that Congress intended (or rather would have intended) the expedient solution of the problem now being considered.

In order to apply this interpretative standard, therefore, it will be necessary to digress for a moment from the problem of law to the problem of expediency. In determining that problem the following factors are presented for consideration:

1. Existing revenue laws appear to afford adequate administrative and enforcement provisions to prevent frauds on the revenue. In fact, prohibition-enforcement officials have almost invariably used the revenue laws as the basis for prosecutions in place of the prohibition laws whenever they could do so.

2. Revenue laws requiring distillers, brewers, rectifiers and blenders, and wholesale and retail dealers in alcoholic beverages either to pay certain Federal taxes or obtain approval of their operating plants before commencing business afford the Bureau of Internal Revenue an adequate means of knowing who is in the legitimate alcoholic-beverage business. This would appear to make the continuation of the permit system of the prohibition acts unnecessary.

3. It is probably desirable to continue the application of the prohibition acts to the District of Columbia until Congress can enact a substitute control measure. The act of March 3, 1917 (39 Stat. 1123), relative to the control of alcoholic beverages in the District of Columbia has been held by the corporation counsel to have been repealed by the National Prohibition Act. If the application of the prohibition acts to the District is held to cease with repeal the District will be "wide open", which is regarded as undesirable. The corporation counsel purposes, therefore, to rule that the prohibition acts remain in effect in the District of Columbia. As a logical corollary to such ruling it should be ruled that the prohibition acts remain in effect in all territories subject to the plenary legislative jurisdiction of Congress.

4. As a purely revenue measure it is desirable that title III of the National Prohibition Act should remain in effect for the purpose of continuing the present supervision over industrial alcohol operations.

5. It is desirable that administrative and penalty provisions of the prohibition acts insofar as they affect title III of the National Prohibition Act should remain in effect for the purpose of administering and enforcing the provision of that title.

6. It is desirable, if only for reasons of popular demand, that all other provisions of the prohibition statutes should cease to be in effect on repeal of the eighteenth amendment.

Having thus established the measure of expediency it remains only to be seen whether that measure can be supported as a matter of law. It is sub-

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mitted that, with the possible exception of the continuation of the import permit system, it probably can.

The entire prohibition code can be held to remain in effect in all territory subject to the plenary legislative jurisdiction of Congress under the authority of *El Paso Railroad Company v. Gutierrez, supra*.

Title III of the National Prohibition Act would appear to be clearly separable in intent, application, and administration from the remainder of the prohibition system.

(a) Its purpose is expressed in section 13, title III of the National Prohibition Act to be—

"to prevent diversion of the alcohol to illegal uses and to place the non-beverage alcohol industry and other industries using such alcohol as a chemical raw material or for other lawful purposes upon the highest possible plane of scientific and commercial efficiency consistent with interests of the Government and which shall insure an ample supply of such alcohol and permit its use in scientific research and the development of fuels, dies, and other lawful production."

(b) It was enacted and took effect prior to the adoption of the eighteenth amendment. (*National Prohibition Act, title III, sec. 21.*)

It would appear to follow that so long as any substantive provisions of the Prohibition Act remain in effect administrative provisions of that act and administrative provisions of supplementary and amendatory acts will remain in effect for the purpose of carrying out those substantive provisions.

It would appear not only possible but entirely reasonable to consider all other provisions of the prohibition statutes as being "so mutually connected with and dependent on each other as conditions, considerations, or compensations for each other as to warrant the belief that the legislature intended them as a whole", and that since some of the parts will become unconstitutional with the repeal of the eighteenth amendment "all the provisions which are thus dependent, conditional or connected must fall with them." (*Allen v. Louisiana, supra.*)

NOTE.—See, however, discussion of continuance of present import permit system discussed in appendix B.

#### APPENDIX B

##### THE CONTINUATION AFTER REPEAL OF THE PRESENT IMPORT PERMIT SYSTEM

The present permit system relating to imports of alcoholic beverages is set forth in section 2 of the act of November 23, 1921 (42 Stat. 222), and paragraph 814 of the Tariff Act of 1930.

The act of November 23, 1921, provides that no import permits shall be granted until available supplies of alcoholic beverages—

"shall have been reduced to a quantity that in the opinion of the Commissioner will with the liquor that may thereafter be manufactured and imported be sufficient to supply the current need thereafter for all nonbeverage purposes."

This act, therefore, makes the import standard the nonbeverage supply of wines and spirits—a standard which becomes absurd with the restoration of a free beverage market. The unwillingness of courts to reach a conclusion which tends to give an unreasonable operation to a Federal statute (see cases in appendix A) makes it not unlikely that after repeal the Court will find this provision "so mutually connected with and dependent on" the prohibition provisions of the statute "as conditions, considerations or compensations for each other as to warrant a belief that the Legislature intended them as a whole", and that since the prohibition provisions will become unconstitutional with the repeal of the eighteenth amendment this particular provision will come within the ruling that "all the provisions which are thus dependent, conditional or connected must fall with them." (*Allen v. Louisiana, 103 U.S. 80, 83.*)

Paragraph 814 of the Tariff Act of 1930 provides in part:

"No wines, spirits, or other liquors shall be imported or permitted entry except on a permit issued thereafter by the Commissioner of Prohibition."

It will be noted that this section does not apply a nonbeverage standard to the measurement of imports and it would, therefore, be not altogether unreasonable to hold that this section is separable from the remainder of the prohibition legislation and enforceable per se.

On the other hand it is perhaps more reasonable to interpret this section as reiterative of section 2 of the act of November 23, 1921, above quoted, in which case it would fall with that section. A recent ruling of the Bureau of Industrial Alcohol that import permits were not required for the importation of 3.2 beer constitutes an administrative assumption that this latter interpretation of this provision is the correct one.

Finally with the repeal of the definite standard set forth in the act of November 23, 1921, which is to guide the commissioner in the granting of import permits, the constitutionality of this section of the Tariff Act is open to grave doubt in view of the fact that it sets no limit upon the exercise of the commissioner's discretion.

The doubt which thus attends the continued enforcement of either or both of these sections after the repeal of the eighteenth amendment is complicated by the practical danger that a court of first instance might enjoin their further enforcement after repeal and thus permit substantial imports pending review by the appellate courts. A number of such injunctions were issued in New Jersey to prevent the enforcement of the permit provisions of the National Prohibition Act with reference to breweries.

CHART No. 1.—Statistical individual summaries relating to beer, spirits, and wines for the years 1900–1933

BEER

Fiscal year ending June 30	Domestic production less exports (millions of gallons)	Imports (millions of gallons)	Total domestic consumption (millions of gallons)	Population in millions	Per capita consumption in gallons	Per capita wealth in hundreds of dollars	Excise rate	Excise receipts in millions	Import duty per gallon	Import receipts in millions	Total excise and import receipts in millions	Per capita tax paid	Total revenue in millions	Excise receipts percent total revenue	Import receipts percent total revenue	Excise and import receipts percent total revenue	Dry States	
1902	1,378	4	1,382	79	17.4	-----	\$0.0516	72		1	73	0.92	526	13.7	0.2	13.9	3	
1903	1,446	4	1,450	81	17.9	-----	\$0.0323	48		1	49	.60	515	9.2	.2	9.4	3	
1904	1,494	5	1,499	83	18.2	13	\$0.0323	49	40 cents per gallon in bottles or jugs, 20 cents per gallon in other coverings.	1	50	.61	494	9.9	.3	10.2	3	
1905	1,533	5	1,538	84	18.3	-----	\$0.0323	50		1	52	.61	496	10.2	.3	10.4	3	
1906	1,694	6	1,700	86	19.8	-----	\$0.0323	56		2	57	.67	549	10.1	.3	10.4	3	
1907	1,815	7	1,822	87	20.9	-----	\$0.0323	60		2	61	.70	602	9.9	.3	10.2	3	
1908	1,821	7	1,828	89	20.5	-----	\$0.0323	60		2	62	.69	538	11.1	.3	11.5	5	
1909	1,743	7	1,750	91	19.3	-----	\$0.0323	57		2	59	.65	547	10.5	.3	10.8	6	
1910	1,842	7	1,849	92	20	-----	\$0.0323	61		2	63	.68	624	9.7	.3	10	6	
1911	1,959	7	1,966	94	21	-----	\$0.0323	64		2	66	.71	637	10.1	.3	10.5	6	
1912	1,925	7	1,932	95	20.3	20	\$0.0323	63		2	65	.69	633	10	.3	10.3	6	
1913	2,022	8	2,030	97	21.0	20	\$0.0323	66		2	68	.71	663	10	.3	10.3	6	
1914	2,049	7	2,056	98	21	20	\$0.0323	67	45 cents per gallon in bottles or jugs, 23 cents per gallon in other coverings plus internal revenue tax.	2	69	.70	672	10	.3	10.3	6	
1915	1,852	3	1,855	99	18.7	20	\$0.0484	79		1	80	.81	625	12.7	.2	12.8	6	
1916	1,815	3	1,818	101	18	25	\$0.0484	89		1	80	.89	726	12.2	.1	12.3	16	
1917	1,882	2	1,884	102	18.4	34	\$0.0484	82		.8	90	.89	726	12.2	.1	12.3	16	
1918	1,555	.7	1,556	104	15.0	39	\$0.0968	126		.7	93	.91	1,035	8.9	.1	8.9	16	
1919	856	.01	856	105	8.2	41	\$0.0968	118		.2	127	1.22	3,882	3.3	.01	3.3	33	
1920										.04	118	1.12	4,034	2.9		2.9	33	
1921																		
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1932																		
1933	383						\$0.1936 (\$0.1613 on 3.2 beer)		\$1 per gallon								29	

Footnotes at end of table, p. 329.

CHART No. 1.—Statistical individual summaries relating to beer, spirits, and wines for the years 1900—1933—Continued

SPIRITS

Fiscal year ending June 30	Domestic production less exports (millions of gallons)	Imports (millions of gallons)	Total domestic consumption (millions of gallons)	Population in millions	Per capita consumption in gallons	Per capita wealth in hundreds of dollars	Excise rate	Excise receipts in millions	Import duty per gallon	Import receipts in millions	Total excise and import receipts in millions	Per capita tax paid	Total revenue in millions	Excise receipts percent total revenue	Import receipts percent total revenue	Excise and import receipts percent total revenue	D States
1900	94	2	96	76	1.3	12	\$1.10	110		4	114	1.49	528	20.8	0.7	21.5	33
1901	100	2	102	78	1.3		\$1.10	116		4	120	1.54	546	21.3	.8	22.0	33
1902	104	2	107	79	1.3		\$1.10	121		5	126	1.58	526	23.0	.9	23.9	33
1903	114	2	116	81	1.4		\$1.10	132	\$2.25 per proof gallon	5	137	1.69	515	25.6	1.0	26.6	33
1904	117	3	120	83	1.5	13	\$1.10	136	full duty, \$1.75 per proof gallon reciprocity duty.	5	141	1.71	494	27.5	1.1	28.6	33
1905	117	3	120	84	1.4		\$1.10	136		6	142	1.68	496	27.4	1.1	28.6	33
1906	124	3	127	86	1.5		\$1.10	143		6	150	1.75	549	26.1	1.2	27.3	33
1907	136	4	139	87	1.6		\$1.10	156		6	164	1.88	602	26.0	1.3	27.3	33
1908	121	4	125	89	1.4		\$1.10	140		8	148	1.66	538	26.1	1.4	27.5	55
1909	116	4	120	91	1.3		\$1.10	135		9	144	1.58	547	24.7	1.6	26.2	66
1910	128	4	133	92	1.4		\$1.10	148		9	157	1.70	624	23.7	1.4	25.2	66
1911	134	4	138	94	1.5		\$1.10	155		9	164	1.75	637	24.4	1.4	25.8	66
1912	136	3	139	95	1.5	20	\$1.10	156		9	165	1.74	633	24.7	1.4	26.1	66
1913	143	4	147	97	1.5	20	\$1.10	164		10	174	1.81	663	24.7	1.6	26.3	66
1914	139	4	143	98	1.5	20	\$1.10	159		11	170	1.74	672	23.7	1.6	25.3	77
1915	124	3	127	99	1.3	20	\$1.10	142	\$2.60 per proof gallon plus internal revenue tax.	8	150	1.51	625	22.8	1.2	24.0	88
1916	136	4	140	101	1.4	25	\$1.10	156		10	166	1.64	726	21.5	1.3	22.8	16
1917	164	3	167	102	1.6	34	\$1.10	187		8	195	1.91	1,035	18.1	.8	18.8	23
1918	90	1	91	104	.9	39	\$2.20 (\$3.20)	308		4	312	3.01	3,882	8.0	.1	8.0	23
1919	84	.2	84	105	.8	41	\$2.20 (\$3.20)	354		.6	354	3.38	4,034	8.8	.02	8.8	23
1920	29	.3	29	107	.3	46	\$2.20 (\$6.40)	93		.7	94	.88	5,731	1.6	.01	1.6	23
1921	36	.3	36	108	.3	29	\$2.20 (\$8.40)	80		.8	81	.75	4,903	1.6	.01	1.7	23
1922	19	.1	19	110	.2	29	\$2.20 (\$6.40)	44		.4	45	.41	3,555	1.2	.01	1.3	23
1923	13	.05	13	112	.1	30	\$2.20 (\$6.40)	29		.1	29	.26	3,184	.9	(?)	.9	23
1924	11	.06	11	113	.1	30	\$2.20 (\$6.40)	26		.2	26	.23	3,341	.8		.8	23
1925	11	.07	11	115	.1	32	\$2.20 (\$6.40)	24		.2	24	.21	3,133	.8		.8	23
1926	11	.07	11	116	.1	31	\$2.20 (\$6.40)	25		.2	25	.21	3,416	.7		.7	23
1927	10	.07	10	118	.1	29	\$1.65 (\$6.40)	20	\$5 per proof gallon (plus excise tax).	.2	21	.17	3,471	.6	.01	.6	23
1928	10	.08	10	120	.1	30	\$1.10 (\$6.40)	14		.3	15	.12	3,359	.4	.01	.4	23
1929	11	.08	11	121	.1	30	\$1.10 (\$6.40)	12		.3	13	.11	3,542	.4	.01	.4	23
1930	10	.06	10	123	.1	27	\$1.10 (\$6.40)	11		.2	12	.09	3,625	.3	.01	.3	23
1931	9	.03	9	124	.1	23	\$1.10 (\$6.40)	10		.2	10	.08	2,807	.4	.01	.4	23
1932	7	.04	7	125		20	\$1.10 (\$6.40)	9		.2	9	.07	1,890	.5	.01	.5	23
1933							\$1.10										23



CHART NUMBER EIGHT

TREND OF CONSUMPTION AND IMPORTATION OF WINE FOR THE YEARS 1900 - 1919

Million  
Gallons

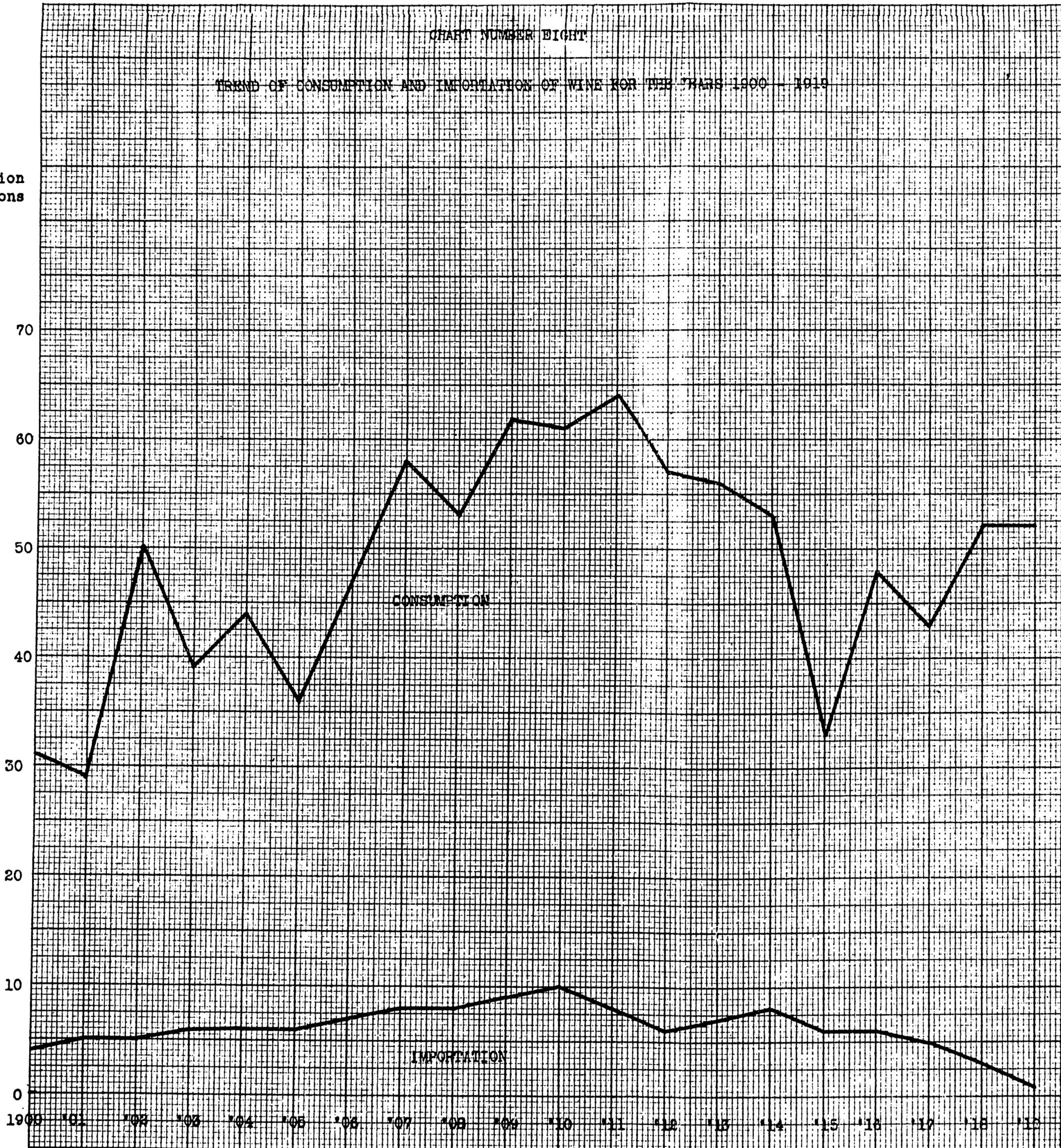
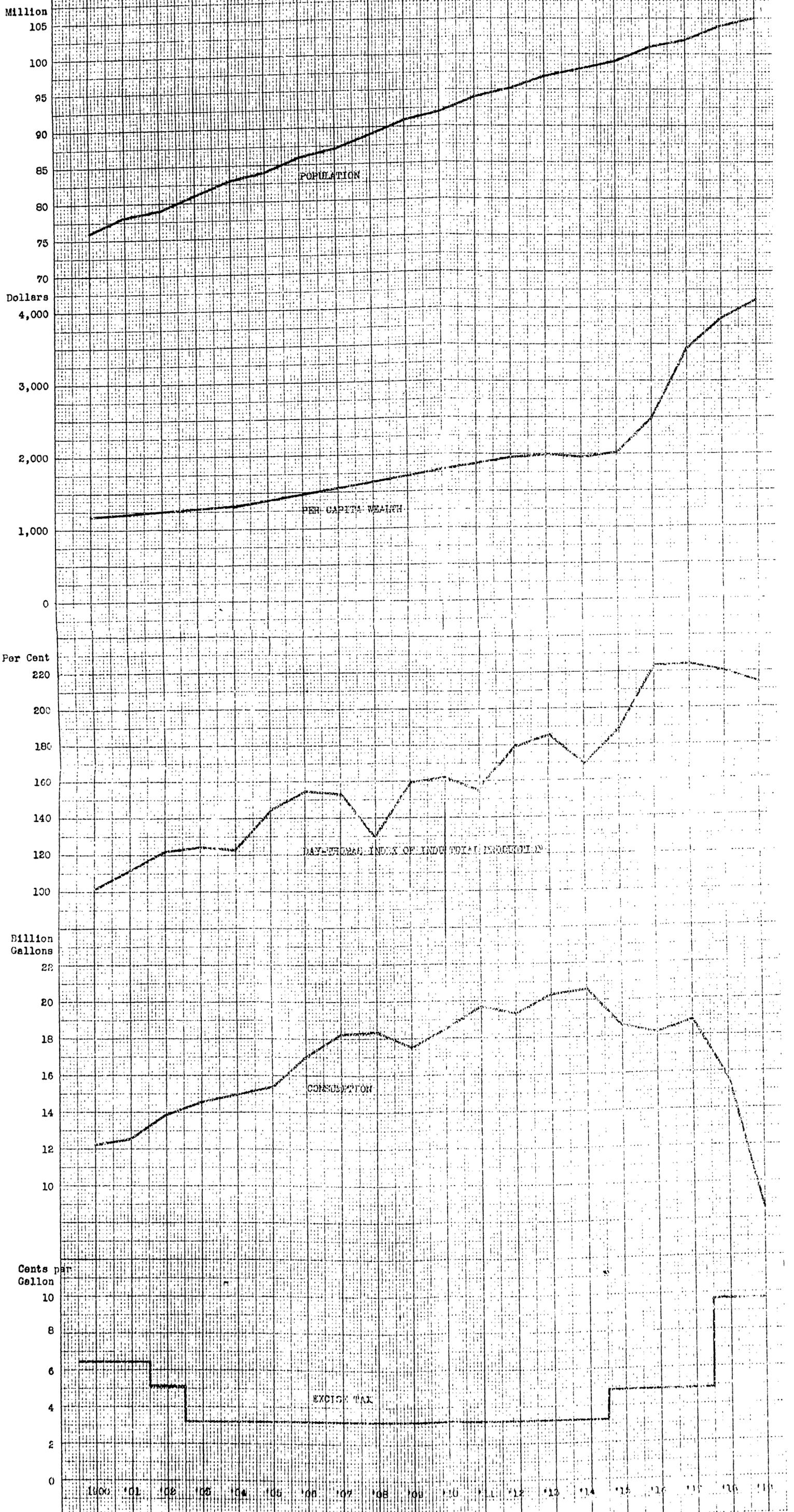
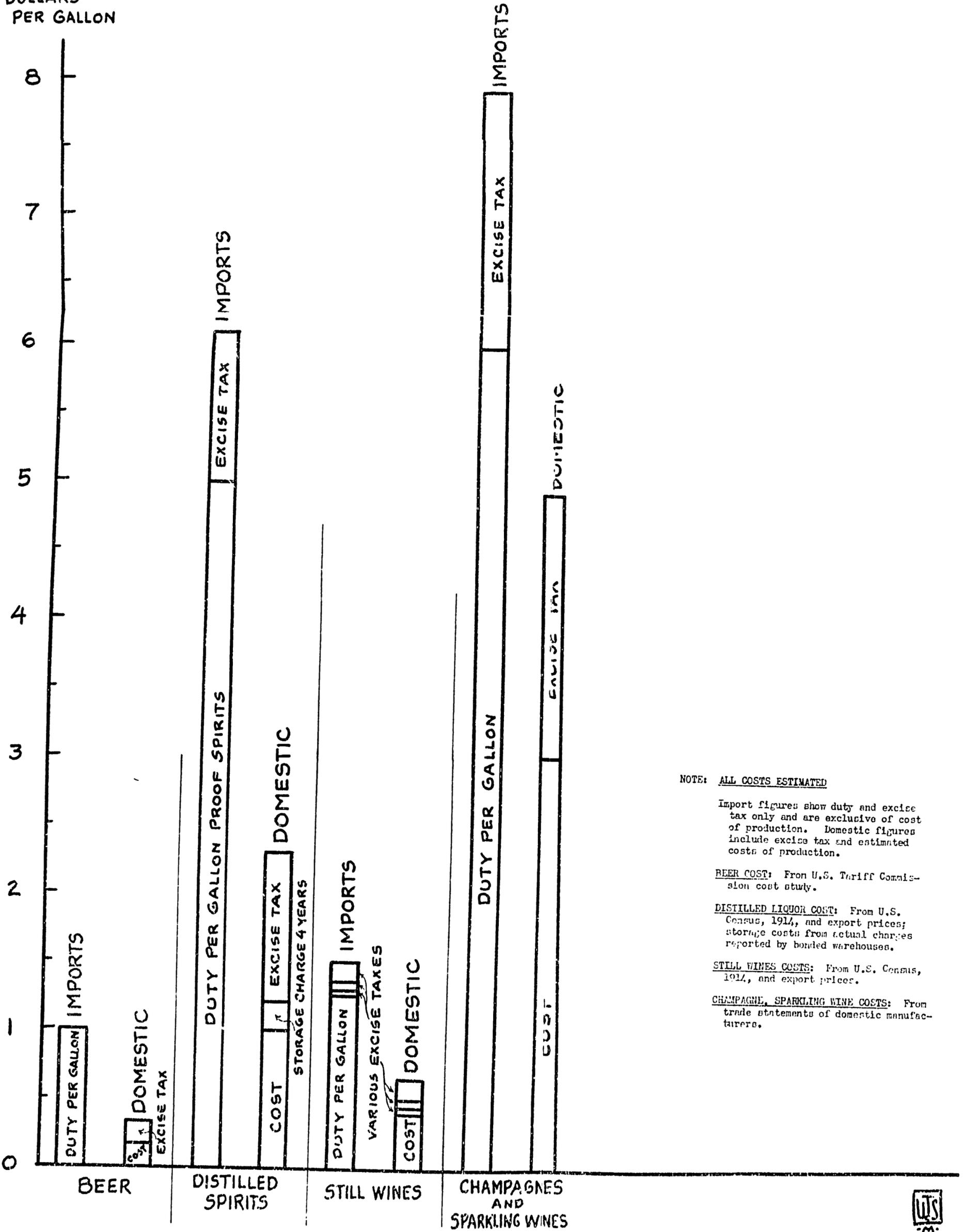


CHART NUMBER TWO  
 TREND OF POPULATION, WEALTH, INDUSTRIAL PRODUCTION, CONSUMPTION  
 OF BEER, AND EXCISE TAX ON BEER FOR THE YEARS 1900 - 1910



COMPARISON OF RATES OF IMPORT DUTIES AND ESTIMATED DOMESTIC COSTS OF PRODUCTION AND EXCISE TAXES ON BEER, SPIRITS AND WINES.

DOLLARS PER GALLON



NOTE: ALL COSTS ESTIMATED

Import figures show duty and excise tax only and are exclusive of cost of production. Domestic figures include excise tax and estimated costs of production.

BEER COST: From U.S. Tariff Commission cost study.

DISTILLED LIQUOR COST: From U.S. Census, 1914, and export prices; storage costs from actual charges reported by bonded warehouses.

STILL WINES COSTS: From U.S. Census, 1914, and export prices.

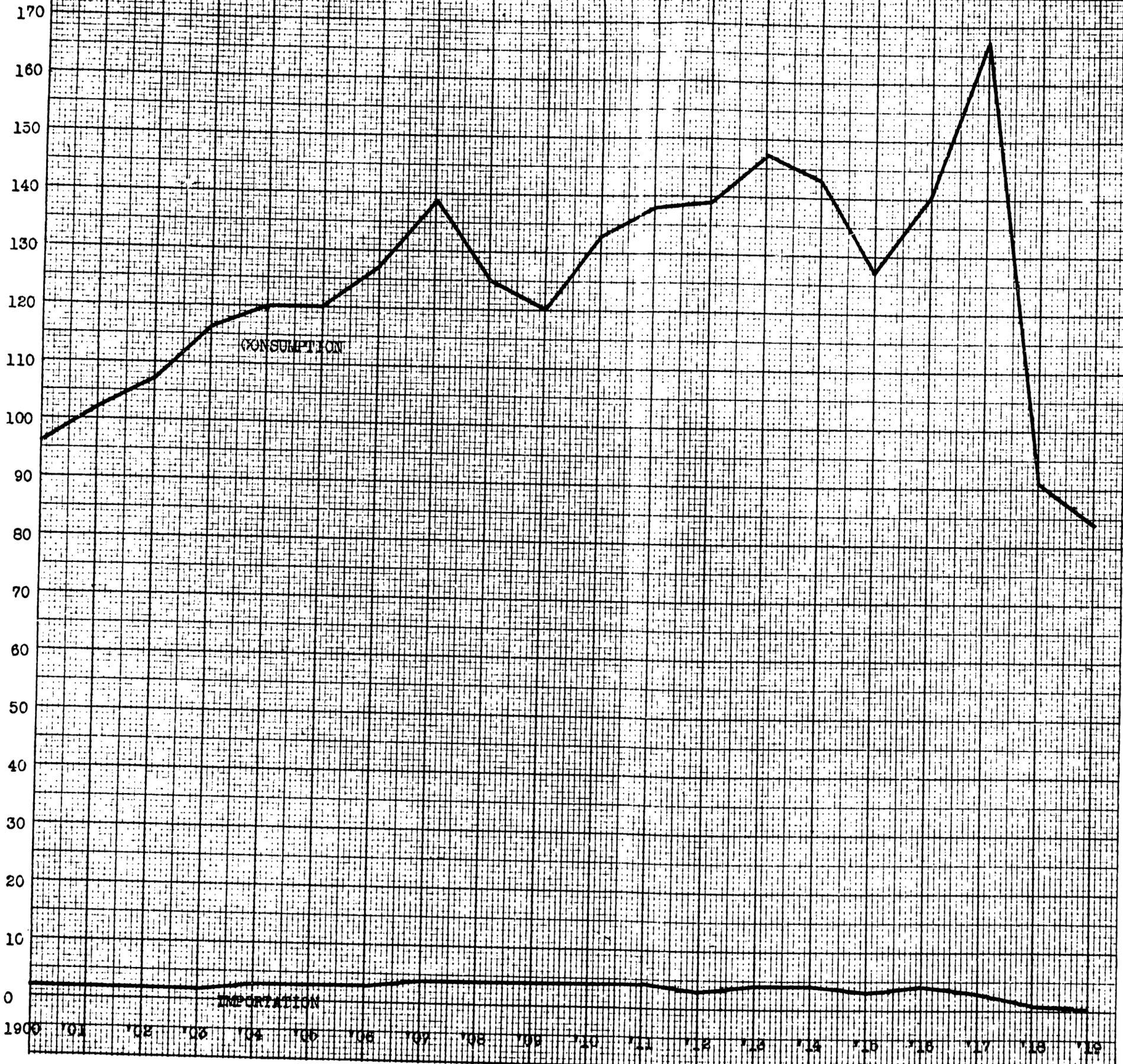
CHAMPAGNE, SPARKLING WINE COSTS: From trade statements of domestic manufacturers.



CHART NUMBER SEVEN

TREND OF CONSUMPTION AND IMPORTATION OF SPIRITS FOR THE YEARS 1900 - 1919

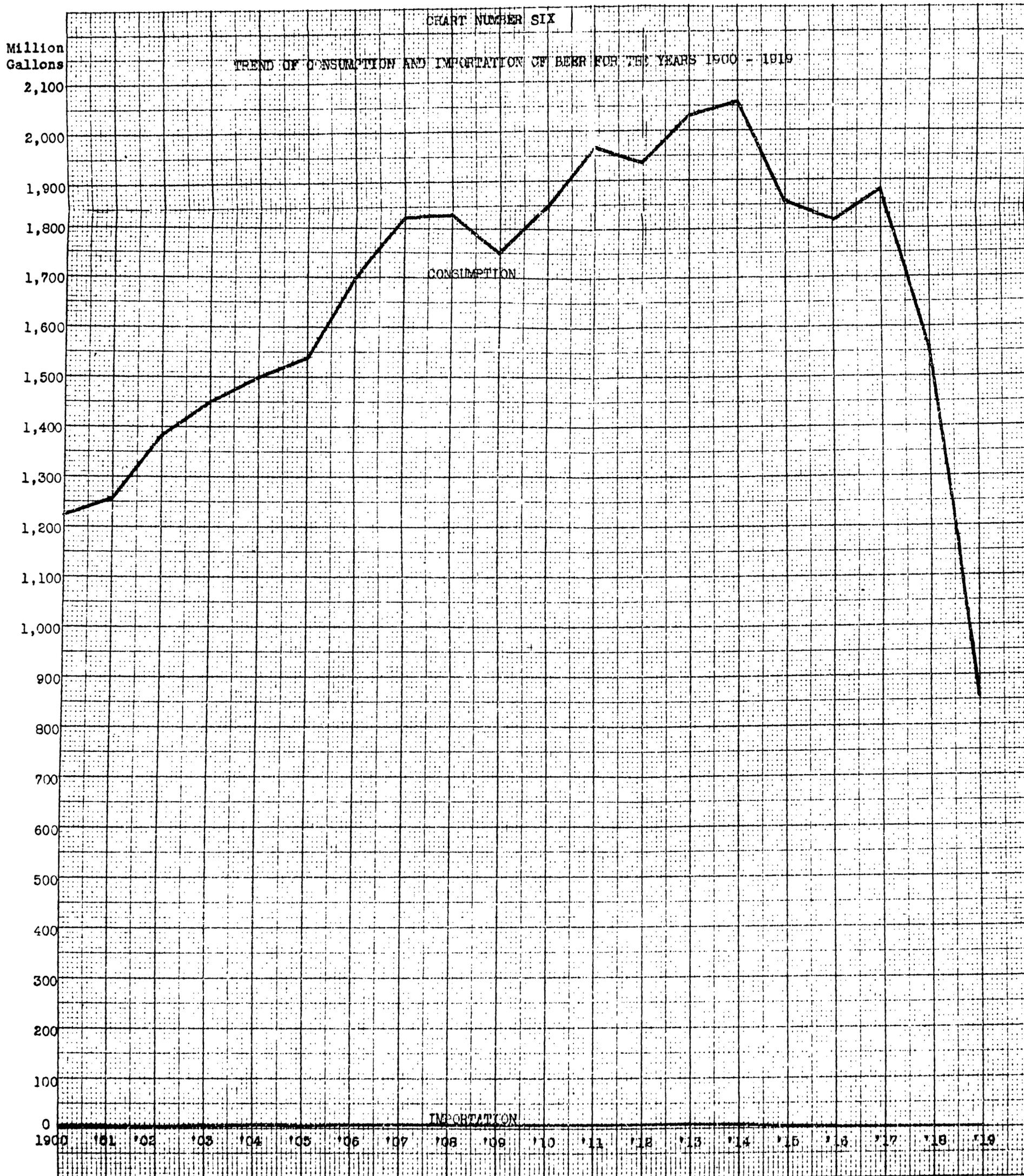
Million Gallons



To face page 328

73, 1919 (1)

CHART NUMBER SIX

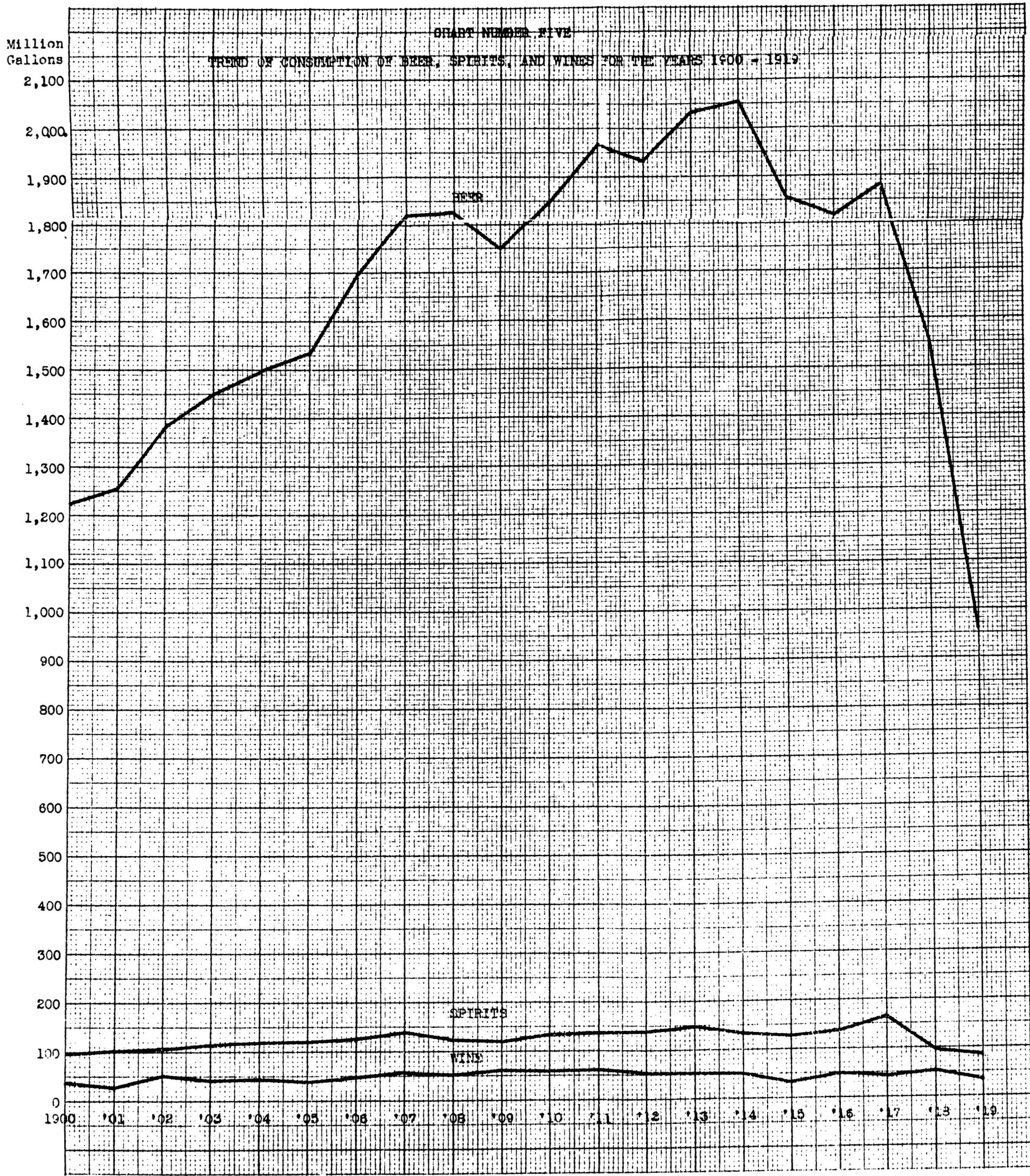


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3, 11-01-1

(1)





To face page 328

(b) Alcohol

(6)

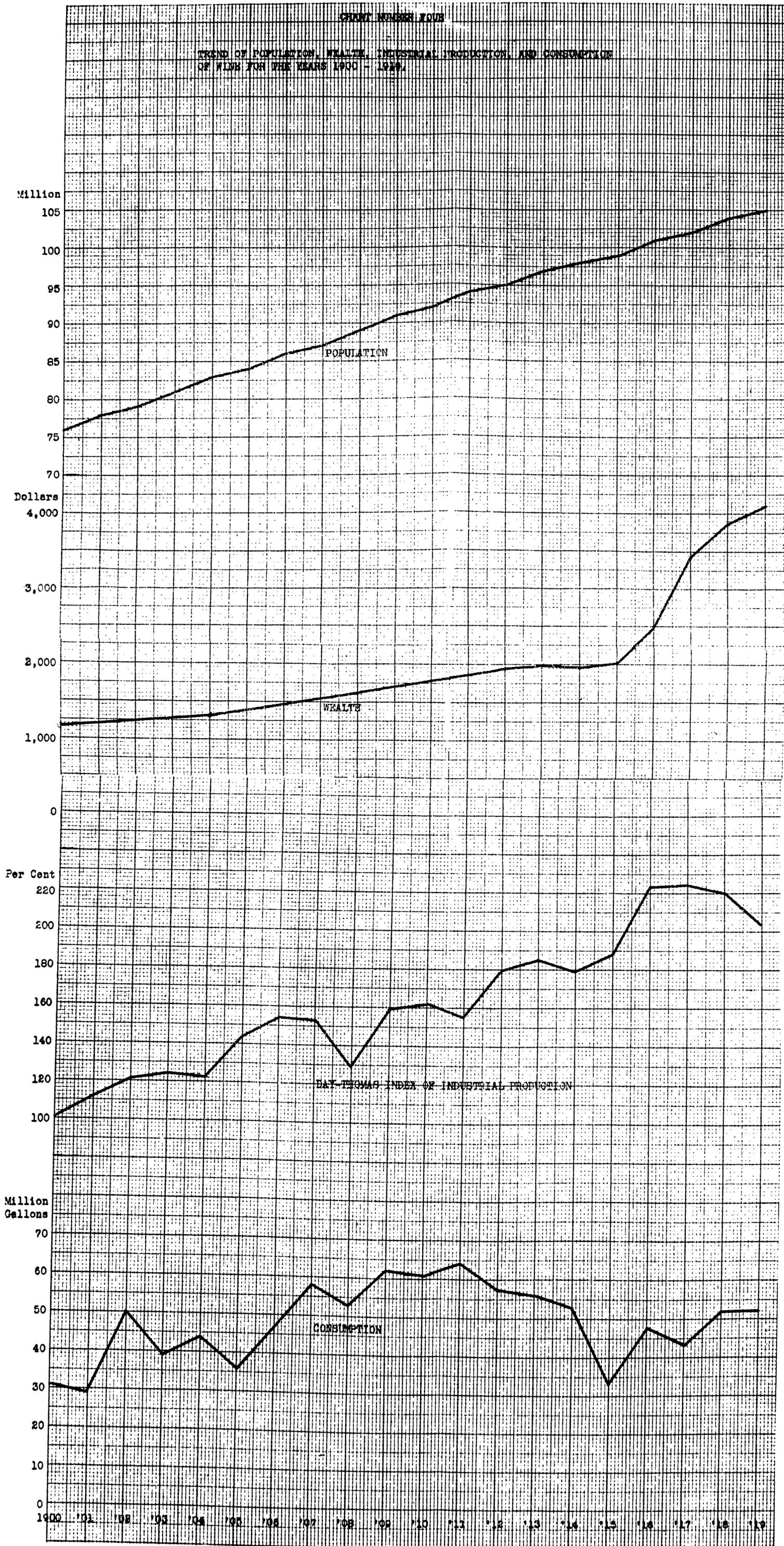
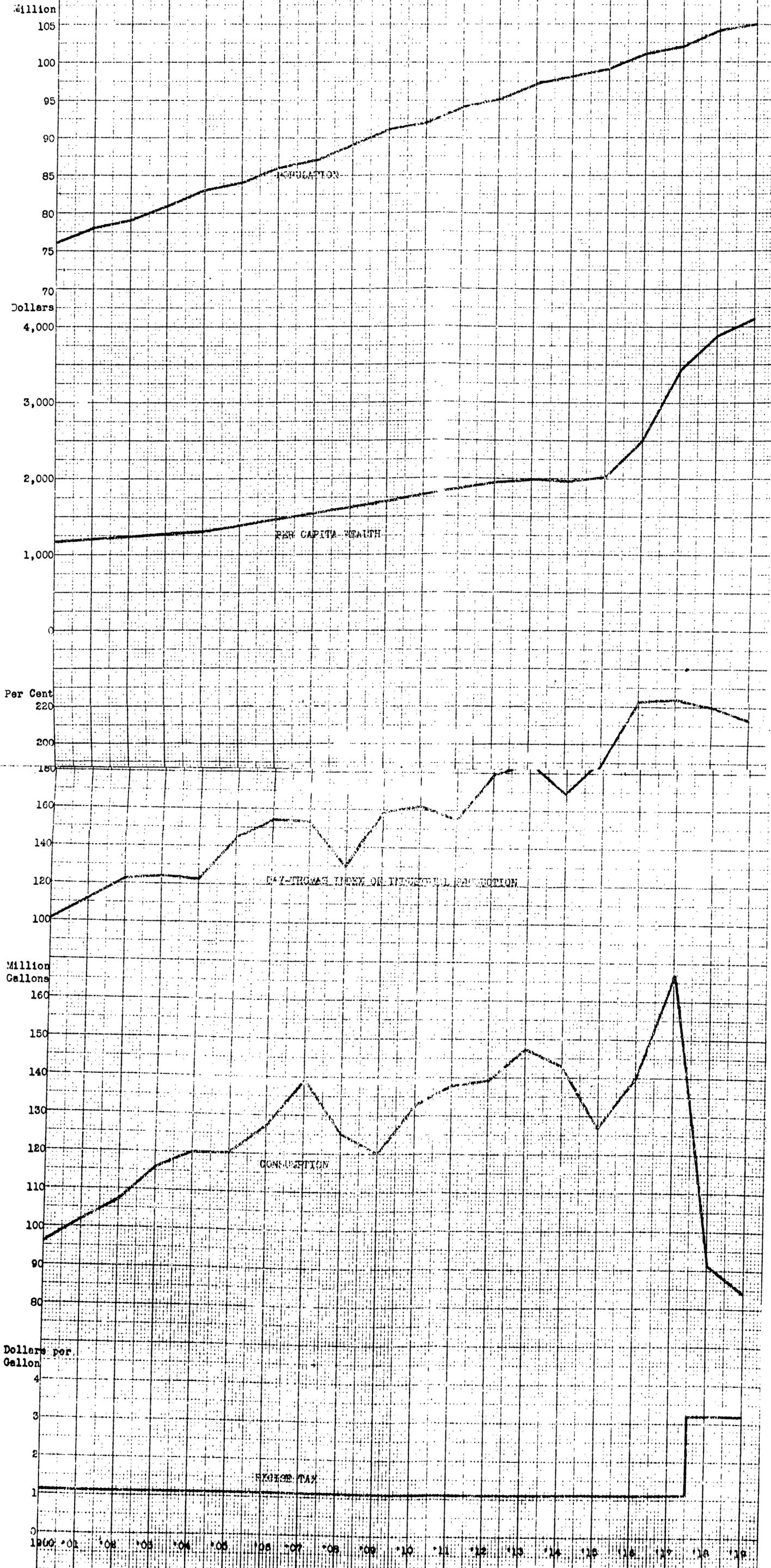


CHART NUMBER THREE  
 TRENDS OF POPULATION, WEALTH, INDUSTRIAL PRODUCTION, CONSUMPTION  
 OF DISTILLED SPIRITS, AND EXCISE TAXES ON DISTILLED SPIRITS FOR  
 THE YEARS 1901 - 1918



Consolidated summary of statistics relating to beer, spirits, and wines for the years 1900-1933

Fiscal year ending June 30	Domestic production less exports (millions of gallons)	Imports (millions of gallons)	Total domestic consumption (millions of gallons)	Population in millions	Per capita consumption in gallons	Per capita wealth in hundreds of dollars	Excise rate	Excise receipts in millions	Import duty per gallon	Import receipts in millions	Total excise and import receipts in millions	Per capita tax paid	Total revenue in millions	Excise receipts percent total revenue	Import receipts percent total revenue	Excise and import receipts percent total revenue	Dry States
					<i>Beer percent total consumption</i>	<i>Distilled spirits percent total consumption</i>	<i>Wines percent total consumption</i>										
1900			1,347	90.7	7.1	2.3		183		8	192	2.52		34.7	1.6	36.3	
1901			1,389	90.6	7.4	2.1		192		9	201	2.58		35.1	1.7	36.8	
1902			1,539	89.8	6.9	3.3		193		10	203	2.56		36.7	1.9	38.6	
1903			1,605	90.3	7.3	2.4		180		11	191	2.35		34.8	2.2	37	
1904			1,663	90.2	7.2	2.6		185		12	196	2.38		37.4	2.3	39.8	
1905			1,694	90.8	7.1	2.1		186		12	198	2.35		37.6	2.4	40	
1906			1,874	90.7	6.8	2.5		199		13	212	2.48		36.2	2.4	38.7	
1907			2,020	90.2	6.9	2.9		216		16	232	2.65		35.9	2.6	38.5	
1908			2,006	91.2	6.3	2.5		200		15	214	2.41		37.2	2.7	39.9	
1909			1,933	90.5	6.3	3.1		192		15	208	2.29		35.2	2.8	38	
1910			2,043	90.5	6.5	3		209		17	226	2.45		33.5	2.8	36.2	
1911			2,169	90.7	6.4	3		220		17	236	2.52		34.5	2.6	37.1	
1912			2,128	90.8	6.5	2.7		220		17	236	2.49		34.7	2.6	37.3	
1913			2,232	90.9	6.6	2.5		230		19	249	2.58		34.7	1.8	37.5	
1914			2,252	91.3	6.4	2.4		226		19	245	2.51		33.6	2.8	36.5	
1915			2,015	92.1	6.3	1.7		224		13	237	2.37		35.8	2.1	37.9	
1916			2,005	90.7	7	2.4		247		15	263	2.60		34.1	2.1	36.2	
1917			2,095	90	8	2.1		284		13	297	2.92		27.4	1.3	28.7	
1918			1,699	91.6	5.4	3.1		444		7	451	4.35		11.4	.2	11.6	
1919			992	86.3	8.5	5.2		483		1	484	4.61		12	.03	12	
1920			45	(10)	64.8	35.2		140		1	141	.93		2.4	.02	2.5	
1921			57		62.7	37.4		83		1	84	.78		1.7	.02	1.7	
1922			26		73.3	26.7		46		1	47	.43		1.3	.02	1.3	
1923			27		45.9	54.1		30		.5	31	.28		1	.01	1	
1924			20		55.3	44.7		28		.3	28	.24		.8		.8	
1925			14		74	26.1		26		.4	26	.23		.8	.01	.8	
1926			17		61.8	35.2		46		.3	47	.81		.8		.8	
1927			14		69.3	30.7		21		.3	21	.13		.5	.01	.5	

1929	17	70.9	29.1	15	-3	17	-13	.5	.01	-.5
1930	22	48.1	51.9	13	.4	13	.11	.4	.01	-.4
1931	13	75.5	24.6	12	.3	12	.09	.3	.01	-.3
1931	15	56.5	43.5	10	.2	11	.08	.4	.01	-.4
1932	12	57.9	42.1	9	.3	9	.07	.5	.01	-.5
1933										

29

- 1 Figures not available in years left blank.
- 2 Revenue equals tax receipts from liquors, tobacco, income, profits, inheritance, sales documentary stamps and other miscellaneous tax receipts plus customs receipts.
- 3 No beer legally manufactured or imported.
- 4 Spirits consumption figured on basis of tax-paid withdrawals.
- 5 Nonbeverage.

