

nations receiving aid from the United States are keeping up their barriers against American products.

So enticing is the prosperity of the world outside the United States that American investors are sending more than \$3 billion of private capital abroad each year for investment. A growing number of American companies are entering the foreign field, often to produce goods not only for markets abroad but for sale back in the United States.

All of this is part of the story of success that has grown from American generosity in postwar years. That generosity, in fact, has been so great that it accounts, in part, for the inflation within United States that is making it more difficult for this country to hold its competitive position in the world.

In addition to supplying dollars of aid, the United States has undertaken the principal burden of defense for the non-Communist world. * * * Americans are assuming this burden with no apparent complaint. This country's allies—now strong industrially—are not assuming equal burdens in the defense of the free world.

This survey did not point out what every one with a grain of sense knows; namely, that all of the defense of the free world which we are ruining ourselves to pay for does not provide any defense. We have neglected the vital defenses of our homeland to provide rich loot abroad for the Communists to take over.

On May 25, 1959, a Wall Street Journal editorial said:

An important shift has taken place in the U.S. economic position in the world. * * * foreign subsidiary operation by U.S. firms * * * is multiplying at an accelerating rate. U.S. brand-name goods are now manufactured all over the world. The United States is gradually pricing itself out of the world markets.

Here is what faces many an American business: It cannot make its product here and compete in world markets with the Germans, the British, or the Japanese. The alternative is a drastic reduction in its business or the export of some of its capital resources to another country, the erection of a plant there and the development of its worldwide business from a foreign, not a U.S. base. * * * All around us our economic position in the world disintegrates.

In a remarkable series of public statements in the latter part of April 1959, President Eisenhower said:

First, that inflation is a dreadful threat to the American economy.

Second, that he is making an all-out fight for a balanced budget because a sound dollar is the foundation of America's defense.

Third, and that all American businessmen should work tirelessly to obtain public and congressional acceptance of the President's recommended \$3.9 billion of new foreign-aid appropriations for this year.

Senator HUBERT HUMPHREY predicts that the Soviets will soon start pushing America out of world markets in agricultural goods. HUMPHREY's remedy is to enlarge the program which will make this possible. He wants bigger and more extravagant Federal farm programs, which build agricultural surpluses that are so high-priced they cannot be sold even on the domestic market, much less on the foreign market. HUMPHREY wants to increase our program of giving agricultural surpluses away abroad. Satisfy the world demand for agricultural goods by giving ours away, and we will elimi-

nate those markets that the Soviets are going to take away from us.

On May 22, 1959, at a time when every literate person on earth knew that America is in grave danger because inflation, caused primarily by policies of Government, is driving American capital and American gold reserves abroad, causing a relentless shift of industrial and economic strength from America to other nations, Mr. Henry Kearns, Assistant Secretary of Commerce, made a speech in Dallas, to a gathering celebrating World Trade Week.

Mr. Kearns urged U.S. businessmen to invest their money abroad, and recommended legislation, pending in Congress, to give special tax treatment that will encourage American capital to flee overseas.

Will the end result be peace or chaos? Your knowledge of the situation, fellow Members, is greater than mine since most of you have been here longer than I.

However, my guess is that we are breeding world discontent, fostering false and misleading hopes in our friendly allies and in the end the American people will end up disliked, distrusted, disillusioned, and at a tremendous disadvantage.

We will have to face up to a realistic revenue problem. Our basic tax is the income tax with the large part paid by individuals and limited corporate percentages. As we continue our foolish and dangerous course, we will have less and less personal and corporate income to tax. Will we then shift to consumer taxes completely?

SENATE

THURSDAY, MAY 21, 1959

The Chaplain, Rev. Frederick Brown Harris, D.D., offered the following prayer:

Almighty God and Father of all mankind, whose paths are mercy and truth, we come with all our fallible judgments, that in Thy light the immediate might be set in the wide horizons of abiding verities.

We would test our thoughts and words and deeds, not against the faulty background of our fellows, but with our eyes upon the transparent glory of the crystal Christ.

In these dangerous and disturbing days sober us with a solemn sense of personal responsibility, and that Thy call to each one of us is to contribute to the world's good, our own life, strong, clean, honest, trustworthy, and serviceable.

As Thy servants and the people's in this temple of democracy, save us from any perversion of the power that has been entrusted to our hands.

"If, drunk with sight of power, we loose Wild tongues that have not Thee in awe—

Such boasting as the Gentiles use Or lesser breeds without the Law— Lord God of Hosts, be with us yet, Lest we forget—lest we forget!"

Amen.

THE JOURNAL

On request of Mr. JOHNSON of Texas, and by unanimous consent, the reading of the Journal of the proceedings of Wednesday, May 20, 1959, was dispensed with.

MESSAGES FROM THE PRESIDENT

Messages in writing from the President of the United States were communicated to the Senate by Mr. Miller, one of his secretaries.

REPORT ON PARTICIPATION IN WORLD SCIENCE PAN-PACIFIC EXPOSITION—MESSAGE FROM THE PRESIDENT

The VICE PRESIDENT laid before the Senate the following message from the President of the United States, which, with the accompanying report, was referred to the Committee on Foreign Relations:

To the Congress of the United States:

Pursuant to the provisions of Public Law 85-380, providing for participation of the United States in the World Science Pan-Pacific Exposition to be held at Seattle, Wash., in 1961, I am transmitting herewith the report required under section 5(a) of that act.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, May 21, 1959.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the House had passed the following bills, in which it requested the concurrence of the Senate:

H.R. 7007. An act to authorize appropriations to the National Aeronautics and Space Administration for salaries and expenses, research and development, construction and equipment, and for other purposes; and

H.R. 7175. An act making appropriations for the Department of Agriculture and Farm Credit Administration for the fiscal year ending June 30, 1960, and for other purposes.

ENROLLED BILLS SIGNED

The message also announced that the Speaker had affixed his signature to the following enrolled bills and they were signed by the Vice President:

H.R. 147. An act to suspend temporarily the tax on the processing of palm oil, palm-kernel oil, and fatty acids, salts, and combinations or mixtures thereof;

H.R. 3248. An act to provide for the payment of just compensation to certain claimants for the taking by the United States of private fishery rights in Pearl Harbor, island of Oahu, Hawaii;

H.R. 4282. An act to supplement and modify the act of May 24, 1828 (6 Stat. 383, ch. CXII), insofar as it relates to the corporate powers of the Sisters of the Visitation of Georgetown, in the District of Columbia;

H.R. 4597. An act to provide for the training of postmasters under the Government Employees' Training Act;

H.R. 4599. An act to provide certain administrative authorities for the National Security Agency, and for other purposes; and

H.R. 4695. An act to amend section 108(a) of title 23 of the United States Code to increase the period in which actual construction shall commence on rights-of-way acquired in anticipation of such construction from 5 years to 7 years, and for other purposes.

HOUSE BILLS REFERRED

The following bills were each read twice by their titles and referred as indicated:

H.R. 7007. An act to authorize appropriations to the National Aeronautics and Space Administration for salaries and expenses, research and development, construction and equipment, and for other purposes; to the Committee on Aeronautical and Space Sciences.

H.R. 7175. An act making appropriations for the Department of Agriculture and Farm Credit Administration for the fiscal year ending June 30, 1960, and for other purposes; to the Committee on Appropriations.

COMMITTEE MEETINGS DURING SENATE SESSIONS

On request of Mr. JOHNSON of Texas, and by unanimous consent, the Antitrust and Monopoly Subcommittee of the Committee on the Judiciary was authorized to meet during the session of the Senate today; and the NASA Authorization Subcommittee of the Committee on Aeronautical and Space Sciences was authorized to meet during the sessions of the Senate today and tomorrow.

On request by Mr. KEFAUVER, and by unanimous consent, the Subcommittee on Constitutional Amendments of the Committee on the Judiciary was authorized to meet during the session of the Senate today.

AMENDMENT OF MUTUAL SECURITY ACT—REFERENCE OF AMENDMENTS TO COMMITTEE ON FOREIGN RELATIONS

Mr. HUMPHREY. Mr. President, on Tuesday of this week I submitted several amendments to the Mutual Security Act. At that time I suggested that the amendments be referred to committee. Since the Mutual Security Act was under consideration in the Committee on Foreign Relations, I also said that in case the amendments were not adopted in committee, I would subsequently call them up for action by offering them separately and independently in the Senate.

There was some confusion in the Record—possibly the confusion of the senior Senator from Minnesota. Therefore, I wish to clarify the situation, so that the bill clerk and other responsible officers of the Senate may know that it was my desire to have the amendments printed and referred to the committee. Following referral to the committee, if favorable action is not taken there, then, indeed, I shall offer them in the Senate as new amendments to the mutual security bill as reported.

Mr. President, I ask that the amendments be referred to the Committee on Foreign Relations.

The VICE PRESIDENT. Without objection, it is so ordered.

LIMITATION OF DEBATE DURING MORNING HOUR

Mr. JOHNSON of Texas. Mr. President, under the rule, there will be the usual morning hour; and I ask unanimous consent that statements in connection therewith be limited to 3 minutes.

The VICE PRESIDENT. Without objection, it is so ordered.

LEGISLATIVE AND EXECUTIVE PROGRAMS

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that in the statement I am about to make, I may exceed the 3-minute limit.

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered.

Mr. JOHNSON of Texas. Mr. President, I should like to announce that today we expect to take up on the floor the tobacco bill.

Unless something unforeseen develops, we expect to bring up by motion the wheat bill, Calendar No. 283, Senate bill 1968. I rather doubt—in light of the fact that I am informed that amendments will be offered—that we shall conclude our action on that bill today; but the session today will continue until a reasonable hour.

I am hopeful that we may be able to obtain clearance from the Senators who desire to discuss the Dillon nomination, before we leave for the Memorial Day weekend—perhaps by the early part of next week, I hope. But I have not yet been able to consult with certain Senators who are involved.

I also expect the nomination to the Civil Rights Commission to be cleared by that time, certainly.

Both the Treasury-Post Office appropriation bill and the District of Columbia appropriation bill should be reported this afternoon.

The Appropriations Committee will work with dispatch in the days ahead, in the hope that soon after Memorial Day several appropriation bills will have reported to the Senate.

With regard to the Strauss nomination, I have talked to the chairman of the Committee on Interstate and Foreign Commerce, and he is agreeable to having the nomination brought up promptly, by motion—as I am informed the minority leader is—as soon as the majority report, the minority views, and the hearings are available from the printer. At a reasonable time—I would say 1 or 2 days, at the most—after the majority report, the minority views, and the hearings are available, that nomination will be brought up by motion.

Mr. President, I wish to make clear that although I, myself, have not come to any conclusion in connection with the Strauss nomination, I do not mind again telling the Senate and the country what standards I will apply in considering the facts with regard to that nomination.

If the only issue were whether the President should have the choice of his advisers, there would be no difficulty for me. I doubt that any President has had more cooperation from the leadership of an opposition party in connection with his nominations than the present President had. Last year the Senate confirmed approximately 58,000 nominations. I think that is a tribute, not only to the Senate, but also to the President, in connection with the type of persons he has nominated.

I ask unanimous consent to insert at this point in the Record a table showing the nominations confirmed by the Senate since 1953.

There being no objection, the table was ordered to be printed in the Record, as follows:

NUMBER OF NOMINATIONS CONFIRMED SINCE 1953	
1953	23,420
1954	45,143
1955	39,897
1956	42,797
1957	44,620
1958	58,691
1959 (through May 20)	28,943
Total	283,511

Mr. JOHNSON of Texas. I am one who feels very deeply that the President of the United States is entitled to advice from any source he deems suitable; and I would never vote to deny him an adviser. He has had many advisers whom I would not have selected; but it is not my responsibility to select the President's advisers.

But, Mr. President, I should like to have the Senate know, and I should particularly like to have impetuous pressure groups know, that the Secretary of Commerce is more than an adviser to the President. The Secretary of Commerce is the head of an operating agency of government which administers many laws of the United States which have been passed by the Congress. The Constitution provides that the Senate shall give its advice and consent to nominations made by the President; and unless we are to tear up the Constitution; make it meaningless, unless we are to be hypocrites, we must give our consent; and we must give our consent, based upon the information available.

Mr. President, no man's judgment is any better than his information. It is not difficult for some persons to act in line with the late, eloquent Bob Taylor's story about the billy goat. They have already voted on many things, and they do not need information.

But, Mr. President, so far as the Senator from Texas is concerned, I did not attend a single one of the hearings on the Strauss nomination. I have seen a good many partisan statements; I have read a good many editorials; and I have received a good deal of advice from various sources. I should like to have the liberty—as I would insist every other Senator have—to read what the majority of the committee have had to say in connection with the nomination of Mr. Strauss, and particularly the views of my friend, the senior Senator from Kansas [Mr. SCHOEPPEL], for whom I have great affection and admiration. I have heard

of his statement, but I have never seen it. I will read it—tonight, I hope.

I should like to have an opportunity to review the 1,700 pages of testimony. I should like to study the views of both groups which have strong feelings about the nomination—and that goes beyond the 17 members of the committee who participated in its deliberations—some of whom have what I am told are even violent feelings about the matter. I should also like to consider what the minority of the committee—a group including eight Senators—have had to say about the nomination.

I am not the slightest interested in what the chairman of the Republican National Committee or the Republican caucus or the chairman of the Democratic National Committee has to say about the nomination. I must vote in accordance with what I believe is right and what I believe is fair and what I believe is just. I must satisfy myself on all those scores; and I am going to do so when the printed hearings are available.

In the case of some Senators, a friend of mine told me yesterday that one of my closest long-time friends, who occasionally—well, I would say frequently; in fact, very frequently—votes with the Republicans, said off the record, in the quiet and sanctity of the President's Room, in a kind of low whisper, that he thought it all depended on the majority leader. Well, Mr. President, I consider that in the same way I consider all other propaganda: It is not going to help the nominee, but neither is it going to hurt him, because I hope I am big enough to recognize propaganda when I see it, and heat when I feel it. One who has not had a blow torch applied to him, and has not been able to withstand it, has no business at the desk of the majority leader. Certainly I hope I am going to be able to withstand it.

I wish to stress the fact that Congress has the responsibility of passing the laws of the United States. It has the responsibility of determining whether those laws are properly executed.

The Commerce Department is not something that merely collects statistics, as Republicans reminded me when the nomination of Henry Wallace for Secretary of Commerce was under consideration. The Secretary has control of export licenses. He has control of the Bureau of Standards and the Patent Office. He has responsibility for transportation policies. He dispenses a great deal of Federal money to each State in the Union for the highway program. An unfriendly newspaper might see him as a kind of a bag-man. I do not say that. I mean, Congress has said to him that it must consider him as it considers other agents of the Government. The Congress, for this fiscal year, has granted the Secretary \$450 million. I wonder how Harry Hopkins would feel if he had had that much money for the Department. I also wonder how my friends would feel if someone else were dispensing that much money and if they were asked to reach a verdict before the trial instead of after the trial.

I ask unanimous consent to insert at this point in the Record an official com-

pilation of the functions of the Department of Commerce.

There being no objection, the compilation was ordered to be printed in the RECORD, as follows:

DEPARTMENT OF COMMERCE,
February 16, 1959.

The Department of Commerce was designated as such by the act of March 4, 1913, which reorganized the Department of Commerce and Labor created in 1903, by transferring out of the former department all labor activities.

The statutory functions of the Department are to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping and fishing industries, and the transportation facilities of the United States. Related functions subsequently have been added to or eliminated from the Department from time to time by legislation or Executive order; however, the purposes have remained substantially the same as those for which the Department was established.

The Department of Commerce is composed of the following principal bureaus and offices: Office of the Secretary, Office of Public Information, Coast and Geodetic Survey, National Bureau of Standards, Patent Office, Defense Air Transportation Administration, Maritime Administration, Federal Maritime Board, Bureau of Public Roads, Weather Bureau, Business and Defense Services Administration, Office of Business Economics, Bureau of the Census, Advisory Committee on Export Policy, Bureau of Foreign Commerce, Office of International Trade Fairs.

The Department of Commerce appropriation for the fiscal year ending June 30, 1959, is over \$450 million, excluding the Civil Aeronautics Administration (now part of Federal Aviation Agency) and the Civil Aeronautics Board, plus over \$2½ billion for Federal-aid highway programs. It has approximately 31,000 employees, and offices throughout the country and territories.

Mr. JOHNSON of Texas. We have the senatorial function of passing on nominations, and that is not merely a perfunctory function, and it ought not to be political. I am going to try to conduct myself in such a manner, in the course of these proceedings, as to see to it that every Senator answers only to his own conscience and expresses only his own conviction, and has ample opportunity to do so.

The responsibility to determine if the powers reposed in the Secretary of Commerce would be misplaced, if he would administer them against the public interest, if he would administer them partially, if he would administer them unfairly, or if he would not have our confidence in charging him with the administration is up to the Senate.

I am not passing judgment on that question until the report is printed, including the majority and minority views, and the hearings.

It has been, and always will be—and I stress this to my friends on this side of the aisle who may have strong feelings in this matter—my policy to lean over backward to permit a President of either party to have the officials he wants.

I remember, when a judge from Virginia was not selected in the right manner, the Senate did not confirm his nomination. I remember what happened when Ed Flynn was named as

Ambassador. I remember the furor which took place when Ed Pauley was named as Under Secretary of the Navy.

The Senate has been correct in exercising its rights and prerogatives. I do not pass judgment on the wisdom of its decisions. I merely point out that the Senate has been very careful, and should be now.

I do not think any President of the United States should ever be harassed by denying him his appointments. The Senator from Texas is not going to harass him. But leaning over backward does not mean the Senate should fall down on the job; and in this, as in every other instance, I think each Member of the Senate should check the facts carefully to determine whether there is involved a public interest, and arrive at his own conscientious judgment as to whether confirmation should be denied. If he arrives at that decision, and if he thinks it is in the public interest to do so, and if the facts before him, according to the Senator's own judgment support it, I think he ought to do so. Otherwise, the nomination ought to be confirmed. And I shall certainly so vote if that is the way I resolve the question.

I think it is important, however, to remember that there are two things we must consider. One is that the Senate advises the President. Certainly he is entitled to have the Senate advise him and to give him good advice. The President carries very heavy burdens, and he ought to have the advice of the Senate. We have to consent and we have to confirm the nominations of the President if we think the nominees will carry out the laws in the manner that they ought to be carried out.

Mr. President, I am not prepared to pass judgment on the question when the record has not been printed, when I have not read it, and when I do not know anything about it. Senators may take my statement for what it is worth. Those who do not think I am fair are going to think so, anyway. If I am the only Senator to vote the way I feel—whether it be to postpone action on the nomination, or table it, or anything like that—I am going to do it if I am convinced I should. I am going to do what I think is best for America, because in doing so I think it will be best for the Senate, for my State, and for the Senator from Texas.

Mr. DIRKSEN. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. I yield.

Mr. DIRKSEN. First, let me say that if I were commissioned to talk for the President of the United States, I am sure he would expect me to say to the majority leader that he appreciates the cooperation the executive branch has received with respect to the many thousands of nominations that have come to the various Congresses under this administration. There have been difficulties in recent days. In the main, however—

Mr. JOHNSON of Texas. If the Senator will permit me, I do not want the implication to stand that the difficulties are only of recent origin. The President started with those difficulties. I remem-

ber when the nomination of Mr. Wilson to be Secretary of Defense was submitted, and I recall the trouble Senator Taft had in trying to get the Cabinet confirmed. I remember how strongly the Senator from Virginia felt about that nomination for Secretary of Defense, and some of the problems Secretary Wilson had. This difficulty is not recent. These standards have always been applied. I am going to apply them, but without regard to partisanship. I am not going to call the policy committee together and say we are going to vote as a unit. I do not think that is the way confirmations ought to be handled. I am not going to say to my colleague, if I were presumptuous enough—and I am not—"I think you ought to vote this way on this nominee, and if you don't, it won't be in the public interest." I am going to say what I have to say on the floor of the Senate, but I am going to reserve the right to consider the case.

Mr. DIRKSEN. I think the majority leader may have misunderstood me. My statement certainly had no such implication in it. On a recent occasion we took more time on a nomination than we did on other occasions. A myriad of difficulties seemed to have occurred at the time. But I reiterate that I am appreciative of the way the administration has received fair consideration in the matter of nominations. If I may be so bold, I hope it will continue to do so. From time to time, in the most affable way, I have talked to the majority leader about nominations. Never have I found him arbitrary or presumptuous about it.

The other thing I want to say is that the statement the majority leader has made is certainly characteristic of the fair, impartial, and judicious way in which he has taken any question of this kind into consideration. I have deep personal appreciation for his action in doing so. I know full well, from the private conversations we have had, there are no departures from what the Senator from Texas utters on the floor of the Senate. He does not have one standard for his office when he talks to me and another standard when he makes a statement on the floor of the Senate. I am confident he will approach his responsibility in the same considerate and judicial fashion when we come to grips with the question of confirmation of the nomination which will soon be before us. For that we are grateful to the Senator.

Mr. JOHNSON of Texas. I thank the Senator. I do not expect any appreciation for doing my duty. That is all I have done, and all the Senate has done.

I merely pointed to a number of confirmations of nominations which have gone through the Senate as an illustration of the fact that the Senate generally has not attempted to harass the President, and that I was not going to be a party to any movement in that direction.

As soon as the hearings and the reports are available, that nomination will be brought before the Senate.

I sat for days in the hearings on the nomination of Mon Wallgren, the President's friend, the President's adviser, the man the President eagerly

sought for the National Security Resources Board. I sat for days with the distinguished Secretary of the Army, the late Secretary of the Air Force Talbott, and Secretary of Defense Wilson. I have been a party to all those hearings.

I remember the trying hours which were spent by the Senator from Georgia [Mr. RUSSELL], the Senator from Virginia [Mr. BYRD], and other Senators in connection with the Rosenberg nomination. One or two Senators made up their minds before the nomination hit the table. Four or five of them issued press releases right away. But it was not until the last few minutes of the hearing, until J. Edgar Hoover brought in the final report, that we were able to establish what amounted to real and exact justice, because a mistake in identification had been made.

A man is on trial here, and the Senate is on trial. This is not a question of Republicanism. I do not like to hear it said that Senators are voting as a body, one way or another. I do not like to hear it said that one man is going to assume the responsibilities of other men. That is not true, and those who make the statement know it is not true, and it ought not to be said. I do not know of a Member of this body, on either side of the aisle, who is going to take any dictation from anybody in connection with doing justice to the nominee—and when I say that I refer to dictation from the President all the way down to the precinct worker. I do not mean to imply that the President has attempted to give any orders, because he has not. He has not called me. He has not written me. So far as I know, he has not called or written anybody else. He has exercised his responsibility. He signed the nomination, pen in hand, and sent it to the Senate. We have to exercise our responsibility.

If this were simply a question of passing merely on an adviser to the President, I would be prepared, already, to vote, but the question is one of passing on an administrator of laws the Congress passes. I desire to learn why the Senator from Kansas [Mr. SCHOEPFEL] and the majority of the committee feel this man's nomination ought to be confirmed. I want to learn why a minority of the committee, headed by the chairman of the committee, feel that his nomination should not be confirmed. I think I am entitled to that right. I am entitled to it without it being said that I am not in too big a hurry. I want to proceed with dispatch, and I am sure the Senate will do so.

The statement the Senator from Illinois made is typical of him. He is always fair. He is just and courageous. I talked to the Senator the moment I came to town—or a few moments later—and told him we would get the reports from both sides, and the hearings, and do just as we do in all other matters; that we would agree when the chairman could be present, and when he could be present we could go ahead. I immediately went to see the chairman of the committee, and he has assured me that as soon as the printer finishes his work we can take up the nomination.

So far as I am concerned, I am prepared to consider the Strauss nomination ahead of the nomination of Mr. Dillon, ahead of the nomination of Mr. Johnson, or of anybody else, if the material we need is available. I want the Senate and the country to know there is no chicanery here, and no one is trying to delay, so far as the proceedings on the floor of the Senate are concerned.

Several Senators addressed the Chair. Mr. JOHNSON of Texas. I yield first to the Senator from Illinois.

Mr. DIRKSEN. Mr. President, I have only one further observation to make. From the great, logical brain of Herbert Spencer came the sentiment that he could think of no greater departure from basic principle than condemnation without investigation. Today the majority leader, I think, illustrates to the Senate and to the country that he will investigate for himself and judicially approach his responsibility, and that all the Members of the Senate will do likewise. I am confident all Senators will rise to their responsibility.

Mr. JOHNSON of Texas. I think that if each citizen could have the feeling that the Senate would decide this question and all others by the standard that "what is good for America is good for us," it would make it possible for him to sleep better tonight and to feel more comfortable. I hope that is the opinion our citizens can have of this Senate and of all other Senates, because that is the opinion I had of the Senate, and the reason why I wanted to become a Member of it.

I now yield to the Senator from Montana.

Mr. MANSFIELD. Mr. President, I wish to align myself with the remarks made by the distinguished majority leader, and I should like to ask several questions.

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that I may continue to have the floor. I appreciate the understanding and tolerance of the Vice President. I do not want to be in violation of the rule, and I ask for an additional 3 minutes.

The VICE PRESIDENT. Is there objection to the request of the Senator from Texas? The Chair hears none, and it is so ordered.

Mr. MANSFIELD. I assume that when he was discussing the nominations of Mr. Strauss and of Mr. Dillon, the Senator from Texas also had in mind that if and when the nomination of Ogden Reid is reported favorably by the Committee on Foreign Relations it will receive immediate consideration.

Mr. JOHNSON of Texas. I would not say "immediate."

Mr. MANSFIELD. I mean prompt consideration.

Mr. JOHNSON of Texas. It will be handled with dispatch, when the hearings and reports are available. Has the nomination been reported?

Mr. MANSFIELD. No. I refer to the time when it may be reported.

Mr. JOHNSON of Texas. I do not want to anticipate the action of the committee. Any of the oldtimers can correct me if I am mistaken, but I believe

Senators can look at the Executive Calendar to see how long names are kept there after they are put on it. The Vice President can attest to the fact that when there are names on the Executive Calendar we call it every day when the Senate is in session.

We do that for two reasons. First, we think the President is entitled to prompt consideration, such as is consistent with getting the facts. Second, we want to save money in printing. We do not want large calendars to have to be reprinted each day.

Mr. DIRKSEN. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. I yield.

Mr. DIRKSEN. I should like to ask the majority leader whether, if we should complete action on the wheat bill today, it is proposed to go over until Monday; or what business will there be for Friday?

Mr. JOHNSON of Texas. I should like to consult with the Senator later. I had hoped we could go over, perhaps from Friday until Tuesday. I am not aware of any controversial bills to be considered Friday.

I will be prepared to make an announcement as soon as I have had the benefit of the collective judgment of my policy committee on the scheduling of several bills, and I am to meet with the committee at 1 p.m. today. The Senator from Illinois will be the first one I shall tell of our conclusions. If the Senator is agreeable to the plan we adopt, we will present it to the Senate. If the Senator is not agreeable, we will attempt to adjust it to suit him.

Mr. DIRKSEN. I thank the Senator.

Mr. MANSFIELD. Mr. President, will the Senator yield further?

Mr. JOHNSON of Texas. I yield further.

Mr. MANSFIELD. Is it not true that on Friday last, when the Senate adjourned to the following Tuesday, the leadership made an unusual unanimous-consent request that notwithstanding the fact that the Senate would meet at 10 o'clock a.m. on Tuesday the Committee on Foreign Relations be given special consideration or dispensation to hold hearings with regard to the nomination of Mr. Reid at that time?

Mr. JOHNSON of Texas. That is correct.

Mr. MANSFIELD. Inasmuch as the distinguished majority leader has stated that he could not or would not seek to impose his will with regard to any measure, nomination, or otherwise, on the policy committee, is it not further the fact that the majority leader has never sought to impose his will, but has always abided by the majority decision, regardless of what the decision has been, as it applied to his own individual thinking?

Mr. JOHNSON of Texas. That is correct. If I were voting on the basis of friendship, and from my knowing people, I would say that I served in the Navy with Admiral Strauss, under Jim Forrestal, for some time. I have never had any unpleasantness in connection with him.

I did not know Mr. Reid. He has called on me, and I was glad to have him call on me. He discussed in a very

appropriate and proper manner official business. I will say that I enjoyed the conversation. I await the results of the hearings.

If I were voting from a personal standpoint, I would not have much difficulty with either nomination.

Mr. MANSFIELD. My reason for raising these questions at this time is that there seems to be a sort of planned attack on the Senate in connection with the alleged holding up of nominations. That attack seems to be directed at the Democratic Party in the Senate as a whole.

I wish the record to show that so far as the Democratic leadership is concerned, there has been no holding up of any nominations once they had been reported from committee and the reports and printed records of hearings were available.

Mr. JOHNSON of Texas. The Senator is correct. I think I should say that I do not believe any Congress has ever had a better record or acted more expeditiously, consistent with the facts, than has the present Congress.

However, there have been some nominations of postmasters, and nominations before other committees with respect to which individual Senators have sought information. Such nominations have not been released. The Senator from Texas and the Senator from Illinois cannot say anything about Senator X, from State Y, who says, "I will not at this moment approve these nominations affecting my State."

I have asked some of those Senators to act with dispatch. However, they represent sovereign States, and they have a right to their viewpoint. When I was in my home State attempting to communicate with my people and to create at least as favorable an impression as I could in advance of the 1960 senatorial campaign, I received, in connection with a certain nomination, a communication from a colleague saying, "I want a week or 10 days to consider this nomination. You do not need to give it to me. You can bring up the nomination on motion tomorrow, and I can talk for 10 days."

I said, "Your request is reasonable. You are a member of the committee. You are entitled to review the hearings and read the report. If a week or 10 days is all you want, so far as I am concerned, you will get it." I communicated with the Senator from Illinois [Mr. DIRKSEN], and he agreed. I believe that that course will result in a saving of time.

I wish to remind Senators—I would not say warn them or caution them—that people who live in glass houses should not throw stones. We have a responsibility in our constitutional capacity to act on nominations, and we expect to act upon them. However, it ill behooves some persons to talk about delay in connection with the consideration of nominations, in the light of some of the records which have been written in the Senate, and which are available to all of us, in connection with nominations of postmasters, nominations of judges, nominations of Cabinet officers, nominations of Secretaries of Commerce,

nominations to the National Resources Board, and nominations of other top flight officials. Those who feel an urge to apply the lash should stop, look, and listen before doing so. I suggest that in the interest of good government in the country we all love, we should approach this question judiciously, fairly, and reasonably, and allow each Senator to perform the duties which the people of his State selected him to perform.

Mr. GORE. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. I yield.

Mr. GORE. I was very proud of the record of the Senate in connection with the nomination of Christian Herter to be Secretary of State. After the nomination was finally submitted the committee held public hearings, followed by an executive session, and reported the nomination to the Senate; and the Senate confirmed the nomination of Mr. Herter to be Secretary of State, all within 1 day.

The Senate felt, as did the Senate leadership, that it was in the national interest that our Secretary of State have an early and expeditious, overwhelming, and, if possible, unanimous vote confirming his nomination. Fortunately that was accorded him; and as a result Secretary Herter departed for Geneva with support within our own country, and I believe abroad.

The nomination of Mr. Dillon is pending on the calendar. I believe the majority leader and the minority leader acted wisely and with a proper regard for the traditions of this body in delaying action for a week until a member of the Senate Foreign Relations Committee could obtain and assemble facts which he regards as pertinent and important.

I expect to support the nomination of Mr. Dillon on the floor of the Senate, as I did in committee. I not only applaud the majority and minority leaders for according a Senator time in which to prepare his case, but I would insist upon it if the issue should be raised.

Mr. JOHNSON of Texas. Mr. President, I am stimulated by the statement of the Senator from Tennessee. He is helpful and constructive. He has reminded me of an action of which I think all Senators, as well as the country, should be proud.

The Senator from Tennessee, in his characteristic fashion, has brought to the attention of the American people some facts of which they should be reminded. I think that in the days ahead, when we try as conscientiously as we can to perform our duties, as other people try to perform theirs, fairly and justly, those who would apply the lash should stop, look, and listen.

EXECUTIVE COMMUNICATIONS, ETC.

The VICE PRESIDENT laid before the Senate the following letters, which were referred as indicated:

REPORT ON COMMODITY CREDIT CORPORATION SALES POLICIES, ACTIVITIES, AND DISPOSITIONS

A letter from the Assistant Secretary of Agriculture, transmitting, pursuant to law,

a report of the General Sales Manager on Commodity Credit Corporation sales policies, activities, and dispositions, for the month of March 1959 (with an accompanying report); to the Committee on Agriculture and Forestry.

AMENDMENT OF LAW RELATING TO EXEMPTIONS FROM JURY SERVICE IN DISTRICT OF COLUMBIA

A letter from the President, Board of Commissioners, District of Columbia, transmitting a draft of proposed legislation to amend the law providing for exemptions from jury service in the District of Columbia (with an accompanying paper); to the Committee on the District of Columbia.

REPORT ON REVIEW OF DETROIT HOUSING COMMISSION, DETROIT, MICH.

A letter from the Comptroller General of the United States, transmitting, pursuant to law, a report on the review of the Detroit Housing Commission, Detroit, Mich., Public Housing Administration, Housing and Home Finance Agency, dated May 1959 (with an accompanying report); to the Committee on Government Operations.

RECOMMENDATIONS ADOPTED BY INTERNATIONAL LABOR ORGANIZATION

A letter from the Assistant Secretary of State, transmitting, pursuant to law, recommendations adopted by the International Labor Conference, at Geneva, June 25, 1958 (with accompanying papers); to the Committee on Labor and Public Welfare.

PETITIONS AND MEMORIALS

Petitions, etc., were laid before the Senate, or presented, and referred as indicated:

By the VICE PRESIDENT:

A joint resolution of the Legislature of the State of Illinois; to the Committee on Interstate and Foreign Commerce:

"HOUSE JOINT RESOLUTION 41

"Whereas much is being done by city, county, State, and the Federal governments to strengthen our national defense; and

"Whereas we deem it expedient that all media be explored to make certain that each segment is strengthened to its full potential; and

"Whereas the American railroads in times of crisis have been our most important carrier of men and material from coast to coast; and

"Whereas it is common knowledge that the American railroads have been weakened by inroads upon their business and also by stringent regulations and increased cost of operations; and

"Whereas the Joint Committee on Defense Production, the Office of Civil and Defense Mobilization, has just told Congress that corrective transportation policies should now be adopted to improve their conditions; and

"Whereas the railroads must have adequate equipment to meet peace or wartime conditions: Now, therefore, be it

"Resolved by the House of Representatives of the 71st General Assembly of the State of Illinois, the senate concurring herein, That the President of the United States, the Congress of the United States, and the Interstate Commerce Commission are hereby requested to make, without undue delay, a careful appraisal of the railroads' problems, and take such steps as may be found necessary to strengthen them so that the Nation can have a strong and vital railroad system to meet the requirements of a sound economy and any national crisis that may arise; and be it further

"Resolved, That copies of this resolution and its preamble be transmitted by the secretary of state to the President of the United States, the Secretary of the U.S. Senate, the Clerk of the U.S. House of Representatives,

to each Member of the Illinois congressional delegation, and to the Interstate Commerce Commission.

"Adopted by the house, April 29, 1959.

"PAUL POWELL,

"Speaker, House of Representatives.

"CLARENCE BOYLE,

"Clerk, House of Representatives.

"Concurred in by the senate, May 6, 1959.

"JOHN WM. CHAPMAN,

"President of the Senate.

"EDWARD E. FERNANDES,

"Secretary of the Senate.

"Filed May 18, 1959.

"CHARLES F. CARFANTHIES,

"Secretary of State."

Resolutions adopted by the convention of District Grand Lodge No. 3, B'nai B'rith, relating to immigration and civil rights; to the Committee on the Judiciary.

A telegram in the nature of a petition from Julia R. Goodhart, of Chicago, Ill., relating to the actions of James Hoffa in the field of labor; to the Committee on Labor and Public Welfare.

RESOLUTIONS OF STATE AND NATIONAL AFFAIRS COMMITTEE OF ABILENE (KANS.) CHAMBER OF COMMERCE

Mr. SCHOEPEL, Mr. President, I present, for appropriate reference, and ask unanimous consent to have inserted in the body of the RECORD three resolutions which were adopted by the State and National Affairs Committee of the Abilene Chamber of Commerce, Abilene, Kans., at their meeting on April 30, 1959.

There being no objection, the resolutions were referred to the Committee on Labor and Public Welfare, and ordered to be printed in the RECORD, as follows:

RESOLUTION I

Your committee endorses and recommends to the board of directors of the Abilene Chamber of Commerce that said chamber go on record as being opposed to the Kennedy labor bill as passed by the U.S. Senate and as it will be proposed to the House of Representatives for passage by their body. Your committee further recommends that action be taken in this regard which will make known to the House Committee on Education and Labor that the Abilene Chamber of Commerce favors the Barden bills (H.R. 4473 and H.R. 4474) which contain effective remedial legislation beneficial to both employer and employee.

RESOLUTION II

Your committee endorses and recommends to the Abilene Chamber of Commerce that said body place itself on record as being opposed to any further extension or modification of the Fair Labor Standards Act so as to increase the minimum wage and/or extend the coverage of the minimum wage to occupations and industries not presently covered. Specifically your committee recommends opposition to S. 1046, sponsored by Senator KENNEDY, and H.R. 4488 sponsored by Representative ROOSEVELT.

RESOLUTION III

Your committee endorses and recommends opposition on the part of the Abilene Chamber of Commerce regarding proposed extension of Federal standards upon the States regarding the unemployment compensation program. It is the feeling of your committee that the various States are better able to know and meet the needs of the citizens of the States and that Federal intervention is neither justified nor desired.

REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. PASTORE, from the Committee on Appropriations, with amendments:

H.R. 5676. An act making appropriations for the government of the District of Columbia and other activities chargeable in whole or in part against the revenues of said District for the fiscal year ending June 30, 1960, and for other purposes (Rept. No. 304).

By Mr. ROBERTSON, from the Committee on Appropriations, with amendments:

H.R. 5805. An act making appropriations for the Treasury and Post Office Departments and the Tax Court of the United States for the fiscal year ending June 30, 1960, and for other purposes (Rept. No. 305).

By Mr. RUSSELL, from the Committee on Armed Services, without amendment:

H.R. 3292. An act to amend title 10, United States Code, to authorize the Secretary of the Navy to furnish supplies and services to foreign vessels and aircraft, and for other purposes (Rept. No. 307); and

H.R. 3366. An act to authorize the extension of loans of naval vessels to the Governments of Italy, Turkey, and the Republic of China (Rept. No. 308).

By Mrs. SMITH, from the Committee on Armed Services, without amendment:

S. 19. A bill to provide a method for regulating and fixing wage rates for employees of Portsmouth, N.H., Naval Shipyard (Rept. No. 306).

REPORT ON DISPOSITION OF EXECUTIVE PAPERS

Mr. JOHNSTON of South Carolina, from the Joint Select Committee on the Disposition of Papers in the Executive Departments, to which was referred for examination and recommendation a list of records transmitted to the Senate by the Archivist of the United States that appeared to have no permanent value or historical interest, submitted a report thereon, pursuant to law.

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. MURRAY:

S. 2023. A bill to provide for amendments to the compact between the people of Puerto Rico and the United States; and

S. 2024. A bill to provide for a Resident Commissioner from Guam and a Resident Commissioner from the Virgin Islands; to the Committee on Interior and Insular Affairs.

By Mr. CARLSON:

S. 2025. A bill to provide for the issuance of a special postage stamp in commemoration of the 50th anniversary of the Camp Fire Girls organization; to the Committee on Post Office and Civil Service.

By Mr. MUSKIE (for himself, Mr. HUMPHREY, Mr. ERVIN, Mr. CASE of New Jersey, Mr. MCCARTHY, Mr. HARTKE, and Mr. COOPER):

S. 2026. A bill to establish an Advisory Commission on Intergovernmental Relations; to the Committee on Government Operations.

(See the remarks of Mr. MUSKIE when he introduced the above bill, which appear under a separate heading.)

By Mr. LAUSCHE:

S. 2027. A bill for the relief of William James Harkins and Thomas Lloyd Harkins; and

S. 2028. A bill for the relief of Candace Elizabeth Lee Johnson (Kyung Hee Lee); to the Committee on the Judiciary.

By Mr. NEUBERGER:

S. 2029. A bill to authorize a per capita distribution of funds arising from a judgment in favor of the Confederated Tribe of Siletz Indians in the State of Oregon, and for other purposes; and

S. 2030. A bill to require the use of humane methods of trapping animals and birds on lands and waterways under the jurisdiction of the United States; to the Committee on Interior and Insular Affairs.

(See the remarks of Mr. NEUBERGER when he introduced the above bills, which appear under separate headings.)

By Mr. HUMPHREY (for himself and Mr. YOUNG of Ohio):

S. 2031. A bill to establish a Commission on Country Life, and for other purposes; to the Committee on Agriculture and Forestry.

(See the remarks of Mr. HUMPHREY when he introduced the above bill, which appear under a separate heading.)

By Mr. SPARKMAN:

S. 2032. A bill to amend the Small Business Act; to the Committee on Banking and Currency.

By Mr. BIBLE (for himself and Mr. CANNON):

S. 2033. A bill to amend the mining laws of the United States to provide for the inclusion of certain nonmineral lands in patents to placer claims; to the Committee on Interior and Insular Affairs.

By Mr. BIBLE:

S. 2034. A bill to amend the District of Columbia Income and Franchise Tax Act of 1947, as amended, to provide that certain additional specified officers of the executive branch of the Federal Government shall be exempt from such act; to the Committee on the District of Columbia.

By Mr. BIBLE (by request):

S. 2035. A bill authorizing persons maintaining or defending actions in the District of Columbia on behalf of a minor to give releases of liability, and requiring persons receiving money or property in settlement of such actions or in satisfaction of a judgment in any such action to be appointed as a guardian of the estate of such minor; to the Committee on the District of Columbia.

By Mr. MCCARTHY (for himself, Mr. CLARK, Mr. DOUGLAS, and Mr. PROXMIRE):

S. 2036. A bill to amend the Internal Revenue Code of 1954 to repeal provisions allowing credit against tax and exclusion from gross income for dividends received by individuals; to the Committee on Finance.

(See the remarks of Mr. MCCARTHY when he introduced the above bill, which appear under a separate heading.)

By Mr. PROXMIRE (for himself, Mr. DOUGLAS, Mr. CLARK, Mr. HUMPHREY, Mr. HENNING, Mr. MORSE, Mr. McNAMARA, Mr. LAUSCHE, Mr. CARROLL, and Mr. YOUNG of Ohio):

S. 2037. A bill to amend the Internal Revenue Code of 1954 to provide graduated rates of percentage depletion for oil and gas wells; to the Committee on Finance.

(See the remarks of Mr. PROXMIRE when he introduced the above bill, which appear under a separate heading.)

By Mr. PROXMIRE (for himself, Mr. DOUGLAS, Mr. CLARK, and Mr. MCCARTHY):

S. 2038. A bill to amend the Internal Revenue Code of 1954 to provide for withholding of tax at source on interest and dividends; to the Committee on Finance.

(See the remarks of Mr. PROXMIRE when he introduced the above bill, which appear under a separate heading.)

By Mr. CLARK (for himself, Mr. DOUGLAS, Mr. PROXMIRE, and Mr. MCCARTHY):

S. 2039. A bill to amend the Internal Revenue Code of 1954 to provide for additional

information on certain returns; to the Committee on Finance.

(See the remarks of Mr. CLARK when he introduced the above bill, which appear under a separate heading.)

By Mr. CLARK (for himself, Mr. DOUGLAS, Mr. PROXMIRE, Mr. MCCARTHY, and Mr. MUSKIE):

S. 2040. A bill to amend the Internal Revenue Code of 1954 to prohibit the deduction of certain expenditures as trade or business expenses; to the Committee on Finance.

(See the remarks of Mr. CLARK when he introduced the above bill, which appear under a separate heading.)

RESOLUTION

Mr. JAVITS submitted a resolution (S. Res. 123) prescribing rules for the standing, select, or special committees and subcommittees of the Senate, which was referred to the Committee on Rules and Administration.

(See the above resolution printed in full when submitted by Mr. JAVITS, which appears under a separate heading.)

ADVISORY COMMISSION ON INTER-GOVERNMENTAL RELATIONS

Mr. MUSKIE. Mr. President, one of the unique contributions which America has made to the art of government is the Federal system. It served, in the first instance, in the Constitutional Convention, as a practical compromise between those who believed in a strong central government and those who believed in a loose federation of autonomous States. It has served since that time as a practical means for governing a varied population spread out over a large land area. It is based on the premise that strong local self-government is essential in a democratic society. At the same time, it has enabled us to deal with the emerging problems of an increasingly complex industrial and urban society as we have realistically adjusted to the functions of each of the three levels of government to the nature and scope of the problems.

I happen to believe that a well-balanced Federal system is essential to broad-based participation by our citizens in the processes of government; and that such participation is a condition to the preservation of our democratic institutions. However, such a balance cannot remain static. The 19th century balance of functions as between the three levels of government would not work today. And tomorrow's balance will depend upon the problems with which we will find it necessary to deal.

Moreover, the three levels of government are not separate compartments insulated from each other. The problems with which each level is concerned, the services which each renders, are all part of our national economic, social, and political fabric. There are areas of exclusive jurisdiction by one level of government. There are areas of parallel activities. There are areas of cooperative effort.

The growth of our population, its increasing concentration in urban areas, the increasing complexity of our economy and our society as a result of the

industrial revolution, have inevitably resulted in the growth of government itself. The resulting regulatory activities and governmental services have developed within the framework of the Federal system and have accrued to various levels of government, in accordance with the pressures of varying times and circumstances.

The division of responsibilities thus gradually established has been the subject of scrutiny and controversy for the past half century. There are, of course, strongly held differences of opinion as to whether certain functions are assigned to the proper level of government. Notwithstanding these differences of opinion, and however they may be resolved, we face the fact that the Federal system is performing today's governmental chores and that it is not doing so in all instances as effectively and efficiently as it might. As I have said, this has been a subject of considerable study for some time. One such study was made by the Commission on Intergovernmental Relations, also known as the Kestnbaum Commission, which was established by the Congress in 1953 and which issued its final report in June 1955. That study was concerned chiefly with an evaluation of the philosophy and principles of federalism.

Another recent study, which is still in progress, is being conducted by the Joint Federal-State Action Committee which was organized pursuant to a recommendation by the President made to the Governors' conference on June 24, 1957. The express purpose of the Committee, made up of Governors and Federal officials, is to designate grant-aided functions which States are ready and willing to assume and to determine revenue adjustments needed to enable States to assume such functions.

A third study, conducted by the Intergovernmental Relations Subcommittee of the House Committee on Government Operations, under the chairmanship of Congressman L. H. FOUNTAIN, of North Carolina, has been giving particular attention to the report of the Kestnbaum Commission, giving special emphasis to the Federal grant-in-aid programs.

That subcommittee transmitted its excellent report to the House on August 8, 1958. The report concluded that it is now desirable to concentrate on the practical and continuing problem of seeking to improve the operation of our Federal system, and particularly the design and consistency of the innumerable Federal grants.

To provide an instrument for this purpose, I am today introducing, on behalf of myself and Senators HUMPHREY, ERVIN, CASE of New Jersey, MCCARTHY, HARTKE, and COOPER, a bill to establish an Advisory Commission on Intergovernmental Relations. The proposed Commission would not duplicate the work of either the Kestnbaum Commission or the Joint Federal-State Action Committee. Rather, it would serve as a central clearinghouse for information on all aspects of intergovernmental relations; it would serve as a forum for discussion of specific problems and particular programs;

it would give specialized attention, on a continuing basis, to particular inter-governmental problems with a view to promoting greater cooperation among the various levels of government and providing a systematic means for encouraging better relations among them. It would provide technical assistance and make recommendations as to the desirable allocation of government responsibilities and solving particular inter-governmental problems, with particular reference to emerging problems. It would undertake to review existing grant programs with a view to evaluation of their achievements and suggesting the directions in which they should move.

This bill is identical to H.R. 6904, which was introduced in the House by Representative FOUNTAIN and to a companion bill, H.R. 6905, which was introduced by Representative FLORENCE P. DWYER, the ranking minority member on the Fountain subcommittee.

The purpose of the bill, and the function of the proposed Commission, might be illustrated by brief reference to some of the specific problems which were pinpointed by the Fountain subcommittee in its report:

First. Because grant proposals have emerged from various and sundry sources, almost inevitably features have been adopted in individual programs which tend to weaken the grant structure as a whole.

Second. Features such as provision for judicial review of Federal administrative decisions and the degree of equalization contained in grant formulas vary considerably between grant programs.

Third. Increasingly, State per capita personal income is used as an element in grant formulas, and there appears to be a need for a reexamination of the soundness of such a criterion in terms of achieving program objectives.

Fourth. State and local officials ought to have specific information as to how proposed Federal aid programs could be expected to affect their States or localities.

Fifth. As consideration is given to new programs or the amendment of old programs, there is a need for some means of studying such proposals in the perspective of the whole grant system and of obtaining current information as to the needs and views of States and municipalities.

Sixth. There is a need for periodic review of grant programs in order to determine their accomplishments and the extent of unmet needs or to consider whether or not the programs should be continued.

Seventh. There is insufficient data available indicating the relative fiscal effort being made by States and localities in areas of present or proposed Federal grant programs.

Eighth. There is a wide variation in program practices and standards.

I would like to take this opportunity to commend the outstanding report of the Fountain subcommittee. My interest in the subject originates with my experiences as Governor of Maine and my firm conviction that effective and efficient government requires that we work

constantly in the job of improving relationships between the three levels of government.

Mr. President, I introduce the bill for appropriate reference and ask unanimous consent that the bill may be printed in the RECORD for the convenience of my colleagues, and that it be held at the desk for 1 week, for the purpose of giving other Senators an opportunity to cosponsor it if they so desire.

The VICE PRESIDENT. The bill will be received and appropriately referred; and, without objection, the bill will be printed in the RECORD, and will lie on the desk as requested by the Senator from Maine.

The bill (S. 2026) to establish an Advisory Commission on Intergovernmental Relations, introduced by Mr. MUSKIE (for himself and other Senators), was received, read twice by its title, referred to the Committee on Government Operations, and ordered to be printed in the RECORD, as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

SECTION 1. There is hereby established a permanent bipartisan commission to be known as the Advisory Commission on Intergovernmental Relations, hereinafter referred to as the "Commission".

DECLARATION OF PURPOSE

SEC. 2. Because the complexity of modern life intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government, and because population growth and scientific developments portend an increasingly complex society in future years, it is essential that an appropriate agency be established to give continuing attention to intergovernmental problems.

It is intended that the Commission, in the performance of its duties, will—

(1) bring together representatives of the Federal, State, and local governments for the consideration of common problems;

(2) provide a forum for discussing the administration and coordination of Federal grant and other programs requiring intergovernmental cooperation;

(3) give critical attention to the conditions and controls involved in the administration of Federal grant programs;

(4) make available technical assistance to the executive and legislative branches of the Federal Government in the review of proposed legislation to determine its overall effect on the Federal system;

(5) encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation; and

(6) recommend, within the framework of the Constitution, the most desirable allocation of governmental functions and responsibilities among the several levels of government.

MEMBERSHIP OF THE COMMISSION

SEC. 3. (a) The Commission shall be composed of twenty-four members, as follows:

(1) Six appointed by the President of the United States, three of whom shall be officers of the executive branch of the Government, and three private citizens, all of whom shall have had experience or familiarity with relations between the levels of government;

(2) Three appointed by the President of the Senate, who shall be Members of the Senate;

(3) Three appointed by the Speaker of the House of Representatives, who shall be Members of the House;

(4) Four appointed by the President from a panel of at least six Governors submitted by the Governors' conference;

(5) Three appointed by the President from a panel of at least five members of State legislative bodies submitted by the board of managers of the Council of State Governments;

(6) Four appointed by the President from a panel of at least six mayors submitted jointly by the American Municipal Association and the United States Conference of Mayors;

(7) One appointed by the President from a panel of at least two elected county officers submitted by the National Association of County Officials.

(b) The members appointed from private life under paragraph (1) of subsection (a) shall be appointed without regard to political affiliation; of each class of members enumerated in paragraphs (2) and (3) of subsection (a), two shall be from the majority party of the respective houses; of each class of members enumerated in paragraphs (4), (5), and (6) of subsection (a), not more than two shall be from any one political party; of each class of members enumerated in paragraphs (5) and (6) of subsection (a), not more than one shall be from any one State; at least two of the appointees under paragraph (6) of subsection (a) shall be from cities under five hundred thousand population.

(c) The term of office of each member of the Commission shall be two years, but members shall be eligible for reappointment.

ORGANIZATION OF THE COMMISSION

SEC. 4. (a) The President shall convene the Commission within ninety days following enactment of this Act at such time and place as he may designate for the Commission's initial meeting. The President, or his designee, shall serve as the Commission's temporary Chairman pending the election of a permanent Chairman.

(b) The Commission shall elect a Chairman and a Vice Chairman from among its members.

(c) Any vacancy in the membership of the Commission shall be filled in the same manner in which the original appointment was made; except that where the number of vacancies is fewer than the number of members specified in paragraphs 4, 5, and 6 of section 3(a), each panel of names submitted in accordance with the aforementioned paragraphs shall contain at least one name more than the number of vacancies.

(d) Where any member ceases to serve in the official position from which originally appointed under section 3(a), his place on the Commission shall be deemed to be vacant.

(e) Twelve members of the Commission shall constitute a quorum, but two or more members shall constitute a quorum for the purpose of conducting hearings.

DUTIES OF THE COMMISSION

SEC. 5. It shall be the duty of the Commission—

(1) to engage in such activities and to make such studies and investigations as are necessary or desirable in the accomplishment of the purposes set forth in section 2 of this Act;

(2) to consider, on its own initiative, ways and means for fostering better relations between the levels of government;

(3) to submit an annual report to the President and the Congress on or before January 31 of each year. The Commission may also submit such additional reports to the President, to the Congress or any committee of the Congress, and to any unit of government or organization as the Commission may deem appropriate.

POWERS AND ADMINISTRATIVE PROVISIONS

SEC. 6. (a) The Commission or, on the authorization of the Commission, any subcommittee or members thereof, may, for the purpose of carrying out the provisions of this Act, hold such hearings, take such testimony, and sit and act at such times and places as the Commission deems advisable. Any member of the Commission may administer oaths or affirmations to witnesses appearing before the Commission or any subcommittee or members thereof.

(b) Each department, agency, and instrumentality of the executive branch of the Government, including independent agencies, is authorized and directed to furnish to the Commission, upon request made by the Chairman or Vice Chairman, such information as the Commission deems necessary to carry out its functions under this Act.

(c) The Commission shall have power to appoint, fix the compensation of, and remove a staff director without regard to the civil service laws and the Classification Act of 1949. Such appointment shall be made solely on the basis of fitness to perform the duties of the position and without regard to political affiliation.

(d) Subject to such rules and regulations as may be adopted by the Commission, the Chairman, without regard to the civil service laws and the Classification Act of 1949, and without reference to political affiliation, shall have the power—

(1) to appoint, fix the compensation of, and remove such other personnel as he deems necessary,

(2) to procure temporary and intermittent services to the same extent as is authorized by section 15 of the Administrative Expenses Act of 1946 (5 U.S.C. 55a) but at rates not to exceed \$50 a day for individuals.

(e) Except as otherwise provided in this Act, persons in the employ of the Commission under subsections (c) and (d) (1) of this section shall be considered to be Federal employees for all purposes, including—

(1) the Civil Service Retirement Act, as amended (5 U.S.C. 2251-2267),

(2) the Federal Employees' Group Life Insurance Act of 1954, as amended (5 U.S.C. 2091-2103),

(3) annual and sick leave, and

(4) the Travel Expense Act of 1949, as amended (5 U.S.C. 835-842).

(f) No individual employed in the service of the Commission shall be paid compensation for such employment at a rate in excess of \$20,000 per annum.

COMPENSATION OF COMMISSION MEMBERS

SEC. 7. (a) Members of the Commission who are Members of Congress, officers of the executive branch of the Federal Government, Governors, or full-time salaried officers of city and county governments shall serve without compensation in addition to that received in their regular public employment, but shall be allowed necessary travel expenses, including subsistence (or, in the alternative, a per diem in lieu of subsistence not to exceed the rate prescribed in the Travel Expense Act of 1949, as amended), without regard to the Travel Expense Act of 1949, as amended (5 U.S.C. 835-842), the Standardized Government Travel Regulations, or section 10 of the Act of March 3, 1933 (5 U.S.C. 73b), and other necessary expenses incurred by them in the performance of duties vested in the Commission.

(b) Members of the Commission, other than those to whom subsection (a) is applicable, shall receive compensation at the rate of \$50 per day for each day they are engaged in the performance of their duties as members of the Commission and shall be entitled to reimbursement for travel, subsistence, and other necessary expenses incurred by them in the performance of their duties as members of the Commission, as provided for in subsection (a) of this section.

AUTHORIZATION OF APPROPRIATIONS

SEC. 8. There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

Mr. CASE of New Jersey. Mr. President, I am indeed pleased to join the distinguished junior Senator from Maine [Mr. MUSKIE] and other Senators on both sides of the aisle in sponsoring a bill to establish a permanent Advisory Commission on Intergovernmental Relations. Identical bills have been introduced in the House of Representatives by Representative L. H. FOUNTAIN, chairman of the Intergovernmental Relations Subcommittee of the House Government Operations Committee, and Representative FLORENCE P. DWYER, the ranking minority member on the subcommittee.

Incidentally, Representative DWYER is the occupant of the seat which I held for a number of years in the House, and which, after me, was held by my colleague, the distinguished junior Senator from New Jersey [Mr. WILLIAMS].

For many years the need for continuing attention to the problems of intergovernmental relationships has been widely recognized. Under our Federal system the interrelation of Federal, State, and local governmental units has presented, throughout our history, problems of great magnitude. The rapid growth of grants-in-aid and other cooperative programs in recent decades has only served to increase the complexity of these problems.

In an effort to evaluate and improve the numerous activities pertaining to intergovernmental relations, a number of excellent studies have been made in the past on the subject, notably by the first Hoover Commission and the well-known Commission on Intergovernmental Relations. More recently, the House Committee on Government Operations completed an intensive 3-year survey throughout the country drawing together information and suggestions from officials at all levels of government.

As a result of these studies, both the Hoover Commission and the House Committee on Government Operations have recommended the establishment of a continuing agency or commission on Federal-State relations with primary responsibility for study, information, and guidance in this field.

The bill which I am pleased to co-sponsor today, as well as the identical bills already introduced in the House, is a direct outgrowth of this recommendation.

In my opinion, the establishment of a permanent Advisory Commission on Intergovernmental Relations would be a significant step forward in the improvement of our Federal system. Our Federal system cannot function properly if the States and their subdivisions lose their will and capacity to cope with problems traditionally within their purview. By finding better and more efficient methods of administering and controlling cooperative programs between the various levels of Government, the proposed Commission would do much to preserve the health of our States and to insure the continued vitality of our Federal system.

PER CAPITA DISTRIBUTION OF CERTAIN INDIAN FUNDS

Mr. NEUBERGER. Mr. President, I introduce a bill providing for the per capita distribution of funds arising from a judgment in favor of the Confederated Tribe of Siletz Indians in the State of Oregon, and I ask that it be appropriately referred.

In 1959 Congress appropriated in a supplemental appropriation bill a sum of \$416,240.85, which represented the recovery made by the Siletz Indians before the Indian Claims Commission for inadequate compensation paid them for lands taken under an 1892 agreement with the United States.

Congress enacted a statute in 1954 providing for the termination of Federal supervision and control over certain tribes in Oregon, including the Confederated Tribe of Siletz Indians. Section 3 of the 1954 act prescribed that a final roll would be prepared containing the names of all tribal members living on the date of the act. That roll was used for the purpose of distributing tribal assets. The bill which I have introduced would provide for the distribution of the judgment fund on the basis of this already prepared tribal roll.

The PRESIDING OFFICER (Mr. MUSKIE in the chair). The bill will be received and appropriately referred.

The bill (S. 2029) to authorize a per capita distribution of funds arising from a judgment in favor of the confederated tribe of Siletz Indians in the State of Oregon, and for other purposes, introduced by Mr. NEUBERGER, was received, read twice by its title, and referred to the Committee on Interior and Insular Affairs.

HUMANE METHODS OF TRAPPING ANIMALS AND BIRDS ON CERTAIN LANDS AND WATERS

Mr. NEUBERGER. Mr. President, I introduce, for appropriate reference, a bill to prohibit the use of inhumane traps for the capture of animals or birds on the lands and waters belonging to, or under the jurisdiction of, the United States of America.

Representative BROOMFIELD, of Michigan, has introduced a companion measure in the other body.

Although trapping no longer plays so significant a role in our economy as it did in the early days of our history, it is, nevertheless, still a substantial industry. It is, therefore, I believe, one of the most unhappy anachronisms of our modern, comfortable civilization that the primitive, cruel, trapping practices of the last century are still in use today.

I have myself seen wild animals exhausted from battling the steel jaws of a relentless leg-hold trap. I have snowshoed over a trap route and seen animals which tried to gnaw off their paws to escape the agony of the traps. Many animals fracture a leg or a bone in these cruel devices. They are held there struggling, often for hours or even days, before being found and killed.

Last year we passed legislation to bring about more humane practices to our

slaughterhouses. We found, in considering the humane slaughter bill, that the technology which has given us push-button automobile transmissions and color television can indeed provide us with civilized means for the necessary slaughter of our food animals. The same wonders of modern technology can give us humane methods of trapping.

In the 2 years since my humane trapping bill was first introduced, amateur and professional trappers have carried on extensive testing, and manufacturers have devoted considerable effort to perfecting of traps which capture animals painlessly or kill them instantaneously. Game commissions and departments of conservation in the various States have conducted many days of field tests with several types of humane traps. The Defenders of Furbearers, a nonprofit organization, has rendered a splendid service in distributing these traps for testing and in compiling results of the tests.

The results of these tests, Mr. President, are most encouraging. Not only do the traps capture the animals with less cruelty, they are also less damaging to the valuable pelts which are sought. Consequently, humane societies and trappers alike have been enthusiastic in their support of the new traps.

My bill proposes only that traps used within the jurisdiction of the United States must either capture animals painlessly or kill them instantly, and that the traps must be inspected and emptied at least once a day. The Secretary of the Interior would have authority to conduct necessary tests and establish necessary standards to give specific application to the objectives of the bill. Violations would be punishable by fines up to \$500 or prison sentences up to 6 months.

Such legislation would update commercial trapping practices from primitive cruelty to humaneness consistent with American moral standards of the 20th century.

In conclusion, I ask unanimous consent that the text of the bill be printed in the RECORD.

The PRESIDING OFFICER. The bill will be received and appropriately referred; and, without objection, the bill will be printed in the RECORD.

The bill (S. 2030) to require the use of humane methods of trapping animals and birds on lands and waterways under the jurisdiction of the United States, introduced by Mr. NEUBERGER, was received, read twice by its title, referred to the Committee on Interior and Insular Affairs, and ordered to be printed in the RECORD, as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 41 of title 18 of the United States Code is amended by placing the prefix "(a)" before the present section, and by adding at the end thereof the following new subsection:

"(b) (1) Any person who, upon any land or waters owned by or under the jurisdiction of the United States, places or causes to be placed any trap, snare, net or other device designed to trap or capture any animal or bird in any manner by which the animal or bird is not either captured painlessly or killed instantly, or who, having placed a trap, snare, net or other device, fails to inspect and

empty it at least once every twenty-four hours, shall be fined not more than \$500 or imprisoned not more than six months, or both.

"(2) The Secretary of the Interior is authorized to conduct such tests and to promulgate such standards, rules, and regulations as he may deem necessary to the execution of this subsection.

"(3) No provision of this subsection shall apply in any case in which its application would be contrary to any treaty obligation of the United States to any Indian in effect on the date of enactment of this section."

Sec. 2. The provisions of this Act shall become effective on January 1, 1960.

COMMISSION ON COUNTRY LIFE

Mr. HUMPHREY. Mr. President, on behalf of the Senator from Ohio [Mr. Young], and myself, I introduce, for appropriate reference, a bill to establish a Commission on Country Life.

We all realize that we live in an age of tremendous technological and social changes. Since World War II there have been few areas of our lives untouched by new and sometimes revolutionary advances. These changes have resulted from the outpouring of money and time and scientific devotion to basic and applied research in the fields of science and medicine; manufacturing, and industrial processes; in almost everything that touches our daily lives. In all of these realms, research established the facts upon which to base plans and experiments and growth.

As our cities have grown in response to industrial growth, the increasing population has pushed out into suburbs. Industry itself has in many cases moved from congested metropolitan areas into the surrounding countryside. The expanding network of superhighways that shrinks distances has played an important role in this dispersal of population and industry.

We must remember that more is concerned here than just the financial or convenience values resulting from this decentralization and change. We are concerned with the impact of these things on people. The urbanization of rural areas within a brief time period confronts us with many new human problems. In our rural areas, both the expansion and the shifting of population affect seriously the local institutions. In some States new ghost towns are appearing. These are communities which now find themselves bypassed because new highways induce the residents, both rural and suburban, to travel to other community centers which have developed to fit the changing needs of the people.

Some changes in the rural picture have resulted in improvements; some have brought about pockets of economic stagnation; and all have had an effect, for good or ill, on the people and their institutions—the business community, the churches, the schools, the recreational opportunities, the health facilities, and local governments. In many cases, the average age level of a rural community's population has changed drastically. In some there are demands for new schools to fill the needs of an expanding school-age population. In oth-

ers, the need is for the consolidation of existing schools, possibly over a wide area, in order to attain the best academic training with the funds available. Some communities are faced with an aging, low-income population which poses special health, recreation, and institutional problems. Churches are confronted with new problems and responsibilities as populations shift and communities change.

The falling farm prices and reduced farm income experienced by family farmers in these past few years have posed special problems for this group. The bare census statistic that there are 800,000 fewer farms in 1959 than there were in 1952 does not by any means give a picture of what this shift means in terms of people and the kinds of lives they live. It means that more and more farmers, and their boys and girls, have left the land and moved to the cities. When they move from low income farming areas where facilities for individual development have been few, they may be inadequately trained in vocational skills to enable them to meet the challenges of new modes of life in ways that will improve their standard of living. Accelerated programs of vocational training are badly needed by these young people.

Of the 4,600,000 families still remaining on the farm, almost one-third have cash incomes from all sources of less than \$1,200 a year. We need farm policies and programs designed to improve the lot of this group as well as improved farm legislation to better the income situation of all commercial family farms. Low farm income is not a symptom of inefficiency; it is an evidence of lack of opportunity.

Some rural communities and their institutions may be able to face up to and solve the evolving problems, but anything that is accomplished is done on a haphazard, catch-as-catch-can basis. Secretary of Agriculture Benson's rural development program, while based on a worthy principle, is a hesitant and severely limited approach to an area where much coordinated research and planning are needed.

Our first move should be to establish the facts regarding these rural communities so that intelligent plans for the future can be made—the best social good must be established as a goal, and steps taken to see that community life develops along lines that have a reasonable chance of reaching that goal.

To do this we must turn to that excellent tool of all science, research. This bill which Senator Young and I are sponsoring asks for the establishment of a Country Life Commission, an independent group charged with the responsibility of delineating and giving direction to the task of planning a fact-finding study of country life.

This Commission, as proposed in this bill, would consist of 15 members. I would anticipate that these members would be selected because of their broad understanding of every important phase of rural life. Of special significance would be their knowledge of the changes which are affecting the rural institutions which have been the mainsprings of our

rural culture. I would envisage that rural sociologists and religious leaders and businessmen would play important roles in planning the scope and direction of this study. Differing sections of the Nation would need to be studied and analyzed. The members of the Country Life Commission would set the guidelines; the actual studies then might well be conducted by the State universities and agricultural colleges.

There is an honorable and historic precedent for such a Country Life Commission. It was 51 years ago that President Theodore Roosevelt established such a Commission. Those who have read the three books which came out of that first country life study testify that the information set forth was of exceedingly great value for many, many years.

Mr. President, we need all the light we can get on the present conditions and possible future trends of rural life if the family farmers of America are going to have the chance to adjust to the changing times and share fairly in the expanding opportunities of our time.