- 6 Beverage.
- 7 Negligible.
- 8 No tax on wine made from domestic grapes.
- 9 No receipt.
- 10 No beer legally manufactured.

CHART No. 10.—Estimated supply and demand of beer, spirits, and wines for the calendar year 1934

	Stocks on hand in millions of gallons	Production capacity in millions of gallons	Estimated consumption in millions of gallons	Estimated imports in millions of gallons
Beer.....	155	1,550	835	3
Spirits:				
Aged whisky.....	3	(1)	20	20
New whisky.....	14	60	85	(2)
Grain alcohol.....	19	50		
Wines.....	10	45	49	15

<sup>1</sup> No satisfactory basis for estimating stocks of new whisky which will be set aside for aging.

<sup>2</sup> Negligible.

<sup>3</sup> Raw production. Will not be aged within the year.

CHART No. 11.—Estimated comparative cost to retail dealers of legal and illegal alcoholic liquors in bottles

	Price to retailer per gallon	Price to local boot-legal per gallon	Price to organized illegal trade per gallon
Beer.....	\$0.56	\$0.64	\$0.72
Spirits.....	1.20	2.20	4.20
Wines.....	1.00	1.20	2.20

CHART No. 12.—Existing rates of excise, import, and miscellaneous taxes relating to alcoholic beverages and estimated receipts from such taxes for the period Dec. 5, 1933, to Dec. 31, 1934, based on these rates

	Present excise per gallon	Present duty per gallon	Receipts at present rates
Beer.....	16 cents not exceeding 3.2 percent alcohol. <sup>1</sup>	\$1 <sup>4</sup> .....	{ Beer: Excise, \$146,000,000. <sup>11</sup> Import, \$3,000,000.
Do.....	19 cents not exceeding 3.2 percent alcohol. <sup>2</sup>		
Spirits.....	\$1.10 <sup>4</sup> .....	\$5 (plus excise) <sup>5</sup> .....	{ Spirits: Excise, \$126,000,000. <sup>12</sup> Import, \$108,000,000
Still wines.....	16 cents not exceeding 3.2 percent alcohol. <sup>6</sup>		
Do.....	4 cents 3.2 to 14 percent alcohol.		
Do.....	10 cents 14 to 21 percent alcohol.		
Do.....	25 cents 21 to 24 percent alcohol. <sup>7</sup>		
Do.....	\$1.10 exceeding 24 percent alcohol.	\$6 (plus excise) <sup>10</sup> .....	{ Wines: Excise, \$7,000,000. <sup>13</sup> Import, \$26,000,000.
Sparkling wines.....	\$1.92 champagnes <sup>8</sup> .....		
Do.....	96 cents artificially carbonated.		
Do.....	96 cents beverages fortified with grape brandy.	Taxed as perfume not as spirits under Tariff Act of 1930. Rates not given because deemed immaterial.	{ Occupational: Operation of brewery, \$700,000. Wholesale dealer in wines or spirits, \$1,000,000. Retailer dealer in or spirits, \$5,000,000. Wholesale dealer in beer, \$1,000,000. Retail dealer in beer, \$8,000,000. Rectifier or blender, \$300,000. Manufacturer of stills or worms, negligible. Total, \$432,000,000.
Imported perfume containing distilled spirits.	\$1.10 <sup>11</sup> .....		
Alcoholic compounds from Puerto Rico.	\$1.10 <sup>11</sup> .....		
Rectified spirits.....	30 cents (plus excise on distilled spirits). <sup>12</sup>		
Grape brandy or wine spirits used for fortification of wines.	10 cents <sup>14</sup> .....	\$5 (plus excise) <sup>4</sup> .....	

Footnotes on p. 331.

OCCUPATIONAL TAXES PRESENT RATE

Operation of brewery.....	\$1,000
Wholesale dealer in wines or spirits.....	\$100
Retail dealer in wines or spirits.....	\$25
Wholesale dealer in beer.....	\$50
Retail dealer in beer <sup>19</sup> .....	\$20
Rectifiers: <sup>20</sup>	
Capacity over 500 barrels per year.....	\$200
Capacity under 500 barrels per year.....	\$100
Manufacturers of stills and worms: <sup>21</sup>	
Per still.....	\$50
Per worm.....	\$20
Operation of distillery.....	None.
Operation of winery.....	None.

<sup>1</sup> Act of Mar. 22, 1933, sec. (1) (a).

<sup>2</sup> Code title 26, sec. 1330 (a) (1).

<sup>3</sup> Code title 19, sec. 1001 par. 805.

<sup>4</sup> Code title 26, sec. 1150 (a) (1).

<sup>5</sup> Code title 19, sec. 1001, par. 802.

<sup>6</sup> Act of Mar. 22, 1933, sec. 1.

<sup>7</sup> Code title 26, sec. 1300 (a) (1).

<sup>8</sup> Code title 19, sec. 1001, par. 804.

<sup>9</sup> Code title 26, sec. 1300 (a) (2).

<sup>10</sup> Code title 19, sec. 1001, par. 803.

<sup>11</sup> Code title 26, sec. 1150 (a) (4).

<sup>12</sup> Code title 26, sec. 1150 (a) (5).

<sup>13</sup> Code title 26, sec. 1150 (a) (6).

<sup>14</sup> Code title 26, sec. 1301.

<sup>15</sup> Act of Mar. 22, 1933, sec. 1 (b).

<sup>16</sup> Code title 26, sec. 1394 (b) (1).

<sup>17</sup> Code title 26, sec. 1394 (c) (1).

<sup>18</sup> Code title 26, sec. 1394 (e) (1).

<sup>19</sup> Code title 26, sec. 1394 (f) (1).

<sup>20</sup> Code title 26, sec. 1394 (g) (1).

<sup>21</sup> Code title 26, sec. 1394 (k) (1).

<sup>22</sup> On the basis of \$5 per barrel no effort has been made to separate receipts for 3.2 beer and beer of higher alcoholic content.

<sup>23</sup> No effort has been made to separate receipts from still and sparkling wines.

Code references are to Supplement VI of the Code of Laws of the United States.

REPORT TO THE SECRETARY OF THE TREASURY OF RECOMMENDATIONS OF INFORMAL INTERDEPARTMENTAL COMMITTEE RELATIVE TO TAXATION AND CONTROL OF ALCOHOLIC BEVERAGES

On October 27, 1933, the informal interdepartmental committee named to study the problems of taxation and control of alcoholic beverages made a report of fact and law to the Secretary of the Treasury. Based upon the material set forth in that report the committee submits for consideration the following recommendations:

I. GENERAL POLICY

In formulating the recommendations contained in this report the committee, having in mind the general purpose of social welfare and temperance, has observed the following specific principles:

I. Recommendations have been designed to eliminate the organized illegal liquor industry.

II. Recommendations have been designed to discourage the consumption of distilled spirits as contrasted with light wines and beer. The committee has, however, borne in mind that the discouragement of spirits consumption by tax regulation must be approached gradually. Any sudden dislocation between price and demand caused by excessive taxation would operate to shift the demand to the competing illegal product.

III. Subject to the foregoing principles, rates of excise tax were calculated to yield maximum revenue without necessitating a price to the ultimate consumer of legal basic alcoholic beverages (as defined in the committee's report of Oct. 27, 1933) high enough to enable the illegal product to compete. In measuring the competition of the illegal product the data given in chart no. 11, annexed to the report of October 27, 1933, relative to the cost of illegal alcoholic beverages to the organized illegal trade, was used. In addition to the competitive price factor allowance was made for the anticipated greater popularity of the legal product and the ability of the legal dealer to operate on a smaller margin of profit than his illegal competitor.

IV. Recommended import duties were calculated to discourage smuggling; to afford a reasonable measure of protection to the American producer and the American grain farmer who supplies the producers raw materials and at the same time to permit imports sufficient to supply at reasonable prices the post-repeal market, in order to close that market to the illegal industry.

V. Recommended import duties were based upon the assumption and recommendation that imported alcoholic beverages will also pay the domestic excise tax.

VI. Occupational taxes were calculated to yield the maximum revenue, and to discourage multifarious small scale operators in businesses relating to alco-

holic beverages in the initial post-repeal period. The committee believes that too great a number of small scale operators would present a serious revenue enforcement problem and afford the illegal industry a substantial outlet for its product.

## II. EXCISE TAXES

Recommended rates of excise taxes calculated pursuant to the principles set forth in section 1 of this report are shown in chart no. I-A annexed to this report. This chart also shows present excise rates for purposes of comparison. Earlier rates may be found in chart no. I, annexed to the report of October 27, 1933. The following comments on the rates set forth in chart no. I-A are made:

1. *Beer*.—\$5 per barrel of 31 gallons. This is the present rate for 3.2 percent beer. The present rate of \$8 per barrel for beer of higher alcoholic content should be eliminated for the sake of administrative simplicity.

The rate recommended is the highest ever imposed, and is substantially in excess of the last preprohibition rate. There is, however, no indication that it has necessitated a price to the ultimate consumer which permits the illegal product to compete. Any illegal competition now existing in the form of beer of higher alcoholic content than 3.2 percent will presumably be eliminated when beer of a higher alcoholic content may be legally manufactured and sold. Moreover, it is not believed that a \$5 rate will discourage the consumption of beer in favor of the consumption of spirits. The proposed rate is approximately one sixteenth of the proposed rate for spirits.

This rate has the further advantage of having been recently established by Congress in the light of present-day problems.

2. *Spirits*.—\$2.00 per gallon. The present excise rate of \$1.10 per gallon is unnecessarily low. A \$2.00 tax would not necessitate a price for legal spirits which would divert consumption to the competing illegal product (chart no. 11, report of Oct. 27, 1933).

Denatured alcohol should continue to be tax free.

The committee has considered the possibility of a lower rate of tax on pure spirits to be used for other than beverage purposes. While such a differentiation might be desirable for certain industries, it is the judgment of the committee that the administrative difficulties and possibilities of diversion involved in a dual tax rate would create a serious problem and for that reason a dual rate is not recommended.

3. *Still wines*.—Less than 14 percent alcohol, 16 cents per gallon; 14 to 24 percent alcohol, 40 cents per gallon; above 24 percent alcohol, same rate as for distilled spirits.

A basic wine, as that term is used in the report of October 27, 1933, will not contain more than 14 percent alcohol. While a 16-cent tax represents a material increase over the present rate of 4 cents, such a tax is at approximately the same rate as the present and proposed excise tax on beer. A 16-cent tax would not necessitate a price for legal wines which would divert consumption to the illegal competing product (chart no. 11, report of Oct. 27, 1933). Nor is it believed that such a tax is high enough to discourage the consumption of light wines as opposed to spirits. The 40-cent rate for wines of higher alcoholic content (which would include wines of the port, sherry, and madeira types), does not appear to be excessive. The recommended imposition of a tax equal to the rate for distilled spirits for wines containing more than 24 percent alcohol is a continuation of the present system.

4. *Sparkling wines*.—Natural sparkling wines containing not more than 24 percent alcohol, 80 cents per gallon; artificial sparkling wines containing not more than 24 percent alcohol, 40 cents per gallon; sparkling wines containing more than 24 percent alcohol, same rate as for distilled spirits.

The current excise rates on all sparkling wines, which were imposed in the prohibition period, appear to be unreasonably high when the product becomes again an article of free commerce. Moreover, the potential market for imported natural sparkling wines will be an important factor in foreign-trade negotiations if the administration adopts a policy of requiring reciprocal trade benefits from exporting countries in return for a share of the American market for alcoholic beverages. The committee, therefore, considers it desirable not to discourage too severely the potential consumption of wines of this type by an unduly high excise tax. The proposed rate of 80 cents per gallon on natural

sparkling wines was the last rate in effect in the preprohibition period (chart no. 1, report of Oct. 27, 1933). A return to that rate would still continue a substantial differential between sparkling and still wines.

5. *Blended and rectified spirits, 16 cents per gallon.*—This tax would be in addition to the normal excise tax on distilled spirits.

The recommended substantial increase in the excise tax on distilled spirits makes it desirable to reduce the additional tax on blended and rectified spirits to the minimum consistent with the preservation of the administrative control which the imposition of the tax gives over the blending and rectifying process. It is, therefore, recommended that the present rate of 30 cents per gallon be reduced to 16 cents per gallon.

This proposed rate would be one cent per half pint, which is a desirable rate for administrative purposes.

### III. MISCELLANEOUS TAXES

Recommended rates of miscellaneous taxes calculated according to the principles set forth in section 1 of this report are shown in chart no. I-A annexed to this report. This chart also shows present rates of miscellaneous taxes for purposes of comparison.

### IV. FLOOR-STOCK TAXES

The committee recommends that a floor-stock tax be imposed on all tax-paid alcoholic beverages possessed for sale on the date on which new tax rates go into effect—such tax to be equal to the difference between the present and adopted rates of tax whenever such adopted rates are higher. All persons having possession for sale of tax-paid alcoholic beverages subject to such floor-stock tax should be required to make a return thereof to the Commissioner of Internal Revenue.

### V. FOREIGN COMMERCIAL POLICY

The prospective creation of a legal market in alcoholic beverages in the United States presents a question of foreign commercial policy collateral to the questions of taxation and control which this committee has been instructed to study. This collateral question involves the American trade policy to be pursued in opening up this new domestic market for imported alcoholic beverages.

The tariff treatment and import control of alcoholic beverages will depend upon the determination of that question. The committee has, therefore, considered tariff and control measures in alternative form.

If it is decided to use this new market to obtain reciprocal trade favors from exporting countries in return for a share of that market, the committee believes that the provisions contained in section VI of this report are best calculated to carry out that policy. A large majority of the committee believes that this policy should be adopted.

If it is decided to admit imported alcoholic beverages to this market without attempting to obtain reciprocal trade favors from exporting countries in return the committee recommends the adoption of the tariff provisions contained in section VII of this report.

### VI. TARIFF TREATMENT TO ENABLE THE ADMINISTRATION TO NEGOTIATE RECIPROCAL TRADE AGREEMENTS

If it is decided to enter into trade agreements with exporting countries in return for participation in the post-repeal domestic market for alcoholic beverages on relatively favorable terms a substantial administrative control over imports will be necessary, pending the enactment of a permanent tariff regime in order not to prejudice the American bargaining position.

There would be three phases of this administrative import control:

*First phase: Control in the period prior to repeal.*—Control in this period can be effectuated by virtue of the permit provisions of section 2 of the act of November 23, 1921, and paragraph 814 of the Tariff Act of 1930.

No permits have been granted under this provision since October 18, 1933. The committee has been informed that since that date smuggling operations have increased materially. The committee, therefore, recommends the resumption of the issuance of these permits for restricted quantities of imports. Limited imports under this permit control in this period will not seriously affect the bargaining position of this country.

*Second phase: Control between repeal and the enactment of a permanent tariff regime.*—The committee recommends that control in this period be effectuated by invoking the licensing powers of the Secretary of Agriculture under section 8 (3) of the Agricultural Adjustment Act.

The Agricultural Adjustment Administration has indicated to the committee that, while not necessary under the terms of the Agricultural Act, these licensing provisions for reasons of policy should be related to a code and/or agreement of importers and wholesale dealers in alcoholic beverages. Such code, agreement, and license would provide that the volume and origin of imports of alcoholic beverages from month to month would be subject to administrative determination, and that the imports thus determined would be allotted within the import trade by an importers' organization.

This licensing control might not become effective immediately upon repeal because of insufficient time to work out a code and/or agreement. During the period, therefore, between repeal and the date of such code or agreement alcoholic beverages would be imported without restriction upon payment of the present existing rates of duty unless a temporary system of licensing was employed until such code and/or agreement could be completed.

The committee feels that the employment of these licensing provisions as a means of import regulation is justified by the emergency situation and the temporary character of the action suggested. Any effort permanently to regulate imports by means of codes or producers' agreements appears to the committee to be undesirable.

After such license control has become effective, the committee recommends that, pending the enactment of a permanent tariff regime or the consummation of reciprocal trade agreements prior to that regime a monthly volume of imports be permitted based on 5-year averages for the fiscal years 1910 through 1914. Such a policy would permit the entry at present high tariff rates of approximately 600,000 gallons of beer per month, 350,000 gallons of distilled spirits per month, and 700,000 gallons of wine per month. It is believed that these quantities will be well within the consumptive demand for imported alcoholic beverages and will not cause the accumulation of surplus stocks. The committee makes this recommendation for the following reasons:

1. The need for substantial importations of spirits and wines to supply the initial postrepeal market through legal channels in order to close that market to the illegal industry; and the possibility of price dislocation if this market cannot be supplied.

2. Anticipated substantial smuggling operations if the regular import channels are stopped; and the consequent encouragement of the illegal industry and injury to the legitimate dealer.

3. The substantial revenue to be obtained from imports, particularly at the present high rates of duty. Imports of wines and spirits in the volumes above suggested would yield the Government over \$3,000,000 a month, which is at the rate of \$36,000,000 a year.

*Third phase: The permanent tariff regime.*—In order to effectuate the necessary administrative control to facilitate the negotiation of trade agreements in this period the committee suggests that the initial rates of duty set forth in column IV-A of chart no. 1-A be adopted; and that the President be empowered:

- (a) To lower these initial rates within the limits set forth in column IV-B of chart no. 1-A.

- (b) To prescribe more detailed classifications within any present tariff classification of alcoholic beverages and to lower the initial rates of duty applicable to any such detailed classification within the limits above stated.

- (c) As an emergency measure to license the importation of any general or detailed classification of alcoholic beverages or to allocate the American market therefor on an allotment system.

For legal reasons the exercise of the foregoing powers should be made conditional upon the President making certain findings of fact. The committee suggests that these findings be:

- (a) That such action is necessary to bring about satisfactory trade agreements; and

- (b) That such agreements adequately compensate the United States for any concessions granted in the domestic market.

The suggested initial rates shown in column IV-A of chart no. 1-A were calculated to restrict imports to a very small volume in relation to total domestic consumption, and to offer an incentive to exporting countries to make satisfactory agreements for their reduction.

The suggested minimum rates set forth in column IV-B of chart no. 1-A were calculated, when employed in conjunction with a tariff classification, or emergency import license or allotment system, to permit substantial imports of alcoholic beverages from countries granting reciprocal trade favors to the United States, and to permit the sale of such beverages in the domestic market at moderate prices. These minimum rates were, however, kept sufficiently high to constitute a substantial price protection to American producers. In determining the measure of this protection the data in chart no. 9 of the report of October 27, 1933 was used.

The following specific comments upon the initial and minimum rates set forth in columns IV-A and IV-B of chart no. 1-A are made:

1. *Beer*.—Initial rate, 50 cents per gallon; minimum rate, 16 cents per gallon.

In comparing the above proposed rates for beer with the present rate it should be borne in mind that under the present rate imported beer (unlike other imported beverages), pays no domestic excise tax. In view of the committee's recommendation that all imported alcoholic beverages should pay the domestic excise tax in addition to the import duty, the apparent proposed decrease from the existing import rate is, in fact, approximately 16 cents per gallon greater than the real decrease.

The proposed initial rate of 50 cents per gallon is approximately twice the rate for bulk imports in the preprohibition period and represents more than twice the cost of production of the domestic product. (Chart no. 9, report of Oct. 27, 1933.) The present rate of \$1 per gallon (which would be 84 cents per gallon on a comparable basis) has proven prohibitory.

The minimum rate of 16 cents per gallon appears to be high enough to offer a reasonable protection to the American manufacturer. It will undoubtedly promote a material increase in the consumption of the imported product.

2. *Spirits*.—Initial rate, \$5 per gallon; minimum rate, \$2 per gallon.

The initial rate of \$5 per gallon is the same as the present rate, and represents an increase of \$2.40 over the preprohibition rate.

The minimum rate of \$2 per gallon is approximately twice the cost of production of the domestic product. It would, however, promote a material increase in the consumption of the imported product.

3. *Still wines*.—Initial rate \$2 per gallon; minimum rate 60 cents per gallon.

The initial rate of \$2 per gallon represents an increase of 75 cents over the present rate, and is more than three times the preprohibition rate.

The minimum rate of 60 cents per gallon is the same as that in effect from 1900 through 1908. (Chart no. 1, report of Oct. 27, 1933.) It is in excess of the cost of production of the domestic product. (Chart no. 9, report of Oct. 27, 1933.)

Because of immediate competitive advantages, such a rate would so substantially increase the consumption of the imported product that the occasion for putting it into effect would lie largely in thereby obtaining reciprocal trade favors from exporting countries.

4. *Sparkling wines*.—Initial rate, \$6 per gallon; minimum rate, \$1.60 per gallon.

The initial rate of \$6 per gallon is the present rate, and is approximately twice the preprohibition rate. It is equal to approximately twice the cost of the production of the domestic product. (Chart no. 9, report of Oct. 27, 1933.)

The minimum rate of \$1.60 will offer comparatively less protection on a straight cost of production basis than the other recommended rates. On the other hand, available information indicates that the cost of production of the imported product is greater than the cost of production of the domestic product. When the suggested minimum rate is considered in the light of this factor and shipping and handling costs which are comparatively higher for this type of alcoholic beverage, the rate appears to offer a substantial price differential.

The committee has, moreover, been led to suggest this minimum rate because the potential market for imported champagne will be one of the most important factors in the negotiations of reciprocal trade agreements. A high import duty would curtail that market. The low duty here suggested may tend to curtail the market for the domestic product. Its adoption, however, would be warranted if reciprocal trade favors gained in return are substantial.

## VII. TARIFF TREATMENT IF BARGAINING POLICY IS NOT TO BE ADOPTED

If it is determined as a matter of foreign policy to admit imported alcoholic beverages to the domestic market without attempting to secure reciprocal trade favors in return from exporting countries the committee suggests the tariff treatment set forth in this section of this report. As in the previous alternative this treatment will be divided into three phases:

*First phase: The period prior to repeal.*—The committee suggests the same treatment of imported spirits as that recommended in the event that a bargaining attitude is to be adopted, i.e., the granting of permits for restricted quantities of wine and spirits in conformity with law in order to lessen the smugglers' market.

*Second phase: The period between repeal and enactment of a permanent tariff regime.*—The committee suggests that no import restrictions be placed upon alcoholic beverages in this period. All such imported beverages would pay the present high rates of duty. It is not believed that unrestricted importation in this period would demoralize the domestic market in view of the keen demand, the limited domestic supply of aged wines and spirits, and the fact that the present high duties would keep imports in customs bonded warehouses until there was an actual immediate demand for their consumption.

*Third phase: The permanent tariff regime.*—The committee suggests that the flat rates of duty set forth in column V of chart no. 1-A be adopted for this period.

These suggested flat rates were calculated to permit the entry of imported alcoholic beverages in sufficient quantity to supply the "real" market therefor at prices which would eliminate the smuggler. This "real" market was considered to be that demand which would not be satisfied with the domestic product, but would continue to furnish an outlet for the smuggler if the legal imported product was not available. This real market was estimated to represent the same proportion of total domestic consumption as that represented by the preprohibition consumption of imported alcoholic beverages.

The suggested flat rates of duty were therefore based on rates last in effect in the preprohibition period. The committee has not attempted to estimate the volume of imports which these rates would permit. It believes, however, that on a comparative basis over any extended period at the suggested rates the relation between import volume and domestic consumption would be substantially the same as in the preprohibition period.

On such a comparative basis, imports of beer would be approximately three tenths of 1 percent of total consumption, imports of spirits approximately 3 percent, and imports of wine approximately 16 percent.

The following specific comments on these suggested flat rates are made:

1. *Beer.*—25 cents per gallon.

The suggested flat rate of 25 cents per gallon is approximately the same as the rate for bulk imports in the preprohibition period. It is materially in excess of the entire cost of production of the domestic product. (Chart no. 9, Report of Oct. 27, 1933.) On the basis of preprohibition comparative figures imports under such a rate would not affect the market for the domestic product.

2. *Spirits.*—\$3 per gallon.

The suggested flat rate of \$3 per gallon represents an increase of 40 cents over the preprohibition rate. It is approximately three times the cost of production of the domestic product. (Chart no. 9, report of Oct. 27, 1933.) Because of the inadequate available stocks of domestic aged spirits the comparative volume of imports in the early post-repeal period under this rate will substantially exceed the preprohibition comparative rate. This increase, however, will not result from a comparative price factor but from the existence of a demand which the domestic producer cannot at present fill. Comparative volume of imports under this rate will decline substantially when American producers are in a position to offer reasonably substantial stocks of aged domestic distilled spirits in the domestic market.

3. *Still wines.*—\$1 per gallon.

The suggested flat rate of \$1 per gallon is a decrease of 25 cents from the present rate and an increase of 40 cents over the preprohibition rate. It is approximately twice the cost of production of the domestic product. (Chart no. 9, report of Oct. 27, 1933.) The committee suggests this substantial increase over the preprohibition rate because of the unfavorable competitive position of the domestic industry in the early post-repeal period. Even with this increase, the comparative volume of imports in the initial period will substantially

exceed the preprohibition comparative rate. This increase, however, will result not from a comparative price factor but from the existence of a demand which the domestic producer cannot at present fill. Comparative volume of imports under this rate will decline substantially when domestic producers are in a position to offer sufficient stocks of properly aged domestic wines to meet the demand.

4. *Sparkling wines.*—\$3.30 per gallon.

The suggested flat rate of \$3.30 per gallon is the same as the preprohibition rate. It is in excess of the entire cost of production of the domestic product. (Chart no. 9, report of Oct. 27, 1933.)

#### VIII. PREVENTION OF BULK SALES

It is recommended that beverage distilled spirits be required to be sold only in bottles with the exception of sales to (a) rectifiers and blenders, (b) importers for bottling in customs bonded warehouses, (c) ultimate consumers in amounts less than one half pint for consumption at the time and place of sale. No bottle should have a greater capacity than one half of 1 wine gallon. All bottles should be sealed with a stamp evidencing payment of all Federal taxes immediately upon being filled, unless bottled or imported in bond, in which case they should be so sealed and stamped prior to release from bond. Such stamps should be issued by collectors of internal revenue in such manner and on such terms as the Secretary of the Treasury shall by regulations prescribe. All distilled spirits bottled prior to the effective date of legislation necessary to put the foregoing recommendation into effect, and not then fully tax paid should be subject to the same requirement. Possession for sale of beverage distilled spirits in bulk or in unstamped bottles by other than distillers, rectifiers, or blenders, unless in bond, should be prohibited.

#### IX. SALE AND STAMPING OF WINES

It is recommended that sale and stamping of wines be made subject to the provisions of law relating to the sale and stamping of beer.

#### X. LABELING OF ALCOHOLIC BEVERAGES

It is recommended that all bottles of distilled spirits, imported or domestic, be required to bear labels in form prescribed by the Commissioner of Internal Revenue stating:

- (a) The name of the manufacturer, blender, or rectifier;
- (b) The year and month of manufacture or blending and the year and month of bottling;
- (c) The alcoholic content;
- (d) The net content in fluid ounces;
- (e) A true description of the product.

#### XI. CONTROL AND SUPERVISION OF RECTIFICATION AND BLENDING

It is recommended that all rectifiers and blenders be bonded and required to obtain from the Commissioner of Internal Revenue approval of plans for their operating and storage plants. Such plants should be subject to such supervision as the Secretary of the Treasury shall by regulation prescribe, in order to assure an adequate control over the blending and rectifying process. The Committee believes that control of this process is as important as control of the distilling process. (See Report of Oct. 27, 1933, pt. III). The Problem of Illegal Alcoholic Beverages.

All plant and equipment of rectifiers and blenders should be subject to a first lien for any tax, or fine or penalty due to the Federal Government for violation of the revenue laws. If the rectifier or blender does not own the property used, an additional bond for the full value thereof should be given or the consent of the owners thereof to the priority of the Government's lien should be obtained. (NOTE.—Provisions similar to the foregoing now exist in relation to distilleries.)

All manufacturers of distilled spirits and all blenders and rectifiers should be required to keep such accounts and to make such reports to the Commissioner of Internal Revenue of purchases and sales made by them as the Secretary of the Treasury shall by regulations prescribe.

The tax on blended and rectified spirits 1 cent per one half pint should be evidenced by a tax stamp to be affixed over the mouth of each bottle when first filled with the rectified or blended product.

The committee recommends the requirements set forth in sections 8, 9, 10, and 11 in the belief that they will make more difficult the introduction of illegal alcoholic beverages into the legitimate channels of trade. (See report of Oct. 27, 1933, pt. 111, *The Problem of Illegal Alcoholic Beverages*.)

Consideration has been given to a proposal to limit the rectification and blending of spirits to distillery premises. This plan, while more effective in preventing the use of the rectifying or blending process as a means of injecting illegal liquor into the legitimate market, has the following disadvantages:

(a) It is monopolistic in its tendency;

(b) The constitutional power of Congress to limit so drastically the persons who may engage in an otherwise legal industry is doubtful. No revenue-control measures heretofore adopted have attempted to go so far.

In view of these considerations the committee does not recommend such a plan.

#### XII. COORDINATION OF STATE AND FEDERAL TAXATION

The committee recommends the adoption of a plan of sharing Federal receipts from the Internal Revenue taxation of alcoholic beverages with those States which refrain from superimposing on the Federal system a system of direct or indirect gallonage taxation other than general personal property taxes levied and collected at the same rate for all classes of personal property.

The committee recognizes the practical difficulties involved in finding a basis satisfactory to all the States and capable of administrative determination on which to compute the share of each State. The committee believes, however, that the following basis would work substantial justice and might well prove acceptable to the several States, particularly if accompanied by a general request to the Governors of the States to support the proposal.

(a) 20 percent of the total Federal receipts from the internal revenue taxation of alcoholic beverages to be set aside for return to the States.

(b) Each State to be entitled to that portion of the revenue so set aside which its production plus consumption of alcoholic beverages bears to total domestic production plus consumption of alcoholic beverages. Any balance of the fund so set aside and not distributed to States not accepting the plan to revert to the Federal Government. In determining such production and consumption the production and consumption of beer, wines, and spirits should be adjusted to reflect their greater tax potentialities. It is suggested that this adjustment should be affected on the basis of comparative Federal excise tax rates.

Production figures necessary for the foregoing computation are readily available. Consumption figures could be taken from wholesalers' monthly reports to the Commissioner of Internal Revenue.

In an effort to clarify the foregoing proposal it has been reduced to a formula which is hereto annexed as chart no. 2A.

This proposal attempts to take into account and to reconcile the interest of those States which are the most important producers of alcoholic beverages and those States which are the most important consumers thereof. It also makes the problem of distribution between those States which are wet, those which are dry, and those which may be subject to local option laws, by using a basis of computation equally applicable to each.

The committee in making the above proposal is fully cognizant of its imperfections. The proposal is offered, however, because of the committee's belief that the proper coordination of Federal and State taxation of alcoholic beverages is vital to any plan looking to the elimination of the illegal industry and the establishment of the legitimate industry on the best possible basis for the social welfare. (See report of Oct. 27, 1933, part IV, *The Problem of State Taxation*.)

While such a system would still leave the State free to reject its benefits and to impose and collect its own taxes, these benefits would appear to be so substantial that it would probably be to the interest of the State to cooperate with the system. These benefits would be:

1. The State would avoid the difficulties and expense of independent supervision and collection agencies.

2. Producing States would avoid handicapping by additional taxation local manufacturers in competition with manufacturers of other States which were cooperating with the system. Any such additional taxation would tend to drive manufacturers to other cooperating States.

3. The State would derive the social benefits from the more effective elimination of operations of the illegal industry within the State resulting from the lower costs of legal alcoholic beverages.

#### XIII. PREPARATION FOR POST-REPEAL MARKET

The committee recommends that the administration of the permit provisions of the National Prohibition Act relative to domestic manufacture and handling of wines and spirits prior to repeal be along such lines as are consistent with law as will permit a preparation for the post-repeal market, in order to close that market to the illegal industry. (See report of Oct. 27, 1933, part V, the Pre-repeal Administrative Problem).

#### XIV. MISCELLANEOUS ADMINISTRATIVE CHANGES

Recommended changes in the administrative features of the statutes relating to alcoholic beverages which will remain in effect in the post-repeal period have been submitted by the Commissioner of Industrial Alcohol and the Commissioner of Internal Revenue. These recommendations are annexed to this report as appendix A.

#### XV. PROTECTION OF DRY STATES

The committee has been informed that the Attorney General is now investigating the sufficiency of existing legislation to enforce the provision of the twenty-first amendment that:

"The transportation or importation into any State, Territory, or possession of the United States for delivery or sale therein of intoxicating liquors in violation of the laws thereof is hereby prohibited."

The committee, therefore, has made no recommendation on this subject. It desires to point out, however, that this subject is an important factor in the general problem of taxation and control of alcoholic beverages.

#### XVI. THE PROTECTION OF TRADE NAMES

The protection of trade names, brands, and regional appellations of alcoholic beverages and the effect of pure food legislation on alcoholic beverages may become of considerable importance in foreign trade negotiations if a bargaining policy is to be adopted in regard to the imported alcoholic beverages.

The committee has not made a study of this subject pending a determination of foreign trade policy. It desires, however, to point out the relevance of this question.

#### XVII. REPEAL OF PROHIBITION LEGISLATION

For the sake of administrative convenience and to eliminate the legal doubts discussed in appendix A of the committee's report of October 27, 1933, all Federal prohibition legislation arising out of the eighteenth amendment should be expressly repealed with the exception of title III of the National Prohibition Act relating to industrial alcohol. Any administrative features of the prohibition statutes which it is desired to retain for the purpose of administering that title, and all other laws which it is desired to retain relating to the taxation and control of alcoholic beverages should be consolidated and reemacted with such alterations as the changed status of alcohol may make necessary.

Respectfully submitted,

Edward G. Lowry, Jr., Special Assistant to the Secretary, Treasury Department; J. M. Doran, Commissioner of Industrial Alcohol, Treasury Department; D. Spencer Bliss, head of the Sales Tax Division, Miscellaneous Tax Unit, Bureau of Internal Revenue, Treasury Department; J. D. Nevius, General Counsel, Customs, Treasury Department; Herbert Fels, Economic Adviser of the State Department; John C. Wiley, Counselor of Embassy; Harry L. Lourie, Chief Economic Analyst, Tariff Commission; South Trimble, Jr., Solicitor of the Department of Commerce; Willard L. Thorp, Director of the Bureau of Foreign and Domestic Commerce, Department of Commerce; W. A. Tarver, Chief Counsel, Division of Investigation, Department of Justice, Unit of Prohibition; Harris E. Willingham, Chief, Beverages Section, Agricultural Adjustment Administration, Department of Agriculture.

## APPENDIX A

All laws relating to internal revenue taxes on liquors and administrative provisions pertaining thereto are contained in title 26, United States Code, whereas those relating to customs duties are listed under title 19, United States Code.

The following recommendations are made relative to the various sections of law hereinafter listed:

*Section 1150, title 26, United States Code (R.S., sec. 3251).—Liens on distillery premises.*—It is recommended that this section be amended, authorizing the acceptance of an indemnity bond in lieu of the lien in the penal sum equal to the estimated value of the property subject to the lien. If such legislation is enacted, it should specifically authorize a Government officer to execute a written instrument, which may be recorded at the distiller's expense, to remove the cloud on the title.

*Section 1168, title 26, U.S. Code (R.S., sec. 3264) as amended; survey of whisky and rum distilleries to fix their daily spirit capacity.*—It is recommended that this section be so amended that the Secretary of the Treasury, in his discretion, may, in any case, require the survey to be made or omit it.

The reason for this recommendation is that the making of a survey and computing the liability on the returns is a technical matter involving very material expense, which is hardly justified by the protection afforded, since the distillation is by a continuous, closed process with no access to the spirits by the distiller in the absence of the Government officer assigned to the distillery. Furthermore, industrial alcohol plants and fruit-brandy distilleries are now exempt from the survey requirement.

*Section 1170, title 26, U.S. Code (R.S., sec. 3266); separation of rectifying house and distillery by 600 feet.*—It is recommended that this section of law be amended to allow a less separation, with discretion in the Secretary of the Treasury, such as is recommended as to surveys under section 1168, title 26, U.S. Code (R.S., sec. 3264).

This recommendation is made for the reason that big distilleries frequently have buildings entirely suitable for use for rectifying purposes nearer than 600 feet from the distillery, and the process at the distillery being a closed one without access to the spirits by the distiller, it is believed that the officer assigned to the distillery may better supervise the work at both places.

*Section 1177, title 26, U.S. Code (R.S., sec. 3275).*—This section prohibits construction of fences or walls more than 5 feet high around distilleries, etc.

It is recommended that this section be amended with discretion in the Secretary of the Treasury to require the fence in the same manner as recommended as to surveys under sec. 1168, title 26, U.S. Code (R.S., sec. 3264, as amended).

This recommendation is made for the reason that at the present time the danger of raids on distilleries is greater than at any previous time, and by section 9, title III of the National Prohibition Act, a similar provision is made as to industrial alcohol plants.

*Section 1178, title 26, U.S. Code (R.S., sec. 3276, as amended); requirement of identification of visiting officers.*—It is recommended that this section be amended to require the Government officer to establish his identity by exhibiting credentials.

This recommendation is made for the reason that racketeers, in the guise of Government officers, have raided establishments where liquors are manufactured and kept.

*Section 1183, title 26, U.S. Code (R.S., sec. 3280).*—This section contains the same provision of 600 feet separation under section 1170, title 26, U.S. Code (sec. 3266, R.S.).

The same recommendation is made as to section 1170, title 26, U.S. Code (R.S., sec. 3266) herein.

*Section 1185, title 26, U.S. Code (R.S., sec. 3282, as amended).*—This section requires the same separation between distilleries and vinegar factories using the vaporization process as section 1170, title 26, U.S. Code (R.S., sec. 3266).

The same recommendation is made as to the separation of distilleries and rectifying houses under section 1170, title 26, U.S. Code (R.S., sec. 3266) herein, and for the reasons there stated. It should be, however, with the reservations set forth under section 1168, title 26, U.S. Code (R.S., sec. 3264)

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so that the Secretary of the Treasury may, by regulations, require the separation whenever he deems fit.

*Section 1191, title 26, U.S. Code (R.S., sec. 3285, as amended).*—This section provides for recording the hour of filling and emptying fermenting tubs, etc., and is necessary to give effect to section 1168, title 26, U.S. Code (R.S., sec. 3264, as amended).

It is recommended that this section remain unchanged as it will be essential in case the Secretary of the Treasury, by regulations, requires surveys of distilleries under section 1168, title 26, U.S. Code (R.S., sec. 3264, as amended).

Where the Secretary of the Treasury by regulations omits the survey this section will thereafter be inoperative.

*Section 1192, title 26, U.S. Code (R.S., sec. 3303).*—This section requires a complete record to be kept by distillers, including various things and activities which are not regarded of material importance to the Government.

It is recommended that this section be amended to omit such immaterial matter but retaining the requirements as to the complete record of materials purchased and used; the spirits made therefrom; record of sales; and the dry inches; filling and emptying tubs; temperature and gravity, etc., which provisions are of importance in the event the Secretary of the Treasury requires, by regulations, a survey. See recommendations under section 1168, title 26, U.S. Code (R.S., sec. 3264, as amended).

*Section 1203, title 26, U.S. Code (R.S., sec. 3339).*—This section provides for the release from seizure of a distillery under an appropriate bond where cattle are being fed with distillery slop.

It is recommended that this section be amended to provide for the release under such bond, the funds to be impounded pending final decision on the forfeiture of the distillery. In such case, a receiver should be appointed by the court to qualify and operate the distillery and the funds should be impounded by the court as suggested.