The PRESIDING OFFICER. The bill will be received and appropriately referred.

The bill (S. 2031) to establish a Commission on Country Life, and for other purposes, introduced by Mr. HUMPHREY (for himself and Mr. YOUNG of Ohio), was received, read twice by its title, and referred to the Committee on Agriculture and Forestry.

RULES OF PROCEDURE FOR SENATE COMMITTEES

Mr. JAVITS. Mr. President, I submit, for appropriate reference, a resolution to establish uniform rules of procedure for Senate committees including several new rules dealing with their conduct of investigations.

The major new procedural rules called for in my resolution would provide:

First. Every witness shall be informed of the subject matter of the investigation in which he is called to testify by a Senate committee prior to his appearance.

Second. No committee investigation can be initiated unless specifically authorized by the Senate or by a majority of the standing, select, or special committee having jurisdiction.

Third. All testimony shall be given under oath or affirmation, thus making witnesses who give false evidence subject to prosecution for perjury.

Fourth. A majority of the committee shall decide whether to accede to a witness' request that television, movie, or other cameras and lights shall not be directed at him during his testimony.

Fifth. Evidence exposing the commission of Federal crimes shall be brought to the attention of the appropriate Federal law enforcement agencies by the committee chairman or a designated member—this rule shall be supervised by the Presiding Officer of the Senate and the Senate Committee on Rules and Administration.

Sixth. Only evidence of probative value shall be received and considered by

the committee which shall scrupulously observe the privileged character of communications between clergyman and parishioner, doctor and patient, lawyer and clients, and husband and wife.

The resolution contains one key addition which is an adaptation of part of existing House committee procedure combined with totally new provisions to help safeguard the reputation of any person identified by name in testimony before a committee, or adverse comment made by a committee member or its counsel. Any such individual would be entitled to make as part of the hearing record a sworn statement filed with the committee. With majority approval of the committee, he could testify in person, and under the same provision he could put to those witnesses whose testimony adversely affected him, through the committee counsel, a series of relevant questions and also request the committee to summon a reasonable number of witnesses to testify on his behalf.

The proposed amendment to Senate rule XXV would also make several rules of House committees apply to Senate committee procedures including: First, that the evidence which the committee seeks to elicit from witnesses shall be relevant to the subject of the investigation as it has been set forth prior to the start of the hearings; second, the right of a witness to be accompanied by counsel of his own choosing; and third, that a brief explanation of a "yes" or "no" answer be allowed each witness either orally or by written statement.

I share with so many of my colleagues grave concern over the failure of the Senate to adopt uniform rules of procedure for its standing committees, including rules which will spell out the rights, privileges and obligations of witnesses testifying during their hearings. During the 84th and 85th Congresses, major legislation to fill this gap was introduced by several Senators, including Senators HENNING, JENNER, WATKINS, BUSH, KUCHEL, and myself, to enable the Senate to fulfill its responsibility to establish reasonable and fair rules governing the activities of its own committees to ensure that their essential legislative work will proceed fairly and effectively.

In the past decade, there have been repeated instances in which the reputation of individual witnesses and the progress of committee investigations have been jeopardized because insufficient safeguards of fair procedure governed the work of standing Senate committees. There have been 15 cases in the Federal courts since 1949 in which the pertinency of questions asked witnesses before a congressional investigating committee was the issue, with three of these going up to the Supreme Court. In at least 9 of these 15 instances, the contention of the witness was upheld including the Supreme Court decision in 1957 on the Watkins case involving testimony before the House Un-American Activities Committee. This case and the opinion rendered were later referred to in another decision in 1958 when the Supreme Court ruled in the case of Harry Sacher, a witness before the Senate's Internal Security Subcommittee,

that the indictment against Sacher must be dismissed on the grounds that his refusal to answer related to questions which were clearly not pertinent to the subject. Once more, a Supreme Court decision substantiated the vital need to amend committee procedures in the Senate where at present no set rule on the subject of pertinency exists.

While adapting the present House rule that the evidence elicited relevant to the subject of any investigation as originally stated before the commencement of hearings, my resolution would also require in just so many words that "the subject matter of the investigation in which he is called to testify shall be stated to each witness prior to his appearance." The other new rules allowing individuals through the committee counsel to, in effect, cross-examine witnesses or committee members who have given adverse testimony about them and to offer character witnesses should go a long way to dispel the doubt about the ability of a witness wishing to do so to defend his character.

The work of Senate investigating committees continually affects the prestige of the Senate. Our experiences range all the way from the storm over the Norman case in which a Canadian diplomat was found dead shortly after the release of unfavorable testimony about him by the Senate's Internal Security Subcommittee to the attacks on the Senate's Select Committee on Improper Activities in the Labor or Management Field which has done such a distinguished job under Senator McCLELLAN's chairmanship.

It is dangerous to its functions and responsibility for the Senate to go on living on borrowed time in respect to this matter and I earnestly hope that this session will see the adoption of critically important amendments to rule XXV governing the procedures of standing Senate committees.

The PRESIDING OFFICER. The resolution will be received and appropriately referred.

The resolution (S. Res. 123), submitted by Mr. JAVITS, was referred to the Committee on Rules and Administration, as follows:

Resolved, That rule XXV of the Standing Rules of the Senate is amended by inserting at the end thereof the following:

"5. The following shall be the rules of the standing select or special committees of the Senate and subcommittees thereof, and the term "committee" as used in any part of this subsection except paragraph (b) shall mean any such committee or subcommittee:

"(a) Each standing committee of the Senate (except the Committee on Appropriations) shall fix regular weekly, biweekly, or monthly meeting days for the transaction of business before the committee. Additional meetings may be called by the chairman as he may deem necessary.

"A majority of the members of a committee may call a special meeting of such committee by filing a notice thereof with the committee clerk, who shall notify each member.

"No standing committee of the Senate shall sit, without special leave, while the Senate is in session.

"(b) A subcommittee of any committee shall be established only by a majority vote of the entire membership of such committee.

"(c) Each committee shall keep a complete record of all committee action, including a record of the votes on any question on which a record vote is demanded.

"(d) In any case in which a controversy arises as to the jurisdiction of any standing committee of the Senate with respect to any proposed legislation, the question of jurisdiction shall be decided by the presiding officer of the Senate, without debate, in favor of that committee which has jurisdiction over the subject matter which predominates in such proposed legislation; but such decision shall be subject to an appeal.

"(e) It shall be the duty of the chairman of each such committee to report or cause to be reported promptly to the Senate, any measure approved by his committee and to take or cause to be taken such steps as shall be necessary to bring the matter to a vote.

"(f) Each committee of the Senate, including any subcommittee of any such committee, is authorized to hold such hearings, to sit and act at such times and places during the sessions, recesses, and adjourned periods of the Senate, to require by subpoena or otherwise the attendance of such witnesses and the production of such correspondence, books, papers, and documents, to take such testimony and to make such expenditures (not in excess of \$10,000 for each committee during any Congress) as it deems advisable. Each such committee may make investigations into any matter within its jurisdiction, may report such hearings as may be held by it, and may employ stenographic assistance at a cost not exceeding 25 cents per hundred words. The expenses of the committee shall be paid from the contingent fund of the Senate on vouchers approved by the chairman.

"(g) All hearings conducted by committees or their subcommittees shall be open to the public, except executive sessions for marking up bills or for voting or where the committee by a majority vote orders an executive session.

"(h) No committee investigation shall be initiated unless specifically authorized by the Senate or by a majority of the standing, select or special committee having jurisdiction. Preliminary inquiries may be initiated by the committee staff with the approval of the chairman of the committee. The chairman of each committee shall from time to time and at the earliest practicable date report to the Senate the general nature of any inquiry or investigation the committee proposes to undertake, or, in any case in which he deems the national security might be endangered by such report, he shall advise the President of the Senate in writing of that fact.

"(i) The subject of any investigation in connection with which witnesses are summoned shall be clearly stated before the commencement of any hearings, and the evidence sought to be elicited shall be relevant to the subject as so stated.

"(j) Each committee conducting investigations shall make available to interested persons copies of the rules applicable therein.

"(k) The authority to issue subpoenas or otherwise to require the attendance of witnesses or the production of documentary material may be delegated by majority vote of any committee to the chairman or to any member.

"(l) No testimony shall be taken in executive or public session unless at least two members of the committee are present, unless the full committee, by majority vote, may authorize the taking of testimony by a single member. A witness may waive any objection to testifying before one member.

"(m) The subject matter of the investigation in which he is called to testify shall be stated to each witness prior to his appearance.

"(n) All testimony shall be given under oath or affirmation.

"(o) The interrogation of witnesses at committee hearings shall be conducted on behalf of the committee only by members and authorized staff personnel.

"(p) Witnesses at committee hearings (whether public or in executive session) shall have the right to be accompanied by counsel of their own choosing, who shall have the right to advise witnesses of their legal rights and to make objections concerning the relevancy of questions and to matters of procedure, as well as to submit legal memoranda in support of their objections. A witness may be deemed to have waived this right if, after receiving timely notice of his appearance, he fails to provide himself with counsel.

"(q) Rulings on motions or objections shall be made by the member presiding, subject to appeal to the members present on motion of a member.

"(r) It is the policy of the Senate that only evidence which is of probative value shall be received and considered by a committee. The privileged character of communications between clergyman and parishioner, doctor and patient, lawyer and client, and husband and wife shall be properly observed.

"(s) No testimony taken or material presented in an executive session shall be released or used in public session, either in whole or in part or by way of summary unless authorized by a majority of the committee.

"(t) Witnesses shall be permitted brief explanations of affirmative or negative responses, and may submit a concise, pertinent, oral, or written statement.

"(u) Witnesses shall be required insofar as practicable to submit written statements of their proposed testimony in advance of the hearing at which they testify.

"(v) A stenographic verbatim transcript shall be made of all committee hearings. Copies of such transcript, insofar as practicable, shall be available for inspection or purchase at regularly prescribed rates from the official reporter by any witness or person mentioned at a public hearing. Any witness or his counsel shall have the right to inspect only the complete transcript of his own testimony in executive session.

"(w) A witness may request, on grounds of distraction, harassment, physical discomfort, or physical handicap, that during his testimony television, motion picture, or other cameras and lights shall not be directed at him; such request shall be granted or refused by a majority of the committee.

"(x) Any person who is identified by name in a public session before the committee or in executive testimony subsequently made public and who has reasonable grounds to believe that testimony or other evidence given in such session, or comment made by any member of the committee or its counsel, tends to affect his reputation adversely, shall be afforded the following privileges:

"1. To file with the committee a sworn statement, of reasonable length, concerning such testimony, evidence, or comment, which shall be made a part of the record of such hearing.

"2. To appear personally before the committee and testify in his own behalf, unless the committee by a majority vote shall determine otherwise.

"3. Unless the committee by a majority vote shall determine otherwise, to have the committee secure the appearance of witnesses whose testimony adversely affected him, and to submit to the committee written questions to be propounded by the committee or its counsel to such witnesses. Such questions must be proper in form and material and relevant to the matters alleged to have adversely affected the person claiming

this privilege. The committee reserves the right to determine the length of such questioning; and no photographs, moving pictures, television, or radio broadcasting of the proceedings shall be permitted while such person or such witness is testifying without the consent of such person or witness unless the committee by majority vote specifically determines otherwise.

"4. To have the committee call a reasonable number of witnesses in his behalf, if the committee by a majority vote determines that justice requires such action.

"(x) The chairman or a member designated by him shall consult with appropriate Federal law-enforcement agencies with respect to any phase of any investigation which may result in evidence exposing the commission of Federal crimes, and the results of such consultation shall be reported to the committee before witnesses are called to testify thereon.

"(y) The application of this rule shall be supervised in the Senate by the Presiding Officer of the Senate and the Senate Committee on Rules and Administration, which shall, in addition to the authority set out in subsection 1(o) of these rules, have the authority to (1) receive and investigate complaints of alleged violations of the rule filed by persons claiming to be aggrieved or by members; (2) to advise committee chairmen of their conclusions and their suggestions; and (3) to present their findings to the Senate with such recommendations for remedial or disciplinary action, if any, as they deem appropriate.

"(z) Committees may adopt additional rules not inconsistent with the rules of the Senate."

STRENGTHENING OF WHEAT MARKETING QUOTA AND PRICE SUPPORT PROGRAM—AMENDMENTS

Mr. HUMPHREY submitted an amendment, intended to be proposed by him, to the bill (S. 1968) to strengthen the wheat marketing quota and price support program, which was ordered to lie on the table and to be printed.

Mr. DIRKSEN submitted an amendment, in the nature of a substitute, intended to be proposed by him, to Senate bill 1968, supra, which was ordered to lie on the table and to be printed.

AUTHORITY FOR COMMITTEE ON APPROPRIATIONS TO REPORT DURING ADJOURNMENTS OR RECESSES OF THE SENATE

Mr. HAYDEN. Mr. President, I ask unanimous consent that during adjournments or recesses of the Senate during the 1st session of the 86th Congress, the Committee on Appropriations be, and it is hereby, authorized to report appropriation bills, including joint resolutions, with accompanying notices of motions to suspend paragraph 4 of rule 16 for the purpose of offering certain amendments to such bills or joint resolutions, which proposed amendments shall be printed.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Arizona? The Chair hears none, and it is so ordered.

ADDRESSES, EDITORIALS, ARTICLES, ETC., PRINTED IN THE RECORD

On request, and by unanimous consent, addresses, editorials, articles, etc.,

were ordered to be printed in the RECORD, as follows:

By Mr. ENGLE:

Address prepared by Senator HUMPHREY for delivery to the California Legislature.

By Mr. SCHOEPEL:

Transcript of proceedings at dinner in honor of George E. Stringfellow, imperial potentate of the Shrine of North America, at Washington, D.C., on March 9, 1959.

By Mr. JAVITS:

Article entitled "Plan To Aid Our Lagging Culture," written by Senator JAVITS, and published in the New York Times magazine on April 5, 1959.

NOTICE OF HEARING ON SENATE JOINT RESOLUTION 57

Mr. KEFAUVER. Mr. President, the Subcommittee on Constitutional Amendments held hearings last week on Senate Joint Resolution 32, proposing an amendment to the Constitution, which was introduced by the junior Senator from Georgia [Mr. TALMADGE] for himself and eight other Senators. During those hearings we were able to take the testimony of every witness who asked to be heard, except for the junior Senator from Mississippi [Mr. EASTLAND], one of the resolution's cosponsors.

Under unanimous consent previously granted, there will be a meeting of the subcommittee this afternoon at 2:30 p.m., in room 2228 of the New Senate Office Building for the purpose of taking the testimony of the junior Senator from Mississippi. At that time we will close these hearings, although the record will be held open for a few days to receive additional written statements.

Mr. President, one of the witnesses on Senate Joint Resolution 32 was the senior Senator from New York [Mr. JAVITS], who is the author of Senate Joint Resolution 57, which is cosponsored by a number of Senators on both sides of the aisle. This joint resolution embodies a proposed amendment with respect to the appellate jurisdiction of the Supreme Court on constitutional questions.

When he testified on Senate Joint Resolution 32, the senior Senator from New York stated he believed that he and the other cosponsors of Senate Joint Resolution 57 were as entitled to hearings as were the sponsors of Senate Joint Resolution 32. I informed him at that time that the Subcommittee on Constitutional Amendments attempts to give a hearing to any Senator or Senators on their proposals which have been referred to the subcommittee. I told the senior Senator from New York, further, that if he would make his request in writing we would give him every possible consideration. He has now made such a request to the chairman of the full Judiciary Committee and to me as chairman of the Subcommittee on Constitutional Amendments.

It will not be possible to have complete and thorough hearings on Senate Joint Resolution 57 at this time. However, the hearings will begin on May 28, 1959, in room 2228 of the New Senate Office Building at 10:30 a.m. On that day we will hear as many witnesses as possible; the hearings will then be recessed until a later date which will be announced.

I ask unanimous consent that a copy of the joint resolution be printed in the RECORD at this point.

There being no objection, the joint resolution (S. J. Res. 57) was ordered to be printed in the RECORD, as follows:

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of each House concurring therein), That the following article is hereby proposed as an amendment to the Constitution of the United States, which shall be valid to all intents and purposes as part of the Constitution when ratified by the legislatures of three-fourths of the several States:

"ARTICLE—

"SECTION 1. In all cases affecting ambassadors, other public ministers and consuls, and those in which a State shall be party, the Supreme Court shall have original jurisdiction. In all cases arising under this Constitution the Supreme Court shall have appellate jurisdiction, both as to law and fact. In all other cases mentioned in the first paragraph of section 2 of article III of this Constitution, subject to article XI of the amendments to this Constitution, the Supreme Court shall have appellate jurisdiction, both as to law and fact, with such exceptions, and under such regulations, as the Congress shall make.

"Sec. 2. The second paragraph of section 2 of article III of this Constitution is hereby repealed.

"Sec. 3. This article shall be inoperative unless it shall have been ratified as an amendment to the Constitution by the legislatures of three-fourths of the several States within seven years from the date of its submission to the States by the Congress."

NOTICE OF CONSIDERATION OF CERTAIN NOMINATIONS REFERRED TO THE COMMITTEE ON FOREIGN RELATIONS

Mr. FULBRIGHT. Mr. President, as chairman of the Committee on Foreign Relations, I desire to announce that the Senate today received the nomination of John M. Cabot, of the District of Columbia, a Foreign Service officer of the class of career minister, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to Brazil, and the nominations of 70 others for appointment to the Foreign Service.

In accordance with the committee rule, the pending nominations may not be considered prior to the expiration of 6 days.

THE SECONDARY BOYCOTT

Mr. CURTIS. Mr. President, "above the law," Jimmy Hoffa is reported to have said in reference to the passage by Congress of restrictive labor laws, "they talk about a secondary boycott. We can call a primary strike all across the Nation that will straighten out the employers once and for all."

Mr. President, the secondary boycott is economic blackmail. Next to violence it is the worst form of economic warfare. The late Senator Taft said there was no such thing as a good secondary boycott.

Mr. President, we should make no apology for the principle of equality before the law. If it is wrong for com-

petitors and others to boycott a concern out of business and destroy him, it should be wrong for union bosses to do the same thing. Those of us who have advocated the outlawing of secondary boycott have not advocated harsh or punitive measures directed against unions. We have merely taken the position that all segments of our economy should be treated alike.

Mr. President, Jimmy Hoffa's words constitute a challenge. He has not only defied the Congress but he has defied the lawful processes of our society. The Congress should respond by outlawing the secondary boycott. Those union leaders who disapprove of Hoffa and wish to disassociate themselves with him should come out in support of such a measure. We cannot justify the secondary boycott as a weapon in the hands of the Teamster bosses.

AFL-CIO WILL BE MAKING SERIOUS BLUNDER IF IT OPPOSES KENNEDY-ERVIN LABOR REFORM LEGISLATION

Mr. NEUBERGER. Mr. President, I believe the AFL-CIO will be making a serious mistake if it opposes the Kennedy-Ervin labor reform bill in the form in which it passed the Senate by an overwhelming vote of 90 to 1.

This is a fair bill and a moderate bill, Mr. President. It is not an oppressive bill. It poses no threat to trade union leaders or members who are honest and upright. It is a peril only to union corruption and tyranny, not to union integrity and democracy.

As one of the nine Senate sponsors of the modified bill of rights, which is presently included in the bill, I believe that this particular phase of the legislation will guarantee the individual rights and liberties of union members without detracting from the effectiveness and bargaining abilities of the union as a whole. This was our goal when we worked together successfully under the leadership of the Senator from California [Mr. KUCHEL] and the Senator from Pennsylvania [Mr. CLARK], and I believe we achieved that goal.

Of course, Mr. President, any bill can be subjected to captious or frivolous objections—so-called nit-picking. But as a Senator who has been sympathetic with many of the broad humanitarian objectives of organized labor, I believe the labor movement will be guilty of a serious blunder if it fliespecks the Kennedy-Ervin bill in an effort to find some obscure or trifling reasons to justify opposition.

During the 1920's and 1930's, such ruthless utility magnates as Insull and others objected violently to any Government regulation, no matter how moderate. As a result, they got a type of regulation which utility executives have been complaining about ever since.

In my estimation, Mr. President, no unionist of honesty or a fundamental belief in democracy need fear the Kennedy-Ervin bill as passed by the Senate. I trust the House, likewise, will enact the bill.

EXECUTIVE SESSION

Mr. HUMPHREY obtained the floor. Mr. JOHNSON of Texas. Mr. President, will the Senator from Minnesota [Mr. HUMPHREY] yield, so that I may ask for the consideration for one nomination on the Executive Calendar, with the understanding that the Senator from Minnesota will not lose the floor?

Mr. HUMPHREY. Certainly; I yield for that purpose.

Mr. JOHNSON of Texas. I express gratitude to the Senator for his cooperation and leadership at all times. I hope all other Senators will be as generous as the Senator from Minnesota in yielding the floor for routine matters. I have been requested by several Senators to ask for action on the nomination, since they must leave the Chamber.

Mr. President, I move that the Senate proceed to the consideration of executive business, beginning with the new report.

The motion was agreed to; and the Senate proceeded to the consideration of executive business.

The PRESIDING OFFICER (Mr. MUSKIE in the chair). The clerk will state the nomination under the heading "New Report."

INTERNATIONAL ATOMIC ENERGY AGENCY

The legislative clerk read the nomination of Paul F. Foster, of Maryland, to be representative of the United States of America to the International Atomic Energy Agency.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

Mr. JOHNSON of Texas. Mr. President, I ask that the President be immediately notified of the confirmation of this nomination.

The PRESIDING OFFICER. Without objection, the President will be notified forthwith of the confirmation of the nomination.

EXECUTIVE MESSAGES REFERRED

The PRESIDING OFFICER laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the appropriate committees.

(For nominations this day received, see the end of Senate proceedings.)

EXECUTIVE REPORTS OF A COMMITTEE

The following favorable reports of nominations were submitted:

By Mr. RUSSELL, from the Committee on Armed Services:

Brig. Gen. John Frank Ruggles, Army of the United States (colonel, U.S. Army), and sundry other officers, for temporary appointment in the Army of the United States; and

Prof. William Weston Bessell, Jr., U. S. Military Academy, for appointment as dean of the Academic Board of the U.S. Military Academy.

By Mr. THURMOND, from the Committee on Armed Services:

William B. Franke, of New York, to be Secretary of the Navy; and

Fred A. Bantz, of New York, to be Under Secretary of the Navy.

By Mr. JACKSON, from the Committee on Armed Services:

Thomas Sovereign Gates, Jr., of Pennsylvania, to be Deputy Secretary of Defense.

LEGISLATIVE SESSION

Mr. JOHNSON of Texas. Mr. President, I move that the Senate resume the consideration of legislative business.

The motion was agreed to; and the Senate resumed the consideration of legislative business.

WORLD REFUGEE YEAR

Mr. HUMPHREY. Mr. President, I was most pleased by the President's proclamation of May 19 designating the 12 months beginning July 1 as World Refugee Year in the United States, and also by his sponsorship of the White House conference which is being held today and tomorrow for the purpose of formulating the role which our Government and the American people themselves can play during such year.

The refugee problem is so great as to stagger the imagination. It has been said, and only too accurately, that ours is the century of the homeless man.

It is estimated that in the past 30 years some 150 million men, women, and children have been driven from their homes.

Since the close of World War II alone, 40 million new refugees have been created. Of this number 15 million still remain homeless.

Each year another million people become refugees.

This week there was brought to my attention an article entitled "Report on Refugees" by the Reverend Albert J. Nevins, who recently completed a 5-month trip which took him through refugee centers around the world.

Permit me to quote from one paragraph of Father Nevins' article:

The Soviet Union has been accused before the bar of international justice of many crimes. But the greatest crime of all—one that cries to heaven for justice—is the tremendous horde of dispossessed it has driven into the free world. Since the Russian Revolution, approximately 64 million people have fled communism, few with more possessions than they could carry on their backs. This total of human suffering is so immense that the mind is not capable of comprehending it. No savagery in the entire history of mankind has wrought the complexity of misery and despair as has a quarter of a century of communism.

It is encouraging to note the mounting interest and concern over the refugee problem which is being generated by the United Nations' General Assembly resolution of December 5, 1958, in support of a World Refugee Year. This resolution was adopted by a vote of 59 to 9. The United States was one of the cosponsors. It is interesting to note that the nine dissenting votes were all cast by the Soviet bloc countries.

In our own country, the U.S. Committee for Refugees has been formed to stimulate efforts on behalf of World Refugee Year. The distinguished chairman of the group is Dean Francis Sayre,

of the Washington Cathedral. This committee will, I know, do outstanding work.

The plight of the millions of refugees throughout the world has been of concern to me for many years. I have felt that we in the United States should leave no stone unturned in our efforts to give as much help as is humanly possible to these unfortunate human beings who, through no fault of their own, have been left homeless and impoverished.

First of all, we must realize that the refugee problem is not merely a temporary one. There can be little doubt that the number of refugees will mount in years to come. Therefore, in considering ways to assist refugees, I believe we must discuss and put into operation more long-term programs.

Of course, the United States cannot, acting alone, solve this immense problem; its solution will require concerted international cooperation and international activity. But we can indicate our compassion for the world's refugees by opening our hearts and our doors to at least a portion of these men, women, and children. We have, of course, in the past few years admitted many thousands of such refugees, but only under temporary-type legislation, such as the Refugee Relief Act of 1953.

I have proposed in my bill, S. 952, which now is before the Subcommittee on Immigration and Naturalization, that the Immigration and Nationality Act of 1952 be amended so as to authorize the President to permit up to an estimated 83,000 refugees-escapees to enter the United States each year. I do not think that is asking too much. As a matter of fact, I do not think we can do less in good conscience. The horrible suffering of the refugees demands our full attention. Stop-gap measures will not suffice. I sincerely hope and pray that permanent-type legislation for refugees, such as I have suggested, will promptly be enacted by this Congress.

In conclusion, Mr. President, I ask unanimous consent to have the following newspaper articles and an editorial printed at this point in the RECORD.

A summary of the main areas of refugee concentration, published in the New York Times of May 21 under the title "Thirty-one Nations Unite To Aid Refugees."

An article on the White House conference, written by William J. Jordan, and published in the New York Times of May 21.

An editorial on the White House conference, published in the New York Times of May 21.

An article explaining the background of World Refugee Year, published in the New York Times of May 21.

An article entitled "Ike Sets World Refugee Year—Calls on Americans To Help," written by Elsie Carper, and published in the Washington Post of May 20, 1959.

And, finally, an article entitled "What Is a Refugee?" written by the distinguished columnist Roscoe Drummond, and also published in the Washington Post of May 20.

There being no objection, the articles and the editorial were ordered to be printed in the RECORD, as follows:

[From the New York Times, May 21, 1959]

THIRTY-ONE NATIONS UNITE TO AID REFUGEES—U.N. SPURS DRIVE TO RELIEVE FLIGHT OF HOMELESS MILLIONS

(By Kathleen Teltsch)

UNITED NATIONS, N.Y., May 20.—Thirty-one nations have agreed to make intensive efforts to assist the millions of homeless refugees scattered through Europe, Asia, North Africa, and the Middle East.

The 31, the United States among them, have responded to a United Nations General Assembly resolution that calls on governments and people everywhere to observe a World Refugee Year, beginning in June.

The year is to be devoted to solving these refugee problems that can be solved and helping those refugees who can be helped. Those who will benefit are the many who have been uprooted by war or have fled their homelands for political reasons.

At President Eisenhower's invitation, more than 160 civic, business, and religious leaders will open a 2-day conference tomorrow in Washington to consider what the United States can do to help.

The groundwork already has been laid by the establishment of a U.S. Committee for Refugees, which is headed by the Very Reverend Francis B. Sayre, Jr., dean of Washington Cathedral. Its chief aim is to promote practical measures, such as the use of Federal and private funds to aid the destitute and seek more liberal immigration laws.

SURVEY WAS CONDUCTED

To determine where and how the world's refugee population exists, correspondents of the New York Times made a survey of the main areas of refugee concentration.

Precise estimates of the extent of the problem are not possible. Secretary General Dag Hammarskjöld, of the United Nations, has cited estimates that 40 million men, women, and children have become refugees since the end of World War II and that 15 million remain without permanent homes. The United Nations helps 2 million to 3 million. It does not, for example, aid the East Germans pouring into West Germany, because these people have the rights of citizens.

A majority of the 31 countries probably will use funds collected in nationwide campaigns to help those within their jurisdiction. This is the plan of Britain, which will begin a nationwide campaign next month with Queen Elizabeth as patron.

There will not, however, be any cooperation from the Soviet bloc, which would be expected to oppose aid to political refugees in Europe. Most of these refugees fled to the West from Communist homelands. They are now under the protection of the Office of the United Nations High Commissioner for Refugees.

Program covers all

The World Refugee Year campaigns will aid refugees everywhere, whether they are under the care of the United Nations or not.

Correspondents of the New York Times in their survey have covered the camps in Europe, the thousands living outside the camps but getting aid, the Hong Kong area where 1 million anti-Communist Chinese have taken refuge, the Palestinian Arabs living in the Middle East, the Algerians who have swarmed into Morocco and Tunisia and the Tibetans who have followed the Dalai Lama into exile in India.

The area-by-area report that follows is based on their on-the-spot observations and official data furnished by the United Nations or the U.S. Committee for Refugees.

EUROPEANS

"Refugee camps by their nature are havens for unhappy people," reported a correspondent from Greece.

The observation would seem to apply to all 120 camps in Europe—in Greece, Austria, West Germany and Italy—that are maintained for refugees.

Unlike the 200,000 Hungarians, whose dramatic flight in 1956 won them worldwide help and brought resettlement opportunities for 98 percent, the older camp refugees have found few doors open to them. Of the 28,000 still in camps, 18,000 have spent at least 10 years there. Virtually all are refugees from Communist countries, but some older ones were among those taken from their homes in the days of Hitler's mass deportations. A fourth of the refugees are under 14 years old.

Conditions vary from camp to camp. Most camps in Germany and Austria were found to be crowded, but well run. The refugees live in clean, but dreary, rebuilt barracks, which offer at least some semblance of privacy to individual family units. Only 5 to 10 percent have found employment, but most manage to live relatively well because of the generous help coming from church and private welfare sources.

Plight somewhat improved

The plight of the smaller refugee population in Greece and Italy has improved somewhat in the last few years. But many refugees live in cramped and squalid quarters, former factories or even war-damaged and abandoned buildings, which offer little privacy or comfort. There is little chance for work in these countries, which are beset by their own employment problems. Most refugees in Greece are from the Balkan countries. They try to emigrate and thousands have been helped to do so by the Intergovernmental Committee for European Migration. The same applies to the refugees in Italy, who are mostly Yugoslavs.

Dr. Auguste R. Lindt, the Swiss who serves as high commissioner for the United Nations, regards the camp refugees as a top-priority group for help. He is seeking an additional \$3,500,000 for his clear-the-camps program. As he sees it, the worst aspect of the problem is the sense of isolation created by camp life—the feeling of living "as a race apart from the world."

If available, funds would go for housing and to train the refugees for new jobs. Small business loans also would be granted to help them make a new start. Additional medical help and institutional care would be given to the aged and infirm.

In addition to the refugees actually in camps, there are 100,000 others living in difficult circumstances in Greece, Germany, Italy, Austria, France, and Turkey.

EUROPEANS IN CHINA

In a special category are the Europeans who fled their homes when the Soviet Government came to power and who have been stranded on the Chinese mainland. In the last 7 years, thousands of these White Russians have been evacuated through Hong Kong to new homes in Australia and Brazil. This has been a joint operation of the high commissioner's office and the ICRM. It is an operation that has often been difficult and politically touchy.

Recently, there have been reports that the mainland refugees were threatened by virtual starvation unless they could be evacuated speedily. It would require visas and an additional \$4,500,000 to complete the removal of the remaining 8,000 Europeans.

CHINESE

The 1 million Chinese who have poured into Hong Kong from Communist China have given the little British colony Asia's biggest refugee problem. One of every three per-

sons there is a refugee. Seven hundred thousand live in abject poverty, forming squatter communities of hillside shacks patched together from old pieces of tin, plaited bamboo and bits of wood. Tens of thousands sleep on top of buildings or in doorways or set up housekeeping beneath stairways. Tuberculosis and dysentery are commonplace in these surroundings and one-third of the children die of some form of tuberculosis.

"The problem of human misery is bigger than Hong Kong authorities can cope with," a correspondent wrote, although large sums are going to build barracks for housing, schools and clinics. There is criticism both of the Nationalist Chinese and well-to-do Chinese in Hong Kong for not giving more.

Much of the help that reaches the refugees comes from the United States, which sends \$5 million annually in food alone from surplus stocks.

Hopes for a solution to the problem lie mainly in expanding the economy since there is no possibility of mass immigration either to Taiwan or southeast Asian countries. A total of \$100 million would be necessary to cover the elementary needs of the poor, but it is recognized that there is little chance of obtaining this amount.

The high commissioner has been authorized by the General Assembly to make a special appeal on behalf of these refugees.

PALESTINIAN ARABS

Of the current refugee problems, that of the Palestinian Arabs is one of the best known because it has remained a major source of conflict between Israel and her Arab neighbors.

The refugees have been living since the Palestine War in 1948 in the Arab lands bordering Israel, but these countries have refused to accept them as permanent residents and have continued to insist on their right to return to Israel. There is little likelihood that Israel, which in recent years has taken in a million refugees, will admit thousands of hostile Arabs.

At the end of last year, there were 963,958 Arab refugees registered with the United Nations Relief and Works Agency. The agency supplies supplementary food to most of them, provides shelter and medical services to those who need it and helps educate the young.

About 570,000 of these refugees live in Jordan, where their presence as an unsettled, destitute multitude adds to the general state of political tensions. Lebanon has 125,000 and the Syrian section of the United Arab Republic has 105,000. About 240,000 live in the Gaza area, a 30-mile strip of desert where the big event is the monthly distribution of the basic ration—flour, oils, fat, sugar, and rice—enough for a 1,500-calorie daily intake summer and 1,600 calories in winter. The agency has replaced most of its tent villages with simple huts that are 10 feet square for a family of five.

The attitude of the Arab governments and refugee leaders has thwarted the agency's efforts to initiate large-scale land development programs on which thousands of refugee families eventually could be resettled.