This recommendation is made in order that employees of the distillery may not be thrown out of work pending the outcome of the litigation on forfeiture.

*Section 1210, title 26, U.S. Code (sec. 62, Act of August 27, 1894, 28 Stat., 567).*—This section grants the distiller an exemption from occupational tax as a wholesale liquor dealer for the sale of spirits of his own production in original stamped package at the place of production or where stored in warehouse. This section also requires the distiller to keep a record of sales of spirits produced by him.

It is recommended that no change be made in this section unless the exemption is removed and the distiller is required to pay an occupational tax as a wholesale liquor dealer, as recommended elsewhere.

*Section 1229, title 26, U.S. Code (R.S., sec. 3302).*—This section provides for the keeping of a record by the storekeeper-gager assigned to the distillery of the materials purchased; the name and address from whom purchased; the materials used; the time of filling and emptying the tubs; of the spirits withdrawn from the receiving cisterns and entered into warehouse; the workmen employed; the materials used in making alterations, etc.

It is recommended that this section be modified to eliminate therefrom the following: Kind and quantity of all fuel used; persons from whom purchased; of all repairs made on said distillery and by whom and when made, and the names and places of residence of all persons employed at the distillery.

The portion to be eliminated is not regarded as of importance but the remainder of the section will be necessary in the event the Secretary of the Treasury by regulations requires a survey, in regard to which see comment under section 1168, title 26, U.S. Code (R.S., sec. 3264) herein.

*Sections 1231 and 1236, title 26, U.S. Code (R.S., sec. 3287, as amended, and R.S., sec. 3295, as amended).*—These sections require gaging, marking and branding of distilled spirits by a storekeeper-gager for entry into warehouse at the distillery and when withdrawn from warehouse upon taxpayment.

It is recommended that these sections be amended by specifically authorizing the Secretary of the Treasury, in his discretion, by regulations to be issued from time to time, whenever and wherever he deems proper, to require the gaging to be done by a storekeeper-gager, or to be performed by the distiller, at his expense, under the strict supervision of the storekeeper-gager.

*Sections 1188 and 1199, title 26, U.S. Code (sec. 602, Revenue Act of 1918).*—These sections exempt industrial alcohol plants from the provisions of sections 3283, 3264, 3285, 3300, and 3260, R.S.

These sections of law should be repealed since the subject-matter is fully covered by section 9, title III of the National Prohibition Act as to industrial-alcohol plants.

*Section 1285, title 26, U.S. Code.*—This section has heretofore been regarded as temporary and has been repeated in the Treasury Appropriations Act each year. It provides for concentration of spirits and will expire on June 30, 1934.

It is recommended that it be enacted as permanent legislation in the following form:

That for purposes of concentration, upon the initiation of the Secretary of the Treasury and under regulations prescribed by him, distilled spirits may be removed from any internal revenue bonded warehouse to any other such warehouse, and may be bottled in bond in any such warehouse before or after payment of the tax, and the Secretary shall prescribe the form and penal sums of bond covering distilled spirits in internal revenue bonded warehouses, and in transit between such warehouses.

*Section 1232, title 26, U.S. Code (R.S., sec. 3293, as amended).*—This section prescribed the penal sum of bonds to be given by distillers to insure payment of tax during bond period.

It is recommended that this section be amended to provide for a bond in the minimum penal sum of \$5,000 and maximum penal sum sufficient to cover the tax at the prevailing rate on 50 percent of the spirits on deposit in the warehouse with intermediate rates to be fixed by regulations to be prescribed by the Secretary of the Treasury.

*Section 1252, title 26, U.S. Code (sec. 49, act of Aug. 27, 1894).*—This section provides for a transportation warehousing bond to be given by a brandy distiller, covering shipments and warehousing of brandy in a special bonded warehouse.

Same recommendation as in the case of section 1232, U.S. Code, as to distillery warehouse bonds, supra.

*Section 1239, title 26, U.S. Code (R.S., sec. 3329, as amended).*—This section provides for a drawback of 90 cents per proof gallon as per last gage of the spirits prior to exportation, and the last sentence in the section provides for drawback of 60 cents per proof gallon as to spirits distilled prior to August 1, 1872.

It is recommended that the last sentence be repealed and that the statute be amended to provide for drawback at the rate of tax actually paid at the time of exportation.

*Section 1276, title 26, U.S. Code (act of Mar. 3, 1897).*—This section authorizes the bottling of domestic distilled spirits in bond which have been in internal revenue bonded warehouses for a period of not less than 4 years. Domestic whisky and brandy bottled under the act for domestic consumption, under the law, is at 100° of proof with nothing added but water, but spirits for export under the act may be bottled in internal revenue bonded warehouses at 80° of proof.

It is recommended that this act be amended, authorizing the bottling in bond in internal revenue bonded warehouses of domestic whisky, fruit brandy, and rum, which has been stored in such warehouses in charred packages for a period of not less than 3 years at either 85° or 100° of proof for domestic consumption, and the bottling of domestic gin in such warehouses for domestic consumption at either 85° or 100° of proof, regardless of the limit of time which it has been in such warehouse. A similar provision should be made for bottling domestic whisky, fruit brandy, rum, and gin in internal revenue bonded warehouses at 80° of proof only for exportation.

*Section 1283, title 26, U.S. Code (sec. 606, Revenue Act of 1918).*—This section provides for the bottling of gin in bond for exporting, regardless of age, at 80° of proof.

If section 1276, title 26, U.S. Code (act of Mar. 3, 1897), is amended as recommended herein, supra, section 1283, title 26, U.S. Code, may be repealed.

*Section 1310, title 26, U.S. Code (sec. 610 Revenue Act of 1918).*—This section provides for the addition of sugar for amelioration of natural wines under the supervision of a Government officer.

It is recommended that the Secretary of the Treasury be authorized, in his discretion, to issue regulations from time to time, requiring this amelioration to be done by the winemaker at his expense without supervision of a Government officer or under the supervision of a storekeeper-gager, as he deems proper.

*Section 1301, title 26, U.S. Code (sec. 612, Revenue Act of 1918, as amended).*—Under this section fortification of sweet wines is done under the supervision of a storekeeper-gager.

It is recommended that this section of law be amended in the same manner as is recommended for section 1310, title 26, U.S. Code (sec. 610, Revenue Act of 1918) herein, in order to economize on salaries of storekeeper-gagers.

*Section 1394 title 26, U.S. Code (5th subdivision, sec. 3244, R.S., as amended); retail and wholesale malt liquor dealers' special taxes.*—It is recommended that this section of law be amended to read as follows:

Retail dealers in malt liquors shall pay a special tax at the rate of \$20 per annum.

"Every person who sells, or offers for sale, malt liquors in less quantities than 5 gallons at one time, but who does not deal in distilled spirits or wines, shall be regarded as a retail liquor dealer in malt liquors.

"Wholesale dealers in malt liquors shall pay a special tax at the rate of \$50 per annum.

"Every person who sells, or offers for sale, malt liquors in quantities of 5 gallons, or more, at one time, but who does not deal in distilled spirits or wines at wholesale, shall be regarded as a wholesale dealer in malt liquors.

"A qualified wholesale dealer in malt liquors cannot sell such liquors in retail quantities of less than 5 gallons without incurring liability as a retail dealer. Likewise, a qualified retail dealer in malt liquor cannot sell such liquor in wholesale quantities of 5 gallons or more to the same party at the same time, without incurring liability to special tax as a wholesale dealer: *Provided*, That no brewer shall be required to pay a special tax as a dealer by reason of selling in the original stamped hogsheads, barrels, or kegs, whether at the place of manufacture or elsewhere, malt liquors manufactured by him or purchased and procured by him in his own hogsheads, barrels, or kegs, under the provisions of section 3349 of the Revised Statutes; \* \* \*"

The above change in language is recommended in order to avoid misunderstandings which have previously existed because of the language contained in the present section of the law ("but who does not deal in spirituous liquors"). The proposed change likewise clears up the uncertainty existing as to whether a qualified wholesale dealer in malt liquor may sell such liquor in quantities of less than 5 gallons without incurring an additional special tax liability as a retail dealer. This modification also clears up the confusion in regard to the term "packages" or "vessels" as now used in the statutes.

The last two paragraphs of this section of the law as it now reads should remain in force relating to brewers selling one-eighth barrel packages and sales by fiduciaries, etc.

*Section 1394, title 26, U.S. Code (4th subdivision, sec. 3244, R.S., as amended); retail and wholesale liquor dealers' special taxes.*—It is recommended that this section of the law be amended to read as follows:

"Retail dealers in liquors shall pay a special tax at the rate of \$25 per annum.

"Every person who sells, or offers for sale, foreign or domestic distilled spirits, wines, or malt liquors, otherwise than hereinafter provided, in less quantities than 5 wine gallons at the same time, shall be regarded as a retail dealer in liquors.

"Wholesale dealers in liquors shall pay a special tax at the rate of \$100 per annum.

"Every person who sells, or offers for sale, foreign or domestic distilled spirits, wines, or malt liquors, otherwise than as hereinafter provided, in quantities of 5 wine gallons or more at one time, shall be regarded as a wholesale dealer in liquors.

"A qualified wholesale liquor dealer cannot sell distilled spirits, wines, or malt liquors in retail quantities of less than 5 wine gallons without incurring liability as a retail dealer. Likewise, a qualified retail dealer in liquors cannot sell such liquors in wholesale quantities of 5 wine gallons or more to the same party at the same time without incurring liability to special tax as a wholesale liquor dealer.

"But no distiller who has given the required bond and who sells only distilled spirits of his own production at the place of manufacture, or at the place of storage in bond, in the original packages to which the tax-paid stamps are affixed, shall be required to pay the special tax of a wholesale dealer in liquor on account of such sales."

The reasons for the recommended changes in this law are similar to those set forth under section 1304, title 26, U.S. Code, insofar as malt liquor dealers are concerned.

In respect to the last paragraph of exempting distillers from special taxes under this section of the law, attention is invited to the recommendation made under section 1210, title 26, U.S. Code. This paragraph will be inoperative if Congress adopts the recommendation made elsewhere imposing a special tax on distillers.

*Section 1402, title 26, U.S. Code (sec. 3232, R.S.); payment of special tax before carrying on trade or business.*—It is recommended that this section of law be repealed inasmuch as it is in conflict with section 1402, title 26, U.S. Code (Sec. 3237, R.S.).

*Section 1402, title 26, U.S. Code (Sec. 3237, R.S.); time of payment of special taxes.*—It is recommended that this section of law be amended to read as follows:

"That all special taxes shall become due on the 1st day of July in each year, or on commencing any trade or business on which such tax is imposed. In the former case, the tax shall be reckoned for 1 year, and in the latter case, it shall be reckoned proportionately from the first day of the month in which the liability to a special tax commenced to and including the thirtieth day of June following.

"And it shall be the duty of the special taxpayers to render their returns with remittances to the collector at such times within the calendar month in which the special tax liability commenced as shall enable him to receive such returns, duly signed and verified, together with the remittances, not later than the last day of the month, except in cases of sickness or absence, as provided for in section 3176 of the Revised Statutes, as amended."

*Section 1397 (1), title 26, U.S. Code (sec. 3281, R.S.); penalties imposed on rectifiers, liquor dealers, malt liquor dealers, manufacturers of stills, and distillers for violations of law.*—It is recommended that this section of law be amended to read as follows:

"That any person who shall carry on the business of a brewer, rectifier, wholesale liquor dealer, retail liquor dealer, wholesale dealer in malt liquors, retail dealer in malt liquors, or manufacturer of stills, who willfully fails to pay the special tax as required by law, or who shall carry on the business of a distiller without having given bond as required by law, or who shall engage in or carry on the business of a distiller with intent to defraud the United States of the tax on spirits distilled by him, or any part thereof, shall, for every offense, be fined not less than \$100 nor more than \$5,000 and be imprisoned for not less than 30 days nor more than 2 years."

The purpose of this recommendation is to impose the heavier penalties where there is evidence of fraud or willful failure to comply with the law, and to leave the smaller penalties under section 1397 (b), title 26, U.S. Code, applicable to the minor offenses of law.

*Section 1397 (2), title 26, U.S. Code (sec. 701, Revenue Act of 1926); excise tax imposed on persons carrying on business in violation of dry laws of States.*—It is recommended that this section of law be repealed as an internal revenue measure. The receipts from this imposition are negligible and the cost of its enforcement is far in excess of any value in the revenue system. This is regarded as a penalty.

*Section 1163, title 26, U.S. Code (sec. 3259, R.S.); distillers listing stockholders in notice of intention to begin operations.*—No objection will be offered to an amendment to this section of the law, which would require such distillers to list only officers, directors, and such stockholders as the Secretary of the Treasury may, by regulations issued from time to time, require.

J. M. DOBAN,  
Commissioner of Industrial Alcohol.  
GUY T. HELVERING,  
Commissioner of Internal Revenue.

CHART No. 1A.—Present and recommended rates of excise, import, and miscellaneous taxes relating to alcoholic beverages

I. Present excise per gallon	II. Recommended excise per gallon	III. Present duty per gallon	IV. Recommended rates if bargaining policy is to be adopted		V. Recommended rates if bargaining policy is not to be adopted
			A. Initial	B. Minimum	
Beer:					
Not exceeding 3.2 percent alcohol, \$5 per barrel of 31 gallons <sup>1</sup>	\$5 per barrel of 31 gallons.....	\$1 <sup>2</sup> .....	\$0.50	\$0.10	\$0.25
Exceeding 3.2 percent alcohol, \$6 per barrel of 31 gallons <sup>1</sup>					
Spirits, \$1.10 <sup>4</sup> .....	\$2.60.....	\$5 (plus excise) <sup>4</sup> .....	5.00	2.00	3.00
Still wines:					
16 cents, not exceeding 3.2 percent alcohol <sup>5</sup>	Less than 14 percent alcohol, 16 cents. 14 to 24 percent alcohol, 40 cents. Above 24 percent alcohol, same rate as for distilled spirits.....	\$1.25 (plus excise) <sup>5</sup>	2.00	.60	1.00
4 cents, 3.2 to 14 percent alcohol.....					
10 cents, 14 to 21 percent alcohol.....					
25 cents, 21 to 24 percent alcohol <sup>7</sup> .....					
Exceeding 24 percent alcohol, same rate as for distilled spirits.....					
Sparkling wines:					
\$1.92 champagnes <sup>8</sup> .....	(Natural sparkling wines containing not more than 24 percent alcohol, 80 cents. Artificial sparkling wines containing not more than 24 percent alcohol, 40 cents Sparkling wines containing more than 24 percent alcohol, same rate as for distilled spirits. 10 cents.....	\$6 (plus excise) <sup>10</sup> .....	6.00	1.60	3.30
96 cents, artificially carbonated.....					
96 cents, beverages fortified with grape brandy.....					
Rectified spirits, 30 cents (plus excise on distilled spirits). <sup>11</sup>	10 cents.....	\$5 plus excise (rectifying tax not paid on imported rectified spirits) <sup>3</sup> .....			

OCCUPATIONAL TAXES

	Present rate	Recommended rate
Operation of brewery.....	\$1,000 <sup>12</sup> .....	\$1,000.
Wholesale dealer in wines or spirits.	\$100 <sup>13</sup> .....	\$200.
Retail dealer in wines or spirits.	\$25 <sup>14</sup> .....	\$50.
Wholesale dealer in beer.	\$50 <sup>15</sup> .....	\$50.
Retail dealer in beer.....	\$20 <sup>16</sup> .....	\$20.
Rectifiers.....	\$200 (capacity over 500 barrels per year). <sup>17</sup> \$100 (capacity under 500 barrels per year).	\$500 (capacity 500 and more barrels per year). \$250 (capacity under 500 barrels per year).
Manufacturers of stills and worms.	\$50 per still; \$20 per worm <sup>18</sup> .....	\$50 per still; \$20 per worm.
Operation of distillery.....	None.....	\$2,000. \$50 (capacity less than 5,000 gallons). \$200 (capacity 5,000 to 10,000 gallons). \$400 (capacity exceeding 10,000 gallons).
Operation of winery.....	do.....	

<sup>1</sup> Act of Mar. 22, 1833, sec. (1) (a).  
<sup>2</sup> Code title 26, sec. 1330 (a) (1).  
<sup>3</sup> Code title 19, sec. 1001, par. 805.  
<sup>4</sup> Code title 26, sec. 1150 (a) (1).  
<sup>5</sup> Code title 19, sec. 1001, par. 802.  
<sup>6</sup> Act of Mar. 22, 1933, sec. 1.  
<sup>7</sup> Code title 26, sec. 1300 (a) (1).  
<sup>8</sup> Code title 19, sec. 1001, par. 804.  
<sup>9</sup> Code title 26, sec. 1300 (a) (2).

<sup>10</sup> Code title 19, sec. 1001, par. 803.  
<sup>11</sup> Code title 26, sec. 1150 (a) (6).  
<sup>12</sup> Act of Mar. 22, 1933, sec. (1) (b).  
<sup>13</sup> Code title 26, sec. 1394 (b) (1).  
<sup>14</sup> Code title 26, sec. 1394 (c) (1).  
<sup>15</sup> Code title 26, sec. 1394 (e) (1).  
<sup>16</sup> Code title 26, sec. 1394 (f) (1).  
<sup>17</sup> Code title 26, sec. 1304 (g) (1).  
<sup>18</sup> Code title 26, sec. 1394 (k) (1).

Code references are to Supplement VI of the Code of Laws of the United States. All figures are based on proof-gallon, or if less than proof wine-gallon, figures for all other beverages are based on wine-gallon.

CHART No. 2A.—*Formula for computing each State's share of Federal receipts for internal revenue taxation of alcoholic beverages. (See report, sec. 10)*

$$\text{Share of State} = \frac{\text{Total internal revenue from alcoholic beverages}}{5}$$

$$\times \frac{\text{State production plus consumption of beer} + \text{State production plus consumption of wines} + 16^1 (\text{State production plus consumption of spirits})}{\text{Total domestic production plus consumption of beer} + \text{Total domestic production plus consumption of wines} + 16^1 (\text{Total domestic production plus consumption of spirits})}$$

<sup>1</sup> This figure represents the differential between recommended rates of excise on spirits as compared with beer or still wine. If these rates are not adopted this figure would require adjustment.

PART II

REPORT OF UNITED STATES TARIFF COMMISSION ON ALCOHOLIC BEVERAGES, UNITED STATES PRODUCTION, EXPORTS, IMPORTS, CONSUMPTION, INTERNAL REVENUE TAXES AND LAWS, AND COMPARISON OF TARIFF ACTS

UNITED STATES TARIFF COMMISSION,  
*Washington, December 15, 1933.*

HON. ROBERT L. DOUGHTON,  
*Chairman, Committee on Ways and Means, House of Representatives,  
Washington, D.C.*

MY DEAR MR. DOUGHTON: During the course of my testimony before the joint hearing held by the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the United States Senate, I was requested to introduce into the record statistics dealing with the collections by States, counties, and cities for liquor taxes; tariff rates and excise taxes in foreign countries on various alcoholic beverages; statistics dealing with the United States production, consumption, tax collections, exports, imports, and tariff rates. In addition the committee requested the insertion of a chart to show a comparison of the rates of duties in the Tariff Acts of 1909, 1913, and 1930, with the costs of production of the various alcoholic beverages in the United States. All the foregoing are attached hereto.

Very truly yours,

HARRY L. LOURIE,  
*Special Expert.*

Revenue receipts collected by States on the liquor traffic in 1915, 1916, 1918, and 1919<sup>1</sup>

Geographic division and State	On liquor traffic			
	1915	1916	1918	1919
Grand total.....	\$20,799,071	\$10,262,893	\$20,840,332	\$14,228,151
New England.....	1,114,524	1,104,300	1,395,103	1,408,212
Maine.....				
New Hampshire.....	18,102			47,615
Vermont.....	52,753	82,539	46,335	701,239
Massachusetts.....	873,349	895,955	747,693	150,915
Rhode Island.....	170,320	155,800	159,872	415,416
Connecticut.....			441,233	
Middle Atlantic.....	11,099,516	10,810,411	12,239,910	6,442,139
New York.....	9,357,631	9,088,677	10,568,113	4,902,062
New Jersey.....				
Pennsylvania.....	1,741,885	1,721,734	1,671,797	1,540,077
East North Central.....	2,276,357	2,535,904	2,649,962	1,561,430
Ohio.....	2,242,232	2,501,779	2,641,795	1,559,861
Indiana.....	11,000	11,000	7,000	
Illinois.....				
Michigan.....	23,125	23,125	1,167	1,569
Wisconsin.....				
West North Central.....	2,422,780	1,362,378	1,433,716	2,059,798
Minnesota.....	59,246	44,479	39,145	28,522
Iowa.....				
Missouri.....	2,363,534	1,317,899	1,394,571	2,031,276
North Dakota.....				
South Dakota.....				
Nebraska.....				
Kansas.....				
South Atlantic.....	1,221,771	1,047,668	652,798	450,410
Delaware.....	78,676	74,203	79,748	55,317
Maryland.....	478,575	439,447	502,770	357,123
Virginia.....	487,587	413,996	8,548	
West Virginia.....				
North Carolina.....				
South Carolina.....				
Georgia.....				
Florida.....	176,933	120,022	61,720	8,000
East South Central.....	528,680	395,960	774,015	1,076,304
Kentucky.....	443,894	357,498	774,015	1,076,304
Tennessee.....				
Alabama.....	84,786	38,462		
Mississippi.....				
West South Central.....	1,404,538	1,357,040	1,258,671	848,670
Arkansas.....	63,920	31,039		
Louisiana.....	454,847	449,095	394,632	367,855
Oklahoma.....	8,022			
Texas.....	877,749	876,906	864,039	480,855
Mountain.....	540,743	515,091	438,232	381,158
Montana.....	385,253	381,658	363,000	309,212
Idaho.....	14,525	10,593		
Wyoming.....	2,050	2,250		
Colorado.....	48,935	38,668		
New Mexico.....	800	800	400	200
Arizona.....				
Utah.....				
Nevada.....	88,580	81,724	74,832	71,746
Pacific.....	190,162	134,141	6,925	
Washington.....	190,162	134,141	6,925	
Oregon.....				
California.....				

<sup>1</sup> No data available prior to 1915.

Source: Financial Statistics of States, Bureau of Census.

Revenue receipts of counties, total and per capita, by geographic divisions and States, 1913

Geographic division and State	Liquor licenses and other imposts		Geographic division and State	Liquor licenses and other imposts	
	Total	Per capita		Total	Per capita
Total.....	\$6,577,556	\$0.08	South Atlantic—Continued.		
New England.....	238,002	.04	District of Columbia.....		
Maine.....			Virginia.....		
New Hampshire.....	135,516	.31	West Virginia.....		
Vermont.....			North Carolina.....		
Massachusetts.....			South Carolina.....		
Rhode Island.....			Georgia.....		
Connecticut.....	102,486	.09	Florida.....	\$65,387	\$0.08
Middle Atlantic.....	423,357	.03	East South Central.....	199,705	.02
New York.....			Kentucky.....		
New Jersey.....			Tennessee.....		
Pennsylvania.....	423,357	.03	Alabama.....	199,705	.09
East North Central.....	1,005,095	.10	Mississippi.....		
Ohio.....	983,898	.20	West South Central.....	723,613	.08
Indiana.....			Arkansas.....	113,120	.07
Illinois.....	19,225	( <sup>1</sup> )	Louisiana.....	232,893	.17
Michigan.....	902,572	.31	Oklahoma.....		
Wisconsin.....			Texas.....	377,600	.09
West North Central.....	1,752,733	.16	Mountain.....	852,586	.31
Minnesota.....	163,604	.08	Montana.....	374,204	.89
Iowa.....	494,976	.22	Idaho.....	115,160	.30
Missouri.....	907,068	.34	Wyoming.....		
North Dakota.....			Colorado.....	63,051	.10
South Dakota.....	163,725	.25	New Mexico.....	53,165	.14
Nebraska.....	23,350	.02	Arizona.....	158,876	.69
Kansas.....			Utah.....	9,623	.02
South Atlantic.....	203,230	.02	Nevada.....	78,627	.83
Delaware.....			Pacific.....	278,635	.06
Maryland.....	137,843	.18	Washington.....	39,944	.03
			Oregon.....	22,089	.03
			California.....	216,602	.10

<sup>1</sup> Less than one half of 1 cent.

Source: Wealth, Debt, and Taxation, 1913, U.S. Bureau of the Census, vol. II, p. 122.

The following statement shows for the odd years 1903 to 1917 the number of cities having a population of over 30,000, their total revenue receipts, the receipts from taxes on the liquor traffic and from other business licenses, and the percent of the total revenue constituted by each of these classes of revenue.

Year	Number of cities	Population	Total revenue receipts	Receipts from taxes on the liquor traffic	
				Total	Percent
1917.....	219	33,267,431	\$1,065,537,142	\$36,974,797	3.5
1915.....	204	31,168,160	940,385,311	39,606,956	4.2
1913.....	169	30,194,677	860,277,110	41,364,627	4.8
1911.....	193	28,559,142	805,720,133	40,387,448	5.0
1909.....	157	25,577,744	680,138,482	37,369,321	5.5
1907.....	157	23,472,481	591,080,138	37,880,052	6.4
1905.....	153	22,169,535	513,090,010	29,530,265	5.8
1903.....	146	20,869,155	450,943,855	27,595,247	6.1

Revenue receipts collected by each city of over 30,000 inhabitants from taxes on the liquor traffic for the odd years 1903-17

City no. 1917	State and city	Receipts from taxes on the liquor traffic							
		1917	1915	1913	1911	1909	1907	1905	1903
<b>ALABAMA</b>									
33	Birmingham.....		\$142,628	\$218,000			\$113,100	\$83,400	\$55,725
111	Mobile.....		47,660	65,967	\$26,320		35,636	18,121	11,521
146	Montgomery.....		15,227	34,136	16,028		36,950	28,261	22,205
<b>ARKANSAS</b>									
114	Little Rock.....		84,499	76,150	78,460	\$71,535	58,618	62,394	27,360
<b>CALIFORNIA</b>									
109	Berkeley.....					(1)	(1)	(1)	(1)
184	Fresno.....	\$63,058	61,100	(1)	(1)				
10	Los Angeles.....	694,176	679,789	471,998	421,898	398,825	411,885	267,435	180,610
30	Oakland.....	233,340	241,126	204,635	203,910	179,240	165,040	108,560	97,616
134	Pasadena.....					(1)	(1)	(1)	(1)
98	Sacramento.....	108,676	115,800	79,176	74,550	65,030	65,610	72,047	60,897
122	San Diego.....	151,367	150,242	117,210	73,995	(1)	(1)	(1)	(1)
12	San Francisco.....	652,195	1,035,305	1,052,265	1,072,010	1,140,982	1,187,375	275,520	266,697
166	San Jose.....	72,228	60,365	49,120	48,936	(1)	(1)	(1)	(1)
188	Stockton.....	44,556	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>COLORADO</b>									
200	Colorado Springs.....		20,300	19,800	(1)	(1)		(1)	(1)
24	Denver.....		259,491	238,562	301,040	325,698	316,740	276,845	245,250
120	Pueblo.....		93,931	104,403	105,664	92,819	84,935	81,511	(1)
<b>CONNECTICUT</b>									
48	Bridgeport.....	165,604	135,244	138,237	137,864	133,439	137,040	134,247	127,979
57	Hartford.....	85,445	71,125	70,209	68,485	69,718	69,106	69,477	74,703
121	New Britain.....	32,790	28,666	25,560	24,345	23,490	23,689	601	(1)
39	New Haven.....	188,594	167,765	165,546	170,159	171,297	160,069	163,426	168,653
211	Stamford.....	34,408	(1)	(1)	(1)	(1)	(1)	(1)	(1)
78	Waterbury.....	86,973	70,695	78,022	88,830	88,543	80,480	79,461	83,524
<b>DELAWARE</b>									
71	Wilmington.....								
<b>DIST. OF COLUMBIA</b>									
17	Washington.....	470,300	526,257	436,700	459,310	464,019	470,448	464,997	456,681
<b>FLORIDA</b>									
85	Jacksonville.....	77,250	78,500	88,000	92,250	68,500	52,050	29,700	26,400
119	Tampa.....	29,625	40,375	39,000	37,450	(1)	(1)	(1)	(1)
<b>GEORGIA</b>									
32	Atlanta.....						135,613	129,512	96,600
128	Augusta.....						10,300	38,400	18,100
142	Macon.....						46,600	34,000	(1)
95	Savannah.....						52,425	54,337	50,385
<b>IDAHO</b>									
192	Boise.....		32,800	(1)	(1)	(1)	(1)	(1)	(1)
<b>ILLINOIS</b>									
193	Aurora.....	63,200	37,300	49,655	39,500	(1)	(1)	(1)	(1)
2	Chicago.....	7,067,172	7,106,258	7,283,015	7,233,492	7,243,179	7,306,802	3,931,010	3,645,498
202	Danville.....	60,600	61,273	62,013	(1)	(1)	(1)	(1)	(1)
162	Decatur.....			59,623	36,443	(1)	(1)	(1)	(1)
88	East St. Louis.....	178,024	177,295	167,081	171,779	155,498	124,715	153,037	140,279
171	Joliet.....	137,655	142,000	138,200	136,190	136,300	93,242	136,472	127,000
91	Peoria.....	204,171	182,977	183,797	180,173	137,676	134,934	109,250	114,000
179	Quincy.....	64,770	70,917	75,715	76,221	71,686	70,354	71,789	67,276
118	Rockford.....			2	54,461		56,218	53,058	54,799
104	Springfield.....	109,047	110,507	110,668	114,260	106,609	103,024	93,377	76,651

1 Less than 30,000 population.

Revenue

City no. 1917  
56  
84  
84  
94  
100  
174  
206  
199  
65  
163  
113  
183  
69  
131  
92  
115  
158  
28  
204  
102  
8  
5  
97  
201  
32  
140  
165  
44  
134  
133  
101  
66  
33  
64  
126  
49  
145  
167  
169  
132  
77  
63  
191  
214  
35  
1 Less

TAX ON INTOXICATING LIQUOR

351

Revenue receipts collected by each city of over 30,000 inhabitants from taxes on the liquor traffic for the odd years 1903-17—Continued

City no. 1917	State and city	Receipts from taxes on the liquor traffic							
		1917	1915	1913	1911	1909	1907	1905	1903
<b>INDIANA</b>									
58	Evansville.....	\$84,313	\$80,800	\$86,427	\$112,903	\$71,290	\$76,118	\$77,563	\$22,263
84	Fort Wayne.....	52,500	58,800	58,592	51,987	47,909	27,200	21,300	20,700
23	Indianapolis.....	305,100	335,800	341,500	317,384	192,782	196,050	190,800	158,000
91	South Bend.....	58,300	62,900	109,200	84,232	22,608	19,900	17,800	15,700
100	Terre Haute.....	77,119	78,970	80,520	74,085	67,841	68,409	60,892	47,956
<b>IOWA</b>									
174	Cedar Rapids.....		67,600	69,975	60,137	( )	( )	( )	( )
206	Council Bluffs.....		50,834	50,192	33,496	( )	( )	( )	( )
130	Davenport.....		69,524	41,490	43,217	50,094	73,902	58,520	55,344
65	Des Moines.....		71,934	107,313	97,822	90,299	95,101	92,143	81,560
163	Dubuque.....		67,600	44,495	42,677	32,280	34,631	40,000	40,000
113	Sioux City.....		76,790	83,751	43,100	54,933	54,053	49,533	49,820
153	Waterloo.....			23,850	( )	( )	( )	( )	( )
<b>KANSAS</b>									
69	Kansas City.....								
131	Topeka.....								
92	Wichita.....								( )
<b>KENTUCKY</b>									
115	Covington.....	57,300	69,574	42,471	44,040	21,748	21,130	20,045	19,547
158	Lexington.....	87,991	67,100	71,063	71,937	( )	( )	( )	( )
28	Louisville.....	323,870	351,407	358,880	359,039	358,493	138,915	140,449	135,003
204	Newport.....	19,380	21,640	22,728	11,739	10,854	11,795	( )	( )
<b>LOUISIANA</b>									
16	New Orleans.....	650,567	702,310	643,098	647,298	630,450	430,214	181,453	107,060
189	Shreveport.....				( )	( )	( )	( )	( )
<b>MAINE</b>									
102	Portland.....								
<b>MARYLAND</b>									
8	Baltimore.....	1,019,151	963,823	1,113,932	1,125,883	959,797	449,587	442,690	445,595
<b>MASSACHUSETTS</b>									
5	Boston.....	1,043,339	1,067,919	1,069,386	960,473	1,093,608	1,138,267	1,108,970	1,069,855
97	Brockton.....		( )	( )	( )	( )	( )	( )	( )
201	Brookline.....								
32	Cambridge.....	24	46	47	46	39	44	45	46
140	Chelsea.....	40,623	30,064	30,307	30,506		8	34,872	
165	Everett.....							( )	( )
44	Fall River.....	144,223	188,789	188,406	139,384	1	150,232	145,049	154,681
154	Fitchburg.....	39,024	41,269	40,518	37,143	34,072	19	32,828	20
133	Haverhill.....	69,298	62,195	55,736	55,668	49,107	47,587	47,455	50,809
101	Holyoke.....	77,723	73,048	72,104	72,402	62,091	61,861	53,198	53,270
66	Lawrence.....	125,047	119,429	115,907	128,792	135,280	140,651	127,223	120,017
33	Lowell.....	107,509	107,469	107,138	104,763	129,416	133,828	130,577	
64	Lynn.....	1	102,778				93,595	84,290	82,229
126	Malden.....							17	
49	New Bedford.....	93,218	83,086	82,928	82,184	200	79,465	77,513	64,227
145	Newton.....			17	18	17	17	20	25
167	Pittsfield.....	32,335	30,125	32,374	32,523	( )	( )	( )	( )
169	Quincy.....					( )	( )	( )	( )
132	Salem.....					45,020	96		42,268
77	Somerville.....		22	29	43	29	28	28	22
63	Springfield.....	123,497	111,866	107,586	109,345	94,006	92,240	82,990	76,678
181	Taunton.....	35,589	35,337	34,844	35,144	34,135	41,514	41,861	39,310
214	Waltham.....		( )	( )	( )	( )	( )	( )	( )
35	Worcester.....	192,605	192,603	185,589	190,465	3	164,160	153,113	150,417

<sup>1</sup> Less than 30,000 population.

Revenue receipts collected by each city of over 30,000 inhabitants from taxes on the liquor traffic for the odd years 1903-17—Continued

City no. 1917	State and city	Receipts from taxes on the liquor traffic							
		1917	1915	1913	1911	1909	1907	1905	1903
MICHIGAN									
135	Bay City.....	\$24,362	\$29,054	\$31,680	\$32,345	\$37,115	\$41,780	\$37,729	( )
7	Detroit.....	654,836	694,275	769,885	767,259	807,176	789,342	358,288	\$324,331
117	Flint.....	( )	( )	24,620	( )	( )	( )	( )	( )
43	Grand Rapids.....	58,938	41,732	59,102	48,551	50,300	61,144	50,898	49,975
167	Jackson.....	26,780	24,549	24,922	( )	( )	( )	( )	( )
129	Kalamazoo.....	( )	29,239	30,251	12,960	14,430	14,404	13,910	( )
162	Lansing.....	( )	( )	13,195	( )	( )	( )	( )	( )
116	Saginaw.....	40,678	45,286	47,676	41,273	42,297	46,504	42,699	43,697
MINNESOTA									
72	Duluth.....	142,240	167,275	180,300	181,342	174,865	183,000	173,000	175,000
18	Minneapolis.....	390,225	392,235	399,050	402,751	413,460	434,000	472,000	395,000
27	St. Paul.....	415,520	404,760	403,760	401,660	391,720	391,000	384,000	354,000
MISSOURI									
196	Joplin.....	60,000	84,297	50,992	45,733	27,323	26,012	24,562	19,743
21	Kansas City.....	530,807	286,646	308,384	307,000	315,770	312,250	154,343	144,833
79	St. Joseph.....	76,022	80,135	81,192	80,370	84,952	81,428	82,838	80,545
4	St. Louis.....	1,088,616	1,173,787	1,166,920	1,137,675	1,121,250	1,178,112	1,270,570	1,255,731
169	Springfield.....	59,424	30,100	29,750	28,327	( )	( )	( )	( )
MONTANA									
147	Butte.....	47,378	46,643	45,817	48,608	49,260	51,255	48,900	48,075
NEBRASKA									
139	Lincoln.....	50,000	46,281	50,001	50,000	5,324	49,503	61,500	41,200
34	Omaha.....	325,014	279,160	519,800	260,680	260,490	193,650	130,000	213,000
NEW HAMPSHIRE									
80	Manchester.....	56,391	55,795	53,842	53,779	53,943	55,921	55,563	40,975
NEW JERSEY									
112	Atlantic City.....	125,300	134,700	107,900	110,400	110,300	112,150	104,116	56,500
93	Bayonne.....	57,174	57,047	55,674	51,590	50,279	50,650	46,959	40,600
01	Camden.....	139,641	133,269	132,845	129,972	125,125	127,738	128,060	121,249
151	East Orange.....	12,750	10,775	8,950	8,800	( )	( )	( )	( )
76	Elizabeth.....	132,913	137,660	144,102	141,757	86,304	82,678	67,825	64,075
82	Hoboken.....	173,267	110,772	115,768	115,175	126,110	127,860	106,610	96,000
20	Jersey City.....	474,379	483,966	485,761	494,024	493,061	526,568	286,323	263,114
15	Newark.....	745,800	765,350	691,490	605,210	559,040	620,840	381,160	369,425
197	Orange.....	33,550	35,411	36,042	36,850	( )	( )	( )	( )
89	Passaic.....	66,467	64,165	69,067	69,339	68,788	58,464	59,415	57,713
42	Paterson.....	202,050	162,220	165,030	173,700	171,970	163,780	135,500	136,170
156	Perth Amboy.....	69,250	65,375	63,450	63,200	( )	( )	( )	( )
56	Trenton.....	125,700	125,625	109,725	109,185	110,194	113,700	105,950	106,175
150	West Hoboken.....	50,100	50,825	49,525	49,925	50,225	50,075	( )	( )
NEW YORK									
62	Albany.....	117,859	129,850	124,549	124,507	125,288	137,911	143,294	141,561
177	Amsterdam.....	25,955	27,642	28,306	27,234	( )	( )	( )	( )
173	Auburn.....	26,678	29,411	29,714	29,679	31,336	13,757	33,312	29,451
123	Binghamton.....	48,777	36,132	35,857	35,908	35,281	35,597	32,679	30,561
11	Buffalo.....	612,148	636,683	622,297	620,703	575,198	269,456	624,237	610,422
170	Elmira.....	37,131	37,232	37,770	38,628	38,233	49,618	39,701	40,977
180	Jamestown.....	16,418	16,272	16,543	15,718	( )	( )	( )	( )
176	Mount Vernon.....	27,118	29,620	30,048	27,982	( )	( )	( )	( )
172	New Rochelle.....	27,088	28,663	29,438	27,135	( )	( )	( )	( )
1	New York.....	5,196,688	5,545,909	5,708,272	5,766,697	5,490,245	6,168,457	5,991,390	5,018,073
175	Niagara Falls.....	55,108	55,008	51,871	52,530	( )	( )	( )	( )
217	Poughkeepsie.....	24,540	( )	( )	( )	( )	( )	( )	( )
25	Rochester.....	211,623	214,179	212,071	209,978	203,978	206,948	196,183	195,045
68	Schenectady.....	86,323	98,575	97,859	100,403	90,962	100,991	108,862	68,685
37	Syracuse.....	150,242	148,939	150,286	151,149	149,169	146,448	140,489	147,660
81	Troy.....	79,068	93,045	98,161	97,231	95,810	108,703	104,665	104,890
70	Utica.....	99,211	99,150	100,007	99,078	95,611	105,972	99,378	92,111
67	Yonkers.....	89,053	94,906	94,650	91,284	82,026	86,848	60,236	51,534

† Less than 30,000 population.

TAX ON INTOXICATING LIQUOR

Revenue receipts collected by each city of over 30,000 inhabitants from taxes on the liquor traffic for the odd years 1903-17—Continued

City no. 1917	State and city	Receipts from taxes on the liquor traffic							
		1917	1915	1913	1911	1909	1907	1905	1903
<b>NORTH CAROLINA</b>									
161	Charlotte.....					( )	( )	( )	( )
219	Wilmington.....		( )	( )	( )	( )	( )	( )	( )
208	Winston-Salem.....		( )	( )	( )	( )	( )	( )	( )
<b>OHIO</b>									
73	Akron.....	\$86,765	\$78,959	\$103,356	\$87,731	\$63,705	\$71,524	\$34,567	\$16,071
105	Canton.....	61,140	64,592	81,911	76,088	62,745	74,528	31,570	14,341
14	Cincinnati.....	633,318	629,572	1,037,476	1,028,118	1,005,576	1,064,288	430,627	410,602
6	Cleveland.....	943,265	883,131	1,460,570	1,406,794	1,397,859	1,277,290	553,980	497,333
29	Columbus.....	100,780	191,319	298,338	209,971	247,641	244,362	101,910	106,374
45	Dayton.....	129,075	121,101	78,009	229,265	72,497	163,097	78,663	39,277
160	Hamilton.....	42,079	37,124	57,127	55,518	( )	( )	( )	( )
186	Lima.....	34,523	32,255	36,587	36,932	( )	( )	( )	( )
178	Lorain.....	36,928	33,012	53,503	57,895	( )	( )	( )	( )
125	Springfield.....	69,858	72,183	58,723	1,009	22,843	24,962	25,355	13,170
31	Toledo.....	196,400	276,034	308,547	312,725	137,141	139,655	130,533	197,297
59	Youngstown.....	106,429	141,674	164,021	157,378	187,559	129,058	61,243	26,815
212	Zanesville.....	32,114	( )	( )	( )	( )	( )	( )	( )
<b>OKLAHOMA</b>									
143	Muskogee.....					( )	( )	( )	( )
70	Oklahoma City.....					8,000	( )	( )	( )
207	Tulsa.....		( )	( )	( )	( )	( )	( )	( )
<b>OREGON</b>									
22	Portland.....		372,619	397,282	581,020	360,363	330,241	212,275	140,683
<b>PENNSYLVANIA</b>									
103	Allentown.....	30,000	30,400	30,800	30,000	30,000	29,600	31,200	31,704
110	Altoona.....	16,000	18,000	19,200	20,800	25,179	26,267	24,396	20,176
155	Chester.....	17,600	16,400	18,656	18,666	18,656	18,258	19,018	19,054
215	Easton.....	16,400	( )	( )	( )	( )	( )	( )	( )
87	Erie.....	56,800	57,200	56,400	54,400	56,400	56,400	55,034	55,600
90	Harrisburg.....	24,400	26,000	27,600	33,000	55,600	12,600	.....	42,112
96	Johnstown.....	32,800	32,000	29,600	35,850	34,320	34,800	32,370	32,370
127	Lancaster.....	28,800	28,800	30,400	30,400	30,218	31,402	31,402	31,402
136	McKeesport.....	22,800	24,985	28,641	20,600	28,800	29,056	27,600	26,800
157	New Castle.....	4,400	.....	8,000	8,000	7,200	6,800	12,400	12,400
210	Norristown.....	2,640	2,640	( )	( )	( )	( )	( )	( )
3	Philadelphia.....	1,916,645	1,920,750	1,949,434	1,959,000	1,962,450	1,926,000	1,870,000	1,815,000
9	Pittsburgh.....	713,242	762,122	769,158	784,268	781,541	805,036	694,193	691,237
58	Reading.....	68,008	68,008	67,610	69,600	49,600	78,800	68,008	67,610
41	Scranton.....	237,600	251,517	264,216	252,794	244,396	254,724	213,940	170,905
83	Wilkes-Barre.....	71,200	66,400	70,000	61,200	56,400	56,800	54,800	57,200
194	Williamsport.....	18,000	19,200	10,600	19,200	( )	( )	( )	( )
124	York.....	12,800	14,000	14,400	14,400	14,000	14,000	13,855	13,084
<b>RHODE ISLAND</b>									
218	Pawtucket.....	23,797	( )	( )	( )	( )	( )	( )	( )
108	Providence.....	45,199	46,448	47,650	40,725	41,380	37,996	36,308	35,132
26	Woonsocket.....	265,300	266,100	265,375	264,075	263,600	190,625	180,110	182,884
141	Woonsocket.....	36,294	38,144	38,638	37,063	32,412	20,847	20,069	26,152
<b>SOUTH CAROLINA</b>									
106	Charleston.....								
191	Columbia.....				( )	( )	( )	( )	( )
<b>TENNESSEE</b>									
107	Chattanooga.....					40,032	33,396	24,140	20,400
168	Knoxville.....						6,719	22,681	16,000
40	Memphis.....			123,938		41,828	23,358	20,120	18,850
51	Nashville.....	1,005	2,222	10,250	1,500	2,000	68,682	19,555	17,350

1 Less than 30,000 population.

Revenue receipts collected by each city of over 30,000 inhabitants from taxes on the liquor traffic for the odd years 1903-17—Continued

City no. 1917	State and city	Receipts from taxes on the liquor traffic							
		1917	1915	1913	1911	1909	1907	1905	1903
TEXAS									
190	Austin.....	\$9,048	\$10,450	\$8,399	\$8,639	(1)	(1)	(1)	(1)
46	Dallas.....	39,348	38,524	37,921	37,650	\$34,844	\$33,093	\$17,400	\$15,325
99	El Paso.....	29,468	20,376	11,731	14,224	(1)	(1)	(1)	(1)
60	Fort Worth.....	27,618	29,794	29,042	27,744	24,437	30,587	(1)	(1)
163	Galveston.....	21,272	18,269	16,653	15,225	18,073	18,250	16,546	15,675
55	Houston.....	32,937	33,643	30,802	27,039	25,561	39,090	35,282	18,180
47	San Antonio.....	36,281	38,376	33,374	32,219	31,500	23,936	22,200	20,750
195	Waco.....	13,062	11,968	(1)	(1)	(1)	(1)	(1)	(1)
UTAH									
209	Ogden.....	48,150	(1)	(1)	(1)	(1)	(1)	(1)	(1)
50	Salt Lake City.....	224,881	233,977	228,462	236,926	186,280	169,700	128,600	117,550
VIRGINIA									
198	Lynchburg.....	16,950	35,400	34,750	32,925	(1)	(1)	(1)	(1)
74	Norfolk.....	4,493	91,562	128,454	109,893	107,941	114,131	64,074	33,102
164	Portsmouth.....	6,950	18,558	19,172	20,405	(1)	(1)	(1)	(1)
36	Richmond.....	38,000	98,500	95,125	77,000	83,584	66,250	62,469	58,050
149	Roanoke.....	18,525	41,800	43,317	41,700	(1)	(1)	(1)	(1)
WASHINGTON									
199	Bellingham.....			(1)	(1)	(1)	(1)	(1)	(1)
185	Everett.....		40,105		(1)	(1)	(1)	(1)	(1)
19	Seattle.....		305,818	320,835	368,307	304,830	299,835	243,405	236,075
38	Spokane.....		109,296	187,245	211,767	210,533	149,820	108,818	72,080
54	Tacoma.....		114,369	116,344	115,918	119,294	118,935	71,820	60,030
WEST VIRGINIA									
216	Charleston.....		(1)	(1)	(1)	(1)	(1)	(1)	(1)
137	Huntington.....			30,333	28,000	(1)	(1)	(1)	(1)
148	Wheeling.....			40,430	43,775	26,059	52,651	90,635	45,187
WISCONSIN									
203	Kenosha.....	49,000	(1)	(1)	(1)	(1)	(1)	(1)	(1)
205	La Crosse.....	31,425	31,800	31,400	32,170	31,370	32,200	31,200	30,200
213	Madison.....	35,942	(1)	(1)	(1)	(1)	(1)	(1)	(1)
13	Milwaukee.....	427,828	420,420	458,594	451,630	420,180	468,030	426,790	402,500
182	Oshkosh.....	29,825	27,000	28,180	26,176	26,008	27,710	26,200	25,475
188	Racine.....	75,525	76,000	71,178	71,180	66,200	70,190	28,280	27,820
141	Superior.....	525	81,500	81,000	82,000	77,500	85,130	86,638	73,000

1 Less than 30,000 population.

DEPARTMENT OF COMMERCE,  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,  
DIVISION OF FOREIGN TARIFFS,  
Washington, December 13, 1933.

Import duties on alcoholic beverages

CANADA

Tar- iff no.		British preferen- tial tariff <sup>1</sup>	Inter- mediate tariff <sup>2</sup>	General tariff <sup>3</sup>	Special rates under trade agree- ments with specified British areas <sup>4</sup>	Rates to France under Canada- France trade agree- ment <sup>5</sup>
146	Ale, beer, porter, and stout, when im- ported in casks or otherwise than in bottles, per gallon.	25 cents.	35 cents.	35 cents.	-----	35 cents
147	Ale, beer, porter, and stout, when imported in bottles, per gallon.	30 cents.	50 cents.	50 cents.	-----	50 cents
147a	Provided that 6 quart bottles or 12 pint bottles shall be held to contain one gallon. Beverages in the manufacture of which malt, rice, or corn is used, when contain- ing not more than 2½ per centum of proof spirit.	25 per cent.	40 per cent.	40 per cent.	-----	40 per cent.
148	Cider, not clarified or refined, per gallon.	Free.	5 cents.	5 cents.	-----	5 cents.
149	Cider, clarified or refined, per gallon.	Free.	10 cents.	10 cents.	-----	10 cents.
150	Lime juice and fruit juices, fortified with or containing not more than 25 percent of proof spirits, per gallon.	\$2.50.	\$2.50.	\$2.50.	-----	\$2.50.
151	Lime juice and fruit juices, fortified with or containing more than 25 percent of proof spirits, per gallon.	(\$10. 30 per cent.	\$10. 30 per cent.	\$10. 30 per cent.	-----	\$10. 30 per cent.
156	Ethyl alcohol, or the substance commonly known as alcohol, hydrated oxide of ethyl or spirits of wine, n.o.p.; gin of all kinds, n.o.p.; whisky and all spirituous or alco- holic liquors, n.o.p.; absinthe, arrack, or palm spirit, brandy, including artificial brandy and imitations of brandy, n.o.p.; cordials and liqueurs of all kinds, n.o.p.; mescal, pulque, rum shrub, schiedam and other schnapps; tafia, angostura, and similar alcoholic bitters or beverages; and wines, n.o.p., containing more than 40 percent of proof spirit, per gallon of the strength of proof.	\$8.	\$10.	\$10.	-----	\$10.
Ex 154	Brandies and Van der Rum, per gallon.	-----	-----	-----	-----	\$8
Ex 156	Provided as to all goods specified in item no. 156 when of less strength than the strength of proof, that no reduction or al- lowance shall be made in the measure- ment thereof for duty purposes, below the strength of 15 percent under proof.	-----	-----	-----	-----	\$8
Ex 156a	Brandy, per proof gallon.	-----	-----	-----	-----	\$8
	Rum, per gallon of the strength of proof.	\$8	\$10	\$10	-----	\$10
	Provided, as to all goods specified in item no. 156a when of less strength than the strength of proof, that no reduction or allowance shall be made in the measure- ment thereof for duty purposes, below the strength of 15 percent under proof.	-----	-----	-----	-----	\$10

<sup>1</sup> British preferential rates apply to products from most British sources when coming direct (see footnote 4 for special rates to South Africa, Australia, and New Zealand, under trade agreements with Canada.)  
<sup>2</sup> Intermediate rates to products from Brazil, Italy, and colonies; Austria, Czechoslovakia, Denmark, Belgium-Luxemburg, and colonies; Estonia, Finland, Germany, Hong Kong, Hungary, Latvia, Lithuania, Netherlands, and colonies; Norway, Portugal, Rumania, Spain, and certain possessions; Sweden, Switzerland, Yugoslavia, Argentina, Colombia, Venezuela, and Japan (except as noted in footnote 5), when imported direct, or from a British country.  
<sup>3</sup> General rates to the United States and other countries having no commercial treaty arrangements with Canada.  
<sup>4</sup> Special rates under trade agreement between Canada and—  
• South Africa.  
• Australia.  
• New Zealand.  
<sup>5</sup> Intermediate rates extended to France under Canada-France trade agreement.

## Import duties on alcoholic beverages—Continued

## CANADA

Tar- iff no.		British preferen- tial tariff	Inter- mediate tariff	General tariff	Special rates under trade agree- ments with specified British areas *	Rates to France under Canada- France trade agree- ment
156a	<p>Provided also, that when the goods specified in these two items are of greater strength than the strength of proof, the measurement thereof and the amount of duty payable thereon shall be increased in proportion for any greater strength than the strength of proof.</p> <p>Provided further, that bottles and flasks and packages of gin, rum, whisky, and brandy of all kinds, and imitations thereof, shall be held to contain the following quantities (subject to the provisions for addition or deduction in respect of the degree of strength), viz:</p> <p>Bottles, flasks, and packages, containing not more than three fourths of a gallon per dozen, as three fourths of a gallon per dozen;</p> <p>Bottles, flasks, and packages, containing more than three fourths of a gallon but not more than 1 gallon per dozen, as 1 gallon per dozen;</p> <p>Bottles, flasks, and packages, containing more than 1 gallon but not more than 1½ gallons per dozen, as 1½ gallons per dozen;</p> <p>Bottles, flasks, and packages, containing more than 1½ gallons but not more than 2 gallons per dozen, as 2 gallons per dozen;</p> <p>Bottles, flasks, and packages containing more than 2 gallons but not more than 2½ gallons per dozen, as 2½ gallons per dozen;</p> <p>Bottles, flasks, and packages, containing more than 2½ gallons but not more than 3 gallons per dozen as 3 gallons per dozen;</p> <p>Bottles, flasks, and packages containing more than 3 gallons but not more than 3½ gallons per dozen as 3½ gallons per dozen;</p> <p>Provided further that bottles or phials of liquors for special purposes such as samples not for sale to the trade, may be entered for duty according to actual measurement, under regulations prescribed by the minister.</p>					
163	<p>Wines of all kinds, nop, including orange, lemon, strawberry, raspberry, elder, and currant wines, containing 26 percent or less of proof spirit, whether imported in wood or in bottles, per gallon.....</p> <p>And in addition thereto for each degree of strength in excess of 26 percent of proof spirit until the strength reaches 40 percent of proof spirit.....</p> <p>Provided that 6 quart bottles, or 12 pint bottles shall be held to contain a gallon for duty purposes under this item.</p>	55 cents.	55 cents.	55 cents. 30 percent.		55 cents.
		3 cents.	3 cents.	3 cents.		3 cents.
Ex 163	Wines of the fresh grape of all kinds, not sparkling, imported in barrels or in bottles, containing more than 23 percent proof spirit and less than 35 percent proof spirit, per gallon.....				25 cents *.	
164	(a) Wines of the fresh grape of all kinds, except sparkling wines, imported in barrels or in bottles, containing less than 35 percent proof spirit, when the produce or manufacture of the Union of South Africa, per gallon.....				25 cents *.	

\* Special rates under trade agreement between Canada and—

• South Africa.

• Australia.

• New Zealand.

Import duties on alcoholic beverages—Continued

CANADA

Tariff no.		British preferential tariff	Intermediate tariff	General tariff	Special rates under trade agreements with specified British areas	Rates to France under Canada-France trade agreement
164	(b) Wines of all kinds except sparkling wines, imported in barrels or in bottles, containing 35 percent or over, but not more than 40 percent of proof spirits, when the produce or manufacture of the Union of South Africa, per gallon..... Provided that 6 quart bottles or 12 pint bottles be held to contain a gallon for duty purposes under this item.				55 cents <sup>6</sup> .....	
165	Champagne and all other sparkling wines; (a) In bottles containing each not more than a quart but more than a pint (old wine measure) per dozen bottles. (b) In bottles containing not more than a pint each, but more than one half pint (old wine measure), per dozen bottles..... (c) In bottles containing one half pint each or less per dozen bottles..... (d) In bottles containing over one quart each (old wine measure), per gallon.....	\$9.30..... 4.65..... 2.32..... 4.50.....	\$9.30..... 4.65..... 2.32..... 4.50.....	\$9.30..... (30 percent.) {4.65 and 30 percent.} {2.32 and 30 percent.} {4.50 and 30 percent.}	\$7.44 <sup>67</sup> ..... \$3.72 <sup>67</sup> ..... 1.86 <sup>67</sup> ..... 3.60 <sup>67</sup> .....	\$9.30..... \$4.65..... \$2.32..... \$4.50.....

<sup>6</sup> South Africa.  
<sup>67</sup> Australia.

APPLICATION OF EXCISE TAXES TO ALCOHOLIC BEVERAGES (SPECIAL WAR REVENUE ACT, 1916)

Special excise tax, 3 percent, except on ale, beer, porter, and stout, and goods imported by mail or express valued, duty paid, at not more than \$25. Applies only to imported goods, and based on duty-paid value.

The following taxes are payable on wine at the time of sale by the Canadian manufacturer:

Wines of all kinds, except sparkling wines, containing not more than 40 percent of proof spirit.....	Per gal. \$0. 07 $\frac{1}{4}$
Champagne and all other sparkling wines.....	1. 50

APPLICATION OF EXCISE TAXES TO ALCOHOLIC BEVERAGES (EXCISE ACT)

On spirits distilled in Canada:

Made from 90 percent of unmalted grain or sugar, on every gallon of strength of proof by Sykes' hydrometer..... (And so on in proportion for any greater or less strength than the strength of proof, and for any less quantity than a gallon.)	\$7
Made from malted grain, taken to distillery in bond, and on which no duty of excise or customs has been paid, or made from raw or unmalted grain, used in combination with malted grain, on every gallon, etc.....	7
Made from molasses, sirups, sugar, etc., taken to distillery in bond, and on which no duty or customs has been paid, on every gallon, etc....	7
On spirits distilled from native fruit juices, on every gallon, etc.....	1

DEPARTMENT OF COMMERCE,  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,  
Washington, Dec. 18, 1933.

## Statement of rates of import duty on alcoholic beverages

## UNITED KINGDOM

Description	General tariff	British preferential tariff
Beer of the descriptions called or similar to Mum, Spruce, or Black beer, or Berlin White beer, or other preparations whether fermented or not fermented, of a similar character, where the worts thereof are, or were before fermentation, of a specific gravity:	<i>For every 36 imperial gallons</i>	<i>For every 56 imperial gallons</i>
Not exceeding 1,215 degrees .....	£ s. d. 20 14 0	£ s. d. 20 14 0
Exceeding 1,215 degrees .....	24 5 0	24 5 0
Beer, of any other description, of a specific gravity of 1,027 degrees or less .....	1 4 5	1 4 5
And thereafter for each additional degree of gravity over 1,027 degrees .....	0 2 0	0 2 0
Subject to an additional duty of 10d. per 36 imperial gallons, of any gravity, consequential on the hop duty.		
NOTE.—In the case of Black beer of a specific gravity of 1,200 degrees or upwards, the rate is subject to a rebate of £5 for every 36 imperial gallons of beer of a specific gravity of 1,220 degrees and so in proportion for any difference in quantity or gravity.		
Wine:	<i>Per imperial gallon</i>	<i>Per imperial gallon</i>
Not exceeding 25 degrees proof spirit .....	s. d. 4 0	s. d. 12 0
Exceeding 25 degrees but not 42 degrees .....	8 0	4 0
Not exceeding 27 degrees .....		12 0
Exceeding 27 degrees but not 42 degrees .....		4 0
For every degree or fraction of a degree above 42 degrees an additional duty .....	8	4
Additional:		
On sparkling wine <sup>1</sup> .....	12 6	6 3
On still wine in bottle .....	2 0	1 0
Wine includes lees of wine.		
NOTE.—The importation and sale of wine or other liquors described as "Port" or "Madeira" is prohibited unless the wine is the product of Portugal or the Island of Madeira respectively. Wine described as "Port" imported from Portugal must be accompanied by a certificate issued by competent Portuguese authorities guaranteeing that the description complies with the terms of Portuguese law.		
	<i>Per imperial proof gallon imported in bottle <sup>2</sup></i>	<i>Per imperial proof gallon imported in bottle <sup>3</sup></i>
Spirits and strong waters for every gallon computed at hydrometer proof of spirits of any description (except perfumed spirits), including naphtha or methyl alcohol (Methanol) purified so as to be potable, and mixtures and preparations containing spirits: Enumerated spirits:	£ s. d.	£ s. d.
Brandy, if warehoused 3 years or more <sup>4</sup> .....	3 16 4	3 13 10
Rum, if warehoused 3 years or more .....	3 16 4	3 13 10
Rum, if warehoused 2 and less than 3 years .....	3 17 4	3 14 10
Rum, if not warehoused, or warehoused less than 2 years .....	3 17 10	3 15 4
Imitation rum, if warehoused 3 years or more <sup>4</sup> .....	3 16 5	3 13 11
Geneva, if warehoused 3 years or more .....	3 16 5	3 13 11
Geneva, if warehoused 2 and less than 3 years .....	3 17 5	3 14 11
Geneva, if not warehoused, or warehoused less than 2 years .....	3 17 11	3 15 5
Spirits of the above descriptions sweetened to such an extent that the spirit thereby ceases to be an enumerated spirit are, if tested, charged as unenumerated sweetened spirits.		
Unenumerated spirits: Sweetened (including liqueurs, cordials, mixtures, and other preparations containing spirits; if tested):		
If warehoused 3 years or more .....	3 16 11	3 14 2
If warehoused 2 and less than 3 years .....	3 17 11	3 15 2
If not warehoused, or warehoused less than 2 years .....	3 18 5	3 15 5

<sup>1</sup> By the terms of the agreements with Australia and the Union of South Africa at the Imperial Economic Conference, 1932, Empire wine not exceeding 27 degrees proof spirit imported into the United Kingdom is to receive a preference of 2s. per imperial gallon.

<sup>2</sup> Wine rendered sparkling or effervescent in bond is liable to the same duties as imported sparkling wine.

<sup>3</sup> Spirits and strong waters notes: Rates shown apply to imports in bottle; imports in cask (unless otherwise indicated) are dutiable in each instance at ls. per gallon less. Bottling charges on imported spirits bottled in warehouse: 3d. in respect of each of the following quantities: (1) Every one dozen imperial or reputed quart bottles; (2) Every two dozen imperial or reputed pint bottles; (3) Every one dozen liter bottles; (4) Every two dozen half-liter bottles; (5) Every such number of bottles of a size less than one reputed pint as are equivalent in capacity to two dozen reputed pint bottles.

<sup>4</sup> Brandy and imitation rum warehoused less than 3 years may not be delivered for home consumption in any circumstances.

Statement of rates of import duty on alcoholic beverages—Continued

UNITED KINGDOM—Continued

Description	General tariff	British preferential tariff
	Per imperial proof gallon imported in bottle	Per imperial proof gallon imported in bottle
	£. s. d.	£. s. d.
Not sweetened (including liqueurs, cordials, mixtures, and other preparations containing spirits, provided that such spirits can be shown to be both unenumerated and not sweetened, if tested):		
If warehoused 3 years or more <sup>1</sup> .....	3 15 6	3 12 11
If warehoused 2 and less than 3 years <sup>(6)</sup> .....	3 16 6	3 13 11
If not warehoused, or warehoused less than 2 years <sup>1</sup> .....	3 16 11	3 14 6
Naphtha and Methyl Alcohol (Methanol) purified so as to be potable:		
If warehoused 3 years or more.....	3 16 6	3 13 11
If warehoused 2 and less than 3 years <sup>1</sup> .....	3 17 6	3 14 11
If not warehoused, or warehoused less than 2 years <sup>1</sup> .....	3 17 11	3 15 6
Liqueurs, cordials, mixtures, and other preparations containing spirits, not sweetened, when such spirits are not shown to be unenumerated; if tested:		
If warehoused 3 years or more.....	3 16 6	3 13 11
If warehoused 2 and less than 3 years.....	3 17 6	3 14 11
If not warehoused, or warehoused less than 2 years.....	3 17 11	3 15 6
	Per imperial liquid gallon	Per imperial liquid gallon
	£. s. d.	£. s. d.
Liqueurs, cordials, mixtures, and other preparations containing spirits in bottle, entered in such a manner as to indicate that the strength is not to be tested:		
If warehoused 3 years or more <sup>1</sup> .....	5 2 6	4 19 1
If warehoused 2 and less than 3 years <sup>1</sup> .....	5 3 9	5 0 6
If not warehoused, or warehoused less than 2 years <sup>1</sup> .....	5 4 5	5 1 1

<sup>1</sup> Dutiable at the same rates when imported in cask.

<sup>6</sup> Rum, naphtha, methyl alcohol, methanol, and unenumerated unsweetened plain spirits warehoused less than 3 years and of a strength not less than 60 o.p., may be delivered to authorized persons only on receipt of a requisition.

<sup>1</sup> No rate given for imports in cask.

Rates of the general tariff apply to shipments from the United States and other countries outside the British Empire; imports from the British Empire are admitted under the British preferential tariff.

Statement of rates of excise duty on alcoholic beverages (apply only on domestic manufacture)

UNITED KINGDOM

Description	Excise duty
	£. s. d.
<b>Beer:</b>	
Black beer; for every 36 imperial gallons of worts of a specific gravity of 1,055 degrees.....	5 3 0
And so in proportion for any difference in quantity or gravity.	
Beer (except Black beer); for every 36 imperial bulk gallons. Specific gravity of worts before fermentation:	
1,027 degrees or under.....	24 0
1,028 degrees.....	26 0
1,029 degrees.....	28 0
1,030 degrees.....	30 0
With similarly, an additional duty of 2s. 0d. in respect of each additional degree of original gravity, and so in proportion for every difference in quantity.	
NOTE.—The duty on Black beer is subject to the following rebate: Black beer, brewed by a brewer for sale, of a specific gravity of 1,200, degrees or upwards, a rebate of £5 for every 36 imperial gallons of such beer of a specific gravity of 1,220 degrees and so in proportion for any difference in quantity or gravity, provided that this rebate shall not apply to Black beer brewed on the premises of a brewer who brews on or sends out from the same premises any beer than Black beer.	
<b>Wine:</b>	
Sweets.....	1 6
British Sparkling wines.....	7 0
"Sweet" means any liquor which is made from fruit and sugar, or from fruit or sugar mixed with any other material, and which has undergone a process of fermentation in the manufacture thereof, and includes British wines, made wines, mead, and metheglin.	
	Per imperial proof gallon
	£. s. d.
<b>Spirits:</b>	
If warehoused for 3 years or upwards.....	3 12 6
If warehoused for 2 and less than 3 years.....	3 13 6
If not warehoused or warehoused for less than 2 years <sup>1</sup> .....	3 14 0
NOTE.—Any excise duty paid on spirits in excess of the rate of 14s. 0d. the imperial proof gallon is repaid if it is proved to the satisfaction of the commissioner of customs and excise that the spirits have been used for scientific purposes, or used solely in the manufacture or preparation of articles recognized by them as being used for medical purposes.	

<sup>1</sup> Applicable only to spirits distilled at a strength of not less than 60 o.p. and delivered to authorized persons on receipt of a requisition.

## Statement of rates of import duty on wines and liquors

## GERMANY

Tariff No.	Description	Rate of duty	
		General	Conventional
178	Spirits: In receptacles of a capacity of 15 litres or more:		
	Liquors.....	Reichsmarks per 100 kilos 1,200.00	Reichsmarks per 100 kilos 425.00
	Rum and arrack not containing more than 70 percent by weight of alcohol.....	350.00	-----
	Rum, accompanied by a copy of the certificate of origin issued by the French Régie Administration, containing from 32 percent to 49 percent by weight of alcohol.....	-----	225.00
	Other distilled alcoholic liquids.....	1,000.00	-----
	Cognac and armagnac, accompanied by a copy of the certificate of origin of the French Régie Administration, containing by weight of alcohol:		
	30 percent at most.....	-----	375.00
	More than 30 percent and up to 52 percent.....	-----	523.00
	Spirits made from Cognac or Armagnac wines, accompanied by a certificate of origin of the French Régie Administration, containing by weight of alcohol: from 68 percent to 76 percent.....	-----	700.00
	Other wine spirits containing not more than 57 percent by weight of alcohol.....	-----	700.00
	Spirits made from fruit, except from grapes and from vintage must, containing not more than 44 percent by weight of alcohol.....	-----	500.00
	Tare.—Double cases: weighing less than 300 kilograms or more, 8; Double cases: weighing less than 300 kilograms, 12; weighing 300 kilograms or more, 8.		
Additional tare.—On importation in vehicles made to transport liquids in bulk: liqueurs and other compounded spirits, 17; arrack, rum, cognac, 20; otherwise, 25.			
179	In other receptacles.....	1,200.00	-----
Liqueurs.....	-----	450.00	
Rum, accompanied by a certificate issued by the French Régie Administration, containing from 32 percent to 41 percent by weight of alcohol.....	-----	375.00	
Cognac and armagnac, accompanied by a copy of the certificate issued by the French Régie Administration, containing by weight of alcohol: 30 percent at most.....	-----	575.00	
Spirits made from fruit, except from grapes and from vintage must, containing not more than 44 percent by weight of alcohol.....	-----	500.00	
Tare.—Cases, 24; casks, 24; baskets, 16.			
NOTE.—To nos. 178 and 179: 1. For spirits as well as for the other above-mentioned products, the countervailing monopoly duty shall be payable over and above the customs duty.			
2. Marasca spirit up to a total quantity of 150 hectolitres of alcohol per calendar year, for each contracting State or any State entitled to the most-favored-nation treatment, accompanied by certificates provided for under agreement between the government of the Reich and the State concerned.....	-----	500.00	
3. Apricot spirit having a spirit content of not over 44 percent by weight, in a total quantity of 2,000 kilos in one calendar year for each contracting State or for each State entitled to most-favored-nation treatment under certificates acknowledged by the Reich government.....	-----	350.00	
4. Marasca spirit can be cleared at the conventional rate of 500 Reichsmarks, only through the customhouses specified for each contracting State or for each State entitled to the most-favored-nation treatment, by the minister of finance under agreement between the States.			
180	Wine and fresh grape must, even sterilized, in containers of a capacity of 50 litres or more:		
With natural alcoholic content; fresh must.....	120.00	-----	
Port and Madeira wines; other wines with a spirit content of not over 140 grammes per litre.....	-----	32.00	
Other:			
Red.....	-----	32.00	
White.....	-----	45.00	
With fortified alcoholic content.....	135.00	-----	
Port and Madeira wines with an alcoholic content of not more than 200 grammes per litre; other wines, with an alcoholic content of not less than 140, but not more than 180 grammes per litre.....	-----	32.00	
In other containers:			
With natural alcoholic content; fresh must.....	180.00	-----	
Port and Madeira wines.....	-----	55.00	
With fortified alcoholic content.....	195.00	-----	
Port and Madeira wines with an alcoholic content of not more than 200 grammes per litre; other wines, with an alcoholic content of not less than 140, but not more than 180 grammes per litre.....	-----	55.00	
NOTES.—1. Wine for the manufacture of sparkling wine, under customs control.....	-----	20.00	
According to the state of the market, the Government is authorized to further increase or reduce the duty on wine for the manufacture of sparkling wines.			

Statement of rates of import duty on wines and liquors—Continued

GERMANY—Continued

Tariff No.	Description	Rate of duty	
		General	Conventional
	In accordance with that authority, the duty on wine for the manufacture of sparkling wine, under customs control, is fixed as from Feb. 1, 1932, at reichsmarks 45 per 100 kilograms. This duty shall, however, be hereafter reduced to reichsmarks 20, provided that prior to the first of March in each year, at latest, the manufacturer of sparkling wine proves that in the course of a year commencing each time on Feb. 1, and for the first time on Feb. 1, 1932, a total quantity of 50 percent of German wine has been used in the manufacture by him of sparkling wine. In case wine used in the manufacture of sparkling wine pays a conventional duty not exceeding 45 reichsmarks, the duty reduction to 20 reichsmarks is only accorded if the wine has been placed under customs control.	Reichsmarks per 100 kilos	Reichsmarks per 100 kilos
	2. Wine, the alcoholic strength of which does not exceed 200 grams per liter, for the manufacture of brandy, under customs control.....		10.00
	3. Wine for the manufacture of vermouth, under customs control..... The duty of 45 reichsmarks per 100 kilograms shall be reduced to 10 reichsmarks if said wine contains an addition of at least 15 percent of wine of German production, in accordance with special regulations of the minister of finance.		45.00
	4. Wine for the manufacture of vinegar, under customs control..... The duty of 45 reichsmarks per 100 kilograms shall be hereafter reduced to 10 reichsmarks if, in accordance with special regulations of the minister of finance, the vinegar manufacturer furnishes proof that out of the total quantity, 33 1/3 percent at least of wine of German origin has been used in producing the wine vinegar made by him. Should wine used in the manufacture of vinegar be liable to a conventional duty not exceeding 45 reichsmarks, the ultimate decrease of duty to 10 reichsmarks will only be applicable provided said wine remained under customs control.		45.00
	5. Wine, the alcoholic strength of which does not exceed 120 grams per liter, is dutiable as brandy not specified, unless otherwise provided in note 2.		
	6. As port and madeira are solely to be considered wines originating in the viticultural districts of the Portuguese regions of Douro or the Island of Madeira, shipped through the ports of Oporto and Funchal accompanied by certificates of origin and genuineness issued by the proper Portuguese authorities.		
	7. Natural red wines, with an alcoholic content of not less than 95, but not more than 140 grams and containing at least 28 grams of sugar-free extract per liter, for the blending of unblended native wines, under customs control.....		20.00
181	Grape must, with or without sugar, boiled down or otherwise condensed (grape sirup), even sterilized; extract of raisins; Greek champagne (Griechischer Sekt).....	200.00	
	Grape must, with or without the addition of sugar, boiled down or otherwise condensed (grape sirup), free from alcohol, sterilized in bottles..... Tare.—In cases or casks, 20 percent; in baskets, 13 percent; in bales 6 percent. (All these tares when the goods are in bottles and similar containers.)		80.00
183	Fruit wine, wine must in the process of fermentation and other fermented beverages similar to wine, of fruit or vegetable juices or malt extracts; rice wine (sake): In containers of a capacity of 15 liters or more.....	24.00	
	In other containers..... Tare.—Double cases and casks, 11 percent; in casks and cases, 24 percent; baskets, 16 percent. Additional tare.—On importation of wine and grape must in vehicles made to transport these liquids in bulk, 17 percent.	75.00	
184	Sparkling wines..... NOTE.—The internal tax is collected in addition to the duties. (This tax has been suspended from Dec. 1, 1933 to Mar. 31, 1936.) Tare when the goods are imported in bottles, jars, or like receptacles: Cases: weighing 50 kilograms or less, 22; weighing more than 50 kilograms, 17; Casks: weighing 100 kilograms, or less: in whole bottles, 22; in half-bottles, 24; weighing more than 100 kilograms, 19; Baskets: weighing 40 kilograms or less, 12; weighing more than 40 kilograms, 10.	300.00	
185	Mead; milk wine (koumiss) and kefir-koumiss; beverages artificially prepared without addition of spirits or wine, not specified elsewhere: In containers of a capacity of 15 litres or more.....	24.00	
	In other containers.....	48.00	
	NOTE.—The internal tax is collected in addition to the import duties. Tare.—The same as for 183.		
186	Beer of all kinds: In containers of a capacity of 15 litres or more.....	12.00	
	In other containers.....	18.00	
	NOTE.—The internal tax is collected in addition to the import duties.		

Statement of rates of import duty on wines and liquors—Continued

FRANCE

Tariff no.	Description	Import tax	Rates of duty		
			General	Minimum	To United States
171	Wine must and fresh grape juice not fermented, or partly fermented, the fermentation of which has been stopped by other means than by alcohol or of which the fermentation has not been stopped, even pasteurized: <sup>9</sup> Imported otherwise than in bottles, flasks, jars, and similar containers: <sup>10</sup> Up to 12° of potential alcohol or of actual and potential alcohol..... 12.1° and upwards of potential alcohol or of actual and potential alcohol: On the first 12°.....	Percent ad valorem 4	Paper francs per hectoliter of liquid " 336.00	Paper francs per hectoliter of liquid " 84.00	Paper francs per hectoliter of liquid " 84.00
		4	" 336.00	" 84.00	" 84.00
	In addition, for every degree or fraction of degree above 12°.....	4	Per degree and per hectoliter	Per degree and per hectoliter	Per degree and per hectoliter
		4	Customs duty equal to the amount of the consumption tax on alcohol "		
171 bis	Imported in bottles, flasks, jars, and similar containers..... Wines (other than liqueur wines and assimilated wines) exclusively the produce of the fermentation of fresh grapes or of fresh grape juice: Imported otherwise than in bottles, flasks, jars, and similar containers, testing in actual strength— Up to 12°..... 12.1° and upwards (11) on the first 12°..... In addition, for every degree or fraction of degree above 12°.....	4	Per 100 kilos gross " 612.00	Per 100 kilos gross " 153.00	Per 100 kilos gross " 153.00
		5.50	Per hectoliter of liquid " 336.00	Per hectoliter of liquid " 84.00	Per hectoliter of liquid " 336.00
		5.50	" 336.00	" 84.00	" 336.00
		5.50	Customs duty equal to the amount of the consumption tax on alcohol. "		
	Imported in flasks (12) (flasks) of a capacity of: About 2 liters..... Less than 2 liters.....	5.50	Paper francs per 100 kilos (13) " 672.00	Paper francs per 100 kilos (13) " 168.00	Paper francs per 100 kilos (13) " 672.00
		5.50	" 704.00	" 176.00	" 704.00
	Imported in bottles, other flasks, jars and similar containers (14): Sparkling wines..... Other wines.....	5.50	Per 100 kilos gross " 712.00	Per 100 kilos gross " 178.00	Per 100 kilos gross " 712.00
		5.50	" 976.00	" 244.00	" 244.00
171 ter	Liqueur wines, mistelas or wines the fermentation of which has been stopped by alcohol and vermouth the produce of fresh grapes or fresh grape juice (15): Port or Madeira wines: Imported otherwise than in bottles, flasks, jars and similar containers.....	Percent ad valorem 10 8.50	Per degree and per hectoliter of whole alcohol (actual and potential) " 40.00	Per degree and per hectoliter of whole alcohol (actual and potential) " 20.00	Per degree and per hectoliter of whole alcohol (actual and potential) " 20.00
	Imported in bottles, flasks, jars, and similar containers.....	10 8.50	Per 100 kilos gross " 1,200.00	Per 100 kilos gross " 300.00	Per 100 kilos gross " 300.00

<sup>9</sup> Fresh grape juice partly fermented not testing 6° of actual alcohol is regarded as must.  
<sup>10</sup> In converting the ascertained sugar into alcohol, 1° of potential alcohol is taken as equivalent to 18 grams of sugar per liter.  
<sup>11</sup> Not including the internal taxes.  
<sup>12</sup> Wines testing from 12 to 15° shall, for every tenth of a degree, be liable to customs duty equal to one tenth of the consumption tax on alcohol.  
<sup>13</sup> Wines testing more than 15° shall, for any fraction of a degree, be liable to the duty on such additional degree.  
<sup>14</sup> When the difference between the declaration and the result of the analysis does not exceed five-tenths of a degree, no proceedings will be taken against the declarant and the duties shall be collected on the full degrees and fractions of degree ascertained.  
<sup>15</sup> Gross weight less one fifth for 2-liter flasks and one fifth for others.  
<sup>16</sup> By flasks are meant common glass containers, oval in form, with an elongated neck, of about 2-liter capacity and covered with grass or straw envelop.  
<sup>17</sup> Liqueur wines are deemed to be those containing more than 18 grams of sugar per liter, also liqueur wines so-called "dry", such as Sherry, Madeira, etc., whatever be the proportion of sugar therein contained.  
<sup>18</sup> Collected by the indirect tax services at the same time as the 47 percent ad valorem tax (law of Mar. 26, 1932) is collected; applies even on small quantities in passengers' baggage.

Tariff no.  
171 ter  
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Statement of rates of import duty on wines and liquors—Continued

FRANCE—Continued

Tariff no.	Description	Import tax	Rates of duty		
			General	Minimum	To United States
171 ter	Liqueur wines—Continued. Other wines: Imported otherwise than in bottles, flasks, jars, and similar containers <sup>10</sup> .....	Percent ad valorem <sup>10</sup> 8.50	Per degree and per hectoliter on the whole alcohol (actual and potential) <sup>11</sup> 40.00	Per degree and per hectoliter on the whole alcohol (actual and potential) <sup>11</sup> 10.00	Per degree and per hectoliter on the whole alcohol (actual and potential) <sup>11</sup> 40.00
	Imported in bottles, flasks, jars, and similar containers.....	<sup>10</sup> 8.50	Per 100 kilos gross <sup>11</sup> 640.00	Per 100 kilos gross <sup>11</sup> 64.00	Per 100 kilos gross <sup>11</sup> 640.00
172 ter	Beer.....	6.00	<sup>11</sup> 232.00	<sup>11</sup> 64.00	<sup>11</sup> 96.00
174	Distilled beverages: Spirits: <sup>10 10 10</sup> Brandy: Of molasses, of cane (rum and tafias): In bottles, jars, or similar containers.....	<sup>10</sup> 8.50	Per hectoliter of liquid <sup>11</sup> 2,200.00	Per hectoliter of liquid <sup>11</sup> 550.00	Per hectoliter of liquid <sup>11</sup> 2,200.00
	Otherwise put up.....	8.50	Per hectoliter of pure alcohol <sup>11</sup> 2,200.00	Per hectoliter of pure alcohol <sup>11</sup> 550.00	Per hectoliter of pure alcohol <sup>11</sup> 2,200.00
	Of wine, of cider, of plums, kirsch, etc.: In bottles, jars, or other similar containers.....	<sup>10</sup> 8.50	Per hectoliter of liquid <sup>11</sup> 2,200.00	Per hectoliter of liquid <sup>11</sup> 550.00	Per hectoliter of liquid <sup>11</sup> 2,200.00
	Otherwise put up.....	<sup>10</sup> 8.50	Per hectoliter of pure alcohol <sup>11</sup> 2,200.00	Per hectoliter of pure alcohol <sup>11</sup> 550.00	Per hectoliter of pure alcohol <sup>11</sup> 2,200.00
	Other (spirits proper): Imported on account of the State.....	<sup>10</sup> 8.50	<sup>11</sup> 100.00	<sup>11</sup> 100.00	<sup>11</sup> 100.00
	Imported on any other account.....	<sup>10</sup> 8.50	<sup>11</sup> 2,200.00	<sup>11</sup> 550.00	<sup>11</sup> 2,200.00
	Liquors <sup>10 10</sup> .....	<sup>10</sup> 8.50	Per hectoliter of liquid <sup>11</sup> 2,400.00	Per hectoliter of liquid <sup>11</sup> 600.00	Per hectoliter of liquid <sup>11</sup> 2,400.00

<sup>10</sup> In converting the ascertained sugar into alcohol, 1° of potential alcohol is taken as equivalent to 15 grams of sugar per liter.

<sup>11</sup> Not including the internal taxes.

<sup>12</sup> Collected by the indirect tax services at the same time as the 47 percent ad valorem tax (law of Mar. 28, 1932) is collected; applies even on small quantities in passengers' baggage.

<sup>13</sup> Includes the manufacturing tax.

<sup>14</sup> The importation of spirits originating in, or coming from, foreign countries or from the colonies is reserved to the State. In cases where, by derogation to this provision, the import prohibition should be removed, mistelas, liqueur wines, brandies, rum, liqueurs, gin, whisky, and other alcoholic products fit for consumption without further preparation, of colonial or foreign origin, are subject to the payment of a surtax on the alcoholic content, such surtax amounting to the difference between the prices—obtaining at the time of clearance—at which the French Government purchased the spirits and at which they sold the same for use in the preservation of fresh fruits and fruit juices. Rums from the French colonies are exempt from the surtax on an annual contingent of 200,000 hectoliters of pure alcohol, when made from primo materials (cane or molasses) harvested or manufactured in the colonies.

<sup>15</sup> Products of which alcohol is a component part are, in addition to the customs duties, subject to the internal taxes on the alcohol used, according to the regulations determined upon by the advisory committee of arts and manufactures.

<sup>16</sup> Preparations with an absinthe base and the like are prohibited.

NOTE.—There is a special regime for the importation of colonial wines, spirits, and liqueurs. Contingents for duty-free importation of certain colonial products are fixed annually, and other contingents for admission under the minimum rate of the tariff. Imports from Germany are subject to the minimum rates shown above.

## SPECIAL CONCESSIONS

The law of March 31, 1931, article 2, authorizes reductions as follows:

For the application of commercial accords, concluded or to be concluded, the (French) Government is authorized by decrees, issued upon the proposal of the Ministers of Agriculture, of Commerce, and of Industry, of Foreign Affairs and the Budget, to accord in that which concerns wines covered by item 171 bis (above) reductions in duty, which may not in any case be lower than the rates fixed by the law of March 2 and April 2, 1928, provided the advantages be within a limit of contingents. These rates are 55, 55, 110, 110, 112.50, and 160 francs respectively for the sections of item 171 bis as given in the above tabulation.

## FRANCO-ITALIAN TREATY

Under the Franco-Italian Supplementary Agreement of May 8, 1933, the French Government undertakes to propose to Parliament the following duties (not yet effective) for Italian wines falling under item ex 171 bis: Wines other than liqueur wines, in flasks of a capacity of about 2 liters, 120 francs per 100 kilos (gross weight less one fifth); less than 2 liters, 125 francs per 100 kilos (gross weight less one fiftieth); in bottles, flasks, jars, etc., sparkling wines, 140 francs per 100 kilos (gross weight less one fourth); other wines, 180 francs per 100 kilos (gross weight less one fourth). At present the minimum rates shown in the schedule of French duties are still assessed on Italian wines and spirits.

This agreement also provided that wines of Italian origin other than in bottles, flasks, jars, and similar containers, falling under item 171 of the French tariff (see above), shall, up to September 30, 1933, be imported in quantities not less than 90 percent of the total contingent of wines and musts to be imported by other countries (that is, countries other than Greece and Spain). These imports may not in any one month exceed 40 percent of their total contingent. In case of an increased total contingent, Italy's contingent is to be increased proportionately.

## TREATMENT OF SPANISH WINES

Spanish wines and spirits are admitted under the minimum rates of the French tariff, while the general rates apply to imports of beer from Spain.

## TREATY WITH GREECE

Wines and spirits from Greece are subject to the minimum rates of duty (agreement of Mar. 7, 1932). The same agreement stipulates a monthly quota of 40,000 hectoliters of Greek wines and musts (item 171 and ex 171 bis of French Tariff), with a continuation to the next month of any left-over part of a monthly contingent.