However, there has been more favorable response to the agency's efforts to make individual refugees self-supporting, either by training them for jobs or giving them small grants. It is along these lines that the agency hopes to make progress if the needed funds are made available. Until now, the United States and Britain have been the major contributors to the agency's budget. Together they supply more than 90 percent of the relief needs which have averaged about \$30 million annually.

The United Nations Agency hopes that it can collect \$4,100,000 to reactivate the grants and vocational training programs that it was compelled to eliminate because of inadequate funds. Part of this sum would go for new

classrooms and housing to ease overcrowding in Gaza.

The Agency's relief budget would be devoted to continuing the present feeding and welfare work. For this purpose, the 1959 budget will be about \$33,400,000.

ALGERIANS

During the last few years, 180,000 Algerians have fled their strife-torn homes and sought refuge in Morocco and Tunisia. Eighty-five percent of these were women and children.

They have been living in desperate need. Most live in caves or gourbis, the native huts of mud and cow dung with straw roofs. Attempts were made to gather the refugees into tent camps, but these were abandoned, partly because adequate health and feeding services were not available.

The refugees receive international aid from the Office of the United Nations High Commissioner and the International Red Cross, as well as direct assistance from other governments that is channeled through Tunisian authorities. The United States, Canada, Britain, Sweden, Yugoslavia, and the United Arab Republic have contributed. This also is one of the few places where Soviet aid has been provided. A gift of 7,000 tons of United States wheat helped keep the refugees alive during the last 3 months. This has now been consumed and many of the refugees get less than 1,600 calories daily.

There are no schools for refugee children, except those improvised by adult refugees.

Drive against idleness

The Algerian rebel government recently launched a "drive against idleness" among the refugees. It sought to encourage refugees to work the land or apply themselves to small crafts. These activities, however, are looked on with some misgivings by Tunisian authorities as a possible economic threat to the local population.

According to on-the-spot reports, living conditions of Algerian refugees in Morocco are even more depressing than in Tunisia. There, too, the United States and other nations have been supplying emergency food. The Swedish Federation for Aid to Children feeds 2,200 daily. The chief problems are undernourishment and lack of housing. Some children have rickets, some adults tuberculosis.

The prospects of employment are described by authorities as "zero." A contributing factor is Morocco's unemployment problem. Another is that French interests control a number of important commercial enterprises and would be unlikely to hire Algerians.

TIBETANS

The suppression of the Tibetan revolt by Communist China has sent at least 12,200 refugees into the border areas of northern India. Many refugees are still on their way, slowly moving through the jungle and mountain areas toward the Indian plains where emergency camps await them.

Of the thousands who have made the trek, half are Khampas, a tough nomadic people who have stubbornly resisted Chinese efforts to subdue them.

The Indian Government has assumed responsibility for housing, feeding, and supplying first aid to the refugees. A central relief committee also has been formed. Foreign help is being channeled through this committee. Large shipments of food and drugs have been sent by the United States and private American aid agencies.

Indian authorities have said the Tibetans would not be restricted to camps, but would be free to seek their living in a short time. However, it was also made clear that the Government would not assume responsibility for their upkeep.

The high commissioner is known to have the situation under study, but as yet no official move has been made to have the United Nations assume a role.

OTHER GROUPS

There are other groups of refugees needing international help:

France has colonies of Spanish who crossed the Pyrenees 20 years ago and still live in the border areas. Most of them have been integrated, but some are still in need.

There are large groups of Jews who left Egypt after the Suez crisis in 1956. Some sought asylum in Europe. They have been helped by Jewish aid agencies, but a number may require international assistance.

In Asia there are the Korean and Vietnamese refugees. In both places, thousands have left the Communist-controlled northern regions and have sought asylum in the south. As in the case of the East Germans who have fled to the West, these refugees do not qualify for United Nations help because they have the rights of citizens and opportunities for integration.

There are the even larger groups of Pakistanis and Indians who were displaced by the partition of India 12 years ago. Their governments have not applied for international aid, although there is some feeling Pakistan may seek outside help for the unsettled refugees now within her borders.

[From the New York Times, May 20, 1959]

WHITE HOUSE CONFERENCE OPENS TODAY ON WORLD REFUGEE YEAR—MORE THAN 160 EXPECTED AT SESSION TO PLAN U.S. AID TO HOMELESS MILLIONS—FUNDS AND NEW LAWS ARE GOALS

(By William J. Jordan)

WASHINGTON, May 20.—A White House conference on world refugees begins tomorrow.

The 2-day gathering, sponsored by the President, will discuss the role the United States can play in the United Nations' World Refugee Year program that begins in June. More than 160 Americans, representing a wide variety of welfare agencies and charitable groups, will take part.

A message from the President will be read at the opening session by the chairman of the conference, Loy W. Henderson, Deputy Under Secretary of State. Vice President RICHARD M. NIXON will address the group.

Yesterday, President Eisenhower issued a proclamation designating the 12 months beginning July 1 as World Refugee Year in the United States. He urged all Americans to support generously the programs worked out during the period for the assistance of refugees.

On Capitol Hill several Senators called for revision of U.S. immigration laws and the relaxation of barriers to the entry of refugees into this country. The Immigration Subcommittee of the Senate Judiciary Committee is holding hearings on several proposed revisions of immigration statutes.

Senator JACOB K. JAVITS, Republican, of New York, spoke in favor of several major changes in immigration regulations. He urged approval of a series of amendments in the Immigration and Nationality Act that would revise the national quota system by basing it on the 1950 census rather than the 1920 census, permit the pooling of unused immigration quotas for use by those otherwise not eligible, and establish a permanent refugee program under which the President could authorize admission of as many as 60,000 refugees annually.

Senator JAVITS also favored extending for 2 years the law granting nonquota immigrant status to orphans under 14 years old whom U.S. citizens had adopted or were going to adopt.

Senator HARRISON A. WILLIAMS, JR., Democrat of New Jersey, appeared before the subcommittee and charged that present immigration laws discriminated against Jews and Italians. He said the laws also discriminated against Poles and other Eastern Europeans.

"How can we convince the world that we mean what we say about recognition of individual merit and equality of opportunity when our immigration law suggests exactly the opposite?" he asked. "And we carry the hypocrisy to the height of folly when in the case of Europe we base the quotas on place of birth, and in the case of Asia base on ancestry, regardless of place of birth."

Senator KENNETH B. KEATING, Republican of New York, spoke in a similar vein. He said restrictions on immigration "display a distrust, discrimination, and isolation toward other peoples which are contrary to many of our basic ideals," Senator KEATING is a member of the subcommittee.

Senators HUBERT HUMPHREY Democrat of Minnesota, and RICHARD L. NEUBERGER, Democrat, of Oregon, also spoke in favor of changes in the immigration laws.

Legislative changes affecting the immigration of refugees to the United States will be among the measures to be discussed at the White House conference. Representative FRANCIS E. WALTER, Democrat, of Pennsylvania, chairman of the immigration subcommittee of the House Judiciary Committee, will address the conference on refugees.

Other measures that will get consideration include increased use of surplus agricultural products to help feed refugees and the use of both private and public funds to help support them and assist them in finding new homes.

The conferees will direct their attention particularly to the problems of about 15 million persons who have not been able to establish themselves satisfactorily in the countries where they found asylum.

[From the New York Times, May 21, 1959]

MORE HELP FOR REFUGEES

A conference of more than 160 Americans called by President Eisenhower will begin discussions in Washington today of what the United States can and should do in connection with the forthcoming World Refugee Year. The observance, under United Nations leadership, opens in June.

The American preliminary conference can serve a twofold purpose. First, it can take up proposals and make specific recommendations. Several of these suggest themselves immediately. The United States, through both Government and private channels, will continue to supply funds to aid refugees and it may be necessary to increase these contributions. The United States may be able to use surplus food supplies to meet certain needs. Certainly the relationship of our immigration laws to the ultimate solution of the problem must be discussed.

A second function, both of this conference and of the Refugee Year itself, is once more to call attention to the truly global aspect of the refugee problem. Much effort has been made thus far, but a gigantic task remains to be faced. It cannot be met with small and piecemeal operations, however well meaning and generous.

Millions of people in various parts of the world must still be regarded as refugees. They have been uprooted from their homes and their traditional societies. Their flight has usually been the product of deadly fear, not yet overcome. Their new status, in many cases, has not yet been established or is profoundly unsatisfactory. They represent a continuing challenge to the good will, intelligence and imagination of those who are more fortunate.

The American effort, and that of the Refugee Year, will give first priority to the problem of how best to help those least able to help themselves. In this way it goes far beyond its political and economic aspects and becomes an effort in true humanity. The Refugee Year sprang from a moral impulse and the United States is now making its first move to give this practical form.

[From the New York Times, May 20, 1959]

WORLD REFUGEE YEAR WAS IDEA OF FOUR BRITONS

UNITED NATIONS, N.Y., May 20.—The idea of a World Refugee Year began in the spring of 1958 with four Britons who wrote a series of articles for the British political magazine Crossbow. The four were Christopher Chataway, the British track star, and Colin Jones, Trevor Philpott and Tim Raison.

The idea caught on and a conference of private agencies was set up in London. A planning committee was organized, and finally the government agreed to sponsor the plan in the United Nations.

Its supporters envisioned the program as the humanitarian counterpart to the International Geophysical Year.

Britain, the United States and eight other nations cosponsored the resolution on World Refugee Year. It was approved December 5, 1958, by a vote of 59 to 9, with 7 abstentions. The nine dissenting votes were from the Soviet bloc. The abstentions were by some Asian and Arab members.

[From the Washington Post, May 20, 1959]

IKE SETS WORLD REFUGEE YEAR, CALLS ON AMERICANS TO HELP

(By Elsie Carper)

President Eisenhower proclaimed the year beginning July 1 as World Refugee Year yesterday and called on Americans to support voluntary organizations aiding the homeless people of the world.

The proclamation is part of U.S. participation in the special year designated by the United Nations in a resolution approved last December over the opposition of the Soviet Union and the satellite countries.

Purpose of the year is to focus world attention on the problems of the more than 2 million men, women, and children in need of assistance.

The U.S. cosponsored the resolution in the United Nations. President Eisenhower said yesterday the United States had acted "consistent with its traditional principles of humanity, sympathy and interest in the welfare of other peoples of the world."

To help formulate the role that the American people and the Government will play during the year, 200 prominent Americans will gather at the White House Thursday and Friday. Participants will represent religious, business, labor and civic groups and the entertainment field.

The meeting was called by the President at the request of the U.S. Committee for Refugees, a private organization, made up of voluntary groups interested in refugee problems and headed by the Very Reverend Francis B. Sayre, Jr., dean of Washington Cathedral.

President Eisenhower said he will be unable to personally participate in the meeting but said he was looking to the conference to help formulate specific plans for United States aid.

Vice President RICHARD M. NIXON is to speak at the opening session Thursday morning. The meeting opens at 10:45 a.m. in the Indian treaty room of the executive offices. John W. Hanes, Jr., Administrator of the State Department Bureau of Security and Consular Affairs, will outline Government participation, and Representative FRANCIS E. WALTER, Democrat, of Pennsylvania, chairman of the House Judiciary Subcommittee on Immigration and Naturalization, is to speak on special immigration legislation.

American aid could take three forms—increased contributions from the Government and private groups to international organizations working with refugees, increased donations of surplus food, and a letting down of immigration barriers to make unused immigration quotas available to refugees.

Speakers at the Friday session will include Representative WALTER H. JUDD, Republican, of Minnesota, a member of the House Foreign Relations Committee, and Deputy Under Secretary of State Robert Murphy.

Refugees in need of assistance include 100,000 in Europe who escaped from behind the Iron Curtain, an estimated 1 million Arabs who lived in what is now Israel, 9,500 Europeans in Communist China, more than 5,000 Tibetans now in India, up to 200,000 Algerians in Tunis and Morocco, 3,000 Jews who left Egypt for Europe during the Suez crisis, and others in southeast Asia.

[From the Washington Post, May 20, 1959]

WHAT IS A REFUGEE?

(By Roscoe Drummond)

CONFERENCE URGED TO AID YUGOSLAV ESCAPEES

This week's White House conference, which President Eisenhower called to give impetus and support to the U.N. Refugee Year beginning in June, has a large and urgent agenda.

There are 2,357,500 unassimilated refugees who have sought the asylum of the free world. They have a claim upon our humanitarian instincts and it is in our interest to help in every practicable way.

But I should like to raise a single, specific question which points up an unnecessary conflict within our own foreign policy and which we will need to see as unnecessary if we are to resolve it. The apparent conflict is right here.

We provide considerable economic aid to Yugoslavia on the ground that Tito has achieved independence of Soviet domination and that it is in the interest of the West to help him maintain his country's independence.

We shrink from giving adequate help to resettle the Yugoslav escapees, who are continuing to flee their country, and hesitate to recognize frankly that they are genuine refugees—not just happy-go-lucky, venture-some migrants.

I submit that there is no conflict in reality between a policy of economic aid to Yugoslavia and a willingness to relieve the plight of the Yugoslav refugees.

There is no need to pretend that Marshal Tito's Yugoslavia is anything other than an oppressive Communist dictatorship. We don't need to justify aid to Yugoslavia on any pretense that the Yugoslavs are a free people. We are giving aid despite the fact that they are not a free people and because of the fact that the Tito government is no longer ruled from Moscow, because Titolism is a very real source of trouble for the Kremlin and that it is in our interests to keep it so.

It is also in our interests to help provide asylum for those courageous Yugoslavs who have dared to break from the political and economic persecution of their Communist state.

But thousands of Yugoslav escapees are today being turned back at the frontier and other thousands allowed to languish without resettlement because U.S. officials and others are disposed to label them differently from other refugees, to catalog them as "economic refugees," and, therefore, not eligible for political asylum.

Obviously it is not easy to assess the controlling motivation of every Yugoslav escapee, but it seems to me that these facts show that the 26,000 who left Yugoslavia in 1947, the 12,000 who fled in 1958, and the other thousands who are still making their way across the frontier to the free world are not just looking for a wage increase.

The flow of refugees has increased during the period of somewhat improved economic conditions. In 1955 only 1,492 sought freedom in Austria. In 1956 the number went to 5,337, and 1957 it mounted to 14,200.

They fled despite the knowledge that no jobs were waiting for them in Austria or Italy.

The rate of escape goes up almost in direct proportion to the way the Communist political and economic dictation is clamped down.

Many nationals of Communist countries entered Belgium with legal visas to attend the Brussels World Fair. Of the 282 who asked to remain as refugees, 207 were Yugoslavs. They were from the ranks of the skilled trades and professions. They wanted to get away from communism and so do the others.

True, you can't say that these Yugoslav refugees were persecuted individually. The reason is that they have all been persecuted collectively. They are not personally discriminated against. They all suffer oppression alike.

This is only one facet of the whole range of refugee problems which the White House conference must examine. It seems to me to deserve special consideration.

PRESENTATION TO SENATOR GREEN OF 1959 WORLD TRADE AWARD

Mr. FULBRIGHT. Mr. President, yesterday, May 20, 1959, my immediate predecessor as chairman of the Committee on Foreign Relations, the senior Senator from Rhode Island [Mr. GREEN], was honored at a luncheon meeting held at the Mayflower Hotel here in Washington by the presentation of the 1959 World Trade Award of the Washington Board of Trade. Many members of the diplomatic corps, key businessmen of the area interested in world trade, and officials of the Washington Board of Trade and its world trade committee witnessed the presentation ceremony.

Mr. Victor Schinnerer, president of the Washington Board of Trade, presented an impressive plaque to my distinguished colleague from Rhode Island, which bears the following inscription:

THE WASHINGTON BOARD OF TRADE, 1959,
WORLD TRADE AWARD

Presented to THEODORE FRANCIS GREEN, chairman emeritus, Foreign Relations Committee of the Senate, in recognition of his untiring efforts to bring about greater understanding between peoples of the world as evidenced by his service of nearly two decades on the Foreign Relations Committee of the Senate and serving as chairman from 1957 to 1959.

VICTOR O. SCHINNERER,
President.

JOHN C. PYLES, JR.,
Secretary.

WASHINGTON, D.C., May 20, 1959.

In acknowledging this tribute, my distinguished colleague spoke forcefully on the subject of world trade, and I ask unanimous consent to have his address printed in the RECORD.

There being no objection, the address was ordered to be printed in the RECORD, as follows:

ADDRESS BY U.S. SENATOR THEODORE FRANCIS GREEN, OF RHODE ISLAND, WHEN ACCEPTING AN AWARD GIVEN BY THE WASHINGTON BOARD OF TRADE, WEDNESDAY, MAY 20, 1959, MAYFLOWER HOTEL, WASHINGTON, D.C.

President Schinnerer, the Honorable Jose Figueres, and other distinguished guests, ladies, and gentlemen, I highly appreciate the honor which you have accorded me and the

very generous words you used in presenting me with the 1959 World Trade Award. I shall cherish this award always and shall never forget your kind sentiments which prompted it.

I would like, if I may, to return the compliment to the Washington Board of Trade and to you, the members of the world trade committee. I understand that this year marks the 70th anniversary of the board of trade. Founded in 1889, with a membership of only 200, you have now grown to a membership of 7,000. Today you are not only numerically strong, but you occupy a high position of responsibility in this community. It is significant, moreover, that by virtue of your location here in the Nation's Capital, you have become an effective spokesman not only for the business community, but also for the Nation as a whole—indeed, through the diplomatic corps here in Washington for the world community as well.

I doubt whether in any field your endeavors have proved more rewarding than in the work of your world trade committee. In this international community, this world trade committee has for many years carried high the banner of reciprocal trade and economic cooperation among free world countries. Through it, with a keen sense of our national values, you have spoken with a clear and consistent voice in support of those trade and economic policies which are such an important part of our overall foreign relations.

This year also marks another milestone—the 25th anniversary of our reciprocal trade agreements program. This program—conceived by that great American, Cordell Hull—has been the symbol and major substance of our economic foreign policy for the past quarter of a century. Through it we have sought both to advance our economic welfare and also to build international understanding and friendship.

Because I share with you a dedication to the principles of reciprocal trade, I congratulate you for the fine work that you have done and take special pride in the honor you have accorded me today.

I am honored, too, by the presence here of Señor Figueres and I look forward to listening to him because he is a most articulate and effective spokesman for democracy and hemispheric solidarity. He is a statesman of vision and practicality, an ardent fighter against communism and a true friend of the United States. As such a true friend, he does not hesitate to remind us that friendship carries with it the responsibility of understanding and mutual cooperation.

I would like to say a few words about foreign policy and the average citizen, and can do no better by way of preface than by quoting from a statement made by Señor Figueres to the House Foreign Affairs Committee just a year ago. In commenting on the U.S. foreign policy, he made the astute observation that we "live under a regime of public opinion, and everybody is theoretically responsible for the foreign policies of this country. Actually, responsibility is divided among the executive branch of the Government, Congress, business, labor, and the press. I do not need to point out that this shared responsibility, added to the size and the role of the United States, makes foreign relations exceptionally difficult."

Señor Figueres' observation is well taken. Foreign policy is not a subject reserved to the diplomat and to the governmental specialist; it is not a mysterious business whose secrets are known only to the initiated few. I doubt that it has ever been.

In the days ahead, in my judgment, our foreign relations will become of increasing concern and interest to every citizen. It will be an area of national policy in which the views and actions of the citizen will be of growing importance. For foreign policy is not a matter only of diplomatic conferences,

whether at the summit or at the foothills. It is also, and increasingly, a matter of day-to-day contacts—of economic, cultural, and social relations.

I want to emphasize today the economic aspects of our foreign relations because these have come to the fore in recent times. It is a fundamental objective of our foreign policy to promote the development of a functioning economic system in the free world. This means expanded and freer trade. It means investment and assistance for economic development and growth. It means, in short, doing what is necessary through our international economic relations to promote economic progress. This is to our own advantage as well as to the advantage of our free world neighbors.

These objectives of our foreign policy have a validity which we have recognized for many years. However, they are given special point and purpose today by the economic offensive which has been launched against the free world by the Soviet bloc.

It is here where the citizen and especially the businessman can make an outstanding contribution. We believe in private enterprise and economic freedom and so we will not use totalitarian methods to fight the Soviet economic threat, but we will mobilize through private enterprise to expand foreign trade and to increase private investments overseas.

Thus it is that the members of your world trade committee, through the strong and effective support that you have given to a positive foreign economic policy, have become citizen-diplomats working to accomplish the objectives of our foreign policy.

However, there is more to be done. Freer and expanded world trade is still an important objective that requires constant vigilance. Effective cooperation among free-world nations in this area is essential. The General Agreement on Tariff and Trade is the mechanism for such cooperation. It needs strengthening, and one way to do that is to establish the Organization for Trade Cooperation as proposed by the U.S. Government. Your support here, too, is vital.

Expanded private investment abroad is also essential. Several studies in this area have been issued recently by the Government. An important bill containing major recommendations in the tax field to promote investment abroad has been introduced by Congressman HALE BOGGS, the chairman of the House Foreign Trade Policy Subcommittee. It is important for all of us to become familiar with this proposed legislation and the opportunities it affords.

Working for such sound objectives will serve our foreign policy well. It will also bring good returns to ourselves. For expanding trade and investment promotes economic strength and progress, whose benefits will be shared by all. We will all share in the fruits of prosperity and abundance, unless we are so shortsighted as to deny ourselves our share of the fruits of expanded trade.

We have, I fear, on some occasions in the past acted shortsightedly by raising barriers to trade which led to unfortunate psychological and foreign-policy results. One such example was the increase by the administration in 1954 of our duties on Swiss watch imports. Not only did this restrictive Government action tend to undermine our trade objectives and inject a note of uncertainty in the conduct of world trade, but it is ironic that the tariff increase led to further cries for protection and did not meaningfully resolve the issue.

To err is human—but it takes maturity and strength to recognize one's errors and to correct them. If the administration were to do so in the case, it would be a heartening demonstration of our high purpose and good

intent in promoting prosperity and understanding in the free world community.

It is appropriate here to conclude by quoting the words of Albert Gallatin, the Swiss-born Secretary of the Treasury under Presidents Jefferson and Madison. With uncommon wisdom, he made the following statement over 100 years ago: "It is commerce which unites the nations of the civilized world * * * it is principally to commerce that we are indebted for modern civilization."

For the work that you yourselves have done and will do in the future in helping to promote commerce among nations, I salute you, the members of the world trade committee of the Washington Board of Trade and once again I express my great pride and satisfaction in the World Trade Award which you have given me today.

Thank you very much.

DEATH OF CARL HOLDERMAN, COMMISSIONER OF LABOR AND INDUSTRY, NEW JERSEY

Mr. WILLIAMS of New Jersey. Mr. President, I would like to take a minute if I may to speak about a man who served as State commissioner of labor and industry in New Jersey until his death today.

Carl Holderman was a remarkable public servant who could understand the human values involved in Government programs. He was a good, hard-working labor official until his appointment to State office, and yet he could, while serving as commissioner work for the good of all groups in the State and not any particular group.

Many persons—his neighbors in Nutley, those who remember him from his childhood days at Hornell, N.Y., those who knew him as president of the New Jersey State CIO from 1943 to 1953—feel today that they have lost a good friend and a remarkable public servant.

We who were fortunate enough to know him personally—and all who knew him as a State official—shall miss his understanding, energy, and imagination. He gave new dimensions to our comprehension of questions affecting labor and management.

THE PRESIDING OFFICER (Mr. MUSKIE in the chair). Is there further morning business? If not, morning business is closed.

Mr. JORDAN. Mr. President, I suggest the absence of a quorum.

THE PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. COOPER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

THE PRESIDING OFFICER. Without objection, it is so ordered.

NEWS BY STOPWATCH IS NEWS BY STATE CONTROL

Mr. CASE of South Dakota. Mr. President, recently I joined with the Senator from Indiana [Mr. HARTKE] and other Senators in cosponsoring a bill to revise the Communications Act of 1934. I did so because I believe that the ever-increasing use of radio and television in

the conduct of elections is highly desirable in that these media provide a means for public information. We need to encourage the fair use of these media, which serve to better inform the citizenry on public issues.

Section 315 of the Communications Act of 1934 endeavored to chart the course for fair broadcasting behavior. It required broadcasters to afford fair and equal opportunities for all candidates to use a broadcasting station. Last February, in the Lar Daly case the FCC interpreted this section to mean that broadcasters must grant candidates equal time in newscasts—not merely on the candidate's political speeches. This decision has rightly met with considerable criticism from broadcasters and newspapermen alike.

Dr. Frank Stanton, president of the Columbia Broadcasting System, attacked the decision as "perhaps the most severely crippling decision ever to be handed down with regard to broadcast journalism." Dr. Stanton said the FCC ruling "attempts to substitute a ridiculous mathematical formula for the responsibility of news editors in handling the news of political campaigns."

Mr. Robert W. Sarnoff, chairman of the board of National Broadcasting Co., similarly warned:

The danger of Government intervention in the programing process is very real.

Editorial reaction has been equally critical.

At this point, Mr. President, I ask unanimous consent to have printed in the RECORD an editorial from the Sioux Falls (S. Dak.) Argus Leader of March 25, 1959, entitled "Absurd Restrictions on Newscasts."

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

ABSURD RESTRICTIONS ON NEWSCASTS

Television and radio stations are in a dither now over a recent ruling of the Federal Communications Commission granting equal time to political candidates on newscasts.

What is disturbing about the new ruling is its scope. It came in connection with an incident in Chicago. The city's mayor, a candidate for reelection, was depicted in a televised newscast while greeting a distinguished visitor at the airport. Another candidate for mayor contended he was entitled to equal time even though there was nothing in the airport newscast about politics or the election. The FCC ruled that he was.

The problem that this has imposed upon the radio and television stations in respect to news reports is obvious. If they present a governor performing some official act during a campaign, they are required to give equal time to all other candidates for governor.

The difficulty imposed herein can be brought close to home by considering the mayoralty campaign in Sioux Falls. If a television or radio station presents Mayor Fay Wheelon giving an address of welcome to a convention, as he does frequently, they apparently are obligated to give similar time on the air to the three other candidates.

This problem was brought to the attention of President Eisenhower last week and he termed the FCC ruling "ridiculous." And so it is. Obviously radio and television stations will be grossly hampered in their presentation of the news if this ruling is to continue. There are frequently as many as

10 or 12 candidates for an office. In situations such as that the broadcasters and telecasters would be virtually forced to ignore news in which a certain official who is a candidate might be involved.

The basic point involved is the interpretation of the Federal law. The FCC says it is merely doing what the law says it must do. If so, most certainly the law should be changed. No such restriction should apply to the dissemination of news.

Mr. CASE of South Dakota. Mr. President, the President has termed section 315 "ridiculous." Mr. John Doerfer, Chairman of the FCC, has called for repeal of section 315. Attorney General Rogers' recent memorandum urged that the FCC reverse its equal time ruling in the Lar Daly case.

We pride ourselves on freedom of speech and press in this country. But a ruling which can indirectly inhibit the handling of news would be as injurious to a free press and free speech as censorship.

To require equal time for all candidates in the coverage of news is as absurd as requiring of a newspaper equal space to all candidates, including minor factions. It would make candidates the judges of news values; abuse would be inevitable.

An informed electorate is essential in democracy. Feeding the news to the public by a measuring spoon or regulating its quantity by a stopwatch is hardly the way to accomplish this desired objective. Rather, reporting of the news should be left to the discretion of the news media. News by stopwatch would be news by State control.

In our review of this important piece of legislation, I believe that we need to provide assurance that minority groups will be protected. The legislation which has been introduced to revise section 315 recognizes the minority groups with respect to candidates for the Office of President or Vice President of the United States. At the same time, the definitions set forth would not require that equal time be provided for mere publicity seekers who are not bona fide candidates, unless they represent a substantial number of supporters.

I have been concerned with the fact that the proposed legislation does not provide definitions of qualified candidates for State and local offices, including Members of Congress. However, I am assured that this matter is being given further study and that amendments will undoubtedly be offered in committee to cover this field.

I would not wish to see this legislation in anyway infringe upon the rights of legitimate fringe parties who have candidates for any office.

Another section of the bill to revise section 315 would free newscasts and similar type programs which are under the exclusive control of the broadcasting from the equal time requirement. Unless a change of this type is forthcoming, we may well see radio and television forced out of the business of covering political campaigns. This result would be unfortunate indeed for the American people and their right to be informed on public issues.

I hope that in our consideration of the legislation to revise section 315 we can thoroughly review this important subject and provide a sensible solution.

SUPPORT LEVEL FOR TOBACCO

Mr. JORDAN. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of the unfinished business, Senate bill 1901.

The PRESIDING OFFICER. The bill will be stated by title.

The LEGISLATIVE CLERK. The bill (S. 1901) to amend section 101(c) of the Agricultural Act of 1949 and the act of July 28, 1945, to stabilize and protect the level of support for tobacco.

The PRESIDING OFFICER. Is there objection to the request of the Senator from North Carolina?

There being no objection, the Senate resumed the consideration of the bill.

Mr. COOPER. Mr. President, I ask unanimous consent that Mr. Frank Ellis, assistant to the Honorable FRANK STUBBLEFIELD, Member of the House of Representatives from the First District of Kentucky, be accorded the privilege of the floor during the consideration of S. 1901. Mr. Ellis has worked on this proposed legislation in the House.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. JORDAN. Mr. President, there is an urgent need for the passage of the pending bill, S. 1901.

I say there is an urgent need for a number of reasons.

First of all, this year's tobacco crop has been planted, and farmers in the tobacco growing areas are anxious to know what the level of price supports will be on the 1959 crop.

The intent and purpose of S. 1901 are simple. This bill would prevent for an indefinite period further increases in tobacco prices—further increases which will occur unless the existing law is changed.

Without going into detail, I should like to point out how this proposed legislation came about.

For the past year growers, warehousemen, manufacturers, exporters, and others interested in tobacco have been concerned over steady increases in prices which have resulted from the use of modernized parity in computing price supports.

For some time it has been obvious that important export markets will be seriously endangered unless tobacco prices are stabilized.

As a result of the impending danger to exports, a group of leaders in the tobacco industry began a series of meetings last fall in an effort to work out a sound and reasonable solution to the problem.

It was a matter of stabilizing prices and regaining export markets, or of taking a sharp reduction in acreage.

It was agreed, after a conference with the Secretary of Agriculture, that the growers, warehousemen, manufacturers, and exporters themselves would take the lead in a movement to stabilize tobacco price supports.

I am certain that this willingness on the part of all segments of the tobacco industry played an important part in the decision the Secretary of Agriculture made to continue for 1959 the same marketing quotas which were in effect for tobacco in 1958.

Shortly after Congress convened in January, a bill, H.R. 5058, was introduced in the House of Representatives by Representative JENNINGS. At a hearing in February on this bill, no less than 17 tobacco organizations appeared before the House Subcommittee on Tobacco and supported it unanimously.

After the hearings the bill was slightly modified and approved by the House Committee on Agriculture. S. 1901 is identical to the amended version of H.R. 5058.

The effect of S. 1901 is simple. It provides that there shall be no increase in the dollars and cents level of price supports on most types of tobacco above the 1958 price support level until price support computed under old parity exceeds the 1958 dollars and cents level. It further provides that in the event the price support under old parity exceeds 1958 supports, then the Secretary shall choose between old parity or new parity in setting price supports, whichever is lower.

The practical effect of the bill will be to prevent an increase of about 1 to 2 cents per pound in tobacco prices each year for the next 4 to 6 years.

On a number of occasions, the Department of Agriculture has been asked to give its views on this proposed legislation. There have been several answers. In none of the answers, of which I am aware, is there outright disapproval. In some answers, the Department has said that the pending legislation would be a definite improvement over existing legislation.

The Department's report on S. 1901 was not received until yesterday morning. It is almost identical to other reports on the same legislation, with one exception. In preceding reports, the Department has said such proposed legislation represented an improvement over existing law. In the report yesterday, the Department says the bill does not go far enough.

I ask unanimous consent that a copy of the Department report received yesterday be printed in the RECORD.

There being no objection, the report was ordered to be printed in the RECORD, as follows:

MAY 19, 1959.

HON. ALLEN J. ELLENDER,
Chairman, Senate Committee on Agriculture and Forestry, U.S. Senate.

DEAR SENATOR ELLENDER: This is in reply to your request for a report on S. 1901, a bill to amend section 101(c) of the Agricultural Act of 1949 and the act of July 28, 1945, to stabilize and protect the level of support for tobacco.

This bill provides that the level of price support for tobacco shall not exceed the 1958 crop support level until such time as 90 percent of parity computed in the manner used prior to the enactment of the Agricultural Act of 1948 exceeds the 1958 crop support level or 90 percent of parity computed as provided in the Agricultural Adjustment Act of 1938, as amended, and that thereafter the

support level shall be 90 percent of parity computed in the manner used prior to the enactment of the Agricultural Act of 1948, or computed as provided in the Agricultural Adjustment Act of 1938, as amended, whichever is lower. The bill excepts Connecticut Valley cigar binder types 51 and 52 for which parity was recently redetermined under section 301(c)(1)(F) of the Agricultural Adjustment Act of 1938, as amended, and also excludes those kinds of tobacco for which marketing quotas were not in effect in 1958, namely, Pennsylvania filler type 41 and Puerto Rican filler type 46.

We estimate that the index of prices paid by farmers would have to increase about 16 percent for Burley and 11 percent for flue-cured—our major export tobacco—before the old parity provision would go into effect and the freeze removed. The extent of the increase required on the various types of tobaccos is shown in the attached table.

The Department is convinced that the United States can produce competitively a quality of tobacco which cannot be duplicated anywhere else in the world, and that we should sincerely try to find some way to let our farmers produce it. Tobacco farmers have, under the present rigid program, been sacrificing their longtime best interests for possible temporary gains. At a time when world consumption of tobacco is increasing at the rate of 5 percent a year, our exports have been decreasing relatively at a rapid rate. Although it is generally recognized that the economy of the tobacco grower in many types of tobacco is heavily dependent upon exports, we continue to follow a course that is continuously shrinking our share of the world market.

We believe that the present price support program with its built-in system of constantly increasing support prices will, over the next 10 years cause us to lose most of our commercial export markets and force the domestic industry to 100 percent utilization of the tobacco leaf. While the proposed bill will eliminate or at least minimize the substantial increases in the support levels which otherwise will occur in the next few years under the present support system, we believe that the use of any measuring device for price support purposes which fails to take into account present day production technology, is most unwise. Unfortunately, both old parity and modernized parity rely heavily on price relationships which existed when farming was almost entirely a mule and plow, and a man and hoe, operation.