## IMPORT QUOTAS

The quotas as stipulated for French imports of wines during the third quarter of 1933 are as follows:



Statement of rates of import duty on wines and spirits—Continued

NETHERLANDS—Continued

Tariff no.	Description	Rate of duty (florins)
	<p>Scented waters, lacquers, and other fluids prepared with alcohol, not intended as beverages, and alcoholic preparations and substances in jelly form or in other nonfluid state shall, upon importation, be considered for consumption tax, and, where applicable, for import duty, purposes, as having an alcoholic strength of 90 percent, unless official analysis reveals them to have a higher content.</p> <p style="text-align: center;"><b>SPECIAL PROVISIONS</b></p> <p>1. In reducing to 50 percent strength, for the purpose of sec. II (b), products and substances belonging to this number shall be deemed to have ethyl alcohol content as laid down in the excise law.</p> <p>2. In declaring products and substances coming under sec. II of this number, imported in paste or other than fluid form, the net weight must be given in the declaration referred to in art. 120 of the General Law of Aug. 26, 1822 ("Staatsblad" no. 38). For purposes of calculating the excise and import duty, the net weight shall, where necessary, be reduced to liter measurement on the basis of a specific gravity of 0.8.</p> <p>3. On the importation of products and substances with or in alcohol and in order to determine the alcohol and sugar contents, the volume and net weight shall be taken to be the aggregate respective volumes and net weights of the alcohol and products and substances contained therein.</p> <p style="text-align: center;">* * * * *</p> <p>5. Inspection as described in art. 147 of the General Law of Aug. 26, 1822 ("Staatsblad" no. 38) is not necessary for products imported in bottles, jars or other packages containing 1,200 grams or less.</p>	
14	<p><b>Beer:</b></p> <p>I. Imported in bottles or jars of a capacity of 1,200 grams or less, in addition to the duty mentioned under sec. II (percent ad valorem).....</p> <p>II. Imported in any other manner (per hectoliter).....</p> <p style="text-align: center;"><b>SPECIAL PROVISIONS</b></p> <p>1. All beverages will be classified under this heading, which have been manufactured in breweries, but not distilled, and which are usually described as beer and consumed as such, even should foreign ingredients have been added after manufacture.</p> <p>2. Beverages mentioned in special provisions 1 which at 15° C. contain more than 9 liters of alcohol per hectoliter or which contain more than 1 percent of saccharin or other artificial sweetening matter or more than 25 per cent of sugar, shall not be classified as beer for tariff purposes.</p>	<p><i>Per hectoliter</i> 10.00 12.00</p>
146	<p><b>Wine:</b></p> <p>I. Imported in bottles or other containers not exceeding 1,200 grams contents, in addition to the excise (percent ad valorem).....</p> <p>II. Imported in any other manner (excise duty only).....</p> <p style="text-align: center;"><b>SPECIAL PROVISIONS</b></p> <p>1. The term "wine" is to include products which are considered as wine in the excise law and that definition also applies to the following special provision.</p> <p>2. Liquids containing wine or composed with wine are to be classified as such unless a higher duty is payable under another number under which they fall by reason of their nature or composition.</p> <p>Wine composed with articles coming under no. 139 shall be considered as a product coming under that number, if the proportion of ethyl alcohol at 15° C. is greater than 5 percent by volume, whatever be the quantity of the articles coming under no. 139 contained therein.</p> <p><b>NOTE.</b>—Grape wine is subject to an excise tax of 20 florins per hectoliter. A temporary surtax of 4½ is applied to this tax in the case of grape wines, and of 3½ in the case of other wines. In addition, the spirits excise applies, in the case of wines containing over 12 but not over 22 liters of alcohol per 100 liters, to the alcoholic content in excess of 12 liters. Wines of more than 22 percent alcoholic strength by volume at 15° C. are dutiable as spirits.</p>	<p>13.00</p>

Tariff no

105

106

Treat  
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Statement of rates of import duty on wines and spirits—Continued

ITALY

Tariff no	Description	Rates of duty (paper lire)	
		General	Conventional
105	Beer: (a) In casks.....per hectoliter.....	Per hectoliter 82.60	Per hectoliter 1 55
	(b) In bottles (bottles dutiable separately): 1. One half liter or less.....	Per hundred 44.00	Per hundred
	2. Over ½ liter.....	82.60	
	On beer in casks, as well as in bottles, there is levied, in addition to the customs duty, a manufacturing surtax equal to the internal manufacturing tax, according to the saccharimetrical and alcoholic degrees actually verified. It is open to the importer to request that the surtax may be assessed, without analysis, on the basis of 16°. The manufacturing tax on beer is fixed at 4 lire per hectoliter and per degree of strength ascertained by the centesimal saccharimeter at the temperature of 17.6° by the centigrade thermometer. Surtax on general rates, 15 percent ad valorem.		
106	Wines: (The importation of wines which, under the relevant dispositions in force in the Kingdom, are considered as non-genuine wines, is prohibited.) (a) In casks, demijohns, or tank wagons.....	Per hectoliter 186.00	Per hectoliter
	Surtax on general rate, 15 percent ad valorem. Wine-must is treated in the same way as wines. Demijohns of a capacity of less than 5 litres are considered as bottles. On genuine wine the alcoholic strength of which exceeds 12°, there is levied, in addition to the actual wine duty, the duty and surtax on the alcohol in excess of that limit, at the rate of 1 litre of anhydrous alcohol per degree and per hectolitre. If the alcoholic strength exceeds 12° but not 16°, the duties on the alcohol are collected proportionately on the decimal fractions of degree, fractions of less than a tenth of degree being ignored; if the alcoholic strength exceeds 15°, the same duties are levied, fractions of degree not below a tenth being, however, reckoned as a full degree. NOTE.—The manufacturing tax on alcohol is 1,950 paper lire for each hectolitre of anhydrous alcohol at a temperature of 15.56° centigrade. The alcoholic strength of sweet wines containing more than 1 percent of nonfermented sugar, in which the total quantity of sugar (represented by the sugar present and the sugar corresponding to the alcohol contained in the wine) exceeds 20 percent, is calculated by adding to the alcohol contained in the wine that corresponding to the sugar present (sugar X 0.63). Wines with alcoholic content above 22.5 percent in volume are treated as liqueurs. Generous wines: Malaga, Sherry, and Priorato.....		( <sup>1</sup> )
	Sweet musked wines of Samos, Patras, and Cephalonia in casks, demijohns, or tank cars.....		110.00
	On the importation of sweet Samos wines entitled to that designation of origin under the Greek law, the alcohol duty shall only be levied on the content of actual and potential alcohol exceeding 15° by volume. Only 25,000 hectoliters of wine in casks, demijohns, and tank cars are admitted annually (always subject to most-favored-nation treatment), one half of which, that is 12,500 hectoliters, is Samos wine specified under Ex. 106 (a). The wines must be accompanied by certificates of origin issued by the competent Greek authority, which attest this Greek origin and that the quantity is included in the above contingent. (Treaty with Greece.)		
	Wines of Tokajhegyalja, Neeszemely, Mori, Balatonmelleki, Villanyocsi, Egri, Miskolc-Abauji, and Urmoc.....		<sup>2</sup> 110.00
	(b) In bottles: 1. Of half litre or less: (a) Sparkling.....	1,320.00	
	Champagne, wines, and sparkling of the regions or growths of Anjou and Touraine, Saint-Perey, Gaillac, and Clairette de Die, and of other French regions or growths producing wines rendered sparkling, according to the methods adopted in champagne.....		<sup>4</sup> 600.00

<sup>1</sup> Treaty with Austria, Czechoslovakia, Germany, and Hungary.

<sup>2</sup> On the importation of generous wines: Malaga, Sherry, Priorato, the alcohol duty is only levied on the alcohol content exceeding 18° by volume (convention with Spain).

<sup>3</sup> Treaty with Hungary.

<sup>4</sup> Treaty with France.

## Statement of rates of import duty on wines and spirits—Continued

## ITALY—Continued

Tariff no.	Description	Rates of duty (paper lire)	
		General	Conventional
	The conventional rate of 600 applies solely in the following cases: In regard to champagne, to natural wines rendered sparkling by fermentation in bottle, according to the classical method adopted in Champagne, originating in the French regions entitled to the regional designation of Champagne and produced according to law (May 6, 1919); in regard to wines of Anjou and Touraine, Saint-Peray, Gaillac, and Clairette de Die, and of other French regions or growths producing wines rendered sparkling according to the method adopted in Champagne. The wines must be accompanied by a certificate of origin.	<i>Per hundred</i>	<i>Per hundred</i>
	(b) Other (plus 15 percent ad valorem on general rate).....	400.00	\$ 200.00
	Wines of Tokajhegyalfal, Neszemelyi, Mori, Balatonmelleki, Villany- pecsi, Egri, Miskole-Abauji, and Urmos.....		110.00
	2. Over ½ liter but not over 1 liter:		
	(a) Sparkling (plus 15 percent ad valorem).....	2,200.00	
	Champagne wines and sparkling wines of the regions or growths of Anjou, Touraine, Saint-Peray, Gaillac, and Clairette de Die, and of other French regions or growths producing wines rendered sparkling, accord- ing to the methods adopted in Champagne.....		\$ 1,000.00
	The same conditions govern this rate as noted above for same wines in smaller containers.		
	(b) Other (plus 15 percent ad valorem on general rate).....	600.00	\$ 300.00
	Wines of Tokajhegyalfal, Neszemelyi, Mori, Balatonmelleki, Villany- pecsi, Egri, Miskole-Abauji, and Urmos.....		183.50
	On wines in bottles of a capacity of over 1 liter, for every additional 25 centiliter or fraction thereof, there is levied a duty equal to one fourth of that fixed for wines in liter bottles.		
107	Vermouth (if not considered as genuine, importation is prohibited):	<i>Per hectoliter</i>	<i>Per hectoliter</i>
	(a) In casks or in demijohns.....	275.00	
	Demijohns of less than 5 liters capacity are considered as bottles (plus 15 percent ad valorem).		
	(b) In bottles:		
	1. Of ¼ liter or less.....	220.00	
	2. Over ¼ liter, but not over 1 liter.....	440.00	
	(Plus 15 percent ad valorem in both 1 and 2.)		
	On vermouth in bottles of over 1 liter capacity, for every additional ¼ liter or fraction of ¼ liter, there is collected the duty fixed for Ver- mouth in bottles of ¼ liter or less.		
110	Potable spirits:		
	On potable spirits there is levied in addition to the duty, a manu- facturers' surtax on the spirit, assessed on an alcoholic strength of not less than 70°.		
	When the customs have reason to believe that such beverages have a strength of over 70°, they can have the same analyzed and, if this strength exceeds 70°, can levy the surtax according to the real alcoholic strength ascertained.		
	Potable spirits in demijohns of a capacity of less than 5 liters will be considered as in bottles.		
	On potable spirits in bottles of a capacity of over 1 liter, for every additional half liter or fraction of half liter of capacity, there is levied the customs duty fixed for potable spirits in bottles of half liter or less.		
	(a) Cognac, arrack, rum, and whisky:		
	1. In casks or in demijohns (plus 15 percent ad valorem).....	1,320.00	\$ 705.00
	Cognac and rum in casks.....		
	2. In bottles:	<i>Per hundred</i>	<i>Per hundred</i>
	(a) Of ½ liter or less.....	850.00	\$ 480.00
	(b) Over ½ liter but not over 1 liter.....	1,470.00	\$ 800.00
	(Plus 15 percent ad valorem on general rate on (a) and (b).)		
	(b) Other:	<i>Per hectoliter</i>	<i>Per hectoliter</i>
	1. In casks and demijohns (plus 15 percent ad valorem).....	1,100.00	
	2. In bottles:	<i>Per hundred</i>	<i>Per hundred</i>
	(a) Of ¼ liter or less (plus 15 percent ad valorem).....	707.00	
	(b) Over ¼ liter but not over 1 liter (plus 15 percent ad valorem).....	1,170.00	

<sup>1</sup> Treaty with France.

<sup>2</sup> Treaty with France. Applies also to port and Madeira wines, but port wine must come from the region of Dorito and the Madeira wine from the region of Funchal. Other Portuguese wines are excepted from the conventional rates.

Statement of rates of import duty on wines and spirits—Continued

ITALY—Continued

Tariff no.	Description	Rates of duty (paper lire)	
		General	Conventional
111	Liqueurs and other spirituous beverages, sweetened or flavored: On liqueurs and other spirituous beverages, sweetened or flavored, there is collected, in addition to the customs duty, a manufacturing surtax on the spirit, to be assessed on an alcoholic strength of not less than 70°. When the customs have reasons to believe that such beverages have a strength of over 70°, they can have the same analyzed and, if this strength exceeds 70°, can levy the surtax according to the real alcoholic strength ascertained.		
	(a) In casks or in demijohns (plus 15 percent ad valorem).....	Per hectoliter 1,170.00	Per hectoliter 890.00
	(b) In bottles:		
	1. One half liter or less.....	Per hundred 880.00	Per hundred 670.00
	2. Over 1/2 liter but not over 1 liter..... (Plus 15 percent ad valorem on general rates on (1) and (2).)	1,320.00	1,000.00
	On liqueurs and other spirituous beverages, sweetened or flavored, in bottles exceeding 1 liter capacity, for every additional 1/2 liter or fraction half-liter in capacity, there is levied the customs duty fixed for liqueurs in bottles of 1/2 liter or less.		

\* Treaty with France.

QUOTAS ON FRENCH WINES INTO ITALY

For sparkling wines in bottles originating in or coming from France, covered by items 106, (b) 1. (a) and 106 (b) 2 (a) above, there is accorded, beginning with the provisory application of the agreement (May 12, 1933) up to September 30, 1933, a contingent equal to 74 percent of the total quantity imported into Italy during 1931, according to the Italian statistics for a period of 5 months (agreement of May 8, 1933).

The following other quotas are provided for French wines in Italy:

Item	Quantity
106-b: 1 (b) 2 (b), in bottles.....	bottles.. 33,400
110-a-1: Cognac in casks or demijohns.....	hectoliters.. 84
110-a-2 (a and b): Cognac in bottles.....	bottles.. 75,000
110-a-1: Arrack, rum, and whisky in casks or in demijohns.....	hectoliters.. 42
110-a-2: Arrack, rum, and whisky in bottles.....	bottles.. 5,000
110-b-1: Eau de vie, in casks or in demijohns.....	hectoliters.. 14
110-b-2: (a and b): Eau de vie in bottles.....	bottles.. 1,050
111-a: Liqueurs in casks or in demijohns.....	hectoliters.. 10
111-b: Liqueurs in bottles.....	bottles.. 66,800

No quotas other than those noted in the tabulation of duties, appearing as notes (c) to the conventional rates are provided for imported wines.

The manufacturing taxes apply equally on imports and domestic wines, etc.

Sales tax.—The sales tax, which varies with the class of the product, applies on imports or on first sale of domestic wines, etc., no discrimination is made.

## Statement of rates of import duty on wines and spirits—Continued

## PORTUGAL

	Description	Rate of duty (gold esudos)	
		Maximum	Minimum
561	Spirit and alcohol, plain: In containers of a capacity not exceeding 2 liters (including containers) (per kilo).....	<i>Per kilo</i> 0.70	<i>Per kilo</i> 0.35
562	In containers not specified (per liter of pure alcohol).....	<i>Per liter of pure alcohol</i> 1.30	<i>Per liter of pure alcohol</i> .65
563	Alcoholic beverages not specified, in containers of a capacity not exceed- ing 2 litres (including containers).....	<i>Per kilo</i> 1.70	<i>Per kilo</i> 0.85
563-A	Cognac, in containers of a capacity not exceeding 2 litres (including con- tainers).....	3.40	1.70
564	Alcoholic beverages not specified, in containers not specified.....	3.40	1.70
564-A	Cognac in containers not specified.....	6.80	3.40
	Beverages not specified:		
565	In containers of a capacity not exceeding 2 litres (including the con- tainers).....	.25	.12
566	In containers not specified.....	.50	.23
	Beer:		
567	Concentrated.....	2.00	1.00
568	In containers of a capacity not exceeding 2 litres (including the con- tainers).....	.20	.10
569	In containers not specified.....	.40	.18
	Concentrated alcoholic extracts for the manufacture of alcoholic bever- ages:		
570	In containers of a capacity not exceeding 2 litres (including the con- tainers).....	8.60	4.30
571	In containers not specified.....	17.00	8.60
572	Concentrated wine must.....	2.00	1.00
	Wine:		
573	In containers of a capacity not exceeding 2 litres (including contain- ers) (1).....	.60	.25
574	In containers not specified.....	.90	.43
575	Sparkling wines.....	1.80	.68
575-A	Champagne.....	3.60	1.72
	NOTE.—All of these duties are subject to an increase of $\frac{1}{4}$ of the duties. There is no evidence of any excise taxes on these products.		

## SPAIN

Tar- iff no.	Description	Gold pesetas	
		First tariff	Second tariff
1390	Alcohol and plain spirits, including rum.....	<i>Per liter</i> 6.00	<i>Per liter</i> 1.60
1391	Liqueurs and compound spirits.....	15.00	3.75
		<i>Per hecto- liter</i>	<i>Per hecto- liter</i>
1392	Cognac.....	1,350.00	450.00
1393	Beer.....	108.00	36.00
		<i>Per liter</i>	<i>Per liter</i>
1395	Sparkling wines.....	40.00	10.00
1396	Liqueur or full-bodied wines, in casks or similar receptacles.....	6.00	2.00
	French champagne.....		2.50
1397	Liqueur or full-bodied wines, in bottles.....	9.00	2.00
		<i>Per hecto- liter</i>	<i>Per hecto- liter</i>
1398	Other wines, in casks, or other similar receptacles.....	225.00	40.00
1399	The same, in bottles.....	300.00	50.00
1400	Vermuth.....	960.00	300.00

NOTE.—The importation of wines and alcoholic beverages for purposes of distillation is prohibited.

## INTERNAL TAXES

By virtue of the law of April 29, 1926, alcohol, spirits, liquors, and industrial products having an alcoholic base, are, when imported from abroad, subject to a tax of 80 pesetas per hectoliter of liquid, whatever may be their alcoholic strength; and this tax is to be paid to the customs, in addition to and in one amount with, the import duty proper, but is to be brought to account separately in the customhouse record.

Wines and other alcoholic beverages, of over 15 centesimal degrees strength, are subject to payment of the tax at the rate of 80 pesetas per hectoliter of liquid. (Law of Apr. 29, 1926.)

The strength of wines and alcoholic beverages is to be calculated at the temperature of 15° C., Gay-Lussac's centesimal alcoholimeter and Salleron's still being used.

Ethyl alcohol, even if impure, is dutiable under no: 1390.

The law of March 2, 1917, which regulates the internal consumption duty on beer, provides that this product must pay a duty of 4 pesetas per hectoliter on importation. (By the law of Apr. 29, 1926, this was raised to 15 pesetas.) This applies to both imports and domestic beers.

The tax on domestic wines is 80 pesetas per hectoliter on wines, spirits, and alcohols, and 110 pesetas per hectoliter on other domestic spirits and alcohols.

A "container" tax, the rates of which vary from 0.15 to 1.50 pesetas, according to sales price, is applicable on all wines or other beverages, domestic or imported, sold in containers of up to 6 liters capacity.

*Quotas.*—There are no import quotas on wines, beers, and spirits.

DEPARTMENT OF COMMERCE,  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,  
*Washington, December 14, 1933.*

UNITED STATES TARIFF COMMISSION,  
*Washington, D.C.*

(Attention: Mr. Brauer)

GENTLEMEN: Reference is made to your telephone request for information regarding excise taxes on distilled spirits, champagne and wines, in various European countries and Canada. In Canada, potable spirits are subject to an excise duty of \$7 per imperial proof gallon; champagne, sparkling wines, and wines with an alcoholic content of over 40 percent proof spirit are taxed at \$1.50 per imperial gallon; nonsparkling wines and wines under 40 percent proof are subject to a tax of 7½ cents per imperial gallon.

In Germany, there is a spirits and brandy monopoly and the tax is fixed at the discretion of the national finance minister according to home economic conditions and at a rate calculated to exclude the foreign product. There is no internal tax on champagne.

In France, a tax is imposed on alcohol and sweet wines, payable by the producers or wholesalers when the liquors in question are consigned to purchasers or consumers, the rate being 1,320 francs per hectoliter of pure alcohol. The tax on wines and ciders per hectoliter is 15 francs on wine; 7.5 francs on ciders.

In the Netherlands, a tax on distilled spirits is 220 florins per hectoliter having a 50 percent alcoholic content by volume at 15° C.

In Great Britain, the tax on distilled spirits varies dependent on the age of the product, but the maximum tax imposed is 74 shillings per imperial proof gallon. British wines are taxed at the rate of 1s. 6d. per imperial gallon (these rates for Great Britain were obtained from Whitaker's Manual, 1932).

I trust that the foregoing information will prove useful in connection with your study.

Very truly yours,

C. J. JUNKIN,  
*Chief, Division of Commercial Laws.*

ALCOHOLIC BEVERAGES, UNITED STATES PRODUCTION, EXPORTS, IMPORTS,  
CONSUMPTION, INTERNAL REVENUE TAXES AND LAWS, AND COMPARISON OF  
TARIFF ACTS, UNITED STATES TARIFF COMMISSION, WASHINGTON, NOVEMBER  
1933

## INTRODUCTION

The Tariff Commission herewith presents a compilation of basic information with respect to the various classes of alcoholic beverages. In addition to statistics dealing with the domestic production, exports, imports, and consumption, there

are also shown the internal revenue taxes imposed since 1862, a digest of pertinent paragraphs from these laws, and a comparison of rates of duties in the various tariff acts from 1897 to 1930.

This compilation is preliminary in nature, and will be followed at a later date by a summary of tariff information which will give in more detail the economic facts as to the commerce of the United States in alcoholic beverages.

*Distilled liquors: Acts imposing tax on distilled liquors and rates of tax*

From Aug. 1, 1862, to Mar. 7, 1864.....	Per gallon of first proof..	\$0. 20
Act of July 1, 1862, ch. 119, sec. 41, 12 Stat. 447 <sup>1</sup> cf. July 14, 1862, ch. 163, sec. 25, 12 Stat. 561.		
From Mar. 7, 1864, to July 1, 1864.....	Per gallon of first proof..	. 60
Act of Mar. 7, 1864, ch. 20, sec. 1, 13 Stat. 14.		
From July 1, 1864, to Jan. 1, 1865.....	Per gallon of first proof..	1. 50
Act of June 30, 1864, ch. 173, sec. 55, 13 Stat. 243; act of Dec. 22, 1864, ch. 8, 13 Stat. 420.		
From Jan. 1, 1865, to July 20, 1868.....	Per gallon of first proof..	2. 00
Act of June 30, 1864, ch. 173, sec. 55, 13 Stat. 243; act of Dec. 22, 1864, ch. 8, 13 Stat. 420; act of Mar. 3, 1865, ch. 78, 13 Stat. 472; act of July 13, 1866, ch. 184, sec. 32, 14 Stat. 157; act of Mar. 2, 1867, ch. 169, sec. 14, 14 Stat. 480.		
From July 20, 1868, to June 6, 1872.....	Per proof gallon..	. 50
Act of July 20, 1868, ch. 186, sec. 1, 15 Stat. 125. <sup>2</sup>		
From June 6, 1872, to Mar. 3, 1875.....	Per proof gallon..	. 70
Act of June 6, 1872, ch. 315, sec. 12, 17 Stat. 238.		
From Mar. 3, 1875, to Aug. 27, 1894.....	Per proof gallon..	. 90
Act of Mar. 3, 1875, ch. 127, sec. 1, 18 Stat. 339; act of May 28, 1880, ch. 108, sec. 17, 21 Stat. 149. <sup>3</sup>		
From Aug. 27, 1894, to Oct. 3, 1917.....	Per proof gallon..	1. 10
Act of Aug. 27, 1894, ch. 349, sec. 48, 28 Stat. 563 <sup>4</sup> ; act of Sept. 8, 1916, ch. 463, sec. 402 (a), 39 Stat. 783. <sup>5</sup>		
From Oct. 3, 1917, to Feb. 25, 1919.....		<sup>6</sup> 1. 10
Act of Oct. 3, 1917, ch. 63, sec. 300 and 303, 40 Stat. 308.		
From Feb. 25, 1919, to Jan. 1, 1927.....		<sup>7</sup> 2. 20
Act of Feb. 24, 1919, ch. 13, sec. 600 (a) 40 Stat. 1105; act of Nov. 23, 1921, ch. 136, sec. 600, 42 Stat. 285; act of Feb. 11, 1925, ch. 208, 43 Stat. 860; <sup>8</sup> act of Feb. 26, 1926, ch. 27, sec. 900, 44 Stat. 104.		
From Jan. 1, 1927, to Jan. 1, 1928.....		<sup>9</sup> 1. 65
Act of Feb. 26, 1926, ch. 27, sec. 900, 44 Stat. 104.		
From Jan. 1, 1928, to date.....		<sup>10</sup> 1. 10
Act of Feb. 26, 1926, ch. 27, sec. 900, 44 Stat. 104.		

Act of August 27, 1894, chapter 349, sec. 48, 28 Stat. 563:

"That on and after the passage of this Act there shall be levied and collected on all distilled spirits in bond at that time, or that have been or that may be then or hereafter produced in the United States, on which the tax is not paid before that day, a tax of one dollar and ten cents on each proof gallon, or wine gallon when below proof, and a proportionate tax at a like rate on all fractional parts of such proof of wine gallon: Provided, That in computing the tax on any package of spirits all fractional parts of a gallon, less than one tenth, shall be excluded."

Act of October 3, 1917, chapter 63, sec. 300, 40 Stat. 308:

<sup>1</sup> Tax collected on quantity withdrawn from warehouse for consumption or sale.

<sup>2</sup> Tax to attach when spirits come into existence, sec. 4; the spirits distilled during each day of 24 hours to be drawn into cisterns, and drawn into casks on the third day after being drawn into cisterns, sec. 16; the tax to be calculated on the amount drawn into casks, said tax to be paid before removal from warehouse and within one year, sec. 23.

<sup>3</sup> Provides that tax shall be collected only on quantity withdrawn, an allowance within certain limits prescribed by law to be made on losses.

<sup>4</sup> Provides that tax shall be collected only on quantity withdrawn, an allowance within certain limits prescribed by law to be made on losses, the tax to be paid at time of withdrawal and within 8 years of original deposit in warehouse.

<sup>5</sup> Wines containing more than 24 percent alcohol by volume shall be classed as distilled spirits and pay tax accordingly.

<sup>6</sup> Plus \$1.10 or if withdrawn for use as beverage plus \$2.10.

<sup>7</sup> If withdrawn for use as beverage \$6.40.

<sup>8</sup> Permits refund of taxes by Commissioner of Internal Revenue pursuant to provisions of section 3220, Revised Statutes, to any distiller having paid tax in excess of \$2.20 per proof gallon on distilled spirits.

<sup>9</sup> If withdrawn for use as beverage \$6.40.

<sup>10</sup> If withdrawn for beverage use \$6.40.

"That on and after the passage of this Act there shall be levied and collected on all distilled spirits in bond at that time or that have been or that may be then or thereafter produced in or imported into the United States, except such distilled spirits as are subject to the tax provided in section three hundred and three, in addition to the tax now imposed by law, a tax of \$1.10 (or, if withdrawn for beverage purposes or for use in the manufacture or production of any article used or intended for use as a beverage, a tax of \$2.10) on each proof gallon, or wine gallon when below proof; and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon, to be paid by the distiller or importer when withdrawn, and collected under the provisions of existing law."

Act of February 24, 1919, chapter 18, sec. 600 (a) 40 Stat. 1105:

"That there shall be levied and collected on all distilled spirits now in bond or that have been or that may be hereafter produced in or imported into the United States, except such distilled spirits as are subject to the tax provided in section 604, in lieu of the internal-revenue taxes now imposed thereon by law, a tax of \$2.20 (or, if withdrawn for beverage purposes or for use in the manufacture or production of any article used or intended for use as a beverage, a tax of \$6.40) on each proof gallon, or wine gallon when below proof, and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon, to be paid by the distiller or importer when withdrawn, and collected under the provisions of existing law."

Act of November 23, 1921, Ch. 136, sec. 600, 42 Stat. 285:

"That subdivision (a) of section 600 of the Revenue Act of 1918 is amended by striking out the period at the end thereof and inserting a colon and the following: 'Provided, That on all distilled spirits on which tax is paid at the non-beverage rate of \$2.20 per proof gallon and which are diverted to beverage purposes or for use in the manufacture or production of any article used or intended for use as a beverage, there shall be levied and collected an additional tax of \$4.20 on each proof gallon, and a proportionate tax at a like rate on all fractional parts of such proof gallon, to be paid by the person responsible for such diversion.'"

Act of February 26, 1926, Ch. 27, sec. 900, 44 Stat. 104 (amendment to section 600 of the act of Feb. 24, 1919):

"(a) There shall be levied and collected on all distilled spirits now in bond or that have been or that may be hereafter produced in or imported into the United States, in lieu of the internal-revenue taxes now imposed thereon by law, an internal-revenue tax at the following rates, to be paid by the distiller or importer when withdrawn, and collected under the provisions of existing law:

"(1) Until January 1, 1927, \$2.20 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon;

"(2) On and after January 1, 1927, and until January 1, 1928, \$1.65 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon; and

"(3) On and after January 1, 1928, \$1.10 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon.

"(4) On and after the enactment of the Revenue Act of 1926, on all distilled spirits which are diverted to beverage purposes or for use in the manufacture or production of any article used or intended for use as a beverage, there shall be levied and collected a tax of \$6.40 on each proof gallon or wine gallon when below proof, and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon, to be paid by the person responsible for such diversion. If a tax at the rate of \$2.20, \$1.65, or \$1.10 per proof or wine gallon has been paid upon such distilled spirits a credit of the tax so paid shall be allowed in computing the tax imposed by this paragraph."

#### DECISIONS UNDER THE INTERNAL REVENUE ACT OF FEBRUARY 21, 1919

*Shaw & Co. v. United States*, 11 C.C.A. 226, January 13, 1922. Spirits imported and warehoused in 1917 and 1920, but withdrawn for consumption after the Revenue Act of 1918 went into effect were subject to the duty imposed by paragraph 237, Tariff Act of 1913, and also to that imposed by the Revenue Act.

*Shaw & Co. v. United States*, 12 C.C.A. 88, February 9, 1924. The provisions of section 600(a) of the revenue act approved February 24, 1919, that the taxes levied by this section on distilled spirits are, "in lieu of the internal-revenue taxes" cannot be ascertained to mean also "in lieu of customs duties" and such

imported spirits were subject to the tax imposed by the section and also to the one imposed by paragraph 237, Tariff Act of 1913.

**BRANDY: ACTS IMPOSING TAX ON BRANDY AND RATES OF TAX**

	From grapes	From other fruits
From June 30, 1864, to Mar. 3, 1865.....	Per gallon \$0.25	Per gallon
Act of June 30, 1864, ch. 173, secs. 57, 13, Stat. 244. <sup>1</sup>		
From Mar. 3, 1865, to Feb. 5, 1867.....	.50	\$1.50
Act of Mar. 3, 1865, ch. 78, 13 Stat. 472.		
From Feb. 5, 1867, to July 20, 1868.....	2.00	2.00
Joint Resolution of Feb. 5, 1867, no. 11, sec. 1, 14 Stat. 565. <sup>2</sup>		
From July 20, 1868, to date.....	(1)	(1)
Act of July 20, 1868, ch. 186, sec. 2, 15 Stat. 125. <sup>3</sup>		

<sup>1</sup> Tax imposed on "brandy distilled from grapes."

<sup>2</sup> Tax imposed on "brandy distilled from apples or peaches."

<sup>3</sup> "All products of distillation, by whatever name known, which contain distilled spirits of alcohol, on which the tax has not been paid, shall be considered and taxed as distilled spirits."

"The Commissioner of Internal Revenue is authorized, with the approval of the Secretary of the Treasury, to exempt distillers of brandy from apples, peaches, or grapes, exclusively, from such other provisions of this act relating to the manufacture of spirits as in his judgment may seem expedient."

"The tax on brandy made from grapes shall be the same and no higher than that upon other distilled spirits."

In act of Mar. 3, 1877, 19 Stat. 393, Congress provided that bonded warehouses may be established for brandy and provided other regulations similar to those covering distilled spirits.

<sup>4</sup> Same rates as distilled liquors.

**WINES: ACTS IMPOSING TAX ON WINES AND RATES OF TAX**

From July 20, 1868, to June 6, 1872. (Act of July 20, 1868, ch. 186, sec. 48, 15 Stat. 144.<sup>1</sup>) \$6 per dozen quarts, or \$3 per dozen pints, or at same rate for any larger quantity whatever the size of package.

From June 6, 1872, to June 13, 1898. (Act of June 6, 1872, ch. 315, 17 Stat. 240.<sup>2</sup>) \$0.20 per quart bottle, or \$0.10 per pint bottle, or at same rate for any larger quantity whatever the size of the package.

From June 13, 1898, to Oct. 22, 1914. (Act of June 13, 1898, ch. 448, 30 Stat. 448.<sup>3</sup>) \$0.01 per pint or 2 cents on each bottle containing more than 1 pint.

From Oct. 22, 1914, to Sept. 8, 1916. (Act of Oct. 22, 1914, ch. 331, sec. 2, 38 Stat. 746.) Still wines:  $\frac{1}{4}$  cent per  $\frac{1}{4}$  pint, or rate of 8 cents per gallon. Sparkling wines: \$0.05 per  $\frac{1}{2}$  pint, or rate of 20 cents per quart. Cordials, liqueurs, etc.:  $1\frac{1}{2}$  cents per  $\frac{1}{2}$  pint, or rate of 24 cents per gallon.

From Sept. 8, 1916, to Feb. 24, 1919. (Act of Sept. 8, 1916, ch. 403, sec. 402, 39 Stat. 783.) Alcoholic content: Rate of tax on all wines, not more than 14 percent, 4 cents per gallon; more than 14 percent and not exceeding 21 percent, 10 cents per gallon; more than 21 percent and not exceeding 24 percent, 25 cents per gallon; more than 24 percent, taxed same as distilled spirits.

From February 24, 1919. (Act of Feb. 24, 1919, ch. 18, sec. 611, 613, 40 Stat. 1109.) Artificially carbonated wine-rate of 6 cents per  $\frac{1}{2}$  pint bottle. Champagne or sparkling wine, rate of 12 cents per  $\frac{1}{2}$  pint. Liqueurs, cordials, or similar compounds, containing sweet wine fortified with brandy, rate, 6 cents per  $\frac{1}{2}$  pint.

From February 24, 1919 to June 28, 1928. (Act of Feb. 24, 1919, ch. 18, sec. 611, 613, 40 Stat. 1109.) Still wines and imitation still wines; alcoholic contents not more than 14 percent, rate of tax, 16 cents per gallon; more than 14 percent and not exceeding 21 percent, 40 cents per gallon; more than 21 percent and not exceeding 24 percent, \$1 per gallon; more than 24 percent, taxed same as distilled spirits.

From June 28, 1928. (Act of May 29, 1928, ch. 852, sec. 451 45 Stat. 868.) Not more than 14 percent, 4 cents per gallon; more than 14 percent and not exceeding 21 percent, 10 cents per gallon; more than 21 percent and not exceeding 24 percent, 25 cents per gallon; more than 24 percent, taxed same as distilled spirits.

<sup>1</sup> Tax shall be paid: "\$6 per dozen bottles, each bottle containing more than 1 pint and not more than 1 quart; or \$3 per dozen bottles, each bottle containing (not) more than 1 pint, and at the same rate for any quantity of such merchandise, however, the same may be put up, or whatever be the package."

<sup>2</sup> Tax shall be paid: "10 cents per bottle or package containing not more than 1 pint, or of 20 cents per bottle or package containing more than 1 pint and not more than 1 quart, and at the same rate for any larger quantity of such merchandise, however the same may be put up, or whatever the package."

<sup>3</sup> Tax on "sparkling or other wines."

Sec. 48. "And be it further enacted, That on all wines, liquors, or compounds known or denominated as wine, and made in imitation of sparkling wine or champagne, but not made from grapes grown in the United States, and on all liquors not made from grapes, currants, rhubarb, or berries grown in the United States, but produced by being rectified or mixed with distilled spirits or by the infusion of any matter in spirits, to be sold as wine or by any other name, there shall be levied and paid a tax of six dollars per dozen bottles, each bottle containing more than one pint and not more than one quart, or three dollars per dozen bottles, each bottle containing (not) more than one pint, and at the same rate for any quantity of such merchandise, however the same may be put up or whatever be the package." (Act of July 20, 1868, ch. 186, 15 Stat. 144.)

Amendment to act of July 20, 1868. "That section forty-eight be amended by striking out all after the enacting clause and inserting in lieu thereof the following: 'That on all wines, liquors, or compounds known or denominated as wine, and made in imitation of sparkling wine or champagne, but not made from grapes grown in the United States, and on all liquors, not made from grapes, currants, rhubarb, or berries grown in the United States, but produced by being rectified or mixed with distilled spirits or by the infusion of any matter in spirits, to be sold as wine, or as a substitute for wine, there shall be levied and collected a tax of ten cents per bottle or package containing not more than one pint, or of twenty cents per bottle or package containing more than one pint and not more than one quart, and at the same rate for any larger quantity of such merchandise, however the same may be put up, or whatever may be the package \* \* \*.'" (Act of June 6, 1872, ch. 315, 17 Stat. 240.)

Schedule B. "Sparkling or other wines, when bottled for sale, upon each bottle containing one pint or less, one cent. Upon each bottle containing more than one pint, two cents." (Act of June 13, 1898, ch. 448, sch. B, 30 Stat. 463.)

Sec. 2. "That upon all still wines, domestic and imported, when sold or offered for sale or consumption, there shall be levied and collected taxes as follows: On each bottle containing one fourth pint or less, one fourth cent; on each bottle containing more than one fourth pint and not more than one half pint, one half cent; on each bottle containing more than one half pint and not more than one pint, 1 cent; and on each bottle containing more than one pint and not more than one quart, 2 cents; and on still wines in all other containers, not herein specially provided for, the tax shall be at the rate of 8 cents per gallon.

"That upon all domestic and imported champagne and other sparkling wines, and upon all artificially carbonated wines when sold or offered for sale or consumption, there shall be levied and collected taxes as follows: Upon each bottle containing one half pint or less, 5 cents; on each bottle containing more than one half pint and not more than one pint, 10 cents; on each bottle containing more than one pint and not more than one quart, 20 cents; and on all other containers at the rate of 20 cents per quart; and on all liqueurs, cordials, or similar compounds domestic and imported, by whatever name sold or offered for sale, there shall be levied and collected a tax on each bottle containing not more than one half pint, 1½ cents; more than one half pint and not more than one pint, 3 cents; more than one pint and not more than one quart, 6 cents; and on larger containers a tax at the rate of 24 cents per gallon." (Act of Oct. 22, 1914, ch. 331, sec. 2, 38 Stat. 746.)

Sec. 402(a). "That upon all wines, including vermouth, and upon all artificial or imitation wines or compound sold as wine hereafter produced in or imported into the United States, and upon all like wines which on the date this section takes effect shall be in the possession or under the control of the producer, holder, dealer, or compounder there shall be levied, collected, and paid taxes at rates as follows:

"On wines containing not more than fourteen per centum of absolute alcohol 4 cents per wine gallon, the per centum of alcohol taxable under this section to be reckoned by volume and not by weight.

"On wines containing more than fourteen per centum and not exceeding twenty-one per centum of absolute alcohol, 10 cents per wine gallon.

"On wines containing more than twenty-one per centum and not exceeding twenty-four per centum of absolute alcohol, 25 cents per wine gallon.

"All such wines containing more than twenty-four per centum of absolute alcohol by volume shall be classed as distilled spirits and shall pay tax accordingly; Provided, That on all unsold still wines in the actual possession of the producer at the time this title takes effect, upon which the tax imposed by the act approved October twenty-second, nineteen hundred and fourteen, entitled 'An Act to increase the internal revenue and for other purposes,' and the joint

resolution approved December seventeenth, nineteen hundred and fifteen, entitled 'Joint resolution extending the provisions of the Act entitled "An Act to increase the internal revenue, and for other purposes," approved October twenty-second, nineteen hundred and fourteen, to December thirty-first, nineteen hundred and sixteen,' has been assessed, the tax so assessed shall be abated, or, if paid, refunded, under such regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe." (Act of Sept. 8, 1916, ch. 463, sec. 402, 39 Stat. 783.)

Sec. 611. "That upon all still wines, including vermouth, and all artificial or imitation wines or compounds sold as still wines, which are hereafter produced in or imported into the United States, or which on the day after the passage of this Act are on any winery premises, or other bonded premises or in transit thereto or at any customhouse, there shall be levied, collected, and paid, in lieu of the internal-revenue taxes now imposed thereon by law, taxes at rates as follows, when sold, or removed for consumption or sale:

"On wines containing not more than 14 per centum of absolute alcohol, 16 cents per wine gallon, the per centum of alcohol taxable under this section to be reckoned by volume and not by weight;

"On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 40 cents per wine gallon;

"On wines containing more than 21 per centum and not exceeding 24 per centum of absolute alcohol, \$1 per wine gallon."

Sec. 613 "That upon the following articles which are hereafter produced in or imported into the United States, or which on the day after the passage of this act are on any winery premises or other bonded premises or in transit thereto or at any customhouse, there shall be levied, collected, and paid taxes at rates as follows, when sold, or removed for consumption or sale:

"On each bottle or other container of champagne or sparkling wine, 12 cents on each one half pint or fraction thereof;

"On each bottle or other container of artificially carbonated wine, 6 cents on each one half pint or fraction thereof;

"On each bottle or other container of liqueurs, cordials, or similar compounds, by whatever name sold or offered for sale, containing sweet wine fortified with grape brandy, 6 cents on each one half pint or fraction thereof.

"The tax imposed by this section shall, in the case of any article upon which a corresponding internal-revenue tax is now imposed by law, be in lieu of such tax." (Act of February 24, 1919, ch. 18, secs. 611 and 613, 40 Stat. 1109.)

#### TAX ON DOMESTIC AND IMPORTED WINES

(Source: Annual report of the Commissioner of Internal Revenue for the fiscal year ended June 30, 1916, pp. 17, 18)

By the act of October 22, 1914, a tax at the rate of 8 cents per gallon was imposed upon all domestic and imported still wines sold or offered for sale or consumption, which, under the provisions of the act, was payable only when such wines passed directly to the consumer. As a rule such sales were made by retailers, and owing to the large number of retail dealers (some 200,000 in number) and the consequent difficulty in closely supervising such sales, a large quantity of wine was disposed of without payment of tax.

By the act of September 8, 1916, tax has been imposed on this class of wine according to their alcoholic content, namely: On wines not exceeding 14 percent alcohol, 4 cents per gallon; if exceeding 14 percent and not exceeding 21 percent, 10 cents per gallon; if exceeding 21 percent and not exceeding 24 percent, 25 cents per gallon; if exceeding 24 percent, \$1.10 per gallon.

Under the provisions of this act the tax is due and payable when the wine is removed for consumption, either from the winery or other place of storage, and provision is made for the bonding of all such premises and the filing of such notices and inventories as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe. Under these provisions, and the regulations authorized by the act, it is believed that a closer collection of the tax imposed will hereafter be secured, and that the revenue from this source will be materially increased.

*Ale, porter, stout, and beer: Acts imposing tax on fermented liquors and rates of tax*

	Per barrel		Per barrel
From September 1862, to Mar. 3, 1863 (act July 1, 1862).....	\$1.00	From July 1, 1901, to June 30, 1902.....	\$1.60
From Mar. 3, 1863, to Mar. 31, 1864 (act Mar. 3, 1863).....	.60	From July 1, 1902, to Oct. 22, 1914.....	1.00
From Apr. 1, 1864, to June 13, 1868.....	1.00	From Oct. 23, 1914, to Oct. 3, 1917.....	1.60
From June 14, 1868, to June 30, 1901.....	2.00	From Oct. 4, 1917, to Feb. 24, 1919.....	3.00
		From Feb. 25, 1919.....	6.00

Source: Internal Revenue Laws, 1927, Treasury Department Doc. No. 2981, p. 305.

DEFINITIONS

*Gallon.*—“\* \* \* in all sales of spirits hereafter made, where not otherwise specially agreed, a gallon shall be taken to be a gallon of first proof, according to the standard set forth and declared for the inspection and gauging of spirits throughout the United States.” (Act of Mar. 3, 1865, ch. 78, 13 Stat. 472, amending act of June 30, 1864.)

*Distilled spirits.*—Distilled spirits, spirits, alcohol, and alcoholic spirit, within the true intent and meaning of this act, is that substance known as ethyl alcohol, hydrated oxide of ethyl, or spirit of wine, which is commonly produced by the fermentation of grain, starch, molasses, or sugar, including all dilutions and mixtures of this substance. (Act of July 20, 1868, ch. 186, 15 Stat. 126.)

*Wine spirits.*—That the wine-spirits mentioned in section fifty-three (5) of this act is the product resulting from the distillation of fermented grape juice, and shall be held to include the product commonly known as grape brandy; and the pure sweet wine which may be fortified free of tax, as provided in said section, is fermented grape juice only, and shall contain no other substance of any kind whatever introduced before, at time of, or after fermentation, and such sweet wine shall contain not less than 4 per centum of saccharine matter, which saccharine strength may be determined by testing, with Balling's saccharometer or must-scale, such sweet wine, after the evaporation of the spirit contained therein, and restoring the sample tested to original volume by addition of water. (Act of Oct. 1, 1890, ch. 1244, sec. 43, 26 Stat. 621.)

*Natural wine.*—That natural wine within the meaning of this act shall be deemed to be the product made from the normal alcoholic fermentation of the juice of sound, ripe grapes, without addition or abstraction, except such as may occur in the usual cellar treatment of clarifying and aging, provided, however, that the product made from the juice of sound, ripe grapes by complete fermentation of the must under proper cellar treatment and corrected by the addition (under the supervision of a gager or storekeeper-gager in the capacity of gager) of a solution of water and pure cane, beet, or dextrose sugar (containing, respectively, not less than 95 per centum of actual sugar, calculated on a dry basis) to the must or to the wine, to correct the natural deficiencies, when such addition shall not increase the volume of the resultant product more than 35 per centum, and the resultant product does not contain less than five parts per thousand of acid before fermentation and not more than 13 per centum of alcohol after complete fermentation, shall be deemed to be wine within the meaning of this act, and may be labeled, transported, and sold as wine, qualified by the name of the locality where produced, and may be further qualified by the name of its own particular type or variety; and provided further, that wine as defined in this section may be sweetened with cane sugar or beet sugar or pure condensed grape must and fortified under the provisions of this act, and wines so sweetened or fortified shall be considered sweet wine within the meaning of this act. (Act of Sept. 8, 1916, ch. 463, sec. 401, 39 Stat. 783.)

*First proof.*—And be it further enacted that the term “first proof” used in this act and in section 6 of the act of March 2, 1861, entitled “an act to provide for the payment of outstanding Treasury notes, to authorize a loan, to regulate and fix the duties on imports, and for other purposes,” shall be construed, and is hereby declared to mean, that proof of a liquor which corresponds to 50° of Tralles' centesimal hydrometer, adopted by regulation of the Treasury Department of August 12, 1850, at the temperature of 60° of Fahrenheit's thermometer; and that in reducing the temperatures to the standard of 60, and in levying duties on liquors above and below proof, the table of commercial values contained in the manual for inspectors of spirits, prepared by Professor McCulloh, under the

superintendence of Professor Bache, and adopted by the Treasury Department, shall be used and taken as giving the proportions of absolute alcohol in the liquids gaged and proved according to which duties shall be levied. (Act of July 1, 1862, ch. 119, sec. 42, vol. 12, Stat. 447.)

*Proof spirits.*—And be it further enacted, that proof spirit shall be held and taken to be that alcoholic liquor which contains one half its volume of alcohol of a specific gravity of seven thousand nine hundred and thirty-nine ten thousandths (.7939) at 60° F.; and the Commissioner of Internal Revenue, for the prevention and detection of frauds by distillers of spirits, is hereby authorized to adopt and prescribe for use such hydrometers, saccharometers, weighing and gaging instruments, meters, or other means for ascertaining the quantity, gravity, and producing capacity of any mash, wort, or beer used or to be used in the production of distilled spirits, and the strength and quantity of spirits subject to tax, as he may deem necessary; and he may prescribe rules and regulations to secure a uniform and correct system of inspection, weighing, marking, and gaging of spirits. And in all sales of spirits hereafter made a gallon shall be taken to be a gallon of proof spirit according to the foregoing standard set forth and declared for the inspection and gaging of spirits throughout the United States. The tax on brandy made from grapes shall be the same and no higher than that upon other distilled spirits; and the Commissioner of Internal Revenue is hereby authorized, with the approval of the Secretary of the Treasury, to exempt distillers of brandy from apples, peaches, or grapes exclusively from such other of the provisions of this act relating to the manufacture of spirits as in his judgment may seem expedient. (Act of July 20, 1868, ch. 180, sec. 2; vol. 15, Stat. 125.)

TABLE 1.—Comparison of receipts of the United States from internal revenue and customs with receipts from taxes and customs duties on alcoholic liquors, 1900-1932

Year	Total revenue			Total revenue from distilled liquors, wines, and fermented liquors			Per capita tax (total) †
	Customs receipts	Internal revenue receipts	Total	Customs receipts	Internal revenue receipts	Total	
1900.....	\$233,165,000	\$295,328,000	\$528,493,000	\$8,424,419	\$183,419,671	\$191,843,090	\$2.52
1901.....	238,585,000	307,181,000	545,766,000	9,118,204	191,697,887	200,816,091	2.58
1902.....	254,415,000	271,880,000	526,325,000	10,144,128	193,126,915	203,271,043	2.56
1903.....	284,460,000	230,810,000	515,290,000	11,036,846	179,501,328	190,538,174	2.35
1904.....	261,275,000	232,904,000	494,179,000	11,545,462	184,893,474	196,438,936	2.38
1905.....	261,799,000	234,188,000	495,987,000	11,994,573	180,319,066	192,313,639	2.35
1906.....	300,252,000	240,103,000	540,355,000	13,305,590	199,035,914	212,401,504	2.48
1907.....	332,233,000	269,094,000	601,897,000	15,651,518	215,904,720	231,556,238	2.65
1908.....	286,113,000	251,696,000	537,779,000	14,621,680	199,966,424	214,488,104	2.41
1909.....	300,712,000	240,213,000	540,925,000	15,483,224	192,324,445	207,807,669	2.29
1910.....	333,683,000	289,957,000	623,640,000	17,416,311	208,601,601	226,017,912	2.45
1911.....	314,497,000	322,520,000	637,023,000	16,597,886	219,647,636	236,245,522	2.52
1912.....	311,322,000	321,610,000	632,938,000	16,586,343	219,690,269	236,240,602	2.49
1913.....	318,891,000	344,424,000	663,315,000	18,651,068	230,146,333	248,797,401	2.58
1914.....	292,320,000	380,009,000	672,329,000	19,025,583	226,179,689	245,205,272	2.51
1915.....	299,787,000	415,681,000	715,468,000	13,028,011	223,048,646	236,076,657	2.37
1916.....	213,186,000	512,723,000	725,909,000	15,977,643	247,453,544	263,431,187	2.69
1917.....	225,962,000	809,394,000	1,035,356,000	13,294,899	284,008,512	297,303,411	2.92
1918.....	182,750,000	3,698,950,000	3,881,716,000	6,883,032	443,839,540	450,722,578	4.35
1919.....	183,429,000	3,860,150,000	4,033,679,000	1,164,189	483,050,854	484,215,043	4.61
1920.....	323,537,000	5,407,586,000	5,731,117,000	1,094,167	139,871,160	140,965,327	9.8
1921.....	309,025,000	4,598,357,000	4,909,382,000	1,438,378	62,623,429	64,061,807	7.8
1922.....	357,845,000	3,197,481,000	3,554,996,000	970,072	45,669,437	46,680,400	4.3
1923.....	562,189,000	2,621,745,000	3,183,934,000	477,008	30,358,086	30,835,094	2.8
1924.....	545,012,000	2,799,197,000	3,344,209,000	319,843	27,885,709	28,205,552	2.4
1925.....	548,522,000	2,584,140,000	3,132,632,000	371,645	25,904,776	26,276,420	2.3
1926.....	579,711,000	2,836,009,000	3,415,717,000	321,771	26,452,028	26,773,799	2.3
1927.....	605,072,000	2,865,683,000	3,471,355,000	269,340	21,195,652	21,464,992	1.8
1928.....	598,157,000	2,790,536,000	3,389,693,000	332,084	15,307,799	15,639,884	1.5
1929.....	602,820,000	2,639,654,000	3,241,874,000	365,496	12,770,729	13,142,135	1.1
1930.....	584,771,000	3,040,148,000	3,624,917,000	264,548	11,695,268	11,959,816	0.9
1931.....	378,793,000	2,428,228,000	2,807,021,000	185,892	10,432,064	10,620,940	0.8
1932.....	329,800,000	1,561,000,000	1,890,800,000	262,315	8,703,963	8,966,268	0.6

† Per capita tax paid on total revenue, both internal and customs, collected on various alcoholic liquors.

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1932

TABLE 2.—Taxes collected on distilled spirits, wines, and fermented liquors in the United States, 1900-1932

Year	Distilled spirits			Wines		
	Internal revenue tax <sup>1</sup>	Customs duty <sup>2</sup>	Total	Internal revenue tax <sup>1</sup>	Customs duty <sup>2</sup>	Total
1900.....	\$109,868,817	\$3,726,007	\$113,594,884	.....	\$3,810,090	\$3,810,090
1901.....	116,027,979	4,185,940	120,213,919	.....	3,981,446	3,981,446
1902.....	121,138,013	4,669,763	125,807,766	.....	4,492,064	4,492,064
1903.....	131,953,472	5,043,030	136,997,402	.....	4,953,105	4,953,105
1904.....	135,810,016	5,477,244	141,287,259	.....	4,828,951	4,828,951
1905.....	135,958,513	5,636,080	141,594,593	.....	5,040,111	5,040,111
1906.....	143,394,055	6,394,172	149,788,227	.....	5,464,595	5,464,595
1907.....	156,336,902	7,772,651	164,109,553	.....	6,042,383	6,042,383
1908.....	140,158,807	7,512,359	147,671,166	.....	5,185,345	5,185,345
1909.....	134,868,034	8,641,364	143,509,398	.....	5,050,091	5,050,091
1910.....	148,029,312	8,980,376	157,009,688	.....	6,408,684	6,408,684
1911.....	155,279,858	8,290,431	164,270,289	.....	5,442,427	5,442,427
1912.....	156,391,436	8,830,668	165,222,104	.....	5,741,332	5,741,332
1913.....	163,879,277	10,354,269	174,233,546	.....	6,217,862	6,217,862
1914.....	169,098,177	10,673,307	169,771,484	.....	6,436,668	6,436,668
1915.....	142,312,397	7,628,809	149,939,206	.....	4,438,482	4,438,482
1916.....	156,050,910	9,554,537	165,605,447	.....	4,741,040	4,741,040
1917.....	186,947,243	7,946,903	194,894,146	.....	4,661,704	4,661,704
1918.....	308,429,319	3,750,090	312,179,409	.....	2,898,068	2,898,068
1919.....	353,737,045	627,843	354,364,888	.....	532,462	532,462
1920.....	93,161,206	682,692	93,843,898	.....	4,744,070	4,744,070
1921.....	80,281,613	761,589	81,043,202	.....	2,310,452	2,310,452
1922.....	44,257,101	390,287	44,647,388	.....	1,300,250	1,300,250
1923.....	28,822,016	139,028	28,961,044	.....	1,531,991	1,531,991
1924.....	26,126,318	167,788	26,294,106	.....	1,454,063	1,454,063
1925.....	24,307,832	190,233	24,497,665	.....	1,595,489	1,595,489
1926.....	24,756,900	220,459	24,977,359	.....	1,079,434	1,079,434
1927.....	20,399,066	245,965	20,645,031	.....	795,603	795,603
1928.....	14,414,088	280,923	14,695,011	.....	893,408	893,408
1929.....	12,481,079	316,717	12,800,796	.....	292,550	292,550
1930.....	11,455,884	223,996	11,679,880	.....	230,384	230,384
1931.....	10,203,569	153,090	10,357,259	.....	228,495	228,495
1932.....	8,517,400	218,450	8,735,850	.....	186,563	186,563

Year	Fermented liquors			Total revenue		
	Internal revenue tax <sup>1</sup>	Customs duty <sup>2</sup>	Total	Total revenue tax <sup>1</sup>	Total customs duty <sup>2</sup>	Grand total
1900.....	\$73,550,754	\$882,253	\$74,433,007	\$183,410,571	\$8,424,414	\$191,834,900
1901.....	73,669,908	950,818	74,620,726	191,697,897	9,118,204	200,816,091
1902.....	71,988,902	982,311	72,971,213	193,129,016	10,144,128	203,273,013
1903.....	47,647,856	1,089,811	48,737,667	179,501,328	11,089,840	190,591,174
1904.....	49,083,459	1,239,207	50,322,666	184,893,474	11,545,462	196,438,936
1905.....	50,360,553	1,318,382	51,678,935	186,319,060	11,994,873	198,313,939
1906.....	55,641,859	1,506,823	57,148,682	199,035,914	15,051,518	214,087,432
1907.....	59,507,818	1,839,484	61,347,302	215,904,720	14,521,680	230,426,400
1908.....	59,807,017	1,823,076	61,630,093	199,966,424	15,483,224	215,449,648
1909.....	57,456,411	1,791,769	59,248,180	192,324,445	17,416,311	209,740,756
1910.....	60,572,289	2,027,251	62,599,540	208,601,901	17,416,311	226,018,212
1911.....	64,307,778	2,075,028	66,382,806	219,647,636	16,507,886	236,155,522
1912.....	63,298,771	2,014,343	65,313,114	219,600,259	16,586,343	236,186,602
1913.....	66,260,990	2,078,037	68,339,027	236,140,333	18,681,068	254,821,401
1914.....	67,061,512	1,915,008	68,976,520	226,179,689	19,028,583	245,208,272
1915.....	79,324,947	962,720	80,287,667	223,948,046	13,028,011	236,976,057
1916.....	88,771,104	782,060	89,553,164	247,453,544	15,077,043	262,530,587
1917.....	91,807,191	686,232	92,493,423	284,008,512	13,204,509	297,213,021
1918.....	120,285,858	234,874	120,520,732	443,839,546	6,883,032	450,722,578
1919.....	117,839,602	3,884	117,843,486	483,050,854	1,164,189	484,215,043
1920.....	11,965,874	4	11,965,878	139,871,150	1,094,157	140,965,307
1921.....	25,364	29	25,393	62,623,429	1,438,378	64,061,807
1922.....	40,086	23	40,109	45,609,437	970,972	46,580,409
1923.....	4,070	2,790	6,860	30,358,680	477,068	30,835,748
1924.....	5,324	46	5,370	27,585,709	371,843	27,957,552
1925.....	1,954	28	1,982	25,904,775	371,045	26,275,820
1926.....	15,694	283	15,977	26,452,028	321,771	26,773,799
1927.....	893	1,689	2,582	21,195,552	259,340	21,454,892
1928.....	300	607	907	15,801,796	352,064	16,153,860
1929.....	100	816	916	12,774,729	365,406	13,140,135
1930.....	.....	144	144	11,638,295	294,548	11,932,843
1931.....	.....	330	330	10,432,064	188,882	10,620,946
1932.....	.....	139	139	8,703,963	262,345	8,966,308

Source: Bureau of Industrial Alcohol, U.S. Treasury Department. Figures for fiscal years ended 1930.  
 Source: Compiled from Foreign Commerce and Navigation. Figures for calendar year.

TABLE 3.—Distilled spirits produced in the United States during the fiscal year 1901-1932, inclusive  
(Statement in tax gallons)

Fiscal year	Whisky	Rum	Gin	Brandy	Alcohol	Aggregate
1901	79,701,170.7	1,724,582.2	1,636,299.4	4,047,602.0	41,458,547.5	128,568,201.8
1902	75,414,812.8	2,202,047.3	1,782,280.5	4,220,400.0	49,254,261.8	182,843,801.9
1903	70,673,631.9	2,247,006.8	1,913,404.3	6,430,673.0	66,940,959.1	148,206,875.1
1904	60,606,978.4	1,801,110.0	2,110,215.9	6,193,262.0	69,793,678.7	139,605,214.0
1905	71,083,421.1	1,701,887.2	2,187,709.6	6,448,584.4	72,747,616.4	163,269,378.7
1906	70,033,074.1	1,730,101.8	2,323,289.2	4,444,071.9	70,979,660.0	150,110,197.0
1907	80,552,651.3	2,022,407.4	2,647,687.7	6,138,304.7	77,051,166.8	174,712,217.0
1908	54,502,027.7	1,895,022.0	2,756,762.8	6,899,822.9	67,835,037.6	133,889,563.0
1909	70,152,174.0	1,952,374.1	2,453,743.1	6,440,857.0	68,862,463.3	139,891,613.0
1910	82,463,894.0	2,253,949.7	2,085,435.5	7,656,433.6	68,534,247.2	163,693,960.0
1911	100,647,155.5	2,631,059.5	3,345,361.9	8,252,874.8	68,778,809.7	183,355,627.4
1912	98,209,574.4	2,532,616.9	3,677,861.9	9,321,823.5	73,630,032.8	187,571,808.5
1913	90,615,828.1	2,750,846.1	4,014,064.0	8,012,542.7	78,874,219.9	193,606,257.9
1914	88,098,797.3	3,026,085.1	4,012,542.7	7,307,897.2	81,101,063.7	181,919,512.2
1915	44,552,489.8	2,844,313.2	3,636,285.5	8,521,951.0	82,778,245.8	140,656,103.2
1916	69,210,671.0	2,086,910.4	4,118,064.0	4,159,351.6	182,778,245.8	253,283,273.4
1917	67,651,834.3	2,842,921.2	5,756,663.8	8,251,097.3	211,582,744.3	286,085,463.9
1918	17,383,611.3	1,326,743.4	4,178,538.4	5,357,325.4	150,387,680.6	178,833,799.1
1919		815,794.5		1,802,422.3	98,160,323.8	100,778,510.6
1920	231,705.2	944,910.8		1,649,445.8	98,430,170.3	101,265,457.8
1921	753,374.0	543,607.6		1,530,792.0	85,068,776.3	87,896,450.4
1922	315,799.0	864,332.0		1,077,063.2	70,906,101.5	82,163,296.9
1923		805,322.1		1,417,461.8	122,402,849.8	124,626,333.7
1924		784,698.9		847,104.5	135,897,725.8	137,529,629.2
1925		784,980.5		547,727.2	166,165,617.8	167,498,231.5
1926		894,306.3		643,968.2	202,271,070.3	203,809,044.8
1927		810,449.4		338,430.7	184,323,019.9	185,471,897.0
1928		953,350.8		2,411,615.0	169,149,004.8	170,514,770.6
1929		1,227,413.9		1,104,262.2	200,832,051.8	203,263,757.2
1930	1,998,947.6	982,781.7		416,043.0	191,859,342.4	195,257,111.7
1931	2,435,631.4	1,123,977.6		820,278.7	166,014,346.1	170,394,233.8
1932	1,711,028.5	1,097,777.2		630,785.5	146,950,912.7	150,390,504.9

Source: Bureau of Industrial Alcohol, U.S. Treasury Department.

TABLE 4.—Distilled spirits withdrawn on payment of tax, fiscal years 1901-1932, inclusive  
(Statement in tax gallons)

Year	Whisky	Rum	Gin	Brandy	Alcohol	Aggregate
1901	67,117,571.7	731,832.7	1,657,038.7	1,078,869.3	39,686,929.5	100,272,601.9
1902	54,948,215.3	798,038.9	1,768,472.6	1,096,718.1	45,790,578.2	104,402,023.1
1903	45,118,385.3	844,849.7	1,979,003.8	1,214,068.4	64,846,114.9	114,002,422.1
1904	45,611,673.3	872,209.9	2,023,842.8	1,254,540.0	67,526,449.7	117,288,715.2
1905	45,234,977.6	908,746.9	2,117,637.7	1,338,225.6	67,736,495.3	117,328,083.1
1906	49,548,257.7	894,951.6	2,364,890.8	1,518,052.8	69,815,214.6	124,131,377.6
1907	58,703,504.8	969,263.4	2,968,181.6	1,748,664.4	71,390,116.9	135,780,621.1
1908	56,099,835.0	630,431.9	2,793,629.7	1,472,676.9	60,179,879.6	121,176,356.1
1909	62,546,366.1	613,751.2	2,497,070.1	1,563,130.7	49,059,432.6	116,309,750.7
1910	67,290,894.7	690,185.6	2,999,476.6	2,014,420.7	55,404,831.3	128,399,311.8
1911	72,682,889.8	697,890.9	8,291,223.9	2,223,269.0	55,387,755.3	134,282,019.8
1912	72,355,460.6	715,701.1	8,563,502.6	2,284,825.6	56,594,728.7	135,544,218.6
1913	70,244,441.4	704,180.8	4,023,668.9	2,605,077.4	59,317,173.7	142,894,502.2
1914	72,866,933.8	654,920.3	3,972,639.7	2,570,420.1	63,708,280.1	123,860,617.1
1915	33,614,009.0	664,244.2	3,611,224.6	2,362,289.2	68,775,333.5	138,840,699.9
1916	69,468,144.9	648,900.4	4,131,348.9	2,830,144.1	68,779,676.7	154,201,900.0
1917	83,691,339.9	659,815.7	5,408,321.6	3,551,084.3	71,031,121.5	164,201,683.0
1918	56,222,691.6	331,634.6	1,907,120.8	2,299,835.5	29,326,500.3	83,681,258.8
1919	62,142,790.8	209,915.8	1,130,210.8	2,082,581.1	18,035,500.0	20,034,251.7
1920	6,187,984.3	21,229.9	76,198.8	109,456.0	22,039,355.7	35,631,420.6
1921	9,118,325.2	10,008.6	64,708.3	65,459.1	26,275,969.4	40,100,721.8
1922	2,676,022.3	8,914.0	6,810.4	26,748.5	15,391,489.6	10,100,721.8
1923	1,761,566.4	13,601.8	6,865.0	23,966.1	10,763,013.4	12,569,628.4
1924	1,822,860.0	12,452.9	3,084.1	8,084.1	9,392,302.4	11,216,767.0
1925	1,926,621.5	14,971.0	2,414.9	30,021.2	8,547,518.2	10,752,219.2
1926	1,892,003.1	10,881.0	1,955.6	36,070.0	8,801,398.0	10,752,219.2
1927	1,648,078.2	18,274.9	1,521.6	46,901.3	8,253,512.5	9,968,348.5
1928	1,545,618.2	17,323.0	3,144.6	50,147.6	8,676,717.2	10,291,950.0
1929	1,534,983.2	31,708.7	2,372.8	48,082.4	8,822,815.2	10,291,950.0
1930	1,405,709.5	22,492.7	2,052.1	42,169.9	8,251,271.2	9,728,705.4
1931	1,292,510.5	15,987.7	1,011.3	43,714.4	7,398,868.8	8,662,978.0
1932	937,382.1	17,042.2	2,400.3	43,161.6	6,154,449.6	7,155,000.0

Source: Bureau of Industrial Alcohol.

TABLE 5.—Tax collected on distilled spirits, wines, and fermented liquors, fiscal years 1901-1932, inclusive

Year	Distilled spirits	Wines	Fermented liquors	Total
1901.....	\$110,027,979.50	-----	\$75,669,907.65	\$101,697,887.21
1902.....	121,138,013.13	-----	71,988,002.39	163,126,015.52
1903.....	131,953,472.39	-----	47,547,856.08	170,501,328.47
1904.....	135,810,015.42	-----	49,083,458.77	184,893,474.19
1905.....	135,958,513.12	-----	50,300,553.18	186,319,066.30
1906.....	143,394,055.12	-----	55,611,853.50	199,035,913.68
1907.....	156,336,901.89	-----	59,567,818.18	215,904,720.07
1908.....	140,158,807.16	-----	59,807,616.81	199,966,423.96
1909.....	134,868,034.12	-----	57,450,411.42	192,324,445.54
1910.....	148,029,311.54	-----	60,572,288.54	208,601,600.08
1911.....	155,279,858.25	-----	64,367,777.65	219,647,635.90
1912.....	156,391,435.77	\$52.00	63,268,770.51	219,660,258.28
1913.....	163,870,276.54	66.00	66,266,989.60	230,146,332.14
1914.....	159,098,177.31	-----	67,081,512.45	226,179,689.76
1915.....	142,312,397.40	2,307,301.97	79,328,046.72	223,948,646.09
1916.....	156,050,000.55	2,631,629.98	88,771,103.99	247,453,543.52
1917.....	180,947,243.78	5,164,075.03	91,897,193.81	284,008,512.62
1918.....	308,429,318.77	9,124,368.66	126,285,857.65	443,839,544.98
1919.....	353,737,044.77	11,474,207.49	117,839,602.21	483,050,854.47
1920.....	93,161,205.60	4,744,070.11	41,965,874.09	139,871,149.80
1921.....	80,281,612.55	2,316,452.46	25,363.82	82,623,428.83
1922.....	44,257,100.75	1,300,249.72	40,086.00	45,609,436.47
1923.....	28,822,016.50	1,531,991.38	4,078.75	30,358,086.63
1924.....	26,126,317.76	1,454,062.88	5,327.73	27,585,708.37
1925.....	24,307,331.65	1,595,488.63	1,954.44	25,904,774.72
1926.....	24,756,900.08	1,679,434.38	15,694.19	26,452,028.63
1927.....	20,899,065.88	795,602.83	833.25	21,695,551.96
1928.....	14,414,088.04	893,408.41	300.00	15,307,796.45
1929.....	12,484,078.53	292,549.93	100.00	12,776,728.46
1930.....	11,455,883.99	239,383.68	-----	11,695,267.67
1931.....	10,203,569.43	228,495.06	-----	10,432,064.49
1932.....	8,517,399.98	186,663.29	-----	8,703,963.27

Source: Bureau of Industrial Alcohol.



20101-31-32

Years ended June 30--

United States consumption

	United States consumption							Total
	Whisky	Rum	Gin	Brandy	Cordials, liquors, etc.	Com-pounds, etc.	Miscel-laneous	
	Gallons	Gallons	Gallons	Gallons	Gallons	Gallons	Gallons	Gallons
1901	57,824,367	731,833	2,152,293	1,353,960	258,883	108,930	92,398	62,522,664
1902	55,738,115	798,038	2,308,567	1,411,024	297,240	110,595	98,669	60,762,248
1903	46,048,619	844,850	2,521,869	1,566,492	324,860	52,810	108,968	51,468,468
1904	46,617,478	872,210	2,622,170	1,632,041	350,206	72,457	108,776	52,275,338
1905	46,294,277	905,747	2,758,896	1,738,629	395,736	45,799	102,611	52,241,695
1906	50,759,689	894,952	3,092,915	1,967,750	489,262	34,190	94,054	57,332,812
1907	60,202,685	969,263	3,804,065	2,337,237	602,680	25,479	135,234	68,076,643
1908	57,537,827	630,432	3,594,838	2,050,984	663,555	22,205	123,210	64,523,101
1909	64,098,570	613,751	3,563,352	2,305,832	690,892	32,082	139,523	71,434,002
1910	68,506,566	690,189	4,135,210	2,817,310	854,484	53,902	110,255	77,167,916
1911	74,097,063	697,381	4,498,031	2,605,404	553,102	33,413	124,494	82,608,908
1912	73,861,369	715,701	4,364,678	2,790,225	483,036	299	131,535	82,346,843
1913	77,902,970	704,151	5,022,694	3,197,696	588,257	194	145,068	87,561,010
1914	74,537,217	654,920	5,067,738	3,164,297	624,787	93	223,038	84,172,090
1915	64,861,769	584,244	4,306,134	2,767,196	364,213	16	198,543	73,062,115
1916	71,192,203	646,900	4,961,648	3,327,744	350,778	28,737	215,290	80,721,300
1917	85,248,462	659,816	5,639,491	3,991,273	342,691	1,590	318,394	96,251,707
1918	56,955,198	331,635	1,992,523	2,485,016	129,936		110,679	61,984,987
1919	( )	( )	( )	( )	( )	( )	( )	65,868,770
1920	( )	( )	( )	( )	( )	( )	( )	6,657,497
1921	( )	( )	( )	( )	( )	( )	( )	9,551,420
1922	( )	( )	( )	( )	( )	( )	( )	2,867,969
1923	( )	( )	( )	( )	( )	( )	( )	1,851,854
1924	( )	( )	( )	( )	( )	( )	( )	1,922,872
1925	( )	( )	( )	( )	( )	( )	( )	2,040,879
1926	( )	( )	( )	( )	( )	( )	( )	2,021,190
1927	( )	( )	( )	( )	( )	( )	( )	1,736,947
1928	( )	( )	( )	( )	( )	( )	( )	1,693,998
1929	( )	( )	( )	( )	( )	( )	( )	1,701,200
1930	( )	( )	( )	( )	( )	( )	( )	1,527,925
1931	( )	( )	( )	( )	( )	( )	( )	1,294,862
1932	( )	( )	( )	( )	( )	( )	( )	1,044,576

<sup>1</sup> Source: Bureau of Industrial Alcohol, December 1932 report, p. 96.  
<sup>2</sup> Source: Foreign Commerce and Navigation of the United States.  
<sup>3</sup> Cordials, liquors, arrack, absinthe, kirchwasser, ratta, and other spiritous beverages or bitters containing spirits and not specially provided for.  
<sup>4</sup> Compounds or preparations of which distilled spirits are a component part of chief value, n.s.p.f.  
<sup>5</sup> Miscellaneous spirits from materials other than grain.

<sup>6</sup> The taxable gallon differs from the proof gallon by reason of the fact that in computing taxable gallons under sec. 3251, Revised Statutes, all fractional parts of a gallon less than one tenth are excluded.  
<sup>7</sup> Proof spirits are "that alcoholic liquor which contains one half its volume of alcohol of a specific gravity of 0.7939 at 60° F".  
<sup>8</sup> Not shown separately.  
<sup>9</sup> Not available.

NOTE.—Alcohol is not included in distilled spirits withdrawn on payment of tax. Production of pure, neutral or cologne spirits which are used by the rectifier in blending whisky varied from 24,000,000 to 61,000,000 gallons annually between 1900 and 1908, the only years for which production was shown separately. After 1908 production of these spirits were included with alcohol.

TAX ON INTOXICATING LIQUOR

888

TABLE 7.—Wines: United States production, imports for consumption, and total United States consumption, 1900–1932

(Quantity expressed in wine gallons)

Year ended June 30—	United States production <sup>1</sup>	Exports <sup>2</sup>	Production less exports <sup>3</sup>	Imports for consumption			Total domestic consumption
				Still wines <sup>4</sup>	Sparkling wines <sup>5</sup>	Total	
1900	27,651,351	1,408,859	26,242,492	3,442,050	853,101	4,295,241	30,537,733
1901	25,126,238	1,117,858	24,008,380	3,894,574	885,543	4,780,117	28,788,497
1902	45,673,716	929,900	44,743,815	4,454,163	992,364	5,446,527	50,190,342
1903	33,312,443	678,150	32,634,293	4,999,555	1,085,262	6,084,817	38,719,110
1904	38,435,442	896,643	37,538,799	5,232,417	1,008,120	6,240,537	43,779,336
1905	30,203,794	839,386	29,364,408	5,354,342	1,071,273	6,425,615	35,790,023
1906	40,636,570	789,526	39,847,044	6,058,739	1,124,940	7,183,685	47,030,729
1907	50,639,430	560,147	50,079,283	7,045,226	1,245,525	8,290,751	58,370,034
1908	44,859,945	438,676	44,421,269	7,269,647	1,001,430	8,271,077	52,692,346
1909	54,025,886	415,891	53,609,995	7,703,590	1,066,422	8,770,012	62,380,007
1910	51,185,691	501,348	50,684,343	9,179,461	1,302,828	10,482,289	61,166,632
1911	58,050,000	1,394,994	56,655,006	6,963,215	674,967	7,638,182	64,293,188
1912	51,577,000	957,120	50,619,880	5,372,776	834,681	6,207,457	56,827,337
1913	49,759,000	1,076,151	48,682,849	6,254,003	854,610	7,108,613	55,791,462
1914	45,015,000	941,357	44,073,643	7,113,433	789,918	7,903,351	52,976,994
1915	28,075,000	819,310	27,255,690	5,583,709	420,540	6,004,249	33,259,939
1916	43,362,480	1,133,274	42,229,206	5,104,330	582,646	5,686,981	47,916,187
1917	39,885,598	2,245,013	37,640,495	4,778,989	618,237	5,397,226	43,037,721
1918	51,029,822	2,765,344	48,264,478	3,108,521	371,544	3,480,065	51,744,543
1919	55,256,171	4,926,425	50,329,746	3,666,739	47,694	3,714,433	54,044,179
1920	20,082,458	4,573,587	15,508,871	364,300	63,702	428,002	15,936,873
1921	20,532,343	25,729	20,506,614	783,627	70,792	854,419	21,361,033
1922	0,357,457	11,639	6,345,818	607,029	57,339	664,368	7,010,186
1923	14,706,495	47,092	14,659,403	185,371	17,295	202,666	14,862,069
1924	0,056,170	12,635	9,043,535	99,556	4,094	103,650	9,147,185
1925	3,638,446	13,641	3,624,805	92,883	10,880	103,763	3,728,568
1926	5,841,096	-----	5,841,096	40,268	8,449	48,717	5,889,813
1927	4,406,564	-----	4,406,564	32,128	1,921	34,049	4,440,613
1928	4,922,617	-----	4,922,617	32,771	1,605	34,376	4,956,993
1929	11,381,960	-----	11,381,960	32,207	1,269	33,476	11,415,436
1930	3,154,866	-----	3,154,866	26,106	1,246	27,352	3,182,218
1931	6,658,854	-----	6,658,854	23,987	813	24,800	6,683,654
1932	5,210,454	-----	5,210,454	29,565	1,146	30,661	5,241,115

<sup>1</sup> Source: Bureau of Industrial Alcohol.

<sup>2</sup> Source: Foreign Commerce and Navigation of the United States.

<sup>3</sup> Source: Statistical Abstract of the United States.

<sup>4</sup> For calendar years from 1910 to 1932.

TABLE 8.—Ale, porter, stout, and beer: United States production, exports, imports for consumption, and United States consumption for fiscal years ended June 30, 1900-1932

[Quantity expressed in wine gallons]

Year	United States production <sup>1</sup>	Exports <sup>2</sup>	Production less exports	Imports for consumption <sup>3</sup>	Total domestic consumption
1900.....	1,223,619,383	5,496,131	1,218,123,252	3,316,690	1,221,439,942
1901.....	1,259,041,998	4,389,003	1,254,652,995	3,596,163	1,258,249,148
1902.....	1,381,053,937	2,885,722	1,378,168,215	3,706,731	1,381,874,946
1903.....	1,448,326,549	2,677,163	1,445,648,386	4,203,963	1,449,852,349
1904.....	1,496,220,208	2,003,240	1,494,216,968	4,839,648	1,499,056,616
1905.....	1,535,182,899	2,233,207	1,532,949,692	5,200,555	1,538,150,157
1906.....	1,696,461,143	2,439,798	1,694,021,375	5,962,262	1,699,983,637
1907.....	1,817,282,062	2,586,277	1,814,695,785	7,171,472	1,821,867,257
1908.....	1,823,235,023	2,202,639	1,821,032,384	7,313,711	1,828,346,095
1909.....	1,745,408,407	2,162,608	1,743,245,799	7,110,350	1,750,356,149
1910.....	1,844,038,627	2,181,120	1,841,857,501	7,301,417	1,849,158,918
1911.....	1,961,776,813	2,518,973	1,959,257,840	7,240,060	1,966,497,906
1912.....	1,927,477,514	2,568,660	1,924,908,854	7,169,358	1,932,078,212
1913.....	2,025,071,156	2,913,017	2,022,158,139	7,668,846	2,029,826,985
1914.....	2,051,873,663	3,214,827	2,048,658,836	7,170,504	2,055,829,340
1915.....	1,854,054,510	2,335,564	1,851,718,946	3,386,609	1,855,105,554
1916.....	1,817,642,344	2,352,464	1,815,289,880	2,579,673	1,817,869,553
1917.....	1,885,338,740	3,147,075	1,882,191,674	2,209,938	1,884,401,612
1918.....	1,558,252,696	3,038,094	1,555,214,602	744,387	1,555,958,989
1919.....	1,850,092,088	3,057,410	1,847,034,678	11,098	1,847,045,776
1920.....	2,286,169,680	1,126,834	2,285,042,846	8	2,285,042,854
1921.....	265,825,830	12,579	265,813,251	69	265,813,320
1922.....	196,781,781	146,219	196,635,562	37	196,635,609
1923.....	163,329,082	238,803	163,090,279	2,706	163,093,075
1924.....	151,608,909	460,026	151,148,883	16	151,148,929
1925.....	158,676,417	313,832	158,362,585	28	158,362,613
1926.....	150,522,077	422,000	150,100,077	283	150,100,360
1927.....	135,852,372	476,000	135,376,372	1,089	135,377,461
1928.....	128,999,805	519,000	128,480,805	507	128,481,312
1929.....	119,550,305	467,000	119,083,305	810	119,084,115
1930.....	114,116,673	443,000	113,673,673	444	113,674,117
1931.....	97,243,528	290,000	96,947,528	330	96,947,858
1932.....	(4)	129,061		138	

<sup>1</sup> Source: Bureau of Industrial Alcohol, U.S. Treasury Department.

<sup>2</sup> Source: Foreign Commerce and Navigation of the United States.

<sup>3</sup> For fiscal years ended June 30, from 1910 to 1932.

<sup>4</sup> For calendar years from 1919 to 1932.

<sup>5</sup> Production after national prohibition consists of cereal beverages containing less than one-half of 1 percent of alcohol by volume.

<sup>6</sup> Malt beverages.

<sup>7</sup> Malt extract and malt beverages.

<sup>8</sup> Not available.

<sup>9</sup> Malt extract and malt sirup.

TABLE 9.—Per capita consumption of beer, distilled liquors, and wines in the United States 1900-1932

Fiscal year ended—	Population	Beer per capita consumption	per capita consumption of Distilled spirits	Wines per capita consumption
		Gallons	Gallons	Gallons
1900.....	76,129,408	16.05	1.20	0.40
1901.....	77,747,402	16.19	1.32	.37
1902.....	79,305,396	17.40	1.34	.63
1903.....	80,983,390	17.90	1.44	.48
1904.....	82,601,384	18.15	1.45	.53
1905.....	84,219,378	18.27	1.42	.42
1906.....	85,837,372	19.81	1.48	.55
1907.....	87,455,366	20.85	1.60	.67
1908.....	89,073,360	20.52	1.40	.59
1909.....	90,691,354	19.30	1.33	.69
1910.....	92,287,080	20.03	1.44	.66
1911.....	93,682,189	20.99	1.47	.69
1912.....	95,097,298	20.32	1.46	.60
1913.....	96,512,407	21.03	1.52	.58
1914.....	97,927,516	21.00	1.46	.54
1915.....	99,342,625	18.68	1.28	.33
1916.....	100,757,735	18.03	1.38	.45
1917.....	102,172,845	18.44	1.64	.42
1918.....	103,587,955	15.02	.88	.50
1919.....	105,003,065	8.15	.80	.49
1920.....	106,439,282	.....	.28	.15
1921.....	108,196,606	.....	.33	.20
1922.....	109,853,930	.....	.18	.06
1923.....	111,511,254	.....	.11	.13
1924.....	113,168,578	.....	.10	.08
1925.....	114,825,902	.....	.09	.03
1926.....	116,483,226	.....	.09	.05
1927.....	118,140,550	.....	.08	.04
1928.....	119,797,874	.....	.09	.04
1929.....	121,455,198	.....	.09	.09
1930.....	123,112,522	.....	.08	.03
1931.....	124,070,000	.....	.07	.08
1932.....	124,822,000	.....	.06	.04

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TABLE 10.—United States total consumption of beer, distilled spirits and wine, 1900-1932

Year	Total consumption beer, distilled spirits, and wine	Percent beer	Percent distilled spirits	Percent wine
	<i>Gallons</i>			
1900.....	1,347,481,792	90.65	7.05	2.30
1901.....	1,389,247,238	90.68	7.36	2.06
1902.....	1,638,018,115	89.82	6.93	3.25
1903.....	1,604,886,052	90.34	7.25	2.41
1904.....	1,662,634,731	90.17	7.21	2.62
1905.....	1,693,923,309	90.81	7.08	2.11
1906.....	1,874,162,392	90.70	6.78	2.52
1907.....	2,019,704,051	90.21	6.91	2.88
1908.....	2,005,771,421	91.15	6.32	2.53
1909.....	1,933,239,691	90.64	6.33	3.13
1910.....	2,042,898,316	90.62	6.49	2.99
1911.....	2,168,787,767	90.67	6.36	2.97
1912.....	2,127,847,120	90.80	6.53	2.67
1913.....	2,232,497,631	90.92	6.58	2.50
1914.....	2,251,653,463	91.30	6.35	2.35
1915.....	2,016,135,898	92.00	6.29	1.65
1916.....	2,005,230,717	90.65	6.96	2.39
1917.....	2,094,861,661	89.96	7.99	2.05
1918.....	1,699,016,108	91.58	5.37	3.05
1919.....	991,616,116	86.34	8.46	5.20
1920.....	46,233,725	.....	64.77	35.23
1921.....	57,188,423	.....	62.65	37.35
1922.....	26,269,345	.....	73.31	26.69
1923.....	27,477,636	.....	45.91	54.09
1924.....	20,452,359	.....	55.28	44.72
1925.....	14,316,965	.....	73.95	26.05
1926.....	16,712,401	.....	64.76	35.24
1927.....	14,481,072	.....	69.33	30.67
1928.....	14,626,708	.....	70.90	29.10
1929.....	22,009,179	.....	48.13	51.87
1930.....	12,901,416	.....	75.45	24.55
1931.....	15,377,383	.....	50.53	49.47
1932.....	12,440,131	.....	67.87	32.13

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TABLE 11.—Rye whisky: United States exports by countries for fiscal years ended June 30, 1900–1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (proof gallons):</b>																			
Germany.....	19,141	29,571	31,484	8,690	15,740	6,848	23,901	29,227	48,668	28,006	78,738	30,545	18,515	43,519	3,253	30	1,685	475	1,327
Panama.....					3,872	3,517	9,885	13,769	17,805	12,880	16,586	22,689	4,078	14,418	17,345	12,588			
Mexico.....	2,328	9,543	16,668	20,703	41,156	34,416	24,504	31,536	20,693	16,199	18,311	16,807	20,281	16,131	8,205	5,170	5,114	2,005	4,013
Nicaragua.....	4,304	1,085	1,177	2,635	4,957	2,974	2,258	4,571	2,591	1,818	4,307	3,517	3,885	11,756	14,493	9,676	4,776	11,045	3,777
Guatemala.....	287	908	595	1,938	1,331	2,303	1,489	1,176	1,419	1,280	1,574	2,477	7,496	6,893	12,794	2,610	2,610	2,711	1,640
Philippine Islands.....	5,371	43,309	66,437	35,209	7,753	15,786	11,881	13,677	24,860	28,037	32,674	21,063	34,353	32,396	26,143	17,942	16,779	20,605	5,074
Other countries.....	60,290	85,141	38,685	35,061	52,726	41,047	35,604	40,155	56,719	33,100	29,812	36,332	51,514	52,228	51,919	38,548	93,736	102,778	74,094
Total.....	91,721	160,357	155,046	104,236	127,535	106,893	109,522	134,110	172,755	121,320	182,002	133,450	140,122	177,341	134,152	86,564	124,700	139,619	89,925
<b>Value:</b>																			
Germany.....	\$18,829	\$21,434	\$33,629	\$13,495	\$17,053	\$9,788	\$23,253	\$30,065	\$58,174	\$28,608	\$85,694	\$36,993	\$27,620	\$59,670	\$6,948	\$82	\$3,161	\$993	\$3,613
Panama.....					7,818	8,032	22,106	34,890	39,425	29,526	35,676	46,508	8,321	31,855	35,695	25,214			
Mexico.....	3,529	16,435	29,189	44,996	80,174	67,893	58,800	66,804	43,366	37,063	41,800	39,297	42,282	32,154	16,145	9,324	8,911	4,265	13,598
Nicaragua.....	5,482	1,849	2,006	3,134	4,227	5,135	5,056	8,864	4,971	4,022	8,914	6,396	9,227	25,118	28,727	19,814	8,176	15,064	6,956
Guatemala.....	548	2,287	1,341	2,893	2,269	4,158	3,020	1,815	3,143	2,331	3,299	5,524	14,570	13,744	25,713	4,927	3,667	5,542	3,966
Philippine Islands.....	6,710	75,248	128,875	90,146	13,950	35,965	26,459	21,589	45,056	40,885	60,578	43,941	59,335	58,604	37,621	31,721	29,653	31,386	64,039
Other countries.....	66,143	134,330	80,677	68,816	92,060	76,635	69,069	88,891	126,800	67,596	65,063	72,794	106,333	106,805	108,678	77,304	155,311	192,322	136,844
Total.....	121,241	251,583	275,717	223,480	217,561	207,606	207,783	252,918	320,935	210,031	301,044	251,453	267,688	327,950	259,523	168,386	208,879	249,572	229,016

Source: Foreign Commerce and Navigation of the United States.

TABLE 12. Bourbon whisky: United States exports by countries for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (proof gallons):</b>																			
Canada.....	2,423	8,386	3,969	5,740	4,074	3,246	4,651	2,388	1,894	3,555	1,547	323	3,483	28,085	27,601	4,801	2,984	5,318	2,472
Nicaragua.....	19,069	18,596	11,349	9,752	14,391	12,619	15,370	9,234	2,251	2,530	6,002	8,378	29,011	4,743	4,924	47	7,063	2,665	972
Mexico.....	4,794	15,835	18,981	14,373	18,728	21,224	27,232	21,007	14,907	17,790	13,241	20,606	18,569	17,175	8,150	25,738	19,088	19,510	22,094
Philippine Islands.....	58,056	109,281	23,006	13,932	13,100	15,153	8,893	12,486	9,151	14,599	17,401	13,900	8,871	110	-----	2,278	1,501	1,372	7,474
Other countries..	778,899	373,274	554,193	125,599	181,247	159,759	127,475	144,952	101,055	293,435	8,110	15,252	24,447	10,139	7,100	1,959	58,166	30,746	32,943
<b>Total.....</b>	<b>863,241</b>	<b>525,372</b>	<b>611,518</b>	<b>169,396</b>	<b>231,540</b>	<b>212,001</b>	<b>183,621</b>	<b>190,067</b>	<b>129,258</b>	<b>331,909</b>	<b>46,301</b>	<b>58,459</b>	<b>84,381</b>	<b>60,252</b>	<b>47,775</b>	<b>34,823</b>	<b>88,802</b>	<b>59,611</b>	<b>65,955</b>
<b>Value:</b>																			
Canada.....	\$4,997	\$18,401	\$8,976	\$15,198	\$9,416	\$7,449	\$11,552	\$5,686	\$3,596	\$6,797	\$3,334	\$663	\$10,110	\$66,469	\$58,501	\$10,675	\$7,381	\$12,928	\$11,819
Nicaragua.....	12,646	11,218	7,312	5,466	8,951	10,077	14,357	11,757	3,356	3,337	8,289	10,429	37,713	6,991	8,777	64	12,136	3,445	2,257
Mexico.....	7,890	22,854	36,262	24,260	30,471	30,454	45,725	34,862	22,146	27,558	21,595	33,133	32,248	28,759	13,810	49,809	30,288	28,528	47,109
Philippine Islands.....	119,079	226,024	36,837	28,377	24,820	38,865	21,373	26,113	18,410	26,325	31,694	18,168	15,959	300	-----	4,986	3,630	3,085	18,236
Other countries..	620,248	409,472	548,674	129,836	181,035	159,270	152,257	174,804	113,406	301,429	15,301	24,301	28,016	16,910	11,243	3,963	60,428	25,956	70,787
<b>Total.....</b>	<b>784,860</b>	<b>687,969</b>	<b>638,061</b>	<b>203,137</b>	<b>254,693</b>	<b>246,115</b>	<b>245,264</b>	<b>253,222</b>	<b>160,914</b>	<b>365,446</b>	<b>80,213</b>	<b>86,714</b>	<b>124,946</b>	<b>119,429</b>	<b>92,331</b>	<b>69,497</b>	<b>113,863</b>	<b>73,942</b>	<b>150,206</b>

Source: Foreign Commerce and Navigation of the United States.