The Department feels that the tobacco program should be modified on a positive basis designed to achieve increased disappearance of U.S. tobacco with a corresponding opportunity for increased production and higher allotments. A proposal for a positive modification of the tobacco program was outlined in a memorandum dated January 19, 1959, from the Department to the President, as follows:

"Farmers who grow tobacco have been losing markets at home and abroad. As prices of U.S. tobacco increase, foreign buyers change their blends and turn to other sources of supply. They may never be induced to return to our markets. The present old laws result in price supports at continually rising levels. Acreages at home have been severely cut to low levels while acreage and production expand abroad.

"Legislation should be enacted to relate the support price to the market average or, if the parity formula as a basis for price supports is continued in use, to provide wide discretion in the level of supports.

"In addition, modifications of the control program may be in order. Tobacco growers have widely discussed the desirability of modifying the present control system. Their ideas of providing either a poundage quota or a poundage-acreage control have merit."

This bill fails to go far enough in correcting this situation for the following reasons:

1. It would freeze price supports for tobacco at current high levels, thus hampering efforts to expand markets and to curtail foreign production. Instead of such a freeze we need more discretion in setting the support level so that we can regain markets rigid supports have lost for tobacco.

2. It would put back into use a formula which previously was discarded by Congress because it resulted in unrealistic parity prices. Under the old formula parity price for tobacco is based on the level of prices in 1934-38 for flue-cured and Burley, and 1919-23 for other tobacco, modified to the extent that prices paid by farmers have changed. Use of this base period some 20 to 30 years ago fails to recognize the changes which have occurred in farm technology since then, and the changes in intercommodity relationships. It was these shortcomings which led Congress to adopt a modernized parity which takes into consideration price relationship in a recent 10-year period.

3. It would result in a dual standard of parity prices. Since old parity is the lower of the two parities, it would be used for tobacco whereas new parity would be used for other commodities. If we are to use parity price as a standard for price support, we should use the same formula for all commodities.

4. It would continue to place tobacco growers at an advantage over producers of other crops. Currently, tobacco is the only price support commodity where the Secretary has no discretion in setting support levels. This level is and has been higher in terms of percent of parity than it has been for other crops where even under present law some discretion is permitted.

This bill, S. 1901, reflects a recognition of the soundness of the administration's position that the present program is destroying markets rather than building them.

This bill, S. 1901, reflects a recognition that the present law can only result in decreased allotments.

The Department feels that the bill is not adequate and that the administration's tobacco program outlined above is far better.

The Bureau of the Budget advised that there is no objection to the submission of this report.

Sincerely yours,

TRUE D. MORSE,
Acting Secretary.

Increase in old parity for tobacco required before 90 percent of parity becomes effective support level under S. 1901

Tobacco types	1958 support level	90 percent of old parity May 1, 1959 ¹	Increase required in old parity before 90 percent of old parity becomes effective support level
	Per pound	Per pound	Percent
Flue-cured (11-14).....	\$0.546	\$0.492	11.0
Burley (31).....	.554	.478	15.9
Maryland (32).....	.508	.412	23.3
Dark air-cured (35-36).....	.345	.176	96.0
Virginia sun-cured (37).....	.345	.237	45.6
Fire-cured (21).....	.388	.249	55.8
Fire-cured (22-23).....	.388	.217	78.8

¹ Computed in the manner used prior to the enactment of the Agricultural Act of 1948, with revised parity index.

Mr. JORDAN. Mr. President, I hope the Senate will pass the bill unanimously.

Mr. GORE. Mr. President, will the Senator yield?

Mr. JORDAN. I yield.

Mr. GORE. I express disappointment that the Senate Committee on Agriculture and Forestry did not hold hearings with regard to a bill of this importance. I wonder if the Senator from North Carolina is able and willing to tell the junior Senator from Tennessee exactly how much lower the price support would be on the crop for 1959 under the provisions of the bill than it would be if the bill were not enacted into law?

Mr. JORDAN. From 1 to 2 cents.

Mr. GORE. From 1 to 2 cents per pound?

Mr. JORDAN. Yes.

Mr. GORE. Is that on Flue-cured or Burley?

Mr. JORDAN. The Flue-cured and the Burley vary a little.

There were extensive hearings held in the House of Representatives, which I and a number of others attended. Representatives of the Flue-cured and Burley segments of the industry were in attendance, and both segments of the industry were agreed on the bill. They were willing to take a small reduction in price in order to keep the price from going up, a process which is getting them into trouble in the foreign markets.

Mr. GORE. Is the Senator not concerned that the bill would provide for going back to the base period of 20 or 30 years ago for a yardstick on parity?

Mr. JORDAN. This bill, for all practical purposes, would freeze the price support at the 1958 level. It could not go back far enough to hurt the industry.

Mr. GORE. In effect it would freeze the support on an actual dollars-and-cents basis, would it not?

Mr. JORDAN. At the 1958 level.

Mr. GORE. Does that mean that the formula fixed in the bill would have little or no effect?

Mr. JORDAN. It would not have any effect for several years. Next year it can be changed if it works a hardship.

Mr. GORE. I have read the letter of the Secretary of Agriculture. I agree with something he says, and disagree with others. Is it correct that the bill, to the extent that a formula is used, would use a base period of 20 or 30 years ago?

Mr. JORDAN. That is correct—the old parity.

Mr. GORE. Is that not a rather sharp departure? If we are to have a parity formula, should it not be a moving parity formula, one more nearly commensurate with current conditions?

Mr. JORDAN. The trouble with the modernized parity formula which is now being used is that it is more of an escalator. Tobacco prices have been going up steadily every year, because of the new formula. Tobacco is becoming so high priced that we are rapidly losing our export markets. Unless we can export a large proportion of our tobacco, we shall be in serious trouble. The growers, warehousemen, and others agree that there will be another acreage cut unless action is taken. As the Senator knows, some of the growers have less than one acre. If a farmer has six-tenths of an acre or less, pretty soon he is going out of the tobacco business. It is felt that the bill will stabilize the price

of tobacco, to the point where the growers can compete with tobacco produced in other areas of the world, which is becoming a serious threat to the American crop.

Mr. GORE. So long as the cost of living remains reasonably constant, and the cost of production for the farmer does not greatly increase, the tobacco farmer can be reasonably satisfied, I take it, with a price support level frozen, as the bill provides, at the current level. Does the bill which the Senator advocates make any provision for an increase in the price support of flue-cured and other types of tobacco in the event that there should be an increase in the cost of production and in the cost of living?

Mr. JORDAN. As the old parity goes up, the price support will go up with it.

Mr. GORE. I understood the Senator to say, however, that the bill would freeze the price support level at the current dollar-and-cent level of last year's crop.

Mr. JORDAN. Of the 1958 crop.

Mr. GORE. How long would that apply?

Mr. JORDAN. Until the old parity catches up with it. We do not know how long that will be. It is below the 1958 crop level now. The old parity is considerably less, in dollars and cents, than the 1958 level. It could be 6 or 7 years before the old parity catches up with the 1958 level.

Mr. GORE. How would it catch up—by reason of an increase in the cost of the various items which go to make up parity?

Mr. JORDAN. An increase in the cost of whatever goes to make up parity. The Senator knows the items which are used in computing parity.

Mr. GORE. About how much would the cost of living be advanced before the old parity formula reached the level of the current price supports?

Mr. JORDAN. The Senator's guess on that is as good as mine. I do not know.

Mr. COOPER. Mr. President, will the Senator yield?

Mr. JORDAN. I yield.

Mr. COOPER. The testimony was that the costs of the things farmers buy would have to increase 11 percent before parity for flue-cured tobacco would reach the 1958 level. However, I believe the cost of things farmers buy would have to increase 16 percent in the case of Burley before old parity would reach the 1958 level.

Mr. GORE. A 16-percent increase would represent quite a great deal of inflation. So practically speaking, the Senator from Kentucky would agree, I take it, with the statement that the Senator from North Carolina, that for practical purposes the bill would freeze price supports at the level of price supports for the 1958 crop.

Mr. COOPER. No; I would have to disagree with that. It is estimated that if the cost of living should continue to rise at the same rate as it has risen in the past, within a period of from 3 to 5 years old parity would catch up with the 1958 levels of tobacco supports, as they were determined under modernized parity. At that point, assuming that

both modernized parity and old parity continued to rise, the lower of the two would prevail, and would fix the level of price supports.

Mr. GORE. I participated in the re-writing of the parity formula, as did the senior Senator from Kentucky, I believe. We thought we were doing the wise and the right thing at the time. Did we seriously err? Or have conditions changed so that we need to return to the formula which we discarded?

Mr. COOPER. The Senator from North Carolina [Mr. JORDAN] was the author of the bill. I remember very clearly when the parity formula was changed, in 1948. In 1949 the Anderson-Gore bill was passed, which reenacted the modernized parity formula of the 1948 law.

The Senator is familiar with the fact that the old parity concept was based upon the principle that the prices tobacco growers received for their tobacco must bear a strict relation to the cost of the goods and services they purchase. There are some 300 items of goods and services taken into consideration in fixing that relationship; and it was based upon a definite base period. The Senator will remember that in 1948, and again in 1949, the parity formula was changed to the so-called modernized parity.

In that formula two factors were introduced which did not obtain in the old parity formula. One was the factor of the continually advancing 10-year period. The base period is a 10-year period which advances yearly. The computation is based upon the average of that 10-year period. If there is a period of continually advancing prices, the effect is that the average automatically goes up on the price side, whether or not there is any advance on the cost side.

The second factor which was introduced into modernized parity was that the parity for any one commodity must bear a relationship to the parity for all other agricultural commodities.

These two new factors have had an influence in advancing the price of tobacco. They bear no relationship to the costs which farmers must pay. One of them is the continually moving base period. The average price during the base period can go up if the price in recent years is rising.

The second factor is that because parity for other farm commodities has decreased, the ratio has automatically caused the parity for tobacco to go up.

That situation, which bears no relation to the cost the farmer is paying, has brought about this steadily increasing and automatically advancing price support for tobacco. The farmer has welcomed it. I recall that when we wrote it into the bill in 1948, we did so because we were afraid that after the war there would be decreases, and we wanted to protect the farmer.

Now, tobacco farmers and their organizations have agreed that their prices are reasonable, and they prefer to have them stabilized at this point. That is the reason why my good friend from North Carolina, the author of the bill, has said that the farmers have proposed that price supports for tobacco be stabilized at the 1958 level. That

level of support would be maintained, as the Senator has so ably pointed out, until old parity catches up.

The reason old parity is written into the bill is that it would bring back into play the very principle the distinguished Senator from Tennessee [Mr. GORE] has mentioned—that is, consideration of costs borne by the farmer.

Mr. GORE. If the Senator from North Carolina will yield further, as I understand, it is proposed to bring the level into play, if need be, and if circumstances are sufficient to bring it automatically into play, for the purpose of giving the farmer some protection against the possibility of an inflationary rise in his own costs. Is that correct?

Mr. JORDAN. That is exactly correct.

Mr. GORE. To that extent I agree that it is good. I am hardly convinced by the explanation of the able Senator from Kentucky, that the factors which have brought about the increase in price supports are intrinsically bad. It seems to me that they have had the very purpose and the very effect of relating the price support on tobacco to the level of our national economy.

Mr. COOPER. I hope the Senator will strike from his remark any reference that I said it was bad. I did not say that.

Mr. GORE. I certainly did not intend to place the Senator from Kentucky in a false light.

Mr. COOPER. I merely pointed out that these factors in the new formula have caused this automatic advance, which tobacco growers believe has reached the point where the price should be stabilized.

Mr. GORE. I certainly did not wish to say anything other than what is desired by the Senator from Kentucky, in referring to what he said. They have had the effect which we intended they should have, and I believe it must be measured, as I understand both Senators to say, by its effect upon the export market.

Mr. JORDAN. Not only the export market, but the domestic market also. Tobacco is the only commodity which is carrying itself. It is not costing the Government any money. The Government does not store tobacco. The tobacco farmers—through their tobacco cooperatives—do that themselves. They naturally do not wish to create a great surplus.

Mr. GORE. I agree that the tobacco price support program has been the most successful part of the price support program.

Mr. JORDAN. Yes.

Mr. GORE. It has been so successful that it alone retains 90 percent of parity in price supports.

Mr. JORDAN. That is correct.

Mr. GORE. It has been so successful through farmer-owned and operated cooperatives that I wish to see it continued. I wish to do what is necessary to continue it. I am raising these questions with that intent and desire. I feel some concern that the bill would abandon for purposes of the export market, a modern parity formula, and substitute

therefor a dollar-and-cents freeze. The bill has the advantage, as the Senator has stated, of having in reserve, so to speak, the old parity formula, which will provide some protection for the farmer.

I thank the Senator for yielding to me so generously.

Mr. JORDAN. I wish to add to the very fine statement of the Senator from Tennessee that the growers and warehousemen and exporters are all in favor of the bill. They are thoroughly agreed on it. Not a single tobacco grower organization from any State which produces tobacco was against it. They were all in favor of it.

Mr. GORE. I have a telegram from the American Farm Bureau Federation expressing concern about the bill.

Mr. JORDAN. That is the national organization. That is not the State organization in Georgia or North Carolina or South Carolina or Alabama or Kentucky or Virginia. Also every one of the tobacco farm organizations was represented, and every one of them was in favor of the bill. The bill was written at their request. It passed through the Committee on Agriculture of the House after hearings were held on it. However, the chairman of the Committee on Agriculture of the House, when there was some indication that the farmers did not understand the bill, and perhaps were not in favor of it, went to the various areas. I know he came to North Carolina. He called group meetings to explain the bill to the farmers. The farmers all said, "Yes; we are for it. That is what we want."

Mr. GORE. Is the Senator from North Carolina suggesting that if we must make a choice between the North Carolina organization and the national organization, he will look to his home State organization?

Mr. JORDAN. I have usually taken that attitude on various questions.

Mr. COOPER. Mr. President, I rise to speak in support of S. 1901. It was introduced by the distinguished Senator from North Carolina [Mr. JORDAN], and has been reported to the Senate by the Committee on Agriculture and Forestry, without a dissenting vote. I am very appreciative of the fact that the Senator from North Carolina asked me to join with him in sponsoring the bill. I assume he did so because of my interest in tobacco, and because my State of Kentucky is the largest producer of burley tobacco in the Nation, as the State of North Carolina is the largest producer of flue-cured tobacco.

I do not wish to take the time of the Senate to discuss the bill at length. However, because of questions which have been raised about the bill, and the apparent misunderstanding on the part of at least some Members of the Senate about its purposes, I wish to take this opportunity to make a record on the bill, in the hope that it will be helpful to Members of the Senate, and helpful in the proceedings which will take place in the House.

As my colleague from North Carolina has said, the pending bill is identical to H.R. 5058, sponsored by Representative W. PAT JENNINGS, of Virginia, which has

been reported to the House by the House Committee on Agriculture by an overwhelming majority. I believe there was only one vote against it in the House committee.

I must say frankly that this bill is opposed, as has been stated by the Senator from Tennessee [Mr. GORE], by the American Farm Bureau Federation, or at least by a majority of the directors of the national Farm Bureau organization. To my surprise, I understand that the Secretary of Agriculture has today sent a special message to the chairman of the committee voicing opposition to the passage of the pending bill.

As against this opposition, I point out that during the extensive hearings held by the House Committee on Agriculture representatives of tobacco growers, farm organizations, and tobacco cooperatives and associations in the major tobacco-producing States—States producing Burley, Flue-cured, Dark-fired, Dark Air-cured, and Sun-cured tobacco—testified in support of the bill.

I can say to the Senate that tobacco growers, tobacco warehousemen, tobacco dealers, tobacco export associations—and also the State farm bureau federations in the six major tobacco-growing States, which produce more than 80 percent of all U.S. leaf—support this bill.

Mr. President, I ask unanimous consent to have printed at this point in the RECORD a list of the organizations which support the bill. They are 35 in number, and include farm organizations representing tobacco growers in Kentucky, Tennessee, South Carolina, Georgia, Virginia, North Carolina, Wisconsin, Ohio, and Maryland.

There being no objection, the list was ordered to be printed in the RECORD, as follows:

ORGANIZATIONS SUPPORTING TOBACCO BILL

Interstate organizations: Burley and Dark Leaf Tobacco Export Association, Burley Auction Warehouse Association, Bright Belt Warehouse Association, Tobacco Associates, Flue-Cured Tobacco Cooperative Stabilization Corp., National Grange, National Farmers Union, Burley Leaf Tobacco Dealers Association, Leaf Tobacco Exporters Association, Plant Food Institute of North Carolina and Virginia, Association of Dark Tobacco Dealers and Exporters, Conn-Mass Tobacco Cooperative, Inc., National Cigar Leaf Tobacco Association.

Kentucky: Kentucky Farm Bureau, Burley Tobacco Growers Cooperative Association, Western Dark-Fire-Cured Tobacco Growers Association, Stemming District Tobacco Association.

Tennessee: Burley Stabilization Cooperative, Eastern Dark-Fire-Cured Tobacco Growers Association.

South Carolina: South Carolina Farm Bureau, South Carolina Grange, South Carolina Tobacco Warehouse Association.

Georgia: Georgia Farm Bureau.

Virginia: Virginia Farm Bureau, Virginia Farmers Union, Virginia Burley Tobacco Growers Association.

North Carolina: Farmers Federal Cooperative, North Carolina Grange, North Carolina Farm Bureau.

Wisconsin: Northern Wisconsin Cooperative Tobacco Pool, Inc., Wisconsin Tobacco Growers Association.

Ohio: Cigar Tobacco Cooperative.

Maryland: Maryland Tobacco Cooperative, Maryland Farm Bureau.

New York: Leaf Tobacco Board of Trade, New York City.

Mr. COOPER. Mr. President, I also ask unanimous consent to have printed at this point in the RECORD, a statement of the total amount of tobacco produced in the 1958 crop by six of the States mentioned in the list. The table indicates that these States produced almost 85 percent of all tobacco grown in the United States. The tobacco growers in these States support the bill.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Total tobacco produced, by selected States, 1958 crop

State	Number of allotments	Harvested (acres)	Production (thousands of pounds)
Kentucky.....	175, 147	220, 200	326, 348
North Carolina.....	139, 642	438, 300	755, 455
South Carolina.....	27, 127	76, 000	131, 100
Virginia.....	50, 724	83, 600	137, 678
Georgia.....	28, 842	59, 100	91, 018
Maryland.....	6, 852	34, 000	31, 450
Total, 6 States.....	428, 334	911, 200	1, 473, 049
Percent of tobacco produced by 6 States of the United States.....	173.9	84.6	84.8
U.S. total.....	579, 964	1, 077, 600	1, 736, 204

¹ Growers.

Mr. COOPER. Mr. President, before I speak about the purposes of the bill, I should say that I do not believe the opposition to the bill could be based upon the single and clear purpose of the bill itself, which is to limit the automatic and artificial yearly advance in the level of support prices for tobacco. If the opposition is for any other reason—if it is opposition against the tobacco program itself, or against the 90 percent price supports which Burley and Flue-cured tobacco have enjoyed for years—I do not believe that such opposition is relevant or is supported by the facts.

I myself have supported the existing tobacco program for tobacco growers, including the principle of support prices based on 90 percent parity, for that program has worked well.

In my remarks today, I shall explain the purpose of the bill, which is designed to protect that tobacco program. I shall also explain the reasons upon which the tobacco program rests. It has been the most effective farm program in the United States—for tobacco farmers, for the tobacco industry, and for the protection of the Government itself and the taxpayers, with respect to program costs and the revenue produced by tobacco.

The bill would amend section 101(c) of the Agricultural Act of 1949, which is itself an amendment of the Agricultural Acts of 1938 and 1948.

What is its purpose? The reports of both the House and Senate Committees on Agriculture describe it briefly as an amendment "to stabilize and protect the level of support for tobacco." I believe that is a very good short description.

But specifically, as the Senator from North Carolina [Mr. JORDAN] has said, the bill provides that the 1958 level of price support in dollars and cents—for example, 55.4 cents a pound for burley, determined by the so-called modernized parity formula—shall remain in effect, and shall not be increased until such time

as the level of price supports determined by old parity catches up with the 1958 level of price supports. After that time, the level of tobacco supports would be based on the lower of the two computations, whether under old or modernized parity.

The House report estimated that it would be from 3 to 5 years before old parity supports would equal the 1958 dollar-and-cent level of supports. So we can assume that support levels would remain stabilized at last year's level for at least that period—from 3 to 5 years. They could remain stabilized after that time, if the cost of the things which farmers must buy does not continue to advance.

I would like to comment on the differences between modernized parity, enacted by Congress in 1948 and reenacted in 1949, and old parity, which was established under the Agricultural Adjustment Act of 1938, and which prevailed until January 1, 1950.

Perhaps the simplest explanation is that old parity is a formula under which the prices a grower receives for his tobacco bear relationship only to the cost of some 300 products and services he must buy. Modernized parity introduces two additional factors. One is the average price over a constantly moving 10-year period. The second is that the level of prices for all other agricultural commodities is taken into consideration. These factors have no direct relation to the costs a farmer must bear.

The consequence of the modernized parity formula as applied to tobacco has been a steadily advancing level of price supports without relation to costs.

I point out again, as I did a few minutes ago in my colloquy with the Senator from Tennessee [Mr. GORE], that when the modernized formula was written into law, we sought to give assurance that there would not be the great drops in farm prices which occurred after World War I. We were looking to the point of protecting tobacco farmers in the years which were ahead. But it is a fact that the modernized formula, at least with respect to tobacco, has placed tobacco in difficulty, competitively, with the growing volume of foreign-produced tobacco. It could adversely affect the market and sales for tobacco in the United States. If this should occur, it could increase the Government's investment in crop-support loans, and could lead to acreage reductions for tobacco growers. I think we will all agree that tobacco growers cannot stand further cuts in their acreage allotments.

So the bill represents the initiative and voluntary action of tobacco growers and the tobacco industry to avoid these consequences—to prevent artificial increases in support levels, and to improve the competitive position of U.S. tobacco at home as well as abroad.

Failure to enact S. 1901 could result in the accumulation of surpluses by the Government, and in unnecessary cost to the Government and taxpayers. I know this is a matter of interest to Congress, and it should lead to the enactment of the bill.

But essentially—and I emphasize this point—the bill is for the benefit of the

tobacco growers. Its purpose is to maintain and protect their tobacco program, to maintain tobacco supports at 90 percent of parity, to encourage stable tobacco supplies and orderly marketing with a view toward maintaining tobacco's competitive position in domestic and world markets, and to prevent further drastic cuts in acreage allotments, something which tobacco farmers cannot stand.

It seems strange that opposition has developed to the bill sponsored by the States which grow tobacco, since it represents a voluntary effort on the part of tobacco growers and their organizations to improve and save their tobacco programs, and to check rising support prices which do not bear relation to the cost of things farmers must buy.

I have a high regard for the American Farm Bureau, having known throughout the years the members and leaders of the Kentucky Farm Bureau, and having supported their programs. The Kentucky Farm Bureau supports this bill. But the American Farm Bureau's opposition, if successful, would result in higher support prices for tobacco than tobacco growers themselves believe in their best interest.

And I think the opposition of the American Farm Bureau is inconsistent with its action toward other farm crops. The American Farm Bureau has advocated and supported legislation representing the judgment and the decisions of growers of other agricultural commodities—notably corn, cotton, and wool—as to the kind of program that is best for them.

Why, I ask, does not the American Farm Bureau accord the same consideration to, and have the same confidence in, the view of the overwhelming majority of tobacco growers that the existing tobacco program is best for them? That is their almost unanimous sentiment.

If, as I have suggested, any opposition to Senate bill 1901 is based upon opposition to the principle of a price-support program for tobacco, and particularly upon opposition to 90 percent of parity supports, or upon opposition to the concept of any price supports based on parity, such opposition is not relevant to this bill. As the Senate knows, support prices at 90 percent of parity for Burley and Flue-cured tobacco, and support for other types, have been in effect for years. Senate bill 1901 does not change this law—that is, price supports for Flue-cured and Burley tobacco at 90 percent of parity. Furthermore, this bill would return the tobacco program in time to the original concept of parity—that is, the relationship of the price the farmer receives for his tobacco to the prices of the materials and services he must purchase, in contrast to so-called modernized parity, which, as I have said, has certain artificial characteristics, and under which prices may rise, even though farmers' costs do not rise.

Today, I shall not elaborate on all of the reasons supporting the parity concept and full 90-percent supports for tobacco. In previous speeches in the Senate, I have set forth in detail those

reasons. But I shall emphasize the reason which makes the parity concept still applicable to tobacco, by saying that it still takes approximately the same amount of hand labor to produce tobacco that it did 25 years ago. With respect to feed growers, five times as much grain can now be produced with the same amount of labor.

A second basic reason is that tobacco has no open market such as other agricultural commodities enjoy. The uses of tobacco are limited. It must be sold to a dozen major tobacco companies and a handful of foreign buyers. If they do not buy, the farmer has no market for his cash crop, and his year's work is lost.

It has been proven by experience that the price paid by tobacco buyers for farmers' leaf tobacco is largely determined by the support price; the support price provides a floor which effectively protects the price of all cigarette leaf tobacco sold. The price paid the farmer for his tobacco is a comparatively small share of the price consumers pay, and the retail price paid for tobacco products bears little or no relationship to the support price for tobacco. The price paid farmers is a small share of the ultimate price of tobacco, and deserves protection.

A 90-percent price support for tobacco was enacted as a temporary program during World War II. When 90-percent supports were about to expire in 1948, I submitted, together with the late Senator Barkley, of Kentucky, the amendment—which was adopted by the Congress—which made 90 percent of parity supports for tobacco a permanent feature of law—or at least until Congress decides otherwise.

I speak now of another controlling argument. The present tobacco program, with price support at 90 percent of parity and strict production controls to match, has worked—as proven by the fact that nearly 100 percent of the tobacco farmers of the United States approve it, and have kept it sound and self-supporting.

Tobacco producers, cooperatives, and farm organizations have taken the lead in regulating and improving their own progress. The results can be quickly summarized; and in that connection I make the following points:

First, in the case of nearly every price-supported crop except tobacco, surpluses have continued to build up despite the best efforts of the Congress and the Department of Agriculture to control and dispose of surplus production. Record surpluses have increased year after year, despite the soil bank, efforts to cut prices, and enormous export and disposal programs—operated at great cost to the Government. And a record all-time high in crop production, except for tobacco, is forecast for this year.

In sharp contrast, however, to other farm products and other programs, Burley tobacco growers have reduced Burley tobacco supplies for 4 consecutive years. Under their program, stable marketing unknown in other programs has been achieved. I know of no other farm commodity which in any period for which

I have figures has succeeded in reducing its surplus in 4 consecutive years. Current Burley tobacco production is actually below the 1952 and 1956 5-year average. Similarly, growers of the other major cigarette type, Flue-cured, or bright leaf tobacco, have reduced tobacco supplies and have kept production under disappearance or consumption for the last 2 years. Such an achievement is almost unprecedented in these times.

Second, at least in regard to Burley tobacco, the reduction of production below consumption has resulted in an orderly disposal of the surplus from the 1954 crop. Since 1955, Burley stocks have been reduced 70 million pounds.

A third measure of the success of the tobacco program may be determined by reviewing the amount of tobacco which must be handled under price support—for, once price objectives have been reached for growers, it is highly desirable that as much as possible of the crop move into use through normal channels of trade. Support operations are designed to take price-depressing surpluses off the market; but the better the program operates, the smaller the surplus with which it must deal.

In the last 4 years less Burley tobacco has been taken under Government loan than in any period since World War II. Only 5½ percent of the Burley tobacco produced since the record crop of 1954 and the consequent sharp cut in acreage at that time, has required price support. In 1956, 1957 and 1958, price-support loans were made on the remarkably small amounts of 1.2, 3.4, and 2.4 percent, respectively, of Burley tobacco production—or an average of 2 percent of the crop taken under loan. That does not indicate an excess of supply.

Furthermore, even the Burley tobacco which went under loan and was added to pool stocks was offset many times over by larger sales of pool stocks.

I make a fourth point in support of the tobacco program: Department of Agriculture figures show tobacco to be the only price-supported commodity for which the Commodity Credit Corporation has realized a 100 percent rate of recovery on its investment. In this connection, I quote for the RECORD an analysis of tobacco program results from October 1933, to March 1959:

The March 31 "Report of Financial Conditions and Operations of the Commodity Credit Corporation" shows tobacco price-support program losses of \$4.4 million and supply program gains of \$4.8 million, or a net gain of \$400,000 to the Commodity Credit Corporation in tobacco program operations during this 25-year period.

This tobacco program has demonstrated a record of minimum price-support activity; reductions in surplus stocks; surplus disposal with full returns to the Government, plus interest, without losses; dependable tobacco supplies for the domestic and export trades; and good prices for farmers unparalleled by those of any other farm commodity.

In his agricultural message to Congress on January 11, 1954, the President said:

Each farm crop has its own problems, and these problems require specific treatment.

In regard to tobacco, the President stated:

Tobacco farmers have demonstrated their ability to hold production in line with demand at the supported price without loss to the Government. The relatively small acreage of tobacco and the limited areas to which it is adapted have made production control easier than for other crops. The level of support to cooperators is 90 percent of the parity price in any year in which marketing quotas are in effect. It is recommended that the tobacco program be continued in its present form.

I know—and I know this personally, because I have talked about it many times with the Secretary of Agriculture—that the President's recommendation was made with the knowledge and the approval of the Secretary of Agriculture.

I submit that nothing has occurred since 1954 to change the validity and truth of that declaration.

In closing, I point out that this bill will have the twin effect of providing a stable source of tobacco, without reduction in fair prices for farmers; and it will also encourage buyers, foreign and domestic, of tobacco to continue, and even increase, their purchases, because it will result in greater assurance of stabilized and competitive prices in future years.

A vote against this bill will be a vote for supports at a higher level than the growers themselves consider to be in their best interests.

This bill has the solid support of tobacco growers and all their organizations. I urge that the Senate pass it unanimously. I hope the House will soon pass it, and that it will become law.

I thank my colleague, the Senator from North Carolina, for his courtesy.

Mr. KEFAUVER. Mr. President, Senate bill 1901 would amend section 101(c) of the Agriculture Act of 1949. This section is an amendment of the Agriculture Acts of 1938 and 1948. Senate bill 1901 is supported and strongly advocated by tobacco producers. It represents a voluntary action on the part of tobacco producers to hold down support prices.

The modernized parity formula which would be utilized in the absence of enactment of this bill is unrealistically tied to costs and supports of other commodities. This bill will prevent the use of the modernized parity formula from resulting in a distortion of the support price, and will keep the price of tobacco from going too high, and will prevent tobacco becoming noncompetitive and unsalable.

The pending bill provides the following formula: The support price will be either the 1958 level or 90 percent of new parity, whichever is lower, until 90 percent of old parity exceeds either of these levels. Old parity refers to parity existing prior to the 1948 bill.

From here on, the support price will be 90 percent of the old or new, whichever is lower.

The tobacco program, unlike many other farm programs, has been successful. It has a record of minimum price-support activity; reductions in surplus; full returns, plus interest, to the Government on surplus disposal; dependable supplies for the domestic and export trades; and good, respectable prices for

tobacco farmers. This bill will allow continuance of this program and this record. I urge the Senate to pass the bill.

Mr. BUTLER. Mr. President, I call up my amendment identified as "5-20-59—A," and ask that it be stated for the information of the Senate.

The PRESIDING OFFICER. The amendment offered by the Senator from Maryland will be stated.

The LEGISLATIVE CLERK. It is proposed in the first section of the bill to strike out "Agricultural Act of 1948" wherever it appears therein, and insert in lieu thereof "Agricultural Act of 1949".

Mr. JORDAN. Mr. President, I accept the amendment as a technical correction of the bill.

Mr. BUTLER. Mr. President, is it in order to have a vote on the amendment, or is the acceptance of the amendment sufficient?

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Maryland [Mr. BUTLER].

The amendment was agreed to.

Mr. JORDAN. Mr. President, the distinguished Senator from Virginia [Mr. ROBERTSON] asked me to say for him, because he could not be here at this time, that the Farm Bureau of Virginia and the Farmers Union of Virginia have unanimously requested that this bill be passed. He asked me to state for him that he would make that statement if he were present, and that he would vote for the bill. His people in Virginia are unanimously behind the passage of the bill.

Mr. President, I wish to read from the report a line or two Secretary Benson transmitted to the House Committee:

This proposal is superior to the present legislation in that it prevents further price support increases for some time. However, the department feels that the bill is not adequate and the administration's tobacco program outlined above is far better.

But the Secretary has not offered anything better; and if the present law is not amended by this bill, tobacco prices are going to continue to go up and the farmers are going to price themselves out of business, or seriously damage themselves.

Mr. President, this is the only group of farmers I have ever seen come before a committee of Congress and unanimously ask that the Congress do something to cut prices. That is certainly unusual, but I think they realize if prices are not stabilized at about their present levels, the farmers will lose much of their market.

Mr. ELLENDER. Mr. President, will the Senator yield?

Mr. JORDAN. I yield.

Mr. ELLENDER. I wish to say that the Committee on Agriculture and Forestry reported the bill unanimously. All Senators present voted favorably.

I desire to read one paragraph from the report by the Secretary of Agriculture to the House committee. The letter is dated March 10, 1959, and is addressed to Hon. HAROLD D. COOLEY. It states, in part:

This proposal is superior to the present legislation in that it prevents further price support increases for some time. However,

the Department feels that the bill is not adequate and the administration's tobacco program outlined above is far better.

But it is my belief, as my good friend from North Carolina has just stated, that this bill is a step in the right direction, in that it freezes the support price and will not permit it to go higher than it was in 1958, until the parity index rises 11 percent in the case of Flue-cured and 16 percent in the case of Burley tobacco.

Running true to form, the administration, through Mr. Benson, seems to take the position that if they cannot get what they want, they do not want any bill at all. But I think it is a wrong attitude.

I send to the desk a letter I have just received from Mr. Benson, indicating his opposition to the bill, and I ask unanimous consent that it be printed in connection with my remarks.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

THE SECRETARY OF AGRICULTURE,
Washington, May 21, 1959.