TABLE 13.—*Rum: United States exports by countries for fiscal years ended June 30, 1900–1918*

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909
<b>Quantity (proof gallons):</b>										
British West Africa.....	635,764	1,005,394	960,157	1,017,004	684,637	851,935	599,670	626,982	765,098	725,266
United Kingdom.....	9,139	26,146	50,218	8,766	21,721	-----	49,715	217,374	141,278	143,870
Netherlands.....	-----	-----	-----	-----	-----	-----	300	4,065	4,866	6,208
China.....	656	-----	-----	-----	89	23,988	13,778	3,013	13,136	18,209
Other countries.....	24,851	45,171	85,026	70,949	50,780	35,448	37,960	62,620	13,953	32,496
<b>Total.....</b>	<b>670,410</b>	<b>1,076,711</b>	<b>1,095,401</b>	<b>1,096,719</b>	<b>757,227</b>	<b>911,371</b>	<b>701,423</b>	<b>914,074</b>	<b>938,331</b>	<b>926,049</b>
<b>Value:</b>										
British West Africa.....	\$855,140	\$1,382,020	\$1,316,110	\$1,377,211	\$918,499	\$1,127,131	\$756,287	\$857,287	\$1,017,502	\$992,446
United Kingdom.....	12,716	35,717	43,439	6,226	29,016	-----	67,091	293,557	191,453	191,454
Netherlands.....	-----	-----	-----	-----	-----	-----	405	5,531	6,641	8,379
China.....	1,160	-----	-----	-----	219	11,584	4,237	756	3,209	4,418
Other countries.....	34,792	50,373	66,371	74,956	47,225	37,122	49,902	34,287	13,374	40,421
<b>Total.....</b>	<b>903,806</b>	<b>1,468,110</b>	<b>1,425,920</b>	<b>1,458,393</b>	<b>994,959</b>	<b>1,175,837</b>	<b>877,922</b>	<b>1,191,418</b>	<b>1,232,179</b>	<b>1,237,118</b>
	1910	1911	1912	1913	1914	1915	1916	1917	1918	
<b>Quantity (proof gallons):</b>										
British West Africa.....	762,923	743,688	856,955	852,323	824,600	857,352	1,148,360	966,475	321,301	
United Kingdom.....	283,720	272,628	366,033	285,196	364,629	302,042	165,761	74,231	-----	
Netherlands.....	8,216	14,599	49,547	45,410	71,456	42,031	67,934	4,178	-----	
China.....	23,748	20,769	25,388	10,270	36,597	18,692	41,054	122,158	30,299	
Other countries.....	59,521	77,894	112,917	74,855	91,456	20,687	163,791	227,754	109,971	
<b>Total.....</b>	<b>1,138,128</b>	<b>1,129,578</b>	<b>1,410,840</b>	<b>1,268,054</b>	<b>1,388,738</b>	<b>1,240,804</b>	<b>1,586,900</b>	<b>1,394,796</b>	<b>461,571</b>	
<b>Value:</b>										
British West Africa.....	\$1,017,064	\$991,624	\$1,153,592	\$1,133,039	\$1,103,824	\$1,104,057	\$1,458,682	\$1,197,437	\$374,649	
United Kingdom.....	371,474	380,140	499,294	388,027	496,365	400,198	237,545	102,503	-----	
Netherlands.....	11,426	19,772	68,070	62,261	98,412	57,280	91,681	5,631	-----	
China.....	7,115	5,960	7,972	3,052	9,956	10,355	18,412	7,990	16,703	
Other countries.....	67,682	78,651	98,309	81,188	106,564	16,662	80,987	215,552	81,664	
<b>Total.....</b>	<b>1,474,761</b>	<b>1,476,147</b>	<b>1,827,237</b>	<b>1,667,567</b>	<b>1,815,121</b>	<b>1,588,552</b>	<b>1,887,307</b>	<b>1,529,113</b>	<b>473,016</b>	

Source: Foreign Commerce and Navigation of the United States.

TABLE 14. All other distilled spirits: United States exports by countries for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (proof gallons):</b>																			
Mexico.....	1,882	2,832	28,166	14,586	11,967	8,914	12,612	10,948	17,231	3,417	7,563	4,678	5,739	3,568	5,654	6,488	5,219	6,516	7,089
Hong Kong.....	440		1,963	3,704	533	1,209	439			13	25			142	3,300	2,868	3,124	511	7
Philippine Islands.....	1,054	2,037	26,029	1,568	1,305	1,998	5,048	258	691	768	5,801	9,139	4,607	2,181	623	788	1,378	4,352	9,329
Other countries.....	15,209	18,693	20,226	28,156	33,597	71,650	21,990	8,573	10,469	7,006	24,733	28,429	13,451	23,380	15,831	20,008	40,540	503,734	94,221
<b>Total.....</b>	<b>18,585</b>	<b>23,562</b>	<b>76,384</b>	<b>48,014</b>	<b>47,402</b>	<b>83,771</b>	<b>40,089</b>	<b>19,779</b>	<b>28,391</b>	<b>11,204</b>	<b>38,122</b>	<b>42,246</b>	<b>23,797</b>	<b>29,271</b>	<b>25,408</b>	<b>30,152</b>	<b>50,259</b>	<b>515,113</b>	<b>110,646</b>
<b>Value:</b>																			
Mexico.....	\$2,601	\$3,826	\$38,485	\$25,694	\$18,241	\$14,666	\$23,652	\$20,297	\$24,021	\$6,855	\$13,788	\$8,241	\$11,104	\$6,594	\$7,786	\$11,255	\$9,827	\$13,109	\$14,769
Hong Kong.....	741		2,570	620	1,438	1,384	835			40	56			326	4,050	4,785	1,643	1,218	45
Philippine Islands.....	2,297	4,118	12,003	3,539	1,154	2,806	15,811	415	1,411	1,493	10,385	11,831	6,409	3,914	767	1,501	2,332	9,394	31,997
Other countries.....	19,282	36,726	29,892	32,505	47,021	78,470	41,572	16,177	18,134	14,003	33,366	31,285	25,610	34,033	28,526	29,058	53,793	603,854	199,711
<b>Total.....</b>	<b>24,921</b>	<b>44,670</b>	<b>82,950</b>	<b>62,358</b>	<b>67,854</b>	<b>97,328</b>	<b>81,870</b>	<b>36,889</b>	<b>43,566</b>	<b>22,391</b>	<b>57,595</b>	<b>51,357</b>	<b>43,123</b>	<b>44,867</b>	<b>41,129</b>	<b>46,599</b>	<b>67,595</b>	<b>627,575</b>	<b>246,522</b>

Source: Foreign Commerce and Navigation of the United States.

TABLE 15.—Wines: United States exports by countries for fiscal years ended June 30, 1900–1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (gallons):</b>																			
Germany.....	132,738	98,542	65,022	34,967	100,101	55,447	59,664	32,997	17,754	48,450	35,312	360,931	39,096	47,401	23,830	515			
Switzerland.....	6,469	426				5,250			90	3,725	3,529	31,376	21,650	47,269	75,800	7,500	17,500		
United Kingdom.....	247,631	172,721	188,078	60,675	119,475	94,192	83,739	22,917	25,907	22,981	57,544	92,681	55,376	77,591	60,147	50,168	41,853	85,935	13,846
Canada.....	44,288	38,471	30,465	28,140	30,787	25,121	25,598	29,841	29,862	34,081	47,267	85,566	111,472	114,062	70,680	59,154	63,862	212,491	257,031
Panama.....					47,920	105,010	146,840	80,534	39,143	35,796	57,064	201,718	247,681	242,875	197,920	188,401	113,281	161,844	131,417
Mexico.....	211,730	210,181	200,424	128,910	171,375	135,561	131,115	110,474	94,001	70,526	79,575	75,189	84,559	85,639	73,035	92,357	125,994	156,940	149,468
Colombia.....	51,788	68,008	56,143	63,768	63,023	19,558	27,067	18,049	12,840	15,401	11,949	27,966	45,915	56,359	52,015	37,998	30,640	44,047	14,820
Ecuador.....	20,095	35,227	15,902	19,389	21,892	19,959	22,028	27,128	25,699	28,479	27,166	39,636	50,100	51,481	33,256	42,506	52,882	53,647	61,485
China.....	38,756	66,257	22,932	28,547	33,167	50,052	22,021	6,356	4,230	4,672	3,377	22,123	28,478	34,731	26,508	23,654	59,881	87,857	386,190
Japan.....	77,726	81,835	68,945	47,292	49,339	88,916	59,557	50,914	40,909	34,823	61,171	229,869	26,971	69,208	81,078	112,002	239,512	519,563	647,319
French Oceania.....	59,997	78,476	48,529	54,472	53,001	35,635	34,479	12,699	11,985	15,338	9,758	23,693	40,654	50,705	69,993	51,835	67,226	116,063	226,060
Other countries.....	517,641	267,754	233,463	211,990	206,573	204,685	177,398	168,238	136,556	101,619	107,637	204,246	207,168	197,830	177,997	153,220	320,643	776,626	877,688
<b>Total.....</b>	<b>1,408,859</b>	<b>1,117,858</b>	<b>929,900</b>	<b>678,150</b>	<b>896,643</b>	<b>839,386</b>	<b>789,526</b>	<b>560,147</b>	<b>438,676</b>	<b>415,891</b>	<b>501,348</b>	<b>1,394,994</b>	<b>957,120</b>	<b>1,075,151</b>	<b>941,357</b>	<b>819,310</b>	<b>1,133,274</b>	<b>2,245,013</b>	<b>2,765,344</b>
<b>Value:</b>																			
Germany.....	\$78,320	\$66,116	\$46,636	\$21,352	\$66,158	\$35,841	\$41,049	\$20,770	\$10,662	\$23,381	\$15,970	\$123,288	\$13,935	\$20,268	\$9,340	\$304			
Switzerland.....	1,950	155				2,587			83	1,625	1,560	13,788	8,038	17,682	28,831	7,000	\$9,775		
United Kingdom.....	95,976	66,189	76,707	26,170	44,352	35,663	29,638	8,645	12,261	9,625	21,096	33,924	24,054	31,684	25,798	22,101	20,920	\$46,044	\$7,165
Canada.....	18,929	15,881	13,251	13,275	15,255	10,266	11,150	14,832	15,561	13,697	16,178	42,158	49,556	46,493	28,990	21,735	23,131	93,900	160,984
Panama.....					15,284	31,346	43,836	29,751	12,606	11,453	15,793	50,838	74,741	76,017	64,883	66,758	33,359	43,348	50,781
Mexico.....	76,285	84,466	82,128	53,765	74,327	61,678	55,021	49,441	40,956	29,667	32,245	29,907	32,916	35,456	33,025	41,649	55,496	94,655	92,371
Colombia.....	16,805	21,880	17,723	21,917	23,414	9,786	13,019	7,700	5,335	7,262	4,233	12,440	20,191	26,876	24,794	18,660	18,378	28,047	12,772
Ecuador.....	8,650	17,838	8,018	9,861	11,314	9,941	10,550	13,208	11,940	13,449	14,439	18,641	19,705	21,188	13,112	17,597	25,845	27,466	37,813
China.....	15,895	23,874	11,657	11,250	13,092	18,644	10,070	3,076	2,375	2,168	1,731	8,490	10,819	13,682	11,015	9,094	21,377	35,192	182,295
Japan.....	25,460	28,608	23,484	17,067	18,074	32,184	22,114	20,399	15,779	13,089	18,378	68,837	8,052	22,705	28,642	36,515	64,655	143,161	243,716
French Oceania.....	16,498	21,371	13,937	17,274	18,021	11,826	11,804	4,850	4,728	5,731	3,376	6,913	11,002	15,562	22,056	17,880	20,833	36,957	86,753
Other countries.....	220,897	117,182	113,804	98,721	104,266	95,453	78,087	78,681	62,874	50,319	48,598	103,362	95,251	91,055	82,926	73,076	151,829	384,363	513,984
<b>Total.....</b>	<b>575,665</b>	<b>461,560</b>	<b>407,345</b>	<b>290,552</b>	<b>403,557</b>	<b>355,215</b>	<b>326,335</b>	<b>251,353</b>	<b>195,160</b>	<b>181,516</b>	<b>193,597</b>	<b>518,536</b>	<b>366,260</b>	<b>418,668</b>	<b>373,412</b>	<b>332,369</b>	<b>450,598</b>	<b>933,133</b>	<b>1,388,639</b>

NOTE.—Prior to 1911 the above tabulation represents wines, in coverings other than bottles only. Exports of wines in bottles represent less than 10 percent of total exports of wine.

Source: Foreign Commerce and Navigation of the United States.

TABLE 16.--Malt liquors in bottles: United States exports by countries for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908
<b>Quantity (dozen quarts):</b>									
Canada.....	47,474	47,486	37,739	64,000	71,508	105,863	146,012	211,811	217,264
Panama.....					12,889	31,291	75,795	110,893	135,789
Cuba.....	445,621	218,055	115,061	88,672	62,460	112,484	157,245	165,200	100,665
Philippine Islands.....	470,451	618,384	314,503	217,293	144,278	137,920	64,179	37,866	26,256
Other countries.....	614,694	467,854	355,596	388,972	249,166	238,842	284,500	217,393	163,256
<b>Total.....</b>	<b>1,578,240</b>	<b>1,351,779</b>	<b>822,899</b>	<b>759,027</b>	<b>540,301</b>	<b>626,400</b>	<b>727,731</b>	<b>743,163</b>	<b>643,230</b>
<b>Value:</b>									
Canada.....	\$57,932	\$59,861	\$46,818	\$51,247	\$90,594	\$144,530	\$205,121	\$312,016	\$301,742
Panama.....					21,875	54,997	135,903	204,431	235,709
Cuba.....	601,920	292,380	170,703	135,112	95,314	171,488	235,520	240,403	137,703
Philippine Islands.....	557,807	762,176	461,337	309,120	183,480	188,941	81,340	47,977	35,046
Other countries.....	727,400	529,102	520,435	557,503	375,169	372,416	401,691	323,399	251,007
<b>Total.....</b>	<b>1,945,059</b>	<b>1,643,519</b>	<b>1,199,293</b>	<b>1,062,982</b>	<b>769,432</b>	<b>932,372</b>	<b>1,059,584</b>	<b>1,128,226</b>	<b>964,207</b>

	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (dozen quarts):</b>										
Canada.....	197,967	221,295	296,083	427,861	595,778	577,550	217,789	64,011	38,439	37,538
Panama.....	167,810	149,371	149,428	83,771	43,118	28,459	14,432	12,131	22,363	17,155
Cuba.....	78,486	58,467	50,755	35,534	37,262	41,771	37,531	61,642	94,554	139,581
Philippine Islands.....	49,960	51,020	48,169	30,479	14,818	16,623	12,469	8,892	2,612	6,049
Other countries.....	141,118	116,730	144,658	176,777	175,688	298,224	414,469	528,069	808,178	812,375
<b>Total.....</b>	<b>635,361</b>	<b>596,883</b>	<b>689,093</b>	<b>754,422</b>	<b>866,684</b>	<b>902,627</b>	<b>696,690</b>	<b>674,745</b>	<b>966,146</b>	<b>1,012,698</b>
<b>Value:</b>										
Canada.....	\$280,428	\$324,659	\$440,265	\$652,372	\$931,146	\$881,721	\$330,966	\$102,686	\$63,156	\$62,445
Panama.....	280,334	232,553	202,856	113,063	58,185	37,643	18,728	16,636	35,289	33,604
Cuba.....	116,713	84,452	71,872	51,342	52,163	54,761	54,584	87,067	128,452	212,327
Philippine Islands.....	74,280	69,614	71,836	47,835	21,267	22,048	17,395	13,484	3,383	14,746
Other countries.....	213,237	166,046	203,566	236,557	238,483	409,408	588,549	749,148	1,149,641	1,357,623
<b>Total.....</b>	<b>964,992</b>	<b>877,324</b>	<b>990,395</b>	<b>1,101,169</b>	<b>1,301,244</b>	<b>1,405,581</b>	<b>1,010,222</b>	<b>969,071</b>	<b>1,379,921</b>	<b>1,680,745</b>

Source: Foreign Commerce and Navigation of the United States.

TABLE 17.—Malt liquors in other coverings: United States exports by countries for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (gallons):</b>																			
Canada.....	197,083	178,031	210,013	265,440	214,596	234,384	231,476	292,212	248,319	222,949	326,221	357,180	272,118	258,629	201,423	56,476	11,533	9,318	6,470
Mexico.....	55,200	29,473	90,661	99,148	123,355	76,084	12,294	38,446	12,199	1,919	30,575	36,895	7,912	34,271	82,538	155,704	239,065	158,961	77,462
Other countries.....	509,128	126,162	116,351	35,484	44,393	43,629	12,805	26,130	12,431	21,657	33,681	57,919	25,364	20,065	42,985	33,314	77,631	80,958	103,902
<b>Total.....</b>	<b>761,411</b>	<b>333,666</b>	<b>417,025</b>	<b>400,072</b>	<b>382,346</b>	<b>354,097</b>	<b>256,575</b>	<b>356,788</b>	<b>272,949</b>	<b>246,525</b>	<b>390,477</b>	<b>451,694</b>	<b>305,394</b>	<b>312,965</b>	<b>326,946</b>	<b>245,494</b>	<b>328,229</b>	<b>249,237</b>	<b>187,834</b>
<b>Value:</b>																			
Canada.....	\$37,814	\$36,221	\$40,705	\$58,776	\$46,172	\$48,620	\$49,647	\$70,465	\$48,248	\$38,440	\$53,894	\$59,543	\$49,918	\$53,152	\$40,771	\$11,486	\$3,312	\$3,162	\$2,553
Mexico.....	17,628	24,301	26,233	28,137	26,497	22,485	4,005	9,834	3,508	456	10,491	8,851	2,379	10,477	25,656	48,107	61,327	32,779	16,782
Other countries.....	138,715	18,986	23,831	8,845	12,018	9,331	3,540	6,815	4,208	6,899	9,474	16,770	7,853	6,590	13,168	12,297	30,917	26,163	29,319
<b>Total.....</b>	<b>194,157</b>	<b>79,506</b>	<b>90,769</b>	<b>95,758</b>	<b>84,687</b>	<b>80,436</b>	<b>57,192</b>	<b>87,114</b>	<b>55,965</b>	<b>45,795</b>	<b>73,859</b>	<b>85,164</b>	<b>60,160</b>	<b>70,219</b>	<b>79,595</b>	<b>71,890</b>	<b>95,556</b>	<b>62,104</b>	<b>48,654</b>

Source: Foreign Commerce and Navigation of the United States.

TABLE 18.— *Spirits, wines, and other beverages: Comparison of Tariff Acts of 1897, 1909, 1913, 1922, and 1930*

Para- graph, act of 1930	Classification	Rates of duty					
		Act of 1930	Act of 1922	Act of 1913	Act of 1909	1897	
						Full duty	Reciprocity rates
801(a)	Nothing in this schedule shall be construed as in any manner limiting or restricting the provisions of title II or III of the National Prohibition Act, as amended.	(1)-----	(1)-----	(1)-----	(1)-----	(1)-----	(1)-----
801(b)	The duties prescribed in schedule 8 and imposed by title I shall be in addition to the internal-revenue taxes imposed under existing law, or any subsequent act.	(1)-----	(1)-----	(1)-----	(1)-----	(1)-----	(1)-----
802	Brandy and other spirits manufactured or distilled from grain or other materials.	\$5 per proof gallon	\$5 per proof gallon.	\$2.60 per proof gallon. <sup>2</sup>	\$2.60 per proof gallon. <sup>2</sup>	\$2.25 per proof gallon.	\$1.75 per proof gallon.
	Compounds and preparations of which distilled spirits are the component material of chief value and n.s.p.f.	do-----	do-----	Not less than \$2.60 per proof gallon.	Not less than \$2.60 per proof gallon.	do-----	Do.
	Cordials, liquors, arrack, absinthe, kirschwasser, ratafia, and bitters of all kinds containing spirits.	do-----	do <sup>1</sup> -----	\$2.60 per proof gallon.	\$2.60 per proof gallon.	do-----	Do.
803	Champagne and all other sparkling wines-----	\$6 per gallon-----	\$6 per gallon-----				
	In bottles containing each:						
	½ pint or less-----			\$2.40 per dozen <sup>4</sup> -----	\$2.40 per dozen <sup>4</sup> -----	\$2 per dozen <sup>4</sup> -----	\$1.50 per dozen <sup>4</sup> -----
	More than ½ and not more than 1 pint-----			\$4.80 per dozen <sup>4</sup> -----	\$4.80 per dozen <sup>4</sup> -----	\$4 per dozen <sup>4</sup> -----	\$3 per dozen. <sup>4</sup> -----
	More than 1 pint and not more than 1 quart-----			\$9.60 per dozen <sup>4</sup> -----	\$9.60 per dozen <sup>4</sup> -----	\$8 per dozen <sup>4</sup> -----	\$6 per dozen. <sup>4</sup> -----
	In bottles or vessels containing more than 1 quart each-----			\$3 per gallon <sup>4</sup> -----	\$3 per gallon <sup>4</sup> -----	\$2.50 per gallon <sup>4</sup> -----	\$1.90 per gallon <sup>4</sup> -----
804	Still wines, including ginger wine or ginger cordial, vermouth, and rice wine or sake, and similar beverages, n.s.p.f. <sup>4</sup>	\$1.25 per gallon-----	\$1.25 per gallon-----				
	In casks or packages other than bottles or jugs:						
	Containing 14 percent or less of absolute alcohol-----			45 cents per gallon. <sup>7</sup> -----	45 cents per gallon. <sup>7</sup> -----	40 cents per gallon-----	35 cents per gallon-----
	Containing more than 14 percent of absolute alcohol-----			60 cents per gallon-----	60 cents per gallon. <sup>7</sup> -----	50 cents per gallon-----	Do-----

TAX ON INTOXICATING LIQUOR

TABLE 18.—Spirits, wines, and other beverages: Comparison of Tariff Acts of 1897, 1909, 1913, 1922, and 1930—Continued

Para- graph, act of 1933	Classification	Rates of duty					
		Act of 1930	Act of 1922	Act of 1913	Act of 1909	1897	
						Full duty	Reciprocity rates
804	Still wines, including ginger wine or ginger cordial, vermouth, and rice wine or sake, and similar beverages, n.s.p.f.—Continued.						
	In bottles or jugs: <sup>1</sup>						
	Containing each not more than 1 pint, in cases of 24.			\$1.35 per case.....	\$1.85 per case <sup>2</sup> .....	\$1.60 per case <sup>3</sup> .....	\$1.25 per case. <sup>4</sup>
	Containing each more than 1 pint and not more than 1 quart, in cases of 1 dozen.			do.....	do <sup>5</sup> .....	do <sup>6</sup> .....	Do. <sup>7</sup>
	Quantity in excess in bottles or jugs.....			6 cents per pint or fractional part.	6 cents per pint or fractional part.	5 cents per pint.....	4 cents per pint.
805	Ale, porter, stout, and beer.....	\$1 per gallon.....	\$1 per gallon.....				
	In bottles or jugs.....			45 cents per gallon. <sup>8</sup>	45 cents per gallon. <sup>9</sup>	40 cents per gallon. <sup>9</sup>	
	In other containers.....			23 cents per gallon.	23 cents per gallon.	20 cents per gallon.	
	Malt extract:						
	Fluid.....	\$1 per gallon.....	\$1 per gallon.....				
	In bottles or jugs.....			45 cents per gallon.			
	In casks.....			23 cents per gallon.			
Solid or condensed.....	60 percent.....	60 percent.....	45 percent.....				

NOTE.—The Tariff Acts of 1922 and 1930 provided that on products in the beverage schedule imported in bottles or jugs, a duty shall be collected upon the bottles or jugs at one third the rate provided on the bottles or jugs if imported empty or separately.

<sup>1</sup> Acts of 1930 and 1922. No corresponding provisions in acts of 1909, 1913, and 1897.

<sup>2</sup> Imported spirits are subject to this duty in addition to the internal-revenue tax, beginning with Oct. 4, 1917.

<sup>3</sup> Angostura bitters, \$2.60 per proof gallon, act of 1922.

<sup>4</sup> No separate or additional duty on the bottles.

<sup>5</sup> In addition to \$9.60 per dozen bottles on the quantity in excess of 1 quart.

<sup>6</sup> Provided that any of the foregoing articles specified in this paragraph when imported containing more than 24 percent of alcohol shall be classed as spirits and pay duty accordingly.

<sup>7</sup> No separate or additional duty on the bottles or jugs.

<sup>8</sup> In addition to \$8 per dozen bottles on the quantity in excess of 1 quart.

<sup>9</sup> In addition to \$6 per dozen bottles on the quantity in excess of 1 quart.

TABLE 19.—Total value of imports and duties collected for distilled spirits, wines of all types, and malt beverages: United States imports for consumption

Year	Value	Duty collected	Year	Value	Duty collected
Fiscal year ended June 30—			Calendar year—		
1900	\$11,809,714	\$8,424,410	1919	\$2,096,857	\$1,164,189
1901	12,937,938	9,118,204	1920	2,172,118	1,094,157
1902	14,201,017	10,144,128	1921	2,845,130	1,438,378
1903	15,590,595	11,080,840	1922	1,979,809	970,972
1904	15,881,823	11,545,402	1923	636,176	477,908
1905	14,723,070	11,094,573	1924	447,301	316,843
1906	18,269,743	13,365,590	1925	524,877	371,645
1907	21,565,084	15,651,518	1926	462,122	321,771
1908	19,797,179	14,521,680	1927	408,004	299,340
1909	21,790,943	15,483,224	1928	429,916	332,084
1910	23,742,061	17,416,311	1929	447,958	365,406
1911	18,430,690	10,507,886	1930	355,315	264,548
1912	18,723,863	10,586,343	1931	183,656	188,882
1913	20,440,037	18,651,068	1932	293,810	262,345
1914	20,119,297	19,025,583			
1915	12,355,567	13,028,011			
1916	16,055,410	15,077,643			
1917	17,471,772	13,204,869			
1918	10,051,002	6,883,032			

TABLE 20.—Distilled spirits, brandy, cordials, bitters, liqueurs, etc.: United States imports for consumption

Year	Quantity	Value	Duty collected	Year	Quantity	Value	Duty collected
Fiscal year ended June 30—				Calendar year—			
1900	<i>Proof gal-</i> 1,704,117	\$2,780,343	\$3,726,067	1919	<i>lon</i> 242,971	\$809,571	\$627,843
1901	1,936,931	3,143,804	4,185,940	1920	262,597	1,172,184	682,692
1902	2,150,804	3,608,609	4,669,783	1921	292,919	1,101,306	761,589
1903	2,312,161	3,920,746	5,043,930	1922	149,434	605,025	390,287
1904	2,513,073	4,298,420	5,477,244	1923	45,844	205,481	139,628
1905	2,650,106	4,545,094	5,036,080	1924	58,412	276,528	167,788
1906	3,016,648	5,209,329	6,394,172	1925	66,850	324,036	190,233
1907	3,680,139	6,480,743	7,772,651	1926	70,369	327,189	220,459
1908	3,556,624	6,203,060	7,512,359	1927	72,111	327,879	245,965
1909	4,183,684	7,379,311	8,041,364	1928	77,764	344,982	280,923
1910	4,173,434	7,195,216	8,980,376	1929	84,053	366,137	316,717
1911	3,714,643	6,090,581	8,990,431	1930	55,473	282,812	223,996
1912	3,397,352	6,205,533	8,830,668	1931	30,738	119,533	153,690
1913	3,983,682	7,236,494	10,364,269	1932	43,690	226,300	218,450
1914	4,106,827	7,285,349	10,673,307				
1915	2,909,748	4,346,603	7,626,809				
1916	3,644,762	6,781,055	9,554,537				
1917	3,041,145	7,322,845	7,940,903				
1918	1,223,753	3,616,796	3,750,090				

TABLE 21.—*Distilled spirits, whisky: General imports into the United States, by countries of shipment, for fiscal years ended June 30, 1910-1918*<sup>1</sup>

	1910	1911	1912	1913
<b>Quantity (proof gallons):</b>				
Scotland.....	594,806	728,512	785,722	895,026
Ireland.....	111,229	141,366	153,327	102,175
England.....	56,551	46,231	48,673	67,143
Canada.....	286,006	368,220	381,447	418,642
Other countries.....	11,708	9,363	3,841	8,677
<b>Total.....</b>	<b>1,060,300</b>	<b>1,293,692</b>	<b>1,273,010</b>	<b>1,541,663</b>
<b>Value:</b>				
Scotland.....	\$1,251,438	\$1,538,486	\$1,669,166	\$1,804,192
Ireland.....	232,449	298,675	317,077	340,829
England.....	107,473	97,845	96,325	123,483
Canada.....	555,924	710,900	743,064	811,715
Other countries.....	19,780	22,783	8,285	13,421
<b>Total.....</b>	<b>2,167,064</b>	<b>2,668,749</b>	<b>2,833,917</b>	<b>3,153,619</b>

	1914	1915	1916	1917	1918
<b>Quantity (proof gallons):</b>					
Scotland.....	935,432	838,441	1,106,748	986,283	338,857
Ireland.....	150,863	106,490	160,357	101,800	60,062
England.....	63,957	56,011	90,090	43,281	5,571
Canada.....	410,411	317,912	378,022	541,901	384,677
Other countries.....	11,207	6,905	6,980	2,820	200
<b>Total.....</b>	<b>1,571,870</b>	<b>1,327,759</b>	<b>1,742,197</b>	<b>1,670,151</b>	<b>796,267</b>
<b>Value:</b>					
Scotland.....	\$1,907,010	\$1,668,466	\$2,397,116	\$2,877,486	\$1,144,744
Ireland.....	324,278	227,257	325,222	288,352	225,086
England.....	126,523	105,700	180,640	130,961	19,831
Canada.....	808,034	623,247	756,366	1,099,628	1,097,759
Other countries.....	20,782	16,947	18,318	8,059	429
<b>Total.....</b>	<b>3,180,627</b>	<b>2,641,617</b>	<b>3,677,662</b>	<b>4,404,486</b>	<b>2,487,931</b>

<sup>1</sup> Included in "All other spirits, distilled" prior to 1910.

Source: Foreign Commerce and Navigation of the United States.

TABLE 22.—*Distilled spirits, gin: General imports into the United States by countries of shipment for fiscal years ended June 30, 1910-1918*<sup>1</sup>

	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (proof gallons):</b>									
Netherlands.....	631,287	341,069	70,913	210,546	225,686	151,107	172,703	66,024	41,842
England.....	559,273	673,620	730,540	711,155	774,519	572,306	604,425	177,025	46,789
Other countries.....	50,102	31,120	23,241	53,076	55,680	18,968	28,621	20,471	24,034
<b>Total.....</b>	<b>1,240,662</b>	<b>1,045,816</b>	<b>824,694</b>	<b>974,776</b>	<b>1,055,885</b>	<b>742,439</b>	<b>805,749</b>	<b>263,520</b>	<b>112,619</b>
<b>Value:</b>									
Netherlands.....	\$316,186	\$172,550	\$39,595	\$122,900	\$121,607	\$81,990	\$120,679	\$58,115	\$48,746
England.....	643,032	785,957	851,468	833,720	842,908	619,628	662,487	354,949	132,451
Other countries.....	55,817	35,543	24,359	43,301	53,054	15,513	20,000	26,180	74,961
<b>Total.....</b>	<b>1,015,035</b>	<b>994,050</b>	<b>915,422</b>	<b>999,921</b>	<b>1,017,569</b>	<b>717,131</b>	<b>749,775</b>	<b>439,244</b>	<b>256,158</b>

<sup>1</sup> Included in "All other spirits, distilled" prior to 1910.

Source: Foreign Commerce and Navigation of the United States.

TABLE 23.—Distilled spirits, brandy: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900-1918

20101-34-26

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909
<b>Quantity (proof gallons):</b>										
France.....	216,514	258,209	278,012	300,130	336,488	347,213	402,696	536,625	499,442	658,742
Austria-Hungary.....	4,580	6,413	5,210	9,160	9,381	12,002	19,216	27,439	32,651	19,951
Germany.....	3,921	7,679	9,703	6,965	11,195	10,530	9,105	12,390	9,706	33,452
Greece.....	975	827	2,435	5,808	6,158	8,611	11,311	17,768	17,505	15,167
United Kingdom.....	9,776	6,420	5,019	9,207	8,322	9,311	7,524	6,433	4,713	6,674
Other countries.....	8,334	10,753	15,843	17,606	19,444	15,719	20,581	28,679	28,363	30,258
<b>Total.....</b>	<b>244,100</b>	<b>290,301</b>	<b>316,222</b>	<b>348,878</b>	<b>390,988</b>	<b>403,386</b>	<b>470,433</b>	<b>629,333</b>	<b>592,382</b>	<b>764,244</b>
<b>Value:</b>										
France.....	\$625,423	\$771,046	\$833,836	\$901,089	\$1,002,293	\$1,040,292	\$1,167,574	\$1,542,299	\$1,382,843	\$1,817,261
Austria-Hungary.....	5,887	9,888	6,747	10,382	12,041	14,217	22,453	30,366	34,483	20,811
Germany.....	6,019	14,322	12,533	9,713	16,399	14,018	10,223	17,980	15,353	28,263
Greece.....	1,757	1,346	4,799	10,242	10,820	13,697	19,886	29,960	28,452	28,667
United Kingdom.....	39,360	26,678	26,217	44,496	38,050	36,536	37,330	31,149	23,757	27,706
Other countries.....	18,094	20,038	27,287	25,075	24,807	20,369	28,804	35,719	38,954	40,463
<b>Total.....</b>	<b>696,540</b>	<b>843,318</b>	<b>911,419</b>	<b>1,000,997</b>	<b>1,104,410</b>	<b>1,139,129</b>	<b>1,286,270</b>	<b>1,687,473</b>	<b>1,523,842</b>	<b>1,961,170</b>
		1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (proof gallons):</b>										
France.....		628,817	316,656	411,948	487,445	484,384	323,777	456,858	364,349	218,980
Austria-Hungary.....		29,000	25,867	29,782	40,787	35,596	14,565	1,441		
Germany.....		17,860	5,879	4,761	6,608	5,053	1,655	77	5	
Greece.....		8,752	16,964	23,252	23,840	25,745	34,359	42,611	30,271	
United Kingdom.....		2,110	3,169	3,636	5,635	6,824	2,554	8,410	3,540	299
Other countries.....		29,920	40,707	35,907	46,043	44,961	23,293	26,945	22,402	15,663
<b>Total.....</b>		<b>716,259</b>	<b>409,242</b>	<b>509,286</b>	<b>610,358</b>	<b>602,563</b>	<b>400,203</b>	<b>536,342</b>	<b>420,567</b>	<b>234,912</b>
<b>Value:</b>										
France.....		\$1,754,924	\$858,233	\$1,162,865	\$1,434,780	\$1,419,461	\$912,738	\$1,415,780	\$1,384,837	\$1,083,428
Austria-Hungary.....		35,377	25,937	33,542	49,069	42,389	14,138	1,852		
Germany.....		26,481	10,709	10,098	12,236	9,067	3,158	168	43	
Greece.....		15,703	28,697	39,134	38,832	40,409	47,763	61,254	48,262	
United Kingdom.....		16,184	25,311	18,471	34,396	26,213	17,158	46,333	19,840	1,458
Other countries.....		50,352	69,495	51,921	77,964	79,944	40,607	51,064	49,863	65,083
<b>Total.....</b>		<b>1,899,021</b>	<b>1,018,382</b>	<b>1,316,031</b>	<b>1,647,277</b>	<b>1,617,483</b>	<b>1,035,562</b>	<b>1,576,481</b>	<b>1,502,845</b>	<b>1,149,989</b>

Source: Foreign Commerce and Navigation of the United States.

TAX ON INTOXICATING LIQUOR

399

TABLE 24.—*Distilled spirits, cordials, liqueurs, etc.: General imports into the United States, by countries of shipment, for fiscal years ended June 30, 1912-1918*<sup>1</sup>

	1912	1913	1914	1915	1916	1917	1918
Quantity (proof gallons):							
France.....	251, 575	190, 027	160, 554	110, 695	106, 518	93, 844	16, 014
Italy.....	102, 272	168, 509	134, 788	182, 207	117, 095	168, 873	03
Germany.....	54, 124	73, 655	75, 738	24, 644	633	16	-----
Other countries.....	124, 180	143, 039	144, 495	90, 454	106, 206	94, 578	59, 143
Total.....	532, 151	575, 200	515, 575	408, 090	330, 452	357, 311	70, 120
Value:							
France.....	\$530, 250	\$475, 998	\$410, 616	\$290, 436	\$335, 665	\$352, 304	\$67, 779
Italy.....	190, 091	324, 038	240, 987	346, 400	225, 566	314, 236	609
Germany.....	75, 741	123, 248	122, 066	43, 066	1, 170	39	-----
Other countries.....	255, 047	310, 416	289, 598	178, 707	232, 162	236, 117	147, 325
Total.....	1, 052, 029	1, 233, 700	1, 063, 267	858, 599	794, 553	902, 696	215, 803

<sup>1</sup> Included in "All other spirits, distilled" prior to 1912.

Source: Foreign Commerce and Navigation of the United States.

TABLE 25.—All other distilled spirits: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900-1918

	1900 <sup>1</sup>	1901 <sup>1</sup>	1902 <sup>1</sup>	1903 <sup>1</sup>	1904 <sup>1</sup>	1905 <sup>1</sup>	1906 <sup>1</sup>	1907 <sup>1</sup>	1908 <sup>1</sup>	1909 <sup>1</sup>
<b>Quantity (proof gallons):</b>										
Netherlands.....	184,830	193,477	165,440	174,127	178,163	181,130	171,658	211,159	192,120	314,209
United Kingdom.....	735,144	813,596	945,600	1,044,343	1,164,932	1,179,384	1,285,125	1,508,525	1,455,255	1,730,058
France.....	112,243	123,113	172,657	143,674	173,012	171,777	205,890	237,412	230,659	264,042
Italy.....	40,607	24,212	45,551	61,580	64,674	92,257	129,380	204,950	186,981	222,150
Germany.....	107,618	151,098	167,174	210,516	164,459	139,387	151,513	167,190	263,697	256,918
Greece.....		185	379	302	497	1,538	3,506	4,284	7,466	11,541
Canada.....	169,961	189,588	188,335	210,483	252,318	310,673	425,263	610,291	574,737	788,926
Mexico.....	2,125	3,037	2,513	1,952	2,154	1,713	3,991	4,329	3,783	3,730
China.....	86,756	74,698	88,606	83,544	88,210	95,231	92,084	128,946	112,902	103,464
Other countries.....	111,612	139,152	133,632	130,536	150,423	193,376	171,290	195,140	188,628	194,028
<b>Total.....</b>	<b>1,550,890</b>	<b>1,712,156</b>	<b>1,909,887</b>	<b>2,061,057</b>	<b>2,238,842</b>	<b>2,366,466</b>	<b>2,639,680</b>	<b>3,270,226</b>	<b>3,216,228</b>	<b>3,889,066</b>
<b>Value:</b>										
Netherlands.....	\$96,482	\$111,228	\$105,166	\$106,120	\$101,321	\$123,319	\$108,110	\$127,753	\$111,169	\$193,829
United Kingdom.....	1,251,200	1,429,344	1,513,393	1,702,986	1,894,696	1,886,480	2,027,586	2,360,337	2,301,578	2,868,727
France.....	258,816	295,356	420,877	309,735	377,262	373,129	433,309	525,228	505,583	588,354
Italy.....	77,707	54,406	87,606	120,061	123,091	168,408	239,888	375,603	350,517	411,229
Germany.....	82,974	117,020	119,169	147,022	110,700	148,408	133,592	141,229	183,339	182,601
Greece.....		141	518	481	800	2,023	6,004	7,608	10,345	18,070
Canada.....	326,348	347,589	354,134	429,693	504,716	594,367	822,948	1,184,651	1,113,350	971,454
Mexico.....	1,799	3,213	2,085	1,416	1,518	1,600	2,751	4,392	4,072	3,344
China.....	26,469	24,262	26,825	25,258	51,035	47,201	53,205	80,796	73,793	59,645
Other countries.....	160,922	141,678	154,273	144,387	148,606	194,109	199,972	249,549	222,579	269,626
<b>Total.....</b>	<b>2,282,717</b>	<b>2,524,237</b>	<b>2,784,048</b>	<b>2,987,179</b>	<b>3,313,735</b>	<b>3,539,044</b>	<b>4,027,368</b>	<b>5,037,146</b>	<b>4,876,325</b>	<b>5,566,879</b>

<sup>1</sup> Includes gin, whisky, and cordials, liqueurs, etc., reported separately after 1910.

TABLE 25.—All other distilled spirits: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900–1918—Continued

	1910 <sup>1</sup>	1911	1912 <sup>2</sup>	1913	1914	1915	1916	1917	1918
<b>Quantity (proof gallons):</b>									
Netherlands.....	21,611	34,468	3,160	665	2,335	230	34	162	-----
United Kingdom.....	66,095	66,765	36,112	40,212	34,503	25,712	27,885	23,453	-----
France.....	288,904	142,056	6,537	5,656	4,173	1,819	6,311	4,564	565
Italy.....	292,185	237,640	1,500	9,005	8,932	1,485	7,430	8,623	908
Germany.....	274,151	106,793	99,458	95,027	87,317	7,527	-----	1	-----
Greece.....	18,171	18,939	6,708	9,799	15,003	20,238	38,403	13,596	-----
Canada.....	11,025	4,665	1,898	419	716	646	264	234	8,870
Mexico.....	5,257	7,996	16,140	12,209	31,614	116,372	185,782	30,364	114
China.....	103,318	115,367	119,351	88,324	111,166	109,095	94,246	120,396	16,496
Other countries.....	164,483	190,912	120,731	117,307	119,191	128,112	178,404	196,500	130,285
Total.....	1,245,200	925,601	411,595	378,623	414,950	411,236	538,750	397,934	157,148
<b>Value:</b>									
Netherlands.....	\$46,022	\$61,134	\$3,664	\$1,122	\$1,010	\$297	\$119	\$338	-----
United Kingdom.....	106,591	103,085	36,848	38,854	36,581	25,390	33,125	35,504	-----
France.....	628,728	358,459	15,152	12,211	8,030	2,366	14,828	18,056	1,643
Italy.....	529,225	433,845	2,748	16,373	14,949	2,887	13,461	12,579	98
Germany.....	232,241	57,835	31,288	26,190	26,676	4,424	-----	12	-----
Greece.....	30,323	31,583	10,764	15,833	24,686	32,773	59,530	22,762	-----
Canada.....	23,932	8,196	3,628	951	1,323	1,378	703	564	16,830
Mexico.....	5,026	7,518	19,818	11,097	23,094	28,870	48,917	21,247	133
China.....	67,456	88,731	107,915	89,220	113,368	105,920	92,309	180,164	24,822
Other countries.....	238,061	245,362	113,104	127,768	129,185	113,118	170,206	252,583	177,321
Total.....	1,907,605	1,395,748	344,929	339,619	378,902	317,413	433,098	543,620	221,722

<sup>1</sup> Includes gin, whisky, and cordials, liqueurs, etc., reported separately after 1910.

<sup>2</sup> Includes cordials, liqueurs, etc., reported separately after 1912.

Source: Foreign Commerce and Navigation of the United States.