HON. ALLEN J. ELLENDER,
U.S. Senate.

DEAR SENATOR ELLENDER: Inquiries to the Department indicates there is some doubt as to whether or not the Department favors passage of S. 1901 concerning tobacco price supports.

In order to further clarify our position it should be understood that in our view the bill is inadequate. It will not accomplish the adjustment needed to regain lost markets and preserve existing ones. Therefore, the bill in its present form should not pass.

Sincerely yours,

E. T. BENSON,
Secretary.

Mr. HOLLAND. Mr. President, I suspect that Senators are correct in their statements that this is the best that can be done under the prevailing situation. I am not sure that is the case, but certainly the pending bill will prevent the support prices of both flue-cured tobacco and burley tobacco, the principal varieties which are in trouble, from going up slightly under the present law, as they will this year unless this bill is passed.

My understanding is that there will be an increase in the support price of between 1 cent and 2 cents a pound, which must be announced under the present law, unless this bill is passed. So far as that objectives goes, I think the bill is good, because it is very apparent that the prices at which we have been selling tobacco have been such that we are losing foreign markets.

Mr. President, I should hate to see the tobacco industry fall into the fearful condition into which the cotton industry has fallen, as was recognized by the passage of the remedial legislation last year, and which will have to be improved before we find a permanent solution. Yet that is the direction in which we are going.

Mr. President, I wish that the bill went a good deal further. I share the feeling expressed by the Under Secretary of Agriculture in his letter, to the effect that this proposed legislation does not go far enough, because it is a lamentable fact that we have lost markets under the price supports of last year, which will

be continued indefinitely under the provisions of this bill. So it must be clearly apparent that the mere continuation of price supports at that level simply prevents the situation from becoming worse, but does not apply any affirmative approach to the problem.

Mr. President, one of the things which it seems to me is faulty about this bill is that it proposes to give effect at the same time to old parity and to modern parity, and to strike them off as against each other with reference to tobacco, and to take from the two a choice which is made by the provisions of the bill, for an indeterminate time in the future.

Mr. President, if parity is just, and if there is justice in applying it to other basic crops, I think there should be justice in applying it on a fixed basis to this crop. I think it will be very hard to defend and explain why there should be continued this double approach in the case of this one basic crop only.

I think the worst feature of the bill is that it recognizes the fact that the Secretary of Agriculture must cut down acreage allotments, and doing that sounds the death knell to some tens of thousands—and really the numbers might go up to as high as several hundred thousand—of small farmers who produce tobacco on acreages now in the neighborhood of 1 acre, and many of them less than 1 acre. My recollection is that when I saw the burley tobacco figures for the two States of Tennessee and Kentucky a short while ago, they showed an average acreage of about an acre, with something like, to the best of my recollection, 200,000 producers in Tennessee, and I forget the number in Kentucky.

Mr. President, it is tragic to cut the acreage of those very modest farmers for whom the production of tobacco is a family enterprise, since the entire membership of the family works at it, and for whom tobacco is the principal cash crop.

The only alternative left to the Secretary of Agriculture and to the tobacco producers, unless a bill such as is before the Senate is enacted into law, is a forced and sizable reduction of acreage.

Mr. COOPER. Mr. President, will the Senator yield?

Mr. HOLLAND. I have one more point to make and I shall be through, and then I shall be glad to yield.

Mr. President, it would be far from wise, it seems to me, to retain the old measure of parity, the old standard, even if the production of tobacco today were on a level with production in the old years when that was the legal formula prescribed.

Under the improved methods of production the average crop per acre has gone up, up, and up, and is continuing to rise. To me it is completely unrealistic to reach back into the remote past and to attempt to use a standard of computation of parity which was enacted to deal with conditions prevailing a long time ago.

Mr. President, the only thing good about the bill that I can see is the fixation of a price or a ceiling or a frozen support price for tobacco for this year and perhaps for next year. I would

much prefer to have the bill limited to that. If it were so limited, I think the bill would be much more defensible than it is now.

If the Congress continues to move without recognizing the fact that tobacco is losing its markets overseas, thus cutting itself out of a substantial part of its outlet, we are going to find more and more misery in the tobacco industry and less and less realism in the law as it applies to the industry.

I now yield to the Senator from Kentucky.

Mr. COOPER. Mr. President, I appreciate the friendly attitude of the Senator from Florida toward the tobacco growers and their problems.

I understood the Senator to say that as one consequence of this bill he foresaw a reduction in tobacco acreage. I should like to point out that one of the purposes of the bill is to prevent reductions in tobacco acreage and in individual tobacco acreage allotments. It is believed the bill will have an effect in that direction.

As I said before, in each of the past 2 years for Flue-cured tobacco, and in each of the past 4 years for burley tobacco, actual production has been less than disappearance—that is, domestic consumption plus exports.

Mr. HOLLAND. Mr. President, I certainly recognize the highly conscientious motives of the Senator from Kentucky. The Senator and I stood together in 1948 on the Senate floor in fighting for a realistic tobacco program. I think the Senator will find, if he checks the vote, that the votes of the two Senators from Florida were the determining factor on the question of securing a preferred status for tobacco under the price support program, a status to which I think it is entitled because of its peculiar situation in many respects, which we do not need to mention at this time. That has been consistently my position since that time. My voice has been raised in support of that philosophy always. I hope it will continue to be so raised.

The point I am making is that I do not think this bill represents a realistic approach to the problems of the tobacco industry in any particular except the freeze for about 2 years. If I allowed my vote to be an indication of my approval of all the other provisions of the bill, I would certainly not be doing the fair thing to myself or to the growers of my State, who are in doubt about the other provisions of the bill. As a matter of fact, the president of the Farm Bureau of my State has been in touch with me insistently suggesting that we should amend the bill to make it provide only for a 2-year price freeze.

We should let it be distinctly understood throughout this debate, in the reports, and in the conference report and every other place, that this is a stopgap measure, recognizing the fact that the red signals are out, and that we have to improve the program as a whole or it will fall under its own weight.

Mr. JORDAN. Mr. President, I wish to say, in that connection, that the tobacco industry—the warehousemen, the growers, and others interested in tobacco realize this is not a perfect bill. The

tobacco industry knows that and is working on the problem. Efforts are being made to bring forth something which would cure the ills, or at least prevent them from becoming worse than they are. The tobacco industry is really not in bad shape at present, but it may be soon unless something is done. I am sure it will be possible to devise a more effective approach, but this is the answer for now, and for next year.

We need to pass the bill presently under consideration so that the buyers will know what they should pay for tobacco and the growers what they should sell it for. Otherwise, the market will be confused.

Mr. HOLLAND. Mr. President, I appreciate the serious, sincere, and conscientious approach of the Senator from North Carolina. I only suggest that, in my opinion, it is a mistake to provide a permanent law—and that is what the bill will become under the wording, as introduced—and to try to continue the two standards of computation of parity, which are not the same and which contrast with each other. I do not believe we should provide that from time to time there shall be a choice or selection, in the case of this one basic commodity, between those two standards. I think every one of us who speaks upon this measure, which is an important measure, should sound a challenge to the industry and to those who are best prepared to guide it, to come forward with something a great deal more meaningful than is the bill now before us.

This bill would stop the support price from increasing further, but it would stop it at a level which has already priced us out of a large part of our foreign markets. I think that is completely unrealistic.

I thank the distinguished Senator.

Mr. ERVIN. Mr. President, will the Senator yield?

Mr. JORDAN. I yield to my distinguished colleague from North Carolina.

Mr. ERVIN. I merely want to commend my able and distinguished colleague and the able and distinguished Senator from Kentucky [Mr. COOPER] for the work they have done in regard to the bill. While the bill is not a perfect measure, it is, it seems to me, a very sensible bill, in view of the conditions which now exist. I thank these two Senators in particular and the other Senators who have supported them in their efforts in the Committee on Agriculture and Forestry, for they all deserve praise for the great work they have done.

Mr. JORDAN. I thank the senior Senator from North Carolina.

Mr. AIKEN. Mr. President, I wish to say that the objectives of the bill are very, very good. No one will question that.

The United States at one time was the world's principal supplier of tobacco. Even up until recent years, 50 percent of our tobacco production was exported. However, during the past few years, though the consumption of tobacco in the world has been increasing at the rate of about 5 percent a year, exports from the United States have been falling off rather rapidly. The tobacco business of the world has been moving to other

continents. The reason for that, of course, is the price.

The tobacco growers have realized for some time that they have a difficult future to face. They realize they cannot go on reducing allotments without creating trouble for many thousands of them, as the Senator from Florida has said.

The bill purports to hold the support price for tobacco at not more than its present level. There is some disagreement as to the best means of achieving this end. Personally, I doubt if holding the support price at the present level, or approximately at the present level, would do very much toward recovering world markets, because tobacco can be produced for so much less in other countries. However, to have the support price go higher would undoubtedly be very harmful to the entire tobacco industry.

I am glad that some move has been made toward correcting the situation. Whether it is exactly the right move or not, I hope that we shall continue to face the problem until we improve upon the present situation, and enable our tobacco industry to take steps to recover some of its traditional markets, which will be difficult, at best.

Some reference has been made to a misunderstanding about the bill. I think the reference applies to the fact that there was a feeling among many Members of Congress—even members of the Committee on Agriculture and Forestry—that if the Department of Agriculture did not actually favor the bill, it was not strongly opposed to it. At least, I had that feeling at the time the bill was reported from the committee.

However, I have received a call from the Secretary of Agriculture, stating that the Department is opposed to the bill in its present form, for the reason that it seeks to achieve the objective by permitting tobacco to go back to the old parity formula, with its varied base periods. The base period in each case would be the one which was most favorable to each particular type of tobacco. The Department of Agriculture seems to feel that this would give privileges to the producers of tobacco which would be denied to the producers of other price-supported commodities. It was the varying base periods for different commodities which outmoded the old parity formula in the first place, and brought about the adoption of a new parity formula in the year 1948.

I think the new parity formula is very fair to tobacco. It raises the price. When we consider the cost of production in the United States, it undoubtedly costs more to produce tobacco here than formerly. Some commodities are favored by the new parity formula, while others are penalized. Many commodities are produced by new, push-button methods, so that the parity formula hardly applies at all. With respect to certain commodities, a substantial profit can be made at 60 percent of parity, while with respect to others, a producer can hardly break even at 90 percent of parity. The parity formula as a whole has not been able to assimilate technological and biological progress in the

past 10 years, and it is therefore outmoded.

However, the Department of Agriculture takes the position that we would not be making progress by going back to a system permitting producers of each commodity to select a base period which would best serve their purposes. If we are to continue the parity formula as a yardstick, the Department feels that it should be applicable to all kinds of agricultural commodities.

The Department feels that if the bill holds the line at approximately the present level of supports, it will not go very far toward recovering markets which have already been lost. As a result, it will probably mean still further reductions in acreage allotments for tobacco growers with certain sized operations.

I am sure that final approval of the department is very important. In order to overcome the objection of the Department, I wonder if, instead of going back and using different base periods for tobacco, which are out of line with the base periods for any other commodities, the sponsors of the bill would not be willing to freeze the support prices for the various types of tobacco at a dollars-and-cents level not exceeding the present level. I do not know whether the Department would approve that, but I do not see how it could object to it, however. I believe that the prospect of improving the situation, or preventing it from deteriorating would be better if, instead of freezing tobacco parity prices on the basis of different base periods, we would merely freeze support prices for a 2-year period at present levels, and in the meantime try to arrive at some plan which could be approved not only by the tobacco industry, but by the Agriculture Department as well.

I am presenting the case of the Department of Agriculture as it has been given to me. I have before me copies of two letters which were sent to the chairman of the committee. I am sure he has no objection to placing them in the RECORD.

Mr. ELLENDER. I have already placed the Secretary's letter to me, dated today May 21, in the RECORD. I believe the Senator from North Carolina [Mr. JORDAN] has placed the Under Secretary's letter of May 19 in the RECORD.

Mr. AIKEN. The one dated May 19 was not to take a direct position. It did not say positively that the Department disapproved the bill.

Mr. JORDAN. Both letters have been placed in the RECORD.

Mr. AIKEN. The letter of May 21 is specific, and the Secretary signed this one himself. The first letter was signed by the Under Secretary, but the one signed by the Secretary himself is specifically to the effect that the Department does not approve the bill, and therefore, that the bill in its present form should not pass. It would have been helpful, of course, if we had that information earlier.

Also, at least one farm organization was lamenting the fact that it had no opportunity to be heard before the Senate committee.

If we could freeze the support prices at the present dollars-and-cents levels

for various types of tobacco, it seems to me that would overcome the objection of the Department.

Mr. JORDAN. Mr. President, will the Senator yield?

Mr. AIKEN. I yield.

Mr. JORDAN. The tobacco industry has made an extensive study of that very question, and has arrived at this answer. If the support price is frozen for 2 years, every one will know exactly what the price of tobacco is to be for the next 2 years. Purchasers would not buy any more tobacco than they needed for daily use.

Mr. AIKEN. I do not see how the pending bill would lower the support price substantially over the next 2 or 3 years. Some claim that it would require longer than that.

Mr. JORDAN. It might or it might not; but there is no definite price for all the tobacco grades.

Mr. AIKEN. I understand that the Senator from North Carolina and the Senator from Kentucky [Mr. COOPER] are extremely desirous of taking action, and that they have the support of most, if not all, of the tobacco growers in their States.

Mr. JORDAN. Tobacco growers in every tobacco-producing State favor the bill.

Mr. AIKEN. I commend the Senator from Kentucky for working for their States and industries.

Mr. JORDAN. They are the ones who are involved.

Mr. AIKEN. I cannot help but feel that they are putting the wrong foot forward first. I had hoped that there could be something more lasting, and something which would meet the approval of the administration, and at the same time be acceptable to the industry.

Mr. JORDAN. As a member of the committee, I believe the Senator from Vermont will admit that I would be one of the first to go to work on the problem if the Department were to submit a bill. Unless something is done to keep the price from going up, growers will not be able to sell the 1959 crop.

Mr. AIKEN. I felt that the official and final position of the Department of Agriculture should be made clear for the record.

SEVERAL SENATORS. Vote! Vote!

Mr. COOPER. The Senator from Massachusetts [Mr. KENNEDY] has asked me to insert in the RECORD for him a statement in support of the bill. I ask unanimous consent that I may do so.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR KENNEDY

I wish to record my support for S. 1901. Tobacco growers and the grower organizations in the tobacco-producing areas are to be commended for coming forward with this proposal. The foresight, initiative and, in fact, the courage they have shown in this instance is an expression of one of the best reasons for the outstanding success of the tobacco program.

While the types of tobacco produced in Massachusetts are not included under the bill—because action along similar but more drastic lines was already taken at the request of the growers in the Massachusetts and

Connecticut area last year—they have advised me of their support for this bill. I would like to quote a sentence from a letter address to me by Mr. Samuel J. Orr, general manager of the Conn-Mass Tobacco Cooperative, on behalf of the officers, directors, and more than 2,000 members of that organization: "The tobacco price support program has always been conducted on a sound basis, and we believe this legislation will help to keep it that way."

I am happy to give my support to the tobacco growers of our country.

The PRESIDING OFFICER. The bill is open to further amendment. If no further amendment is to be offered, the question is on the third reading of the bill.

Mr. DIRKSEN. Is the question on the third reading of the bill or on the amendment of the Senator from Vermont?

The PRESIDING OFFICER. The question is on the third reading of the bill.

Mr. AIKEN. I offered no amendment. I suggested, in the interest of better prospects of getting the bill through Congress, that it be changed in the way I mentioned. The sponsors of the bill did not accept my invitation, as I understand, to make any changes in the bill. Therefore there is no change, and the question is on the third reading of the bill.

Mr. JORDAN. The Senate committee reported the bill, and the Committee on Agriculture in the House reported the bill. This is as good a bill as we can get.

Mr. YOUNG of North Dakota. Mr. President—

Mr. DIRKSEN. I should like to get the RECORD clear. Has the third reading been consummated?

The PRESIDING OFFICER. It has not been consummated.

Mr. YOUNG of North Dakota. Mr. President, I am supporting the bill because it retains the parity concept. If we do away with the parity concept and adopt what the Secretary of Agriculture wants us to adopt, we will have a meaningless price support program. I wish to commend the tobacco producers for retaining the concept, even though it may be necessary to freeze prices at the present level. If the bill proposed to do away with the parity concept, several of us would have to oppose it.

Mr. DIRKSEN. Mr. President, I believe that a slightly round case should be presented with respect to this measure, which relates at once to the whole agricultural program. It was on January 29 of this year that the President sent his farm message to Congress. There were two items of particular interest in it. It is not necessary to examine all the language of the message. However, that message is keyed to one sentence. It is that the "price support and production control program is not working." That was the basis and the theme of the message.

Ostensibly, having stated that, it was necessary, in the interest of some kind of farm program, to submit a recommendation to Congress. I believe the whole recommendation can be compressed into two sentences. The first one is this: "Prices for commodities which are subject to mandatory supports should be related to a percentage of the average mar-

ket price for immediately preceding years."

That was the essence of the recommendation. Then there was a corollary to this effect: "The percentage should be discretionary with the Secretary at a level not less than 75 percent and not more than 90 percent."

If I had to paraphrase the whole message, that would be it; first, that the farm program is not working; second, in the case of commodities on which there are mandatory supports, the program should be related to a percentage of the market price, rather than parity, for the years immediately preceding; furthermore, that there should be an element of flexibility, to be exercised by the Secretary of Agriculture.

With that message came a sort of informative memorandum. Among other things, it contained information with respect to tobacco. I believe that the first important observation in that ancillary memorandum was that in respect to tobacco, we are losing our export markets. That was emphasized by the distinguished Senator from Vermont [Mr. AIKEN]. I need only elaborate a little on that situation. It is a matter of deep concern. It is not only a matter of concern with respect to tobacco, but also with respect to fabricated products and other products. However, since tobacco is the commodity which is before us at the present time, that is where the emphasis should be placed.

We go a little further. We wonder why we may be losing our export markets. This memorandum supplies at least a partial answer. It says that foreign buyers are changing blends and turning elsewhere, and that we may never get those markets back.

That would be pretty serious for tobacco growers; indeed, it would be very serious for the producer of any commodity in this country. It would be serious for the fabricator of any product or commodity in this country, if there were a danger that the market, once lost, could never be retrieved.

The other observation on tobacco was that price supports under the present law continue to go up, domestic acreage goes down, and foreign acreage is expanding.

I recall the long discussions which took place both here and in the other body. I see on the floor the distinguished chairman of the Committee on Agriculture of the House, with whom I served for a long time in the House. He is a gentleman of great distinction. Also present on the floor is a distinguished gentleman from Texas, with whom I also served in the House. I remember the debates we had about losing our cotton markets abroad. It became a matter of deep concern. Here the Department of Agriculture says that we are losing our foreign market, that our domestic acreage is decreasing, and the foreign tobacco acreage is expanding.

That is a rather unhappy prospect. That is a matter for the future. We must look down the road and envision a program which deals not only with the present but also with the future. If our markets are slipping now and they con-

tinue to slip, at what point can we effectuate a turnaround and retrieve the situation? If the market is gone, it may be difficult to get it back.

With respect to the tobacco situation, I go back now to the memorandum alluded to a moment ago in the colloquy with the Senator from Vermont [Mr. AIKEN], the memorandum from the Department of Agriculture dated the 19th of May. That was only 2 days ago. In sum, the observation is, first, that world consumption of tobacco is going up at the rate of 5 percent a year. Therefore it cannot be said that tobacco production may be suffering one way or another, because world consumption is going down. If the figures are correct—and I have no reason to dispute them—world consumption of tobacco averages an increase of 5 percent a year.

The second point is that U.S. exports are decreasing at a relatively rapid rate. If it were a minor deterioration in that field, or if it were a rather slow decrease, it might not be a cause for alarm. However, when the Department

says it is a relatively rapid decrease, then it becomes a matter of some concern.

Mr. COOPER. Mr. President, will the Senator yield?

Mr. DIRKSEN. I yield.

Mr. COOPER. On the question of exports, it might be well to get into the RECORD certain facts. I have reports of the Department of Agriculture in my hand. In the first place, even flue-cured tobacco, according to the latest May 1 records of the Department of Agriculture, during the first 9 months of fiscal year 1959 had an increase in exports over the same period last year. So far as burley tobacco is concerned, exports in calendar year 1958 were 40 percent higher than in 1957.

Therefore, all the talk about the serious decline in exports should be met by the record. Mr. President, I ask unanimous consent to insert these tables in the RECORD at this point.

There being no objection, the tables were ordered to be printed in the RECORD, as follows:

U.S. exports of unmanufactured tobacco by types and to principal importing countries for specified periods

[Declared weight]

Country and type	Average 1951-55	1956	1957	1958	July-January		
					1957-58	1958-59	1958-59 as percentage of 1957-58
Flue-cured.....	Million pounds 405.6	Million pounds 420.4	Million pounds 417.7	Million pounds 398.7	Million pounds 288.4	Million pounds 300.4	Percent 104
Burley.....	27.7	29.2	20.5	28.8	9.5	16.0	168

Source: March, 1959 "Tobacco Situation," AMS USDA.

U.S. tobacco exports, March 1959, with comparisons

[1,000 pounds, farm-sales weight]

Type	March			Fiscal year to date, July-March		
	1959	1958	Percent change	1958-59	1957-58	Percent change
Flue-cured.....	25,550	29,700	-14.0	377,790	374,700	+0.8
Burley.....	4,800	4,048	+18.6	25,275	18,546	+36.3

Source: USDA, CSS May 1, 1959.

Mr. DIRKSEN. When I made the statement, I said that the information was contained in the memorandum submitted by the Department of Agriculture. I wish to stand by the words of the memorandum. I am not unappreciative of the fact that when we carry on a subsidy program under the so-called Development and Assistance Act, which is commonly referred to as Public Law 480, that, of course, may account, in part, for the figures mentioned by the Senator from Kentucky. However, I cannot imagine that the Department would have set down in a formal memorandum that our export markets are decreasing unless the statement was based upon the best statistical evidence which the Department of Agriculture could adduce.

The third item was that tobacco for many types is dependent upon exports. That would be consonant with prior statements by the Department.

Then it was said that the present support program—and this is a rather un-

happy, but I think an accurate, phrase—with its built-in system of constant increases will, over the next 10 years, cause the loss of most of our commercial export markets and force us to a 100 percent domestic utilization. With that consummated fact, in a 10-year period, I should say that our tobacco growers would be deeply in debt. I lament the thought of the day when we shall be thrown back upon domestic consumption entirely for any crop produced in this country.

If that happens, then it may be that the controls we will see will beggar all description, or else there will be no kind of regulation whatsoever.

But the impact upon the price level may be an unhappy one, indeed. There could be only one offset, and that would be to cut down the supply, if a commodity cannot be sent into the world markets, but must be used in this country.

Tobacco supports must be geared to modern production techniques. There

has been allusion to old parity and modernized parity. As long as I have been laboring with this problem, I still become somewhat confused at times.

Old parity and modernized parity rely heavily on price relationships on the day, formerly on mule and plow, or man and hoe. But this is a different age, with a different technology, and we must recognize that fact.

Mr. YOUNG of North Dakota. Mr. President, will the Senator yield?

Mr. DIRKSEN. I yield.

Mr. YOUNG of North Dakota. The present so-called modernized parity formula still uses the 1910-14 base period. Would the Senator from Illinois favor deleting the 1910-14 base period reference and using the same base period as labor and industry are using, namely, 1947-49?

Mr. DIRKSEN. I do not know whether I would or not, as a matter of fact.

Mr. YOUNG of North Dakota. I do not think the Senator would, because to do so would increase parity.

Mr. DIRKSEN. We have to spell out all the details. When it is reduced to paper, we look at all the figures, we consider the price index on both sides of the ledger, we do a little puzzling, and we come to a conclusion.

Mr. YOUNG of North Dakota. I am one who favors deleting the reference to the 1910-14 base period. I want the formula to be modernized. I want to use the same parity as labor and industry use.

Mr. DIRKSEN. I would not quarrel with that, one way or the other. I simply say that in every case the problem is resolved in language and in terms which can be understood; then we determine whether or not it is acceptable.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. DIRKSEN. I yield.

Mr. AIKEN. I would not quarrel with what the Senator from North Dakota said. If the period 1947-49 is good for industry, it ought to be good for agriculture. However, the effect would be simply to aggravate the situation we are considering today. Tobacco, instead of being supported at 56 cents or 58 cents, would be supported at a price considerably higher than that.

One reason why the modernized parity formula has increased the parity price of tobacco is that a large part of the production of a tobacco crop still requires the use of much hand labor, the cost of which has gone up. Pushbutton agricultural enterprises, in which there is hardly any hand labor used any more, can do much better at a lower percentage of parity.

But the Senator from North Dakota has a good point. We are using one absolute period on which to base farm prices and another one on which to base industrial prices and wages.

The parity formula, as I have said, is today obsolete for a good share of the crops, because there has been no way found to give a weighting to the use of hormones, weed killers, and all the other new technological inventions. They cannot be woven into the parity formula to give them a weighting. I have been

seeking for years to have that done, but I am told there is no way to do it. Nevertheless, those factors have made it possible to produce very large crops at half the cost of 20 years ago.

Mr. DIRKSEN. If it is desired to adopt the most current kind of formula, it should be the one recommended by the Department, namely, a 3-year average of prices for the 3 preceding years. That would be the most current formula which could be adopted.

Mr. YOUNG of North Dakota. If that parity formula had been in effect in 1934, when the average price for wheat for the 3 previous years was 33 cents a bushel, the price would have been 75 percent of 33 cents a bushel, or 26 cents a bushel; and that would be meaningless. That is why I oppose such a plan.

Mr. DIRKSEN. That would be for only 1 year. There would be nothing to prevent Congress from examining into the question after that, in 4 or 5 years. That would be a matter of legislative determination. But at least there would be a striking of an average of the preceding years.

From all the observations by the Department, as carried in the memorandum which was submitted, they came to the conclusion that if there is to be legislation, it should follow one of two courses. First, it should relate support price to market price or market average. That is one course.

If it is desired to go back to parity, then the Department says if parity is used, wide discretion should be given to the Secretary with respect to support levels. The bill does not gear itself to average market price, and the discretion is not there. So it is understandable why the Department of Agriculture opposes the bill, and I think it is understandable why the American Farm Bureau Federation opposes the bill.

If I had to assign reasons in very brief compass, they would be, first, that the bill freezes price supports at current high levels. Actually, tobacco prices, if I understand the business, could advance, and probably would advance. The bill sets a limit so that they cannot advance.

It can well be argued in that respect that this is a pretty acceptable approach. I suppose, in terms of the suggestion made by the distinguished Senator from Vermont [Mr. AIKEN], if it were done on a dollars and cents basis for a very limited period, with whatever other qualifications there were as a stopgap, that might be all right.

But if prices are frozen at the current high levels, we certainly will not come to grips with the foreign export problem which now exists. If we try to change the level, get it down, or modify it, we will have difficulty. Meanwhile, if the figures submitted by the Department are correct, it means that there will be a steady deterioration in our export markets, and that the amount of the exports will continue to go down, down, down.

The second reason assigned by the Department is that to go back to parity, both old and new, actually we will be picking up an old, discredited formula, so that there will be one price support

formula for one commodity and another formula for another commodity.

The third point is that there would be a dual standard of parity prices.

These, in the main, with the possible exception that some little advantage might be given to tobacco growers over the growers of other commodities, are the basic reasons why the Secretary of Agriculture is opposed to the bill.

I felt, in all fairness, that I had a responsibility to make that case in a rather rounded context. There I shall leave it. But I thought I should express to the Senate the fact that the Farm Bureau Federation opposes the bill. However, in fairness, I think it must be said that some of the State farm bureau federations favor the bill. Very likely in Kentucky the State federation favors the bill. I am not positive of that; I presume they do. But the American Farm Bureau Federation opposes the bill on larger grounds.

The Department of Agriculture opposes the bill, because it does not believe the bill does the job which needs to be done.

That is the case with respect to the bill, as unemotionally made as I can make it. I am content to rest it there.

Mr. KEATING. Mr. President, will the distinguished Senator from Illinois yield to me?

Mr. DIRKSEN. I yield.

Mr. KEATING. Some of these farm problems have to be stated rather simply for the benefit of some of us who are far from being experts in these fields—although I know of the clear grasp the distinguished Senator from Illinois has of these problems, as well as of all others with which he has to deal.

Mr. DIRKSEN. Mr. President, I wish I could be sure of that.

Mr. KEATING. Would it be fair to conclude—or would it be an oversimplification—that the position of the Department is that the present formula would eventually, at least, result in lower prices for tobacco than would be brought about by the proposed legislation now before us; and that, therefore, the tobacco growers and distributors in the United States would be better able to compete in the foreign market?

Mr. DIRKSEN. That would be one factor; but the Department has to look down the road and to think in terms of a period of years, for the benefit of American agriculture. So, as the Department sees the export market decreasing, and—and more important—as it sees the foreign acreage of tobacco expanding, with a possibility that American growers will never get back the market, the question then is, what is the best course to pursue, not only for the American tobacco growers, but also for all those who are identified with the tobacco industry, because the problem is not alone a growers' problem.

Mr. KEATING. No, it is not.

Mr. DIRKSEN. As the Department sees that problem in the large, it believes that, of course, there must be flexibility in the program, and it must not be frozen at a level which would not give the American growers a chance to compete; and the Department believes that the

American producers can successfully compete in the world market, insofar as tobacco is concerned.

Mr. KEATING. I do not wish to seem parochial about the matter. In my State, tobacco is not produced; but in my State there are many persons who are engaged in the distribution of tobacco.

The argument the distinguished Senator from Illinois has advanced impresses me—as does the opposition of the American Farm Bureau, for which I have such high regard—with the fact that probably the interests of the distributors of tobacco would not be served by the enactment of this proposed legislation.

Mr. COOPER. Mr. President, on that point, will the Senator from Illinois yield to me?

Mr. DIRKSEN. I yield.

Mr. COOPER. Evidently the Senator from New York is interested in the position of the tobacco export associations. I previously placed in the RECORD a statement showing that 34 tobacco associations, organizations, and representative groups of growers, distributors, and warehousemen support this bill; all of them support it. Among them is the New York Exporters Associations—the Leaf Tobacco Board of Trade in New York City—as well as the Leaf Tobacco Exporters Association to which several New York firms also belong. I know that.

Mr. KEATING. Am I to understand that the dealers in tobacco and the export associations unitedly support this bill?

Mr. COOPER. Yes. I will give the Senator from New York the list which shows that the New York Exporters Associations strongly support this bill. I refer the Senator also to the statement on page 4 of the House committee hearings on March 25 of a representative of the Leaf Tobacco Board of Trade of the city of New York.

Mr. KEATING. I shall be exceedingly interested in seeing it. Is the distinguished Senator from Kentucky able to enlighten us as to the basis for the support of the bill by the exporters associations?

Mr. COOPER. Certainly. The distinguished Senator from North Carolina [Mr. JORDAN] elaborated very clearly on that point only a few moments ago. It is as follows: Under the present modernized parity formula, there is an automatic advance in prices. Evidently the price has reached a point where foreign purchasers think it is too high, and they are now buying from other sources, although they prefer American tobacco.

One point which has not been brought out is that in the tobacco industry the purchasers do not purchase for current use, or even one year's supply; instead, they may stock suppliers for several years in advance of use, because the tobacco has to be aged and processed.

If we were to enact a 1-year or a 2-year freeze, they would not know what would happen. They simply would not buy tobacco; or else they would buy only for their minimum and immediate needs. But if they know the price will be stabilized over a period of years, they will buy more tobacco.

Evidently that is the reason why the tobacco export associations are favoring this bill.

Mr. KEATING. I appreciate the explanation given by the distinguished Senator from Kentucky; and I thank the distinguished Senator from Illinois for yielding.

Mr. DIRKSEN. Mr. President, I have only one other observation to make: As in the case of New York, no tobacco is produced in my State. But that is no reason why I should not be interested in tobacco, because it is a part of the agricultural economy; and that economy moves either up or down in the case of either wheat, soybeans, tobacco, or any of the other commodities which are parts of our overall agricultural economy. I would certainly be distressed if at some time in the future we were to come close to losing our entire export market. In that event, in order to use up the crop on a domestic basis, what would have to impress itself upon the tobacco growers would be, indeed, a very unhappy thing; and it would have to translate itself in terms of the most drastic controls, if any kind of a livelihood were to be made from the production of tobacco. But that could not be done in the case of only one crop without having the effect of such a policy felt by all other crops in the entire agricultural domain.

That is why the problem dealt with by the pending bill cannot be considered apart or isolated from the problems of the rest of our agricultural economy.

Mr. President, I believe I have fairly stated the case; and there I am content to leave it.

The PRESIDING OFFICER. The bill is open to further amendment.

If there be no further amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill (S. 1901) was ordered to be engrossed for a third reading, read the third time, and passed, as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 101(c) of the Agricultural Act of 1949 is amended by deleting the period at the end thereof and adding a colon and the following: "Provided, That for any kind of tobacco (other than Connecticut Valley cigar binder types 51 and 52) for which marketing quotas were in effect for the 1958 crop, the level of support computed in dollars and cents for each subsequent crop of such tobacco for which marketing quotas are in effect shall not exceed the level of support computed in dollars and cents applicable to the 1958 crop until 90 per centum of the parity price as of the beginning of the marketing year for a subsequent crop computed in the manner used prior to the enactment of the Agricultural Act of 1949 exceeds the level of support applicable to the 1958 crop or 90 per centum of the parity price computed as provided in the Agricultural Adjustment Act of 1938, as amended, whereupon the level of support for such subsequent crop and each crop thereafter shall be 90 per centum of the parity price as of the beginning of the marketing year computed in the manner used prior to the enactment of the Agricultural Act of 1949, or computed as provided in the Agricultural Adjustment Act of 1938, as amended, whichever computation results in the lower level of support: *And provided further,* That in computing parity in the manner used prior

to the enactment of the Agricultural Act of 1949, the parity index as defined in section 301(a)(1)(C) of the Agricultural Adjustment Act of 1938, as amended, shall be used except that in lieu of the period January 1910 to December 1914, inclusive, the base period applicable to the kind of tobacco prior to the enactment of the Agricultural Act of 1949 shall be used."

SEC. 2. Section 2 of the Act of July 28, 1945, as amended (59 Stat. 506; 7 U.S.C. 1312 note), is amended by deleting the proviso at the end thereof and substituting therefor a new proviso reading as follows: "Provided, That beginning with the 1959 crop, the level of support for each such kind of tobacco shall not exceed a maximum level of support determined therefor pursuant to the provisos in section 101(c) of the Agricultural Act of 1949, as amended."

Mr. ELLENDER. Mr. President, I move that the vote by which the bill was passed be reconsidered.

Mr. JORDAN. Mr. President, I move to lay on the table the motion to reconsider the vote by which the bill was passed.

The PRESIDING OFFICER. The question is on agreeing to the motion to lay on the table the motion to reconsider.

The motion to lay on the table was agreed to.

WHEAT ACT OF 1959

Mr. ENGLE obtained the floor.

Mr. ELLENDER. Mr. President will the Senator from California yield to me?

Mr. ENGLE. I yield to the Senator from Louisiana if it is understood that I shall not thereby lose my right to the floor.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. ELLENDER. Mr. President, I move that the Senate proceed to the consideration of Calendar No. 283, Senate bill 1968, to strengthen the wheat-marketing quota and price-support program.

The motion was agreed to; and the Senate proceeded to the consideration of the bill (S. 1968) to strengthen the wheat-marketing quota and price-support program.

Mr. YOUNG of North Dakota. Mr. President, will the Senator from California yield to me?

Mr. ENGLE. I yield, if it is understood that I shall not thereby lose the floor.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. YOUNG of North Dakota. I thank the Senator from California for yielding to me.

Mr. President, wheat surpluses have been mounting. This is largely because of modern mechanized farming, new technology in agriculture, unusually favorable weather conditions, and over-seeding of quotas. While production has increased, national consumption for human food purposes remains approximately the same as it has been for the past 30 years. We have sizable exports, but not enough to prevent the buildup of surpluses.

I think everyone recognizes that something has to be done to stop the pileup of wheat surpluses. It is obvious that lower price supports—as being advocated

by many—will not do the job. One look at the new corn program ought to convince any thinking person familiar with farm problems that lower prices do not mean decreased production of field crops. I emphasize field crops, because there is a difference between field crops and perishable commodities. Corn planting this year is up 12 percent, and this year's crop may well be the first 4 billion bushel corn crop in history. By next year, in all probability, corn will be in much greater trouble than wheat is today. This does not mean that we should not do something about wheat now.

The latest wheat program of Secretary of Agriculture Benson would lower price supports from the 1958 level of \$1.82 to approximately \$1.45 a bushel for the 1960 crop, and lower for succeeding years. Based on a 1,100 million bushel crop—last year's crop was 1,450 million bushels—this would mean a loss in income to wheat producers of over \$400 million a year.

Wheat farmers are willing to take a lower price for wheat that is exported, but believe they are entitled to parity or a better price for that portion which is used for human food consumption in the United States. As I previously stated, approximately 500 million bushels of wheat is consumed each year in the United States for human food. Despite the rather severe drop in wheat prices in recent years and a big increase in population, the national wheat consumption remains the same, and surpluses continue to mount.

Secretary Benson's proposals would mean a drop in wheat prices of 37 cents a bushel for next year. This drop of 37 cents a bushel just on the wheat used for human food consumption would mean a loss to farmers of approximately \$185 million a year.

While it would be disastrous to farmers, it would be another one of many windfalls the middleman has received in recent years. It would be of no help whatever to the consumers.

This has been the experience year after year. Farm prices have dropped. But still the consumers are paying just as much as they were paying 5 or 10 years ago, or more. For example, the average farm price for wheat in 1947 was \$2.29 a bushel, and the average price of a loaf of bread was 12.5 cents. By 1958 the average wheat price had dropped to \$1.72 a bushel. Yet, despite this drastic drop in the price of wheat, the price of bread to consumers has risen from 12.5 cents to 19.3 cents a loaf, or about 35 percent, during the very period when wheat prices have dropped about 60 cents a bushel.

Mr. President, I ask unanimous consent to have printed at this point a table prepared by the United States Department of Agriculture, giving detailed information concerning the drop in wheat prices and the parallel increase in bread prices.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Season average price received for wheat by farmers, price of a 1-pound loaf of bread for corresponding periods

Year	Wheat	Bread
1945.....	\$1.49	8.8
1946.....	1.90	10.4
1947.....	2.29	12.5
1948.....	1.98	13.9
1949.....	1.88	14.0
1950.....	2.00	14.3
1951.....	2.11	15.7
1952.....	2.09	16.0
1953.....	2.04	16.4
1954.....	2.12	17.2
1955.....	1.99	17.7
1956.....	1.97	17.9
1957.....	1.93	18.8
1958.....	1.72	19.3
1959, 3 months.....	19.6

¹ Preliminary.

Source: Office of Price, Murray Thompson, USDA.

Mr. YOUNG of North Dakota. Mr. President, never once in the past 15 years has a drop in the price of wheat been reflected, even by a fraction of a cent, in the price of bread, pastries, or other products made from wheat.

After all the experience of the past, it seems unconscionable that Secretary Benson would now propose a still further drop in the price of wheat. Everyone knows full well that it would hurt the farmers badly and be of no help to the consumers.

Mr. President, the present wheat price support bill now on the Senate Calendar contains some good features. It would tighten up on production controls—and this, along with the 80 percent price support feature and a 20 percent cut in quotas, would mean some lowering of production. It provides price supports of 65 percent of parity for farmers who are willing to plant within their present quotas, and 80 percent of parity for those who would reduce their acreage by 20 percent.

Anyone who is acquainted with the wheat farming business would agree, I am sure, that practically all farmers would take the lower price support to avoid a 20 percent reduction in production. For all practical purposes, it is a 65 percent price support bill. This would mean \$1.53 a bushel wheat for farmers at a time when the cost of everything they have to buy for their operations is increasing sharply. At best, this bill would result in no more than a 100 to 150 million bushel drop in production. The bill could be considerably improved by adding one additional feature. That is, providing 75 percent of parity supports, or the present level, to farmers who would be willing to reduce their acreage by 10 percent. Even if we retain a provision for 75 percent supports, because of Secretary Benson's change in the parity formula, it will mean 5 cents a bushel less than the 75 percent supports of last year. If farmers reduced their acreage 20 percent, they would still only get 80 percent of parity, or \$1.87 a bushel, which is only 5 cents a bushel more than the \$1.82 a bushel they received last year under the 75 percent program.

May I again emphasize, Mr. President, that if farmers reduce their acreages by

20 percent under the bill, they would still get only 5 cents a bushel more than they got last year for planting within their quotas.

Providing 75 percent supports—under the new parity formula \$1.77 a bushel—for those farmers willing to reduce their production by 10 percent would make this a much more workable, effective, and acceptable wheat program. It would mean a far greater decrease in wheat production. While this would still be far from a good bill, it certainly would be much better than none at all—and immeasurably better than that proposed by Secretary Benson.

The pending bill is intended only as stopgap legislation to help curtail surpluses until a better program can be worked out by the farm organizations, other interested people, Congress, and the Secretary of Agriculture, if he is willing to cooperate.

Mr. President, I would much prefer the domestic parity plan to anything that has been proposed to date. I shall support other Senators who will offer this as a substitute for the pending bill. If this motion should lose, I will then offer amendments to improve the pending bill.

Mr. CARLSON. Mr. President, will the Senator from California yield to me so that I may commend the Senator from North Dakota?

Mr. ENGLE. I yield, with the understanding that I do not lose the floor.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. CARLSON. I wish to commend the Senator from North Dakota, who is not only a member of the Senate Committee on Agriculture and Forestry, but is thoroughly familiar with the problem which will soon be under consideration, and that is the wheat problem. Everyone agrees there is a wheat surplus in this country and that the solution of this problem is not an easy one.

I appreciate very much the statement of the Senator from North Dakota that a reduction in acreage and a reduction in price supports will not solve the wheat problem but may aggravate it. It is a question we should deal with on a permanent basis. I hope, before we get through considering this bill, we may be able to adopt a two-price parity system which would provide parity price for wheat produced for domestic consumption, and an equitable price for wheat, other than that needed for domestic consumption.

On February 19, I introduced S. 1170 which is cosponsored by many other Senators from the wheat-producing area.

This bill if enacted into law would stabilize wheat marketing, thereby stabilizing the income of wheat farmers and reduce Government stocks of wheat.

Mr. YOUNG of North Dakota. Mr. President, I appreciate the remarks made by my good friend and one who lives in the greatest wheat-producing State of all and one who has made a thorough study of this problem. Men like the Senator from Kansas [Mr. CARLSON] have spent their lifetimes in the wheat business. They know more about what can be done with a price support pro-

gram than do all the "sidewalk" farmers who have been brought to Washington to try to solve the wheat problem.

I wish we had someone in the Department of Agriculture who had the good, common horse-sense knowledge of wheat that the Senator from Kansas does.

Mr. President, I wish to express my appreciation to the distinguished Senator from California for his courtesy in yielding so that I might make my statement.

Mr. ENGLE. It was a pleasure to yield to the Senator.

Mr. President—

The PRESIDING OFFICER. The Senator from California has the floor.

Mr. BYRD of West Virginia. Mr. President, will the Senator yield?

Mr. ENGLE. Mr. President, I ask unanimous consent that I may yield to the Senator from West Virginia for the purpose of making a statement, without losing my right to the floor.

The PRESIDING OFFICER. Is there objection to the request of the Senator from California? The Chair hears none, and it is so ordered.

COAL RESEARCH AND DEVELOPMENT COMMISSION

Mr. BYRD of West Virginia. Mr. President, the House Committee on Interior and Insular Affairs has unanimously reported H.R. 6596, which would create an independent Coal Research and Development Commission to encourage and stimulate the production and conservation of coal. The bill is identical to S. 49, which was introduced in the Senate on January 9, by the junior Senator from Illinois, the senior Senator from Montana, the senior Senator from Colorado, the senior Senator from Wyoming, and the Senators from Pennsylvania, Kentucky, and West Virginia.

It is mandatory that one of these measures receive quick and favorable action by the Senate. In order that my colleagues may familiarize themselves with the need for and intent of coal research legislation, I should like to recount briefly the history of this important proposal. In June, 1956, the House of Representatives, alert to coal's prominent role in the Nation's economic structure and mobilization base, approved without a single objection a resolution to undertake a study of the advisability of a coal research program. Hearings were held in Pennsylvania, Virginia, Ohio, and Oklahoma. Witnesses included officials of seven States, representatives of coal, railroad, electric utility, and other allied industries, and members of the United Mine Workers of America. The U.S. Bureau of Mines also took part in the hearings.

By August 1957, the subcommittee conducting the investigation had accumulated adequate information to recommend without qualification that an independent Coal Research Commission be established. The subcommittee based its findings on these principal factors:

First. Coal reserves of the United States are the Nation's greatest mineral resource available for immediate development and use.

Second. An economic stimulant is needed to reduce unemployment in coal areas.

Third. There is a compelling need, from the standpoint of the coal industry's economy and the Nation's future fuel requirements, for a coal research program.

I submit, Mr. President, that conditions which precipitated the House subcommittee report in 1957 have increased in intensity during the intervening period. Unemployment is up in coal communities. Energy demand for the country is increasing. Continued improvement in mining methods, advanced techniques in transportation, and new uses for coal need to be developed to provide more work for our miners and a greater degree of fuels security for the United States in peace and war.

Over the course of the early months of this session of Congress, the senior Senator from West Virginia and I have sought to acquaint the Senate with the factors behind the economic difficulties of an industry representing America's principal source of fuel supply. In our State, where about one-third of the Nation's total coal output emanates, the grim shadow of joblessness continues to darken many communities. A closed mine deprives not only the miners and their families of a means of livelihood. It brings furloughs to railroaders whose jobs depend upon the movement of coal. It affects employees of industries associated with coal and wholesale and retail businesses serving mining and railroading communities. It slashes tax revenue from city hall to State capitol to the U.S. Treasury.

While I do not foresee the creation of a coal research commission as the magic formula through which the economic problems confronting our stricken communities will be automatically resolved, there is no question but that a broad, long-range research and development program will gradually lessen the difficulties which have prevailed throughout most coal regions for an agonizingly long period of years.

A coal research program is not enough in itself. I would be less than frank if I were to convey the impression that this plan for an independent research commission is the complete answer to the problems which beset us. Yet, should the Congress in its wisdom accept the provisions of H.R. 6596 or S. 49, those of our citizens dependent upon a going coal industry will find new hope on a horizon which thus far has been barren and bleak.

Congressional recognition of the need for improving conditions in coal States through a vigorous research effort will be welcomed enthusiastically in all coal regions. It will give official substantiation to analyses by fuel experts who place an increasing reliance upon coal in the years ahead. Of greater significance is the likelihood that, as more and more of coal's potential is developed through science and research, new industries will move into areas of abundant coal reserves.

In 1952 the President's Materials Policy Commission, in its report on "Resource for Freedom," served notification

that such electroprocess industries as aluminum would break loose from their long dependence on hydroelectric power to move closer to sources of coal. Within a few short years following publication of that report, aluminum's march into the coalfields was under way. We now have a happy family of the coal, electric utility, and aluminum industries providing substantial employment along the Ohio River in West Virginia. The Commission's report also visualized progressively greater use of coal by the chemical industry and, eventually, in a synthesis fuels industry.

We must never lose sight of the fact that the coal reserves of this Nation make up more than 90 percent of our total energy resources. The diligent efforts of our great petroleum and natural gas industries will continue to produce a substantial flow of energy to meet the requirements of rising population and increased industrial activity. There will come a time, however, when these reserves will be exhausted. When this day arrives, coal must be ready as a substitute fuel. The feasibility of producing liquid and gaseous fuels by synthesis has long been established. The German air force was powered by synthetic gasoline almost exclusively during the closing months of World War II. Experimental plants in the United States have produced gasoline from coal, but only through science and research will maximum economy of operation and utilization be achieved.

From the consumer's point of view, there are numerous other factors involved in a coal research program. Coal is already the basis of countless chemical products. By capturing the gases and tars in metallurgical ovens, the coke and chemical industries have been able to develop explosives, plastics, fertilizers, nylons, and a thousand and one other commodities. Research has been responsible for delivering electric power over greater and greater distances. Vast networks of long distance lines enable our utilities to deliver electricity where it is needed when it is needed with a high degree of efficiency. Officials of the Anaconda Wire and Cable Co. recently announced the opening of a new high-voltage research laboratory at Hastings-on-Hudson, N.Y. The decision to construct the new facilities was prompted because conventional designs for underground high voltage cables have practically reached their maximum capabilities, indicating the need for improved cable-system design.

The New York Times of April 26 described a broiler-fed pump turbine and other developments which are helping to cut down electric bills. Other equipment manufacturers, as well as utilities themselves, are conducting intensive studies of this nature to keep electric power within reach of everyone at the most reasonable rates. The air-conditioning and other modern-day advantages in the home are to be available to middle- and low-income families; the application of technology to the generation and transmission of electric power must be continued with the utmost intensity.

Mr. President, the United States is investing millions of dollars in a program to produce electricity through nuclear fission. I submit that the world's most dependable source of energy—coal—also is worthy of an investment. If only a fragmentary amount of the appropriations channeled into research on atomic electric power were to be applied to coal, I believe that the dividends accruing to the general welfare of our Nation would be extremely beneficial.

We are grateful that our scientists and engineers have made it possible to generate electricity by atomic power. And it is true that, eventually, atomic energy may be able to generate electricity more economically than traditional fuels, but, thus far, coal's economic advantage is still very decisive. For this reason, I do not believe that coal should be neglected. I think it is logical for Congress to be willing to appropriate the comparatively small amount of funds necessary to put a coal research program into operation. It would be an investment which would more than repay itself in a multitude of benefits to our country and our people.

Mr. President, one other factor which should be considered in the case for establishment of a coal research program is the unpleasant reality that, should a national emergency result from present or future world crises, our country would be in immediate need of large, dependable energy supplies. A supreme effort would be required of America's fuel industries. Enactment of a coal research and development program now would help make certain that our Nation's coal industry would be ready for such a supreme effort.

Mr. President, the creation of a coal research and development program is needed for America's security, for the economy of our coal-producing regions, and for a guarantee that our national resources cupboard will be able to meet the demands of future generations. I urge my colleagues in this body to join with me in support of this plan.

OUR CHINA POLICY NEEDS REVISION

Mr. ENGLE. Mr. President, I know there are political dangers in undertaking to discuss our China foreign policy. I am aware of the fact that the State Department regards this area of our foreign policy as one that should not be touched.

I do not see why our policy in China should be any more sacrosanct than our policy in Europe, which has come under continuous discussion and analysis not only on the floor of the Senate, but also in the press and among the people generally in the United States. I know also that this is an extremely complicated and difficult field of foreign policy but it nevertheless requires some public airing. I am convinced that our China policy needs a critical reexamination. I am prepared to dispute the premise that our present policy is adequate and that nothing about it can or should be changed.

I undertake this discussion with the full knowledge that what I say may be misunderstood, misinterpreted and criti-

cized. But we have to start somewhere and I think that this phase of our foreign policy is deserving of more attention and discussion on the floor of the U.S. Senate than it has received. Today, I want to examine the history of our present China policy, the effects of that policy upon our global posture on communism, the effects upon China itself, the effects upon other countries of Asia, and the effects upon Formosa. I propose to make some positive suggestions as to areas of discussion and change that might be the subject of negotiation with Red China.

There was a time when the United States looked out upon the rest of the world through the front door and we did not see much beyond Europe. We looked at the Far East through the back door—when we bothered to look at it at all. Our knowledge of peoples and cultures and forces at work in the Far East and south Asia was meager. We had some vague impressions but it was not until Pearl Harbor that the realization became general that the United States faces the Pacific as well as the Atlantic. During World War II, and since, formidable changes have come about in Asia at a pace we may not yet have grasped. In some respects we are still the victims of a time-lag, and to the extent that our foreign policy is dependent upon the wholehearted support of public opinion, our policy in Asia may be the victim of a lack of general public knowledge of what is happening in Asia.

To be sure, in a general way we are aware that the sleeping Asian giant has awakened; that colonialism is dead; that a revolution is in progress—a revolution basically to replace suppression with freedom, which is what the people really want, regardless of the form the revolution takes. They want to replace poverty with plenty and to replace inequality with equality. What we may not have understood too well is that regardless of the many forms this revolution has taken, there is an underlying community of interest among the peoples of Asia. Most of the peoples of Asia have the same hopes and aspirations. We cannot dispose of this community of interest by attaching labels to the effect that this or that country is Communist, or neutral, or a staunch ally. Irrespective of these labels the motivations of the people remain similar though the forms of government may differ.

Our problem has been to determine the best means by which we can identify ourselves with this upheaval, to aid and guide the processes of change. The assumption that we can and should guide this change in our own image in itself is a denial of the very equality and right of self-determination these nations of Asia are seeking. As we have faced this dilemma our policy has coined stock responses to stock labels. If the label is "staunch ally" the response is to subsidize the economy, give unequivocal support to the leadership and conclude a defense assistance agreement. If the label is "neutralist" the response is to toy along, give a restrained support, and alternate wooing with wrist slapping. If the label is "Communist" the response is

to retreat into a defensive posture of containment and threats of massive retaliation. These widely diverse responses have become the stock policy formulas, irrespective of the fact that all Asian peoples in our pigeonholed categories are seeking nearly the same ultimate objectives, irrespective of the same underlying pressures, and irrespective of the fact that many of the countries of Asia are under authoritarian government, though with notable exceptions.

While our policy in all of Asia is inter-related, China policy is central, affecting not only the nature of our relationships throughout Asia but also affecting the balance of power and the potential peace of the world. Mr. President, since China policy has such an important bearing on our future in Asia, I should like to take that policy off the shelf where it has been gathering dust since 1949; take a look at it, and ask some questions about it.

I do this because of a conviction that this China policy is based on a reaction to the past, rather than a calculated look into the future. I am impressed with the fact that our present China policy is compounded of a lack of understanding of the processes which have been simmering in China since the Boxer Rebellion. To this is added our embarrassment emanating from not having been able to save China in 1949, and from our unwillingness to decisively defeat Communist China in Korea. Add to this our emotional and moral revulsion for mass executions on the mainland, the reprehensible brainwashings, the excesses of revolution—add further the fact that a number of U.S. citizens have been held imprisoned in China—the net result of this affront to our moral sense and our prestige has been a China policy of absolute containment plus pressure. The policy calls for not recognizing the existence of the regime, for sealing off the regime and the 600 million people of China, for a ring of military defenses surrounding China, for an absolute trade embargo, and for a boycott on all travel and exchanges. The psychological warfare aspects of present policy call for measures not only to deter any aggression but to pose a threat of implied eventual liberation by a refugee government on an island 100 miles from the mainland. The presumed objective of this policy of containment, insulation and psychological compression is to serve the national interests of the United States.

My purpose is not to contend that these extremes of policy should be replaced by the opposite extremes. I do not contend that we can or should recognize the Mao government under the conditions of hostility which now prevail. Before any two-way recognition can take place many changes will have to be made in relationships between the United States and China. I cannot take the position that the Mao government should represent China in the United Nations until changes take place which now bar the Mao government from representing China. Instead of replacing the extreme of present policy with any policy of giving the Chinese everything they seek in the hope of winning

their affection. I would suggest the need for examining the many possible alternative middle courses affecting the relationship—courses which may serve the national interest 10 years from now far better than our present policy.

Mr. President, I know that many of my colleagues have given thoughtful attention to our relations in the Far East and southeast Asia. I would hope that those who have made a careful study might provide answers to some of the questions I intend to raise. In particular, it would be gratifying to hear the views of the distinguished chairman of the Committee on Foreign Relations. Undoubtedly Senator FULBRIGHT gained a valuable insight as a result of his extensive tour of the Far East last summer. The Senator always weighs these vital issues in the light of the many complex relationships affecting our foreign policy. Some Members of the Senate are affiliated with the Committee of One Million. It may be that they can provide some logical, unemotional evidence to show how the present policy is going to benefit the national interest 10 years from now. I must say, however, if the evidence which may be forthcoming is only a repetition of the platitudes and stock justifications advanced by the Department of State for our China policy, it will leave much to be desired.

For some time we have been aware of the delicacy of public discussion of China policy. Perhaps in part this has been due to the pitch of emotion which existed over what we could or should have done in the past in China. This reluctance to discuss China policy may also have been an outgrowth of the recent era during which fear ruled out debate on policy toward communism. To some extent the Congress may consider that it has abdicated its responsibility to evaluate the broad implications of China policy as a result of relinquishing Quemoy policy under the Formosa resolution. I would hope that we would not allow Quemoy policy or even Formosa policy to obscure an evaluation of our total China policy. Quemoy and Formosa are but single pieces of the scrambled puzzle of total China policy.

To some extent the administration has fostered the view that the advocate of any policy other than the present rigid policy of total insulation is guilty of un-Americanism or appeasement. We have insulated ourselves from all direct knowledge of what is transpiring in China. Through this policy of insulation we not only deprive ourselves of intelligence and of the benefits of two-way communication, but we also make it possible for the Mao government to whip up the fears of the unknown—the fears of the U.S. colossus beyond the wall the Mao government and we, together, have built around China. Thus, the United States conveniently provides the external threat used by the regime to justify greater and greater demands upon the people. And if the lack of contact creates an exaggerated fear of the aggressive designs of the United States, I suggest that it may also contribute to our fear of the aggressive designs of China.

I am not among those who believe that simply by furthering exchanges we are going to convert the Chinese leaders to democracy, nor do I believe they would convert us to communism. Nor do I believe that such relations could wean China overnight from its present association with the Soviet Union. I do believe, however, that over a period of years contacts between the American and Chinese people would wear off the sharp edges. It would reduce our differences to the real differences, ruling out the specious, artificial, unrealistic images which many Americans hold of China and which the Chinese now hold of the United States.

I am fully aware of the fact that Americans who have suggested such a course have been charged with a lack of knowledge of the nature of communism. I can assure Senators that the evils of communism are well understood. On the evidence available, there can be little doubt that the capacity of China to cause mischief in the world will have expanded manifold in 10 or 15 years. The issue is not whether China constitutes a potential danger. On this there is wide agreement. The question, rather, is: What is the best course of action the United States should take now to support our national and international interest 10 or 15 years hence?

It is simplicity itself to respond to a threat by attempting to build a military, economic and psychological wall around China. This response of containment, not supplemented by other positive measures, is the Maginot line response. It is the "moat" psychology of medieval days. It is a negative and defensive posture. It denies the United States the advantage of those relationships essential to affect change—and there is no reason why such active relationships could not be maintained concurrently with our present determined measures to deter China from committing aggression. I can see no incompatibility between a policy which would build up the capacity of the free countries of Asia to resist any Communist aggression while at the same time make an effort to reestablish relations with the people and government of China. It is said that such a course of action would involve calculated risks. I believe it is time for the American people to be alerted to the calculated risks if the present policy continues for another 10 years. We cannot dispose of the reality of Communist China through either a wall or a vacuum between us. The reality of China will still exist.

ADVERSE EFFECTS OF PRESENT POLICY

Mr. President, in questioning our present China policy in terms of where it may be leading us, may I state frankly some of the consequences as they appear to me.

Our present policy does not reduce China's present or potential power. It drives China into a closer relationship with the Soviet Union than otherwise might exist. It creates an economic dependence of China upon the Soviet Union which serves to amalgamate a relationship which otherwise in all probability would be one of differences and frictions. It maintains an atmosphere of war in

which solutions in our interest remain impossible. It helps to keep the fires of anti-Americanism alive in China, permitting the regime to use the so-called American Threat as a justification for forcing the Chinese people into ever-increasing depths of bondage. Among most of our allies and the neutral nations of Asia it puts the United States in the ludicrous position of weakness and artificiality. We appear in the position of attempting to escape behind the flimsy curtain we have created, rather than facing the reality of Communist China and dealing with it with the manly forthrightness becoming the world's leading military and economic power. These allies seem embarrassed at being compelled to defer to the efforts of the United States to keep alive the myth that Communist China does not exist.

At the opposite extreme, two allies—the Republic of Korea and the Republic of China on Formosa—hold an interest in having the United States involved in a total war with Communist China. They not only benefit by the illusion that Communist China does not legally or factually exist, they employ every device and opportunity available to identify the United States with the eventual liberation of the mainland. The United States is placed in the position of being the dog wagged by the tail.

This present China policy not only alienates many of our allies, but it perpetuates a psychological state of war when our interest demands peace. It places on us the onus of preventing the relaxation of tensions necessary if there is ever to be a solution of such basic problems as the reunification of Korea and the permanent status of Formosa. But above all, it prevents the free world from making a concerted effort to open the windows of China. It prevents the people of China from seeing the non-Communist world as it is. It compels the United States to get its information from translations of the mainland censored press or from Canadian, Japanese, Indian or other foreign correspondents in China. The United States is in the pathetic position of depriving itself of direct information on what is happening in the most populous country in the world.

National security, and indeed international security in the Far East as in the Middle East, Europe and elsewhere, depends upon more than military defenses. To be sure, military strength is necessary in the world in which we live. As a matter of national policy we prepare not only for the eventuality of total nuclear war but also for localized conventional war. However, we do not assume the inevitability of either kind of war to the extent that we rule out the use of other instruments to attain the national objectives. Among these other instruments employed is the constant effort to arrive at areas of mutual agreement with the Soviet Union. I do not refer only to the agreements for exchange of persons, cultural, agricultural exchanges, and so forth. While these undoubtedly are proving to be beneficial, we have not been reluctant to search for more substantive agreements

affecting the world's security. I think the administration is to be highly commended for its patient negotiation with the Soviet Union and other powers seeking an enforceable inspection system as an integral part of any disarmament or arms control agreement. There has not been agreement, but we cannot say that the effort to reach agreement has been in vain. In the current negotiations on Berlin and European security we are pursuing the search for areas of mutual agreement at the Foreign Minister level, and, if necessary, at the head of state level. In sharp contrast, our China policy for all practical purposes rules out the use of instruments other than ultimate recourse to war. I say this in the belief that if any mutual understandings are to be reached with China, they must be reached with Mao Tse-tung, Chou En-lai or Chen Yi and not with Ambassador Wang Ping-nan in Warsaw. The extent to which the United States has crippled the prospects for broader solutions by this China policy was borne out recently in testimony before the Subcommittee on Disarmament. I refer to the testimony of Charles Burton Marshall, formerly of the State Department Policy Planning Staff, and of A. Doak Barnett, of the Council on Foreign Relations. Even Assistant Secretary of State for Far Eastern Affairs Walter Robertson—who has since retired—testified to the effect that the participation of China would be necessary if any arms inspection system were to be effective. Since all Members may not have read this testimony, which is too lengthy to insert in the Record, perhaps the distinguished Senator from Minnesota [Mr. HUMPHREY] who is the chairman of the Subcommittee on Disarmament—and who has an intimate knowledge of the importance of the participation of China in any inspection system—would give us the benefit of his extensive knowledge in this field. Congressman CHET HOLIFIELD, of California, a member of the Joint Committee on Atomic Energy and one of the leading experts in the country in the atomic energy field, recently stated in a nationwide television program that an international inspection system for the purpose of detecting nuclear testing would be ineffectual without some kind of an arrangement whereby inspections could occur on the mainland of China.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. ENGLE. I am happy to yield to my friend from Pennsylvania.

Mr. CLARK. I should like to commend the distinguished junior Senator from California for the splendid speech he is making with respect to the deficiencies in our China policy. I note with great pleasure the commonsense attitude which my good friend is taking toward this intensely difficult problem. Without wishing to be either unkind or discourteous to his predecessor in the Senate from the great State of California, I should like to point out how much more realistic the speech of the present Senator from California is than was the attitude of his predecessor.

I should like to recall to my friend's mind the comment he made a minute

or two ago about the ludicrous position in which our present China policy places the United States. It is not good for a world power of our stature to be made ridiculous in the eyes of most thinking people with respect to its policy toward another great nation, no matter how much we may deplore and indeed despise its social system.

I should like to commend my friend for tearing away the veil of unrealism from our present China policy, and for pointing out to the country how shortsighted it is. I should also like to commend my friend for his view on the inherent stupidity of relying solely on force as the only weapon.

Finally, I should like to commend him with equal strength on his pointing out so clearly that if we are to come to any meaningful agreement with respect to suspension of the testing of nuclear weapons, we dare not ignore China, a nation with a territory so vast that a number of control posts will have to be located there if the vital inspection system to insure compliance with a suspension system is to be effective.

Mr. ENGLE. It is obvious that any inspection would have to include the mainland of China. Otherwise the Soviet Union would simply transfer its tests to the mainland of China. We have no relations whatever with China. What kind of inspection system could we get?

Mr. CLARK. My friend is quite correct. I will not detain him further, other than to say that I shall await with interest the remainder of his speech, and to express the hope that his remarks will receive the attention it deserves, not only by the Department of State, but also by our Foreign Relations Committee.

Mr. ENGLE. I appreciate the comments of my friend from Pennsylvania. As I said earlier in the speech today, I am not suggesting that we trade one extreme for another. There are middle ground alternatives which can be adopted, and which may open up the way, so that if we ever get an inspection system, it will have some chance of being effectual, because we can apply it to the large area of the mainland of China.

Let me go one step further. So far we have not been able to convince anyone in the State Department that it is necessary to revise or reconsider the present China policy. That is why, in the next few minutes of my remarks I wish to examine this policy specifically with reference to how it has operated during the past 10 years. We must lay a foundation for a change if it is agreed—and I assert it is true—that our Government's policy is inadequate and needs revision, before we can talk about what should be done. I have some suggestions to make in that particular.

Mr. CLARK. Mr. President, will the Senator yield again briefly?

Mr. ENGLE. I gladly yield to my friend from Pennsylvania.

Mr. CLARK. It occurs to me that one of the great values of the Senator's speech is its timeliness. The speech comes at the right time, when the Assistant Secretary of State, Walter S. Robertson, a dedicated and patriotic American, who has given a large part of his life to

the service of his country, but whose policy, to my way of thinking, with respect to China, has been totally wrong, is retiring; and when there has been installed a new Secretary of State who, I am confident, is going to give some attention to the advice of many able persons not only in the State Department but throughout the country, who feel that, unless we change our China policy in line with the middle ground suggestions which my friend from California is making, we are headed for disaster.

Mr. ENGLE. I thank the Senator from Pennsylvania for his further remarks.

EXCHANGE OF CORRESPONDENTS

Mr. President, it has been of some interest to note a meaningless concession in our China policy, made by the administration in August 1957. As a gesture to the growing sentiment in the United States for reopening the doors into China, the administration agreed into China. Only one of these has been to authorize passports for the entry of some selected American correspondents able to secure an entry visa from the Peking government. The Department now contends that it has taken the initiative in this test case and the responsibility rests upon Peking for the denial of entry visas. The Peking government maintains that the reason for not granting visas to American newsmen is because the United States refuses to grant visas to Chinese correspondents. China says, in effect, that if tensions are to be reduced by this measure it must be on the basis of reciprocity and equality. The administration in turn has justified its position on grounds that the Chinese are free to apply for a visa if they desire, but none have applied. The administration also contends that we can give no blanket agreement in advance because the immigration laws require that visas be granted on the merits of the individual cases. It seems apparent that here is a situation in which the administration is continuing to enforce a blackout on contacts with China while making it appear that the responsibility rests either with China or with Congress for not having made the immigration laws more flexible.

The same immigration laws are flexible enough to admit Soviet citizens. The same immigration laws once kindled the hatred of the Chinese and fed fires of nationalism and communism with their Asiatic exclusion provisions.

We erased a stain when we abolished the exclusion provisions, but now again we are feeding the same fires of ultra-nationalism and hatred by not making a forthright statement to the effect that we would welcome Chinese correspondents on the basis of equality with American correspondents sent to China. This the administration has not been willing to do because of a fear that it might enhance the prestige of China and cause all of our allies to jump on the Communist bandwagon. The irony is that the British, Canadians, Australians, Japanese, Pakistanis, and most of our other allies already have their correspondents in China.

VALIDITY OF ARGUMENTS AGAINST CHANGE IN
PRESENT POLICY

Mr. President, let us examine the validity of the major lines of argument which have been advanced in opposition to any change in present China policy. Insofar as I can determine, the basic arguments apply to, first, the effects upon our global posture toward communism; second, the effects upon China itself; third, the effects upon the other countries of Asia; and fourth, the effect upon Formosa.

GLOBAL EFFECTS

It has been contended often that no change can be made in China policy because communism is a global threat; that therefore we must combat it with a global policy. The position is often stated that we must remain firm at all points; that if we change in any manner at any point, the entire free world security will collapse. In particular, this argument is used to oppose any change in China policy. What we have done has been to reduce the challenge to a simplified version, when in fact the challenge is multiple and complex. We have then reduced our response to the challenge to the simple negative formula of remaining firm and unbending on all fronts. The question I would raise is: Are we really acting in our own interest by deluding ourselves that communism is a single threat to be dealt with by a single formula? I will not deny that the theory of world domination captivates the imagination of every good Communist Party member.

But it does seem to me that in determining our response to communism, we should be guided by a realistic assessment, not only of the ideological likenesses but also of existing differences. We should be sensitive to the domestic compulsions of national interest which motivate China and the Soviet Union, compulsions which sometimes take priority over the theory of communism.

We know that China and the Soviet Union have followed different paths to communism. We know that they have followed different roads to industrialization. We know, for example, that the Soviet Union has rejected China's program for establishing communes. Since 1949 we have witnessed a procession of changes within both countries. The strategy and tactics of Stalin were modified under Malenkov and to an even greater degree under Khrushchev.

In China, since 1949, changes have taken place constantly as the Mao government has launched new programs to meet new interpretations of what constitutes their national interest. We know that the relationships between China and the Soviet Union have undergone varying degrees of strain; that the nature of cohesion has vacillated depending upon the changing compulsions of their respective national interests, both domestic and international. If there is any single factor that both have in common which has not changed, it is their flexibility.

The import of this is that the behavior of both China and the Soviet Union is founded on their own conception of their own national interest as interpreted

through their Leninist-Stalinist-Marxist spectacles—and this is in constant process of change. How, then, can we oppose any change in our China policy on grounds that we face a monolithic threat which can only be met by a single policy which we choose to call global? The better course of action would appear to be to adopt on its merits whatever China policy is best calculated to serve our long-term interests.

In a sense, we now disregard our own theory of the solid, unbending, unchanging front, in that we apply different policies to the Soviet Union, China, and the satellites. If considerations of future national interest of the United States point to the advisability of a change in China policy, then the argument that China policy cannot be changed because no differences can exist in our global posture does not appear to be well grounded.

EFFECTS UPON CHINA

The second major justification for our China policy relates to the effects of our policy upon China, but this has never been clearly enunciated. While several different hopes have been entertained we have never spelled out exactly what we hope to accomplish with respect to the full effects of our policy upon China. We aim at preventing aggression. This is a worthy objective, but the measures we have taken go beyond the requirements of preventing aggression. Such aspects of our relations as the trade embargo; the boycott on travel; our refusal to negotiate on questions of substantive importance at a level higher than the Ambassador level; our efforts to deny or ignore the existence of the Mao government; and our measures which have been interpreted as threatened liberation—all these go beyond what would be necessary to halt any aggression. In carrying out these measures there is even good reason to believe that to some extent we are provoking potential aggression.

Why have we taken such steps as these that go beyond the requirements necessary to halt aggression? There are a few persons, not many, who look forward to a preventive war; who seriously believe that we might liberate the mainland. I have not heard any responsible military officer support the view that the United States could or should attempt to liberate the mainland of China. A few weeks ago, President Eisenhower ruled out fighting a ground war in Europe. How much more reason for ruling out a ground war in the vast expanse of China? If this is not our aim, then what is our purpose? A larger number of Americans seem to accept the view that by applying extreme pressure to China we will be able to cause such discontent that the masses in China will rise up against their rulers. The tangent of this is the view that by applying extreme pressure we will intensify the economic dependence of China upon the Soviet Union; that the frictions thus created will cause a split between China and the Soviet Union; that then China might become more amenable.

Whatever the reason used to justify a policy which goes beyond preventing ag-

gression, two questions are pertinent: What can we expect to be the outcome of this policy if we pursue it for another 10 years? Secondly, is there any other policy which would offer a better prospect for the peace of the world? The developments of the past 10 years give us a fairly reasonable basis for forecasting the trend of the future. Several conclusions are evident:

First. During the past 10 years our policy has not prevented the Mao government from fastening its control over the China mainland. It has not made life so miserable for the Chinese people that they have risen up in rebellion against their masters. While there is some evidence of resistance, that resistance is not on a large scale or well organized. The Mao regime has shown its capacity to put down resistance in the past, even in outlying Tibet. With each passing day, it will have a greater capacity to put down resistance in the future. If we are to be realistic, it would seem that a continuation of our policy will not be any more likely to influence this effective control than it has in the past. Instead of fostering revolt, as was the belief of some persons, our present policy provides the external threat used by the regime to rally the support of the people.

Second. During the past 10 years, our policy has not been able to affect in the slightest degree the determination of the Mao government to bring about rapid economic change in China. Whether we disapprove of the forms or the methods of economic change, the reality is that economic development is taking place at a rate many economists would not have believed possible. Here again, our present policy cannot be expected to influence the future course of economic development, except as it compels a continuing economic interdependence between China and the Soviet Union—an interdependence which is bound to enforce political and military unity between the two Communist powers.

Third. During the past 10 years, our policy has not been successful in bringing about a split between China and the Soviet Union. Looking to the future, it appears reasonable to conclude that the continued application of pressure upon China will further reinforce the unity of the Communist bloc. It will enforce that unity because it deprives China of any alternative. It compels China to subordinate its independent role and status in consequence of its dependence and enforced reliance upon the Soviet Union.

The industrial and economic progress of China has led some persons to believe that China can produce enough food to take care of its own people. I am one of those who believe that there is a grave question as to the capability of Red China to raise enough food to take care of its teeming millions. There simply are not enough acres for the production of food to divide among present and growing millions of the Chinese population. If those who believe that China will face serious food problems in the years ahead are right, what alternatives are left to Red China? There are three: Red China will necessarily either,

first, turn to Russia to supply its need for food; second, trade with us; or third, move for food in the direction of southeast Asia. It would seem to me that Red China would not want to become more dependent upon Russia for food, either for the lands to raise it or by direct importation. As to the second alternative, I do not believe that Red China would want to become dependent upon us for its necessary supply of food. This leaves the third alternative as the logical one which will be adopted by Red China, namely, a push into southeast Asia by economic and perhaps by military means, to secure the necessary sources of food. How can it be stopped? Certainly we cannot stop it with military intervention and ground troops. If it is to be stopped at all it will be stopped by Asians; and we must help them to achieve the necessary unity to maintain their territorial and political integrity against what, in my view, will be a certain move by the Red Chinese to find the land for food production to meet the needs of their population. Here, too, lies the basic weakness of the present economic program in China. And the problem of food affords the United States and the rest of the free world some bargaining room with the China leadership.

If our measures of the past 10 years—that is, the measures which go beyond the needs of containment—have not served the national interest; if a prolongation of those measures can reasonably be expected to intensify the hatreds, the buildup of military power, the enforcement of greater demands upon the people of China, and the solidarity of the Communist bloc, what evidence is there that a change in our policy would produce any different results?

I have no positive proof to offer. Indeed, in all probability, in the first instance China would be suspicious of any change. My guess is that any initial effort on our part to bring about a more realistic relationship would probably be spurned by China. I fully recognize that if a workable relationship is to be established, in the long run it will require the desire and effort of China, as well as of the United States; and it will have to take place over a period of time. Can there be definite proof of the benefits of any alternative policy a decade hence, unless an attempt is made to test that policy? It has taken us 10 years to discover that the present policy is not in our interest. I would be the last to suggest change simply for the sake of change; but in this instance there is evidence that the present policy has not served our purpose, and there is reason to believe that a more realistic relationship would serve our interest.

To be specific, for example, there is the question of the present trade embargo. If the embargo deprives China not only of the implements of war, but also of all other items, it compels Peiping to go to Moscow for these items. This one act not only closes the doors to contacts with the non-Communist world, but also places Peiping in a position of dependence upon Moscow. It creates a future reliance upon Moscow for technicians and for spare parts. It serves

as a reason for a small army of Soviet technicians in China. It makes it possible for the Soviet Union to demand a political quid pro quo. The question now is this: If China were relieved of this dependence upon the Soviet Union, can it be proved, in advance, that China would trade outside the Communist bloc, and that that would be in our interest? No, Mr. President, it cannot be proved. But on the basis of the epithets directed by high-ranking Chinese officials toward the Soviet Union during the Hundred Flower experiment; on the basis of the evident hard bargaining which accompanies each Sino-Soviet trade agreement; on the basis of China's needs, compared to the capacity of the U.S.S.R. to export; and on the basis of overtures which already have been made by China to discuss trade with the United States, there is fairly good reason to assume that in the matter of nonstrategic trade, during the next 10 years a normal working relationship could be established; that even though China continued to maintain a close relationship with the Soviet Union, the ties binding the Communist bloc together would be weakened and China's ties with the free world would be strengthened. In like manner, there is no positive proof that a change in policy which would permit such measures as negotiations at a higher level, the exchange of news correspondents, and so forth, would serve our future interest. I cannot but feel, however, that war 10 years from now, if it comes, may depend as much upon the extent to which we and China continue to maintain the present hostility as upon China's future capacity to make war.

EFFECT UPON OTHER COUNTRIES OF ASIA

Mr. President, a third major justification for our China policy has been that it is a necessary one in order to prevent aggression, infiltration, subversion, and to prevent communism from becoming the wave of the future in Asia. In denying that the policy in its present extreme form is necessary in order to accomplish these objectives, I do not want to be misinterpreted. I believe my determination to halt communism is as strong as that of any other American. If, however, a part of our China policy serves this purpose, and if another part nullifies this purpose, then I say that we should be prepared to change the part that operates against our long-term interest. I question the thesis that any change would inevitably result in the fall of all Asia to communism. Since President Eisenhower first voiced his fears of the "falling dominoes," at the time of the partition of Vietnam, the toppling of Asian states, one by one, has been identified with any change in China policy. As usually presented, this theory maintains that, after Vietnam, Laos, Burma, Indonesia, and the Philippines had fallen, an outflanked Japan would be the next to fall; and that after losing the industrial strength of Japan, it would then follow that Europe and the United States would fall like ripe plums.

That makes good oratory; but, Mr. President, I raise this question: If such a chain reaction is to be prevented, will

our present China policy prevent it, or will present policy aggravate it? We can agree that our alliances with South Korea, Japan, the Republic of China, the Anzus Pact, and SEATO are useful instruments to prevent aggression and subversion. We can agree that our military aid is useful. There is general agreement that to the extent that we can aid in developing economies and strengthening the emerging political institutions, communism will cease to be a wave of the future in Asia. It would be in the unrest of peoples seeking a better livelihood and the fruits of their newfound independence that communism would incubate as a wave of the future in Asia. For our part, we are assisting the governments of those countries in their efforts; and, after having made considerable headway in recent years, I trust that we shall continue to provide economic, military, and technical assistance. But what possible relationship does our China policy have to these measures?

The Communist-led Hukbalahaps were not defeated in the Philippines because the United States had an embargo on trade with China or because we had a boycott on travel to China, or because we refused to permit American newsmen to enter China, or even because we did not recognize China. They were defeated as the result of the energetic measures taken by the late President Magsaysay. The Huks ceased to be a threat in the Philippines as the result of a police action, coupled with the grant of homesteads and other economic measures to improve the livelihood of the people. But irrespective of the reason, U.S. China policy had little to do with the outcome.

In Vietnam, following the partitioning of 1954, order was restored by the Diem government with our assistance. The new government weeded out the Communist inspired agents of the Vietminh who had infiltrated into the south. By bringing Vietnam, Laos, and Cambodia within the protective mantle of SEATO, it was made clear that any aggression by Communist China would not be tolerated. But having done this, and having established a large-scale military and economic-aid program, are we to presume that President Diem would have been any less determined in his opposition to communism if the United States had maintained a different relationship in its dealings with China?

In Burma, the red flag and white flag Communists were subdued without assistance from the United States. The status of our relations with China had no bearing whatsoever upon that outcome. In Malaya the Communists were defeated as a result of the punitive campaign led by General Templer, plus other positive measures taken by Britain prior to the grant of independence. United States-China policy was irrelevant to this outcome. In India in the last elections the Communist Party won control in the State of Kerala. Are we reasonably to assume that this outcome would have been affected in any way by U.S. China policy, or is it more reasonable to assume that this was the result of impoverished economic conditions or other local reasons?

The conclusion I reach is that United States-China policy in the larger sense has very little indeed to do with the willingness of the people of Asia to resist Communist aggression and subversion. But the argument is advanced that the people of Asia are prepared to resist communism only if they are assured that the United States will stand by them; that if we changed our China policy it would be interpreted that we would not stand by them; that therefore they would have no alternative but to permit Communist China to dominate them. This again makes good oratory, but it assumes that someone has an omniscient insight into what motivates the people of Asia. I do not claim such an insight, but I get a different answer from the people who are close to the thoughts of Asians.

For one thing, it is not possible to lump all Asians together. Perhaps 90 percent, or an even greater percentage, of the people of non-Communist Asia do not have even the vaguest notion that Communist China exists or that the United States exists. They are immersed in the village life—in the struggle for survival, in how to get enough to eat. If they are to be shielded from any temptation to adopt communism, the factor of least relevance is U.S. policy toward China. Therefore, those who warn of the dangers are referring to the thin strata of leaders and potential leaders. But even here there is little room for generalization.

Rather than the flat conclusion that a change in our China policy would cause this group to submit to communism, the more valid conclusion would seem to be that the majority would continue a determined resistance to any Communist aggression. At the same time, many would prefer that the United States adopt a more realistic relationship with China. It goes without saying that a change would not cause the Republic of Korea, the Republic of China on Formosa, Japan, the Philippines, or the Republic of Vietnam to go Communist. Thailand and Pakistan would hardly weaken their resistance, particularly since each has come under the rule of temporary military governments that are keenly alert to any Communist subversion. But what of the so-called neutral states, India, Indonesia, Burma, and Ceylon? It is with these states that our relations suffer most as a result of the extreme nature of our China policy. All of these states are prepared to prevent Communist aggression. They supported the United Nations in Korea. They all have embarked on economic development programs which, if successful, would curb the incubation of communism at the source. But while being wary of potential Communist aggression, they also oppose the extreme aspects of United States-China policy. In this they find considerable support from Japan, Thailand, and Pakistan.

The reason why our China policy has caused a strain is not the legitimate measures to prevent aggression, but largely because of our insensitivity to what has caused communism to emerge in China, and our negative, sterile

method of dealing with it. Being of Asia; having lived under Western domination; having felt the same pressures of nationalism which underlie communism in China; having felt, with China, the sting of racial discrimination, the desire for equality, international prestige, and recognition; and having shared with China the embarrassment of poverty and the same determination for economic betterment—these neutral nations of Asia have weighed the arguments and have concluded that the United States is not completely right and China completely wrong. They appreciate the circumstances under which revolution occurred in China. They are sensitive to the various courses the revolution can take, and they are convinced that our China policy is aggravating Communist excesses and is perpetuating threats to the peace of Asia. Whether they are right or wrong, it is evident that a change in our China policy would not cause these nations to capitulate to communism. They have already established their relationship, as well as their resistance, to China.

But there is still another argument usually advanced to support the idea that any change in China policy would start a chain reaction of falling dominoes. There are some 11 to 13 million oversea Chinese in Southeast Asia. It is contended that if we were to change our China policy, these oversea Chinese would have no place to turn to other than China; so, it is argued, for some unclear reason, they would all become Communists. The patent argument is that they would then constitute a built-in springboard for subversion and aggression throughout Southeast Asia.

I frankly am a bit surprised that this justification has survived. It is true, the oversea Chinese are scattered throughout Southeast Asia. In every country they are a small minority without significant political power, with the possible exception of Malaya. Most of these are third- or fourth-generation Chinese. Like the Chinese in Hawaii, their roots and ties are in the present homeland. There are a few, however, who still have relatives in China. Their contact with China has been in the form of sending remittances to these remote relatives. A few have sent their sons to be educated in China.

Now what has happened? After the Communists came into power the oversea Chinese soon discovered that their remittances were being confiscated by the state. Since the establishment of communes, the flow of remittances has been reduced to a trickle. Several years ago the overseas students who went to China numbered in the hundreds, mostly from the Singapore area. Now the number has dwindled. Instead of returning to Indonesia, Singapore, Vietnam, or elsewhere, to become a "springboard" for subversion, these students have practically all remained in China. The picture is usually portrayed as a choice in which the overseas Chinese can pay loyalty only to Chiang Kai-shek or to the Communists; that any change in policy would deny Formosa to the

oversea Chinese and would compel them to embrace the mainland. The fact is that the vast majority of the oversea Chinese have little concern either for the Chinese Communists or the Nationalists. Those who might pay loyalty to Peking have already done so. Those who look to Taipei would not necessarily be prevented from continuing their present loyalty merely because of a change in U.S. policy, assuming that we would make no change which would abandon Formosa to the Communists.

Mr. GORE. Mr. President, will the Senator yield?

Mr. ENGLE. I am delighted to yield to the Senator from Tennessee.

Mr. GORE. As I have listened to the able, provocative address of the distinguished junior Senator from California, I have been impressed by the fact that time and again he has pictured present policy as a defense of the status quo, as a resistance to change. How, I ask the Senator, can we hope ultimately to win by defending the status quo in a world that is in constant change?

Would it not be the better part of wisdom to undertake to influence the change, which is inevitable? Would success not be more likely if we had a moving policy sufficiently flexible to meet changing conditions?

Mr. ENGLE. I appreciate the Senator's remarks, and for the greater part of an hour I have been talking about that precise proposition.

The contention is made that we cannot change our China policy, and various arguments have been advanced with reference to why we cannot change that policy. The last argument is the one I am currently discussing; that is, that somehow or other a change in our policy would turn all of the oversea Chinese—the Chinese who are off the mainland of China and scattered throughout the various parts of Asia—into Communists overnight, and that a change of policy, therefore, cannot be tolerated.

I am dealing with these arguments, because it is necessary to convince not only our own Government but also the people of this country that we must be prepared to make a change before any kind of a change will even be considered. I am dealing with that proposition at the present time. I hope to establish the premise that change must occur, and then I propose to offer some suggestions as to areas in which change might be considered and might be negotiated.

It does appear the argument that we cannot change our China policy because of the oversea Chinese does not carry much weight. What we have been saying, in effect, is that we choose not to make any gestures which might lead to a more realistic relationship with 600 million people, because a mere handful of oversea Chinese might do what the others have already done—turn to communism.

Mr. GORE. Mr. President, will the Senator yield?

Mr. ENGLE. Yes, I am glad to yield to the Senator from Tennessee.

Mr. GORE. I hope the Senator will understand that I make no pretense of

expert knowledge as to the oversea Chinese problem, so-called. I have seen many of the so-called oversea Chinese. I believe that is the way they are described.

Mr. ENGLE. Yes. They are in the Philippines and throughout Asia.

Mr. GORE. Throughout Southeast Asia.

Mr. ENGLE. They are also in Hawaii.

Mr. GORE. They have become citizens of Hawaii, and are playing a responsible and admirable part as responsible citizens.

Mr. ENGLE. They certainly are.

Mr. GORE. That was the suggestion I was about to venture. These people should be encouraged to become citizens of Laos and should be encouraged to become citizens of Thailand and the other countries. As such, it would be natural to expect that they would have a loyalty to the country of their citizenship. Would the Senator think that is one possible avenue for change?

Mr. ENGLE. That is certainly true. These are third- and fourth-generation Chinese. Their loyalties are to their present homelands.

What happens with reference to our policy with respect to China is not going overnight to make these Chinese dedicated Communists, who peddle communism throughout Southeast Asia.

So, Mr. President, on balance, it would appear, then, that there is something wrong with the argument that any change in China policy would result in communism becoming the wave of the future in Asia. The vast majority of the peoples of Asia would not mind being closely identified with the United States if it could be on a basis of reality and equality. They would like to move forward in association with us in a positive way to shape better living conditions, better institutions, and to bring Asia to its rightful place in world councils. But when the United States justifies its relationship with all of Asia almost exclusively on the basis of halting communism; when the United States pursues an unrealistic, fruitless policy of extremism toward one of the largest states of Asia and the world; when the United States chooses to focus its key Asian policy so as to coincide with the personal ambitions of President Chiang Kai-shek—we go far toward alienating the respect and trust of the balance of Asia. I pose this question—even apart from our long range interest in terms of the effect of our relations upon China, does our interest lie in permitting this China policy to undermine such influence as we may have throughout the great expanse of Asia beyond the tiny island of Formosa? Insofar as I can see, the answer to that question is clear. In the long run if any U.S. policy is to be successful it must identify our interests and purposes with the interests of the countries of all of Asia. In the long run the world balance of power will not be determined by the degree to which we cater to the whims of the refugee government in Formosa—it will be determined by our relationship to the balance of free Asia, and indeed, to the relationship of free Asia to China.

Free Asia endorses the legitimate measures of the United States to prevent Communist aggression. But when the balance of Asia opposes those provocative aspects of U.S. policy which go beyond the need of containment, when the balance of free Asia registers even a partial lack of confidence as a result of the failure of the United States to establish more constructive relations with China, the evident conclusion is that some change in our China policy would not result in the Communist domination of all Asia. To the contrary, such change is necessary if we are to have the continued confidence of the peoples of Asia. If we do not retain that confidence, then our present policy could lead to a disastrous shift in the balance of power.

EFFECTS UPON FORMOSA

This leads to the final major argument which has been advanced in opposition to change in China policy. Even though it would appear conclusive that our relationship to China and the other countries of Asia would benefit from a change in China policy, the question still remains, what effect would it have upon Formosa?

The usual interpretation is that the slightest change in our China policy would mean that we would abandon our wartime ally and staunch opponent of communism, President Chiang Kai-shek; that we would abandon our security interest in Formosa to the Communists; and that we would have to abandon our treaty commitments to the Nationalist Government. The conclusion usually reached is that we would not do any of these things for security or moral reasons, that, therefore, we cannot make any change in our China policy. The flaw in this line of thought is that all of these consequences might follow if we are thinking of the Nationalist government as the legal and legitimate Government of all of China. The conclusion does not follow, however, if we face up to the reality that the Nationalist government is not the Government of China. I think we have to make a distinction in our thinking between our obligations to the Nationalist government as a government on Formosa and to this same government as the Government of all China. In sorting out what is realistic, on the one hand, and what is fictional, on the other, the reality is, first, that the Nationalist government has a legitimate right at present to govern Formosa; and, second, that it has lost the mainland and has no early or practical prospect of regaining the mainland. If the Communist government were to be overthrown, it is hardly likely that the people of China would restore the Nationalist government to power; in a realistic sense, Formosa exists as a separate state; in our defense treaty we do not guarantee the defense of China, but the defense of Formosa, thereby acknowledging the de facto existence of a separate territorial entity.

In a realistic sense then, our obligation to the Nationalist government is an obligation to that government on the Island of Formosa. The fictional side of the ledger is that the Nationalist government controls China; that it might

regain control of China; that it represents China; and that the United States has some sort of obligation to restore its control over the mainland. If we recognize the reality for what it is, then we have no obligation, legal or moral, which should prevent a change in our China policy provided we recognize that de facto existence of Formosa as a separate entity and provided we remain loyal to our treaty obligation to defend Formosa. It is the preservation of the fiction that the Nationalist government is the legitimate government of all of China that makes it possible to jump to the conclusion that any change in China policy would mean the sacrifice of Chiang Kai-shek and Formosa. We cannot compel President Chiang to declare the independence of Formosa. We can, however, make it unmistakably clear that our treaty responsibility is restricted to Formosa; that we do not recognize the Nationalists as the de facto government of mainland China; that we intend to move forward, seeking to establish workable relationships with the Mao government. To the extent that we move forward in establishing such relationships, to that extent the separate status of Formosa will become a fact, even to the Communists and the Nationalists; to that extent the masquerade of the past will give way to a realistic approach to the future.

POSITIVE SUGGESTIONS

If we recognize, as I think we should, that our present Chinese policy is not adequate, we should be prepared to negotiate for some specific changes. Our policy, and what we propose, should be flexible, depending to some degree upon how far the Red Chinese are willing to make concessions in our interest in the Far East. These steps should be taken one at a time and we should not be in too big a hurry about it. But there are certain areas in which we should be willing to negotiate and talk with the Red Chinese with a view to concessions to be made on their side.

As a start, we should be willing to negotiate the entrance of Chinese correspondents to the United States on a basis of reciprocity and equality with U.S. correspondents admitted to Red China. We should be willing to place the issuance of visas to the Chinese on the same basis and under the same controls as now apply to the citizens of the Soviet Union provided that the Chinese are willing to admit American correspondents to the mainland of China. At the present time we are dependent upon foreigners and members of the foreign press as to what is going on in China. We should certainly have no reluctance to admitting Chinese citizens and correspondents in this country under the same restrictions applicable to citizens of the Soviet Union.

Second, we should be willing to discuss with Red China the possibility of placing our trade with Red China on the same basis as our trade with the Soviet Union. Why should they be different? There are many concessions with reference to trade in the Far East that might be advantageous to us and our friends if this kind of an arrangement is carefully negotiated.

Third, we should make it plain that although we intend to maintain our treaty obligations with reference to Formosa, we have no intention of supporting military adventures against the mainland of China—with its consequent danger of setting off a major war. This kind of discussion could be the basis of relaxing the military tensions in the Far East.

Fourth, we should assume the initiative in placing the defense of Formosa on a broader international base than it is at present and lay the foundation for the long-range status of Formosa. We have been criticized in the United Nations for the position that we have taken on Formosa and our failure to advocate any affirmative program to change the status quo there. Time is running out. Both Chiang Kai-shek and his soldiers are growing older and sooner or later we have to face up to a new status for Formosa. Why should we not place the matter squarely before the United Nations, offer to refrain from participation in the discussions if the other interested parties in the Far East stay out also, and ask a committee of the United Nations comprised of Asians, or on which Asians are predominantly represented, to come forth with some positive suggestions? This action should not detract from our commitment to defend Formosa. And in the interim, during these discussions we should make it perfectly clear that we do not intend to see the situation deteriorate. On the other hand, this action, perhaps more than any other, would convince the people of Asia and particularly the people of China that we intend to seek progressive and long-range solutions to the problems in the Far East.

In addition, it would put the onus of going forward with affirmative suggestions upon the United Nations, where there has been criticism for not moving as fast as it was thought we should.

Fifth, we should consider the possibility at some stage during these proceedings, especially if the Mao government shows any willingness to meet us halfway, to negotiate with the Mao government on issues of substance at a level higher than the present ambassadorial talks in Warsaw. This, it is true, would lead us nearer to practical recognition of the Mao government, but it is still 1 or 2 steps removed.

Finally, all these negotiations throughout should be on a quid pro quo basis, and we should make it clear that our determined aim is to halt any Communist aggression in the Far East. We should give substance to this determination by continuing to strengthen military and economic defenses, but at the same time we should permit the countries of Asia to participate with us in progress made in economic and cultural relations with China rather than follow our past practice of penalizing and frowning upon such efforts.

This is not an easy program to undertake. It proceeds from the assumption that our present policy is getting us nowhere and that we ought to try new means and new methods. It presupposes the active and good-faith cooperation of the Red Chinese themselves in a

step by step exploration in each of the separate areas I have mentioned. It will take time and patience but it can be done and eventually the necessity of doing it has to be faced, and so let us face it now.

The challenge to our foreign policy in the next decade is to prevent the total marriage of China and the Soviet Union. The resulting economic, political, and military colossus would include nearly one-third of the world's population. Stretching in one unbroken, tightly controlled Communist federation from Berlin to Canton, it offers a chilling prospect. Some people think that has already occurred, but I do not agree. I think there are basic ideological frictions at the present time. China is in no sense a satellite of Soviet Russia, as are Hungary, Poland, Czechoslovakia, Bulgaria and Rumania. China is big enough and important enough to stand alone, and the Chinese leaders know that. Our policy should move in the direction of preventing a complete dependence of Red China on Soviet Russia and a total marriage of the two on the basis of the Chinese necessity. Our present policy does not move in that direction. For those reasons, I raise these questions and make these suggestions in the hope that we can get started now with a new and more vigorous approach to a policy that will move in the right direction.

Mr. DODD. Mr. President, will the Senator yield?

Mr. ENGLE. I yield.

Mr. DODD. I congratulate the Senator from California for a truly remarkable speech. It is characteristic of him.

I was privileged to serve in the other body with the Senator from California. I remember the demonstrations in that body of his good mind, his great courage and his wonderful intellectual integrity. These are precious qualities in the kind of world in which we live.

I agree with most of what the Senator has said. I may disagree with some parts of his speech; but the important thing is that he has had the courage and intellectual honesty to raise these questions and frankly discuss them.

I hope no one will suggest that there has been some meddling, or that what has been said may impair the responsibilities of those in the executive department. That has been said on occasion, and I think it is regrettable. We must be careful not to restrict our constitutional responsibility with respect to questions of foreign policy. We need more discussion of this kind.

For those reasons, I commend my colleague from California. I believe he has made a valuable contribution. I hope other Senators will join in this kind of discussion. The Senator from California has invited other Senators to express their views and make their contributions. The least we can do is support him and thank him for his leadership. In this way we can get a better policy. No one can disagree, certainly, that our present policy is inadequate and that it must be changed; that we must find a way to improve it and make it more meaningful. I commend the Senator from California.

Mr. ENGLE. I thank my friend from Connecticut for his comment. I should like to make this observation. The situation in Europe has been the subject of continuing debate on the floor of the Senate and elsewhere throughout the United States. However, for some reason or other the impression has been created that we cannot talk about our foreign policy in the Far East, particularly with respect to China. I submit that it is about time we ventilated that subject a little by some discussion on the floor of the Senate.

That was the purpose of my effort this afternoon. The position which I take is one which suggests possible areas of negotiation, and that we need not trade one extreme of policy for another extreme of policy, but that these matters be developed over a period of time by discussion.

Mr. GORE. Mr. President, will the Senator yield?

Mr. ENGLE. I am glad to yield to the Senator from Tennessee.

Mr. GORE. I wish to join the Senator from Connecticut in his expression of commendation. The Senator from California has shown courage and ability and imagination. We must in some way move in a moving world. We cannot remain static and expect to be on the wave of the future. The Senator has made no pretense of having a tried and proven formula for the solution of the vexatious problem of our policy in the Far East, with particular reference to China. However, he has shown the weakness of the existing policy, and he has demonstrated convincingly that there is in existence a policy which shows resistance to change, and has made certain proposals which, in the opinion of the junior Senator from Tennessee, deserve careful consideration.

Mr. LONG. Mr. President, will the Senator yield?

Mr. ENGLE. I shall be happy to yield in a moment. First, I should like to say to my friend, the junior Senator from Tennessee, that over a period of weeks we have been attending meetings in which experts in various fields of vital interest to Members of the United States Senate have appeared, for the purpose of trying to improve our information and our grasp of these great problems.

I believe that we have had three very renowned spokesmen in the foreign policy field appear before us, and most of their discussions dealt with problems on the continent of Europe.

We are all grateful to the junior Senator from Tennessee for arranging those wonderful symposiums, which have been highly informative and helpful. I hope he can bring before us some persons who will talk to us about the problem with respect to our foreign policy in the Far East, if not during this particular series, then perhaps during a later one, when the Senator follows out the program, as I know he intends to do.

I am now happy to yield to the distinguished Senator from Louisiana, a member of the Committee on Foreign Relations.

Mr. LONG. Mr. President, I wish to congratulate the Senator from California

for his thought-provoking presentation this afternoon. Some of us have felt for some time that our policy toward China was absolutely frozen on dead center. Certainly it needs the benefit of a very thorough analysis.

The Senator has made a very worthy contribution to the type of analysis and thinking which is necessary from the standpoint of what our policy should be in the future, instead of being directed only to the past.

Undoubtedly there has been too much repetition of certain flat statements which really cannot withstand thorough critical analysis. The Senator has clearly pointed out a number of reasons why the arguments that we cannot consider any change in our China policy, when analyzed, oftentimes mean very little. I commend the Senator for the fine contribution which he has made this afternoon. It is a contribution which we should study in our effort to find a better approach to the China problem.

Mr. ENGLE. I appreciate the kind remarks of the Senator from Louisiana. Being a new Member of the Senate, who takes a very keen interest in foreign policy problems and foreign trade problems involved in the Far East, I shall from time to time call on him for his good advice and help.

Mr. President, I yield the floor.

Mr. PROXMIRE. Mr. President, I too wish to commend the distinguished Senator from California for what I think is a remarkably fine speech, particularly because he discussed an issue which is badly in need of discussion. A curtain of silence has been drawn over the subject of China, not only in the Senate but also in the press of the United States. Particularly in the past year or two there has been very little consideration of how our policy can be changed. There has been an unfortunate polarization of an "either or" attitude. Either one is for Formosa or he is for the Chinese Communists. I believe that either policy offers very little.

The Senator from California, with thoughtfulness and imagination, has given us a remarkable analysis, not only by way of criticism but also by way of solid, constructive suggestions, as to where we might go in a careful and thoughtful way in order to solve this serious problem.

Mr. MORSE subsequently said: Mr. President, earlier today the Senator from California [Mr. ENGLE] made a very able speech on the China problem. It was my privilege to read the manuscript of his speech before he delivered it. Unfortunately, I could not be on the floor of the Senate during the time when he delivered the speech; at that time I was required to be at a hearing of the Foreign Relations Committee, at which I examined at some length, this afternoon, a series of witnesses.

I ask unanimous consent that the remarks I am now making be printed in the RECORD immediately following the speech delivered earlier this afternoon by the Senator from California.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MORSE. Mr. President, I wish to say that, in his speech of today on the so-called China policy, the Senator from California presented, in the main, a position which I have taken for some years past—in fact as early as 1950—and which I emphasized over and over again in my 1956 campaign, when in the early part of that campaign the opposition said that was one of the positions which would cause my defeat in that campaign; and it is the position which I emphasized in 1955, here on the floor of the Senate, in my opposition to the Formosa resolution.

It happens that recently I was asked to make a statement summarizing the position I had taken in the Senate on China policy