TABLE 26.—Champagnes and all other sparkling wines in bottles containing not more than 24 percent of alcohol: United States imports for consumption

Year	Quantity	Value	Duty collected	Year	Quantity	Value	Duty collected
<b>Fiscal year ended June 30—</b>	<i>Gallons</i>			<b>Fiscal year ended June 30—con.</b>	<i>Gallons</i>		
1900.....	853,191	\$4,089,703	\$2,275,075	1917.....	618,237	\$3,627,408	\$1,978,280
1901.....	885,543	4,318,451	2,360,971	1918.....	371,544	2,160,374	1,188,854
1902.....	992,364	4,804,952	2,646,035	<b>Calendar year—</b>			
1903.....	1,085,262	5,286,544	2,893,895	1910.....	47,694	342,044	152,621
1904.....	1,008,120	4,957,432	2,688,171	1920.....	63,702	410,195	203,846
1905.....	1,071,273	3,306,910	2,856,420	1921.....	70,792	507,729	226,536
1906.....	1,124,946	5,483,490	2,999,644	1922.....	57,330	439,829	195,766
1907.....	1,245,525	6,120,023	3,321,285	1933.....	17,295	119,632	103,770
1908.....	1,001,430	4,795,302	2,397,713	1924.....	4,094	25,911	24,564
1909.....	1,066,422	5,669,526	2,143,273	1925.....	10,880	66,366	65,280
1910.....	1,302,828	6,757,465	2,813,619	1926.....	8,449	47,575	50,664
1911.....	674,967	3,687,979	2,150,095	1927.....	1,921	12,660	11,526
1912.....	834,681	4,634,550	2,670,477	1928.....	1,605	11,273	9,630
1913.....	854,610	4,646,338	2,734,646	1929.....	1,269	10,432	7,614
1914.....	789,918	4,367,336	2,527,614	1930.....	1,246	10,777	7,476
1915.....	420,510	2,459,406	1,345,676	1931.....	813	6,493	4,878
1916.....	582,645	3,408,752	1,864,336	1932.....	1,146	10,487	6,876

TABLE 27.—Champagne and other sparkling wines: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906
<b>Quantity (dozen quarts):</b>							
France.....	291,712	288,317	310,740	380,392	312,099	341,419	381,628
United Kingdom.....	6,462	9,229	11,337	11,640	10,241	14,741	16,918
Germany.....	5,656	7,686	6,523	7,167	10,097	9,941	9,236
Other countries.....	6,319	5,840	6,656	8,745	3,808	5,710	7,612
<b>Total.....</b>	<b>310,149</b>	<b>311,078</b>	<b>335,256</b>	<b>407,944</b>	<b>336,245</b>	<b>371,811</b>	<b>415,394</b>
<b>Value:</b>							
France.....	\$3,853,547	\$4,251,218	\$4,529,837	\$5,428,431	\$4,607,479	\$5,248,050	\$5,613,311
United Kingdom.....	119,061	182,323	243,566	241,621	206,813	304,925	334,870
Germany.....	53,619	82,040	64,049	74,394	109,403	99,329	93,973
Other countries.....	89,681	73,013	93,316	117,193	45,940	71,460	84,908
<b>Total.....</b>	<b>4,115,908</b>	<b>4,589,494</b>	<b>4,930,768</b>	<b>5,861,639</b>	<b>4,969,635</b>	<b>5,723,764</b>	<b>6,127,062</b>
	1907	1908	1909	1910	1911	1912	
<b>Quantity (dozen quarts):</b>							
France.....	375,272	330,473	419,177	364,480	187,184	247,938	
United Kingdom.....	18,990	9,450	1,080	5,606	17,868	19,227	
Germany.....	11,079	10,122	11,578	16,682	8,946	10,251	
Other countries.....	13,450	7,624	4,787	4,175	4,497	3,718	
<b>Total.....</b>	<b>419,403</b>	<b>366,669</b>	<b>436,628</b>	<b>391,003</b>	<b>218,495</b>	<b>281,134</b>	
<b>Value:</b>							
France.....	\$5,502,695	\$4,830,764	\$6,070,810	\$5,986,864	\$3,036,860	\$4,085,398	
United Kingdom.....	383,411	193,075	23,731	115,210	386,737	439,347	
Germany.....	111,348	104,759	109,803	160,994	99,227	110,680	
Other countries.....	170,827	83,472	59,411	39,309	44,000	40,665	
<b>Total.....</b>	<b>6,228,281</b>	<b>5,221,070</b>	<b>6,863,785</b>	<b>6,302,377</b>	<b>3,566,824</b>	<b>4,688,090</b>	

TABLE 27.—*Champagne and other sparkling wines: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900-1918—Con.*

	1913	1914	1915	1916	1917	1918
<b>Quantity (dozen quarts):</b>						
France.....	246,361	241,241	87,738	175,111	176,809	115,655
United Kingdom.....	18,644	15,203	18,148	25,557	14,044	6,680
Germany.....	12,451	10,576	5,303	49	164	.....
Other countries.....	3,372	2,922	3,441	5,493	4,097	1,895
<b>Total.....</b>	<b>280,829</b>	<b>270,002</b>	<b>114,630</b>	<b>206,210</b>	<b>195,714</b>	<b>124,230</b>
<b>Value:</b>						
France.....	\$4,027,922	\$3,923,768	\$1,503,152	\$2,814,874	\$3,015,037	\$1,963,414
United Kingdom.....	429,842	343,909	405,757	616,376	360,038	178,012
Germany.....	140,360	118,221	48,055	437	3,574	.....
Other countries.....	38,067	33,060	46,816	100,336	63,996	26,201
<b>Total.....</b>	<b>4,636,191</b>	<b>4,418,958</b>	<b>2,004,680</b>	<b>3,532,022</b>	<b>3,442,045</b>	<b>2,167,627</b>

Source: Foreign Commerce and Navigation of the United States.

TABLE 28.—*Still wines, including ginger wine or ginger cordial, vermouth, and rice wine or sake, and similar beverages, not specially provided for: United States imports for consumption*

Year	Quantity	Value	Duty collected	Year	Quantity	Value	Duty collected
<b>Fiscal year ended June 30—</b>	<i>Gallons</i>			<b>Calendar year—</b>	<i>Gallons</i>		
1900.....	3,442,050	\$3,286,795	\$1,541,024	1919.....	666,739	\$934,740	\$379,811
1901.....	3,894,574	3,596,640	1,620,475	1920.....	364,300	680,731	207,615
1902.....	4,454,163	3,997,938	1,846,020	1921.....	783,627	1,236,627	460,224
1903.....	4,999,555	4,336,982	2,059,210	1922.....	607,029	934,920	384,896
1904.....	5,232,417	4,299,752	2,140,780	1923.....	185,371	305,053	231,714
1905.....	5,354,342	4,467,340	2,183,091	1924.....	99,556	144,809	124,445
1906.....	6,058,739	4,855,609	2,464,951	1925.....	92,883	134,399	116,194
1907.....	7,045,226	5,584,199	2,721,098	1926.....	40,268	86,773	50,335
1908.....	7,269,647	5,469,927	2,787,632	1927.....	32,128	66,272	40,160
1909.....	7,703,590	5,457,459	2,906,818	1928.....	32,771	72,703	40,964
1910.....	9,179,461	6,502,198	3,595,665	1929.....	32,207	69,707	40,250
1911.....	6,963,215	5,228,739	3,292,332	1930.....	26,106	60,941	32,632
1912.....	5,372,776	4,623,386	3,070,855	1931.....	23,987	57,089	29,984
1913.....	6,254,003	5,283,373	3,483,216	1932.....	29,505	57,788	30,881
1914.....	7,113,433	5,500,069	3,009,054				
1915.....	5,583,709	3,911,424	3,092,806				
1916.....	5,104,336	4,412,862	2,876,710				
1917.....	4,778,980	5,090,994	2,683,484				
1918.....	3,109,521	3,585,363	1,709,214				

TABLE 29.--Still wines in casks: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909
<b>Quantity (gallons):</b>										
Italy.....	267,469	251,934	372,059	689,626	974,190	1,077,594	1,420,484	1,860,227	2,119,697	2,739,653
Spain.....	659,354	697,665	820,795	851,304	877,414	801,284	928,924	1,079,839	1,089,758	1,164,635
Germany.....	913,740	884,860	913,046	1,030,982	1,011,708	990,159	960,141	950,633	845,783	726,740
Portugal.....	80,145	109,522	112,997	123,768	138,717	128,962	135,874	154,396	157,122	178,620
France.....	438,441	393,671	518,104	418,209	395,746	386,335	379,949	427,767	407,622	399,943
Japan.....	28,338	293,813	441,216	506,755	452,109	443,271	527,409	593,456	640,083	421,390
Other countries.....	146,341	154,385	121,809	132,567	157,807	146,314	129,718	147,140	183,717	118,075
<b>Total.....</b>	<b>2,533,828</b>	<b>2,785,850</b>	<b>3,300,026</b>	<b>3,753,211</b>	<b>4,007,691</b>	<b>3,973,919</b>	<b>4,482,499</b>	<b>5,213,458</b>	<b>5,443,782</b>	<b>5,747,056</b>
<b>Value:</b>										
Italy.....	\$102,919	\$97,545	\$136,492	\$248,762	\$330,704	\$353,614	\$462,939	\$684,330	\$717,199	\$726,620
Spain.....	523,231	561,170	634,120	644,002	706,813	648,270	740,448	825,507	857,251	875,303
Germany.....	618,012	638,233	622,752	685,452	651,730	658,575	626,838	624,795	563,711	500,751
Portugal.....	95,953	136,915	127,996	137,558	144,309	139,997	143,314	156,092	159,035	179,617
France.....	267,719	228,051	283,177	218,283	222,581	217,813	209,032	229,505	207,424	198,233
Japan.....	12,628	146,731	230,949	243,338	212,223	208,376	280,851	328,542	357,633	264,685
Other countries.....	124,274	133,677	107,947	114,902	118,658	125,840	104,290	117,383	146,743	93,023
<b>Total.....</b>	<b>1,744,736</b>	<b>1,942,322</b>	<b>2,143,433</b>	<b>2,292,297</b>	<b>2,387,018</b>	<b>2,352,485</b>	<b>2,567,712</b>	<b>2,966,154</b>	<b>3,008,996</b>	<b>2,838,232</b>
<b>Quantity (gallons):</b>										
Italy.....	3,470,612	2,196,619	1,573,127	1,912,500	2,931,719	2,191,118	1,522,026	1,474,994	1,134,600	
Spain.....	1,710,575	901,291	767,579	998,400	957,991	719,225	990,925	914,438	594,373	
Germany.....	728,987	617,184	503,149	489,035	457,297	245,246	77,492		184,778	
Portugal.....	269,871	128,598	112,958	144,459	142,019	101,678	187,243	170,534	217,538	
France.....	327,349	250,953	215,003	232,152	223,751	181,137	316,998	280,998	196,984	
Japan.....	456,822	487,789	550,596	512,095	383,991	305,083	274,491	268,325	29,589	
Other countries.....	136,465	140,353	141,660	138,489	123,612	116,786	86,581	58,111		
<b>Total.....</b>	<b>7,100,661</b>	<b>4,812,787</b>	<b>3,664,070</b>	<b>4,427,130</b>	<b>5,220,380</b>	<b>3,860,273</b>	<b>3,455,756</b>	<b>3,167,400</b>	<b>2,357,862</b>	
<b>Value:</b>										
Italy.....	\$918,055	\$732,410	\$668,441	\$799,370	\$1,012,106	\$713,974	\$794,640	\$1,081,952	\$829,637	
Spain.....	1,273,245	748,540	623,206	773,587	735,684	565,047	775,937	808,265	622,259	
Germany.....	504,025	489,638	444,658	417,025	365,011	187,163	40,928		233,233	
Portugal.....	272,119	127,061	115,679	138,962	139,996	104,017	173,936	161,398	331,650	
France.....	172,339	143,728	189,479	149,703	142,241	109,770	244,208	262,640	151,512	
Japan.....	284,166	282,067	334,319	324,220	264,952	202,228	171,326	180,328	41,669	
Other countries.....	103,947	114,595	112,958	115,178	97,444	80,388	66,586	63,563		
<b>Total.....</b>	<b>3,527,896</b>	<b>2,638,039</b>	<b>2,488,740</b>	<b>2,718,045</b>	<b>2,757,434</b>	<b>1,968,587</b>	<b>2,267,561</b>	<b>2,558,086</b>	<b>2,209,960</b>	

Source: Foreign Commerce and Navigation of the United States.

TABLE 30.—Still wines in other coverings: General imports into the United States, by countries of shipment, for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909
Quantity (dozen quarts): <sup>1</sup>										
France.....	136,503	141,325	155,647	170,360	153,277	162,922	192,024	214,966	204,410	223,587
Italy.....	66,651	97,150	85,242	112,946	127,432	153,137	164,747	198,785	226,636	219,218
Germany.....	86,963	89,011	115,190	123,044	128,701	127,439	143,132	161,273	141,481	151,865
Spain.....	2,995	5,159	8,916	9,065	9,952	12,440	12,876	21,818	21,433	21,766
United Kingdom.....	7,204	4,265	6,342	4,074	29,254	7,913	4,724	8,424	3,805	4,791
Portugal.....	1,441	2,042	3,073	2,752	2,397	2,463	3,590	4,167	5,459	5,484
Japan.....	3,050	22,696	7,572	8,043	7,322	7,823	9,704	13,878	14,143	12,480
Other countries.....	11,113	12,184	15,836	10,585	12,818	14,636	15,891	13,607	11,061	11,675
Total.....	315,920	373,832	397,818	440,869	471,153	488,773	546,688	636,938	628,428	650,861
Value:										
France.....	\$723,661	\$734,619	\$789,982	\$865,803	\$739,879	\$800,576	\$883,200	\$963,720	\$902,473	\$994,702
Italy.....	190,219	269,309	238,166	325,374	361,902	443,202	458,269	546,312	629,809	611,407
Germany.....	507,227	528,964	650,475	744,668	723,610	733,960	771,311	839,772	748,742	741,482
Spain.....	15,366	19,322	40,890	39,435	44,849	48,314	55,578	94,138	97,096	84,544
United Kingdom.....	47,451	39,254	56,480	35,627	80,865	55,692	40,200	68,382	34,846	40,533
Portugal.....	13,137	16,120	18,280	16,577	17,095	14,930	22,722	22,330	29,459	29,540
Japan.....	4,142	29,675	11,015	12,586	11,426	13,184	15,703	23,205	24,964	23,235
Other countries.....	59,648	50,157	41,649	53,290	55,691	55,814	52,211	56,487	49,072	49,144
Total.....	1,560,851	1,687,420	1,846,937	2,095,360	2,035,217	2,165,672	2,299,194	2,614,346	2,516,461	2,574,596

<sup>1</sup> In dozen quarts or equivalent.

Source: Foreign Commerce and Navigation of the United States.

TABLE 30. Still wines in other coverings: General imports into the United States, by countries of shipment, for fiscal years ended June 30, 1900-1918—Continued

	1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (dozen quarts):<sup>1</sup></b>									
France.....	232,090	189,355	206,022	227,273	234,828	159,941	174,798	163,299	92,063
Italy.....	330,690	209,137	169,050	236,134	270,503	324,359	261,083	253,588	233,146
Germany.....	192,734	131,529	119,369	124,412	114,727	52,831	6,473	168	-----
Spain.....	28,375	22,928	28,766	28,798	31,424	23,050	25,988	26,555	20,178
United Kingdom.....	5,287	4,632	6,557	6,515	10,131	11,968	14,707	22,629	8,054
Portugal.....	7,788	4,962	5,044	6,523	7,165	7,905	6,217	7,350	6,139
Japan.....	15,351	20,803	27,229	32,842	38,918	35,639	45,001	49,583	51,229
Other countries.....	9,928	13,175	15,207	15,634	20,607	11,172	11,852	11,230	4,662
<b>Total.....</b>	<b>822,243</b>	<b>596,521</b>	<b>577,244</b>	<b>678,131</b>	<b>728,303</b>	<b>626,865</b>	<b>546,119</b>	<b>534,402</b>	<b>415,491</b>
<b>Value:</b>									
France.....	\$969,836	\$839,853	\$906,857	\$994,884	\$1,057,514	\$685,867	\$872,094	\$922,811	\$724,920
Italy.....	943,060	577,373	502,056	688,099	793,415	960,621	863,832	1,006,219	1,111,273
Germany.....	961,677	637,238	664,921	669,904	653,513	271,293	21,052	1,493	-----
Spain.....	122,380	90,461	118,257	126,564	115,265	93,374	112,900	127,817	92,797
United Kingdom.....	53,378	52,221	69,344	68,866	100,433	99,766	131,851	205,889	76,780
Portugal.....	38,373	23,614	22,979	29,002	35,442	24,068	33,104	36,710	36,141
Japan.....	31,002	42,510	59,549	80,354	102,988	96,003	109,815	131,949	161,513
Other countries.....	57,314	63,420	70,658	66,798	81,707	43,464	52,663	52,126	33,692
<b>Total.....</b>	<b>3,177,020</b>	<b>2,326,750</b>	<b>2,414,621</b>	<b>2,724,471</b>	<b>2,940,277</b>	<b>2,273,916</b>	<b>2,197,311</b>	<b>2,485,014</b>	<b>2,237,116</b>

<sup>1</sup> In dozen quarts or equivalent.

Source: Foreign Commerce and Navigation of the United States.

TABLE 31.—Ale, beer, stout, and porter: United States imports for consumption

Year	Quantity	Value	Duty collected	Year	Quantity	Value	Duty collected
<b>Fiscal year ended June 30—</b>	<i>Gallons</i>			<b>Calendar year—</b>	<i>Gallons</i>		
1900.....	3,316,690	\$1,733,808	\$882,253	1919.....	11,998	\$10,493	\$3,884
1901.....	3,596,153	1,879,043	950,818	1920.....	8	8	4
1902.....	3,706,731	1,889,518	982,311	1921.....	69	74	29
1903.....	4,203,963	2,046,323	1,089,811	1922.....	37	35	23
1904.....	4,836,648	2,326,219	1,239,267	1923.....	2,796	6,010	2,706
1905.....	5,200,555	2,404,017	1,318,382	1924.....	46	53	46
1906.....	5,962,262	2,721,315	1,506,823	1925.....	28	76	28
1907.....	7,171,472	3,380,119	1,836,484	1926.....	283	585	283
1908.....	7,813,711	3,328,890	1,823,976	1927.....	1,689	2,293	1,689
1909.....	7,110,350	3,284,647	1,791,769	1928.....	567	958	567
1910.....	7,301,417	3,287,182	2,027,251	1929.....	816	1,682	816
1911.....	7,240,066	3,423,391	2,075,028	1930.....	444	785	444
1912.....	7,169,358	3,260,394	2,014,343	1931.....	330	541	330
1913.....	7,668,846	3,273,832	2,078,937	1932.....	138	235	138
1914.....	7,170,504	2,966,543	1,916,608				
1915.....	3,386,609	1,638,074	962,720				
1916.....	2,579,673	1,452,741	782,060				
1917.....	2,299,938	1,430,525	686,232				
1918.....	744,387	688,469	234,874				

TABLE 32.—Malt liquors in bottles or jugs: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909
<b>Quantity (gallons):</b>										
United Kingdom.....	1,052,389	1,125,348	1,129,559	1,201,094	1,333,424	1,284,401	1,500,790	1,897,243	1,833,406	1,697,809
Germany.....	9,419	12,722	44,914	52,205	103,514	36,014	41,321	64,279	54,683	44,984
Sweden.....	1 4,210	1 3,115	1 4,386	7,649	11,377	28,421	31,412	52,660	42,424	38,354
Other countries.....	15,690	10,706	19,547	31,527	19,441	13,253	9,096	27,516	29,820	19,896
Total.....	1,081,818	1,151,891	1,198,406	1,292,475	1,467,756	1,362,089	1,582,619	2,041,688	1,960,333	1,801,043
<b>Value:</b>										
United Kingdom.....	\$1,054,837	\$1,145,128	\$1,108,188	\$1,190,000	\$1,306,189	\$1,228,730	\$1,408,203	\$1,793,632	\$1,739,010	\$1,622,221
Germany.....	6,395	8,620	33,681	41,936	57,909	26,458	28,849	45,116	39,749	31,788
Sweden.....	1 2,987	1 2,086	1 2,795	4,951	7,632	18,522	21,545	38,659	30,855	25,839
Other countries.....	15,504	10,289	17,301	25,160	14,088	11,866	7,631	26,248	20,303	15,899
Total.....	1,079,723	1,166,123	1,161,965	1,252,047	1,385,818	1,285,576	1,466,228	1,902,655	1,829,917	1,695,747
<hr/>										
	1910	1911	1912	1913	1914	1915	1916	1917	1918	
<b>Quantity (gallons):</b>										
United Kingdom.....	1,633,893	1,723,616	1,546,815	1,345,659	1,130,622	750,155	826,215	610,252	291,204	
Germany.....	39,453	168,120	51,153	49,002	32,340	12,932	-----	-----	-----	-----
Sweden.....	33,188	32,678	25,708	30,610	26,316	11,875	8,720	8,272	-----	-----
Other countries.....	21,007	29,678	27,888	27,457	24,042	24,984	37,467	13,540	7,186	-----
Total.....	1,727,541	1,954,092	1,651,564	1,452,728	1,213,320	799,046	872,402	632,064	298,390	-----
<b>Value:</b>										
United Kingdom.....	\$1,537,521	\$1,685,519	\$1,495,430	\$1,294,203	\$1,092,975	\$732,820	\$813,457	\$700,357	\$410,045	-----
Germany.....	29,392	58,882	37,177	36,779	23,493	9,409	-----	-----	-----	-----
Sweden.....	23,516	22,351	18,229	21,351	18,143	8,962	6,150	6,710	-----	-----
Other countries.....	15,490	23,740	20,500	20,490	17,987	17,702	31,306	10,586	6,531	-----
Total.....	1,605,919	1,790,492	1,571,336	1,372,823	1,152,598	768,693	850,913	717,653	416,576	-----

Source: Foreign Commerce and Navigation of the United States.

1 Includes imports from Norway.

TABLE 33.—Malt liquors in other coverings: General imports into the United States by countries of shipment for fiscal years ended June 30, 1900-1918

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909
<b>Quantity (gallons):</b>										
Austria-Hungary.....	681,248	819,740	959,556	1,182,034	1,328,234	1,624,080	2,108,328	2,577,230	2,815,466	2,699,357
Germany.....	845,751	929,458	1,027,969	1,147,500	1,199,451	1,462,621	1,569,529	1,885,780	1,995,513	1,861,331
United Kingdom.....	695,332	695,009	563,510	634,739	666,034	718,625	709,755	697,638	751,309	540,299
Other countries.....	6,171	3,348	2,070	2,070	4,236	31,161	7,420	5,281	2,485	4,075
<b>Total.....</b>	<b>2,228,502</b>	<b>2,447,555</b>	<b>2,553,105</b>	<b>2,966,343</b>	<b>3,197,955</b>	<b>3,836,487</b>	<b>4,395,032</b>	<b>5,165,929</b>	<b>5,564,773</b>	<b>5,105,062</b>
<b>Value:</b>										
Austria-Hungary.....	\$187,538	\$236,315	\$274,042	\$344,643	\$391,945	\$489,162	\$634,533	\$809,583	\$976,371	\$857,057
Germany.....	189,065	200,758	218,791	241,078	264,770	319,725	346,516	412,189	457,242	445,126
United Kingdom.....	269,322	281,007	224,652	249,319	268,479	288,138	285,680	282,439	300,063	215,399
Other countries.....	1,608	1,012	898	654	2,313	22,743	5,898	1,897	1,078	2,078
<b>Total.....</b>	<b>647,533</b>	<b>719,092</b>	<b>718,383</b>	<b>835,694</b>	<b>927,507</b>	<b>1,119,768</b>	<b>1,272,627</b>	<b>1,506,108</b>	<b>1,634,754</b>	<b>1,519,660</b>
		1910	1911	1912	1913	1914	1915	1916	1917	1918
<b>Quantity (gallons):</b>										
Austria-Hungary.....		2,723,361	2,636,331	2,599,998	2,981,488	2,960,333	1,116,409			
Germany.....		2,027,878	1,832,444	1,871,825	1,960,979	1,889,995	628,882			
United Kingdom.....		803,636	826,205	1,035,964	1,257,864	1,067,163	785,059	1,306,681	1,355,097	463,676
Other countries.....		5,616	44,820	16,154	45,591	46,512	20,808	433,652	253,016	
<b>Total.....</b>		<b>5,560,491</b>	<b>5,339,800</b>	<b>5,523,941</b>	<b>6,245,922</b>	<b>5,963,913</b>	<b>2,551,158</b>	<b>1,740,333</b>	<b>1,608,113</b>	<b>463,676</b>
<b>Value:</b>										
Austria-Hungary.....		\$867,936	\$851,092	\$881,347	\$978,414	\$969,803	\$355,910			
Germany.....		481,402	434,315	449,391	472,702	471,136	166,511			
United Kingdom.....		306,667	319,121	371,272	451,330	357,313	287,437	\$494,956	\$620,445	\$292,331
Other countries.....		2,029	1,346	6,580	14,996	16,179	8,647	111,024	62,398	
<b>Total.....</b>		<b>1,658,034</b>	<b>1,605,874</b>	<b>1,708,590</b>	<b>1,917,442</b>	<b>1,814,431</b>	<b>818,505</b>	<b>605,980</b>	<b>682,843</b>	<b>292,331</b>

Source: Foreign Commerce and Navigation of the United States.

Distilled spirits and wines: United States general imports by countries, 5-year average, fiscal years 1910-1914

	Brandy	Cordials li-queurs, bitters, etc. <sup>1</sup>	Gin	Whisky	All other dis-tilled spirits <sup>1</sup>	Cham-pagne	Still wines in casks	Still wines in other cover-lings
	Proof gallons	Proof gallons	Proof gallons	Proof gallons	Proof gallons	Dozen quarts	Gallons	Dozen quarts
Albania.....								
Austria-Hungary.....	32,206	18,550	984	167	567	66	46,042	3,881
Azores and Madeira Islands.....	4		1	15	905	1	9,209	454
Belgium.....	248	1,004	2,720	992	41	1,039	4,388	982
Bulgaria.....								
Czechoslovakia.....								
Denmark.....	1,042	6,815		132	1,002	15	23	9
Estonia.....								
Finland.....	21	38						
France.....	405,812	200,719	1,783	1,058	5,455	257,442	249,842	217,914
Germany.....	8,032	07,839	19,784	4,213	93,934	11,781	559,129	136,554
Gibraltar.....		8	1				63	9
Greece.....	19,711	14,847	203	37	10,503		21,464	2,370
Hungary.....								
Iceland.....								
Irish Free State.....								
Italy.....	7,547	135,210	197	115	6,479	1,950	2,416,917	243,103
Latvia.....								
Lithuania.....								
Malta, Gozo, and Cyprus.....	1						56	1
Netherlands.....	2,528	14,678	295,900	777	2,053	95	8,406	1,970
Norway.....	1,628	6,424	1	34	3,023	14	359	31
Poland and Danzig.....								
Portugal.....	40	18		1	95	1	159,581	6,296
Rumania.....	6							2
Soviet Russia in Europe.....	5,079	13,623		109	2,111	1	8	6
Spain.....	4,035	8,847	132	23	110	227	1,085,168	28,058
Sweden.....	6,124	6,391		42	2,302	2	5	12
Switzerland.....	473	3,112	7		30	62	3,435	2,881
United Kingdom.....	4,275	17,330	689,822	986,204	36,942	15,334	20,014	6,625
Yugoslavia.....								
Canada.....	2,038	1,134	10,234	372,945	1,011	235	475	1,530
British Honduras.....				3				
Costa Rica.....				8				
Guatemala.....								
Honduras.....						4	4	2
Nicaragua.....				5				
Panama.....				1	1		4	7
Salvador.....								
Greenland.....								
Mexico.....	283	919	5	273	19,988	12	551	127
Miquelon and St. Pierre Islands.....								
Newfoundland and Labrador.....			24	6			6	44
Bermudas.....	2	17	2	485	126	4		74
Barbados.....								
Jamaica.....	5	11,770	19	44	7,063	1		13
Trinidad and Tobago.....								
Other British West Indies.....								
Cuba.....	43	2,387	232	2	5,590		386	398
Dominican Republic.....					1			
Danish West Indies.....	4	66	27	155	7,334			21
French West Indies.....	1	2			3			
Haiti, Republic of.....	1	1			25			
Dutch West Indies.....					6			
Argentina.....		50					5	5
Bolivia.....								
Brazil.....	1	2			4			1
Chile.....	1							18
Colombia.....								
Ecuador.....								
Falkland Islands.....								
British Guiana.....								1
Surinam (Dutch Guiana).....								
French Guiana.....								
Paraguay.....								
Peru.....	5	1			47		2	1
Uruguay.....								
Venezuela.....		3			1			

<sup>1</sup> 3-year average, 1912-14.

*Distilled spirits and wines: United States general imports by countries, 5-year average, fiscal years 1910-1914—Continued*

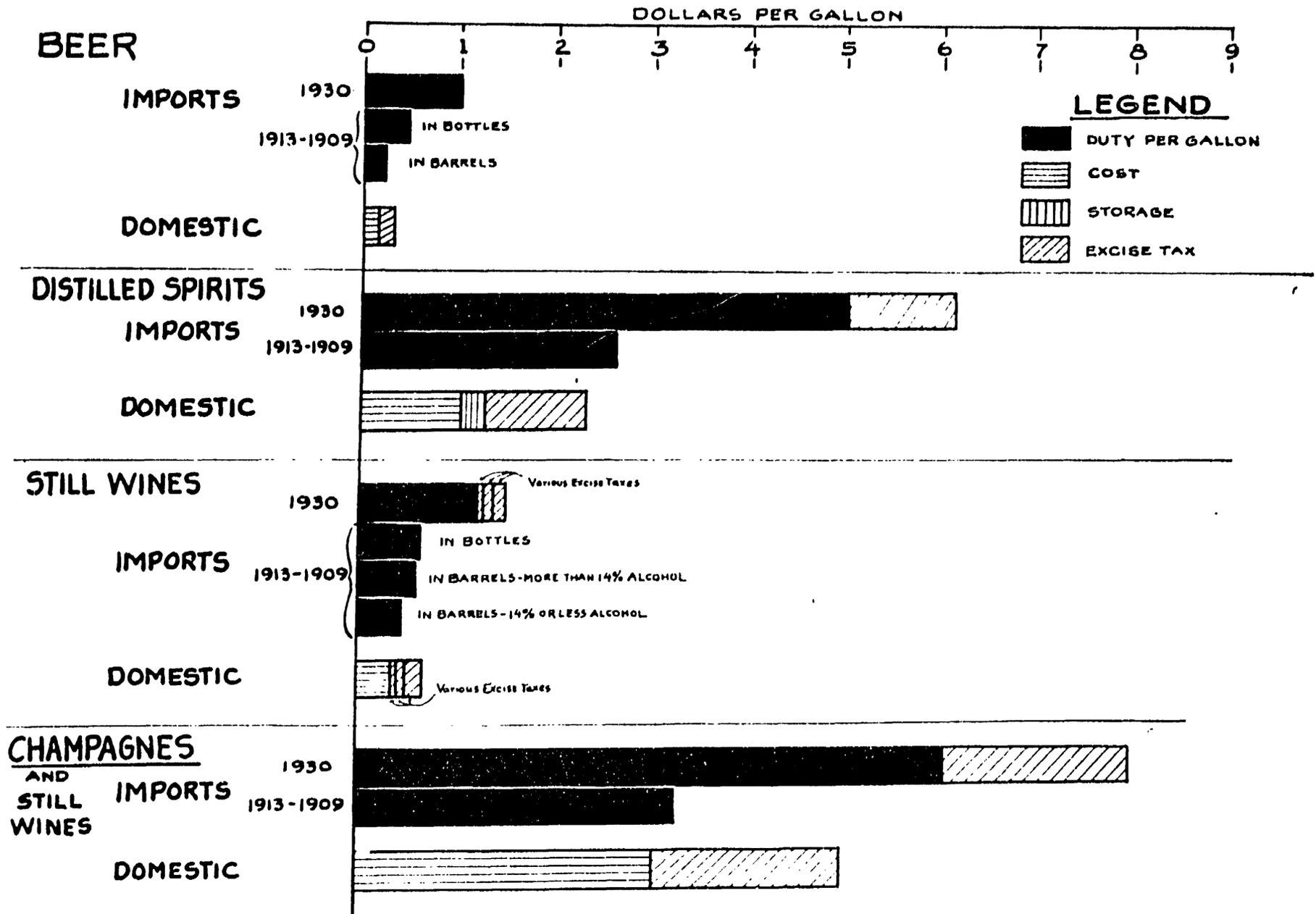
	Brandy	Cordials li- queurs, bitters, etc.	Gin	Whisky	All other dis- tilled spirits	Cham- pagne	Still wines in casks	Still wines in other cover- ings
	Proof gallons	Proof gallons	Proof gallons	Proof gallons	Proof gallons	Dozen quarts	Gallons	Dozen quarts
Aden.....								
Arabia.....								
British India.....								
British Malaya.....								
Ceylon.....								
China.....		15		18	106,280			9
Netherland East Indies.....								
French Indo-China.....								
Hong Kong.....	68	8,751	71	102	85,282		1,138	
Iraq.....								
Japan.....			213	56	2,551	4	478,258	27,029
Kwantung.....								
Palestine.....								
Persia.....								
Philippine Islands.....				95				
Siam.....							16	
Soviet Russia in Asia.....					6			21
Syria.....								
Turkey in Asia and Europe.....	7,372	313	24		235		18,166	8
Other Asia.....								
Australia and Tasmania.....		65				2		10
British Oceania.....								
French Oceania.....					16			3
New Zealand.....								
Ethiopia.....								
Belgian Congo.....								
British East Africa.....								
Union of South Africa.....								
Other British South Africa.....							1	5
Gold Coast.....								
Nigeria.....								
Other British West Africa.....								
Egypt.....	2	38						
Tripoli.....	4							
Madagascar.....								
Other French Africa.....		19				2	1,264	3
Italian Africa.....								
Liberia.....								
Morocco.....								
Mozambique.....								
Other Portuguese Africa.....							5	
Canary Islands.....								
Other Spanish Africa.....								
Total.....	569,542	541,006	1,028,366	1,368,107	401,722	288,293	5,065,007	690,488

## SUMMARY BY GRAND GEOGRAPHIC DIVISIONS

Europe.....	560,171	515,480	1,011,525	993,909	165,573	288,029	4,586,922	651,159
North America.....	2,378	16,296	16,545	373,927	41,748	256	1,427	2,217
South America.....	7	57			52		8	25
Asia.....	6,980	9,050	296	176	194,333	4	495,380	27,066
Oceania.....		65		95	16	2		13
Africa.....	6	88				2	1,270	5

# UNITED STATES TARIFF COMMISSION

COMPARISON OF RATES OF IMPORT DUTIES (ACTS OF 1930-1913-1909) AND ESTIMATED DOMESTIC COSTS OF PRODUCTION AND EXCISE TAXES ON BEER, SPIRITS AND WINES.



# INDEX

## STATEMENTS

	Page
Berthold, K. H., representing the Importers of Beer and Wine Association.....	293
Black, George K., Boston, Mass., representing the Massachusetts Brewers' Association.....	210
Buck, Hon. Frank H., a Representative in Congress from the State of California.....	260
Buck, Dr. F. W., Washington, D.C., representing the Federal Dispensary Tax Reduction League.....	230
Burnette, George H., representing the Flavoring Extract Manufacturers Association.....	178
Cauffman, William L., representing sundry Philadelphia Wholesale Liquor Dealers.....	137
Choate, Hon. Joseph H., Jr., representing the Federal Alcohol Control Administration.....	27
Cochran, Hon. John J., a Representative in Congress from the State of Missouri.....	259
Curran, P. J., Detroit, Mich.....	255
De Vries, Hon. Marion, Washington, D.C., representing the Wine Producers Association and Grape Growers League of California.....	182
Doran, Dr. J. M., representing the Distilled Spirits Industry Code Authority.....	90
Leis, Herbert, Economic Adviser, State Department.....	64
Garrett, Paul, Penn Yan, N.Y., representing Garrett and Company.....	114
Gulick, Luther, Director of the Institute of Public Administration.....	146
Henderson, Prof. Yandell, New Haven, Conn.....	103
Lourie, Harry L., representing the United States Tariff Commission.....	77
Lowry, Hon. Edward G., Jr., Special Assistant to the Secretary of the Treasury.....	34
McCabe, George P., Washington, D.C., Counsel for the American Brewers Association.....	235
Murray, J. W., Holyoke, Mass.....	123
O'Connor, Hon. John J., a Representative in Congress from the State of New York.....	287
Parker, Lovell H., Chief of Staff, Joint Committee on Internal Revenue Taxation.....	6
Pickrell, Eugene R., representing the Importers of Beer and Wine Association.....	207
Radeliffe, Harry S., Montclair, N.J., representing the Original Pilsner Beer Importing Co. of New York.....	220
Ringwalt, Joseph Garneau, New York City, representing the Joseph Garneau Co.....	232
Smith, Harvey H., representing sundry distillers.....	271
Taylor, Charles H., New York City, representing Thomas McMullen & Co., Importers.....	218
Toll, H. W., Denver, Colo., representing the American Legislators Association.....	242
Wellhofer, W. G., Atlantic City, N.J., representing the National Retail Beer and Liquor Dealers' Association.....	165

## BRIEFS, PREPARED STATEMENTS, LETTERS, TABLES, ETC.

Beneman, George R., representing the United States Brewers Association, brief.....	269
Besters, Paul V., representing the American Municipal Association, resolution.....	258
Frazier, G. I., representing the Associated Cooperage Industry of America, letters.....	303

Landes, Lewis, representing the Wholesale Liquor Dealers Committee of the city of New York, brief.....	Page 296
Lipsett, C. H., New York, N.Y., publisher, brief.....	216
Miller, Benjamin, representing the Federal Bar Association of New York, New Jersey, and Connecticut, brief.....	299
Richards, E. E., representing Southport Corporation, Inc., letter.....	303
Shaw, Munson G., representing the Wines and Spirits Importers Society of the United States, brief.....	226
Smith, William F., representing the Wholesale Liquor Dealers Committee of New York City, brief.....	217
Underhill, E. S., representing the Finger Lakes Wine Growers Association, brief.....	256
Walsh, Hon. David I., United States Senator from the State of Massachusetts, letter.....	302

## CONTENTS OF SUPPLEMENT

### PART I

	Page
Introduction.....	304
PART I. Legal effect of repeal of the eighteenth amendment.....	304
A. Introduction.....	304
B. Summary.....	305
II. Statistical study of the Alcoholic Beverage Industry.....	305
A. Introduction.....	305
B. Estimated revenues.....	306
C. The Liquor Supply.....	307
III. Problem of illegal alcoholic beverages.....	307
IV. State taxation.....	309
V. Prerepeal administrative problem.....	310
VI. The post-repeal import problem.....	310
Conclusion.....	312
Estimated revenue for 1934.....	313
Distilled spirits, United States tax rate, taxable consumption and revenue, table I.....	316
Distilled spirits, United Kingdom, tax rates, taxable consumption and revenue, table II.....	317
Wines, United States consumption and revenue, table III.....	317
Effect of repeal on Federal Statutes, appendix A.....	318
Continuation of Import Permit System, Appendix B.....	323
Statistical summaries, beer, spirits, and wines, 1900-1933, Charts 1 to 12.....	325
Occupational taxes, present rate.....	331
Report to the Secretary of the Treasury of recommendations by the interdepartmental committee.....	331
I. General policy.....	331
II. Excise taxes.....	332
III. Miscellaneous taxes.....	333
IV. Floor-stock taxes.....	333
V. Foreign commercial policy.....	333
VI. Tariff treatment, reciprocal trade agreements.....	333
VII. Tariff treatment, bargaining policy.....	336
VIII. Prevention of bulk sales.....	337
IX. Sale and stamping wines.....	337
X. Labeling of alcoholic beverages.....	337
XI. Control and supervision of rectification and blending.....	337
XII. Coordination of State and Federal taxation.....	338
XIII. Preparation of post-repeal market.....	339
XIV. Miscellaneous administrative changes.....	339
XV. Protection of dry States.....	339
XVI. Protection of trade names.....	339
XVII. Repeal of prohibition legislation.....	339
Appendix A.....	340
Present and recommended rates or excise, import, and miscellaneous taxes relating to alcoholic beverages, Chart No. 1A.....	345
Occupational taxes, table.....	345
Formula for computation of taxes on alcoholic beverages, Chart No. 2A.....	346

### PART II

Letter of transmittal from Harry L. Lourie.....	347
Revenue receipts collected by States on the liquor traffic, 1915-19.....	348
Revenue receipts of counties, total and per capita, 1913.....	349
Revenue receipts collected by each city of over 30,000 inhabitants from taxes on liquor traffic, 1903-17.....	350

	Page
Canada:	
Import duties on alcoholic beverages .....	355
Excise taxes on alcoholic beverages .....	357
United Kingdom	
Import duties on alcoholic beverages .....	358
Excise taxes on alcoholic beverages .....	359
Germany: Import duties on alcoholic beverages .....	360
France:	
Import duties on alcoholic beverages .....	362
Treaties with foreign countries .....	364
Import quotas .....	364
Excise taxes on alcoholic beverages .....	365
Netherlands: Import duties on alcoholic beverages .....	365
Italy:	
Import duties on alcoholic beverages .....	367
Quotas on French wines .....	369
Portugal: Import duties on alcoholic beverages .....	370
Spain: Import duties on alcoholic beverages .....	370
United States production, exports, imports, consumption, internal-revenue taxes and laws, and comparison of tariff acts:	
Introduction .....	371
Taxes and rates:	
Distilled liquors:	
Acts imposing tax on distilled liquors and rates of tax .....	372
Pertinent quotations from foregoing acts .....	372
Decisions under the Internal Revenue Act of Feb. 24, 1919 .....	373
Brandy:	
Acts imposing tax on brandy and rates of tax .....	374
Wines:	
Acts imposing tax on wines and rates of tax .....	374
Pertinent quotations from acts placing taxes on wines .....	375
Ale, porter, stout, and beer:	
Acts imposing tax on fermented liquors and rates of tax .....	377
Basic definitions for gallon, distilled spirits, wine spirits, natural wine, first proof and proof spirits .....	377-378
Receipts, taxes, and customs, production and consumption:	
Table 1.—Comparison of receipts of the United States from Internal Revenue and Customs with receipts from taxes and customs duties on alcoholic liquors, 1900 to 1932 .....	378
Table 2.—Taxes collected on distilled spirits, wines, and fermented liquors in the United States, 1900 to 1932 .....	379
Table 3.—Distilled spirits produced in the United States, 1901 to 1932 .....	380
Table 4.—Distilled spirits withdrawn on payment of tax .....	380
Table 5.—Tax collected on distilled spirits, wines, and fermented liquors, 1901 to 1932 .....	381
Table 6.—Distilled spirits withdrawn on payment of tax, imports for consumption, and total United States consumption, 1900 to 1932 .....	382
Table 7.—Wine, United States production, imports for consumption and total United States consumption, 1900 to 1932 .....	384
Table 8.—Ale, porter, stout, and beer, United States production, imports for consumption, and United States consumption, 1900 to 1932 .....	385
Table 9.—Per capita consumption of beer, distilled spirits and wines in the United States, 1900 to 1932 .....	386
Table 10.—United States total consumption of beer, distilled spirits and wine, 1900 to 1932 .....	387
Exports:	
Table 11.—Rye whisky: United States exports by countries, 1900 to 1918 .....	388
Table 12.—Bourbon whisky: United States exports by countries, 1900 to 1918 .....	389
Table 13.—Rum: United States exports by countries, 1900 to 1918 .....	390
Table 14.—All other distilled spirits: United States exports by countries, 1900 to 1918 .....	391

United States production—Continued.

Exports—Continued.

Table 15.—Wines: United States exports by countries, 1900 to 1918.....	Page 392
Table 16.—Malt liquors in bottles: United States exports by countries, 1900 to 1918.....	393
Table 17.—Malt liquors in other coverings: United States exports by countries, 1900 to 1918.....	394

Imports:

Comparison of tariff acts:

Table 18.—Spirits, wines, and other beverages: Comparison of tariff acts of 1897, 1909, 1913, 1922, and 1930.....	395
Value of imports, duties collected, and imports by kinds and countries:	

Table 19.—Total value of imports and duties collected for distilled spirits, wines of all types, and malt beverages: United States imports for consumption, 1900 to 1932.....	397
Table 20.—Distilled spirits, brandy, cordials, bitters, liqueurs, etc.: United States imports for consumption, 1900 to 1932.....	397
Table 21.—Distilled spirits—whisky: United States imports by countries, 1910 to 1918.....	398
Table 22.—Distilled spirits—gin: United States imports by countries, 1910 to 1918.....	398
Table 23.—Distilled spirits—brandy: United States imports by countries, 1900–1918.....	399
Table 24.—Distilled spirits—cordials, liqueurs, etc.: United States imports by countries, 1912 to 1918.....	400
Table 25.—All other distilled spirits: United States imports by countries, 1918 to 1932.....	401
Table 26.—Champagne and all other sparkling wines: United States imports for consumption, 1900 to 1932.....	403
Table 27.—Champagne and all other sparkling wines: United States imports by countries, 1900 to 1918.....	403
Table 28.—Still wines: United States imports for consumption, 1900 to 1932.....	404
Table 29.—Still wines in casks: United States imports by countries, 1900 to 1918.....	405
Table 30.—Still wines in other coverings: United States imports by countries, 1900 to 1932.....	406
Table 31.—Ales, beer, stout, and porter: United States imports for consumption, 1900 to 1932.....	408
Table 32.—Malt liquors in bottles or jugs: United States imports by countries, 1900 to 1918.....	409
Table 33.—Malt liquors in other coverings: United States imports by countries, 1900 to 1918.....	410

Comparison of rates of import duties and estimated domestic costs of production and excise taxes, on beer, spirits, and wines.....	411
United States average general imports by countries for 5 years of distilled spirits and wines.....	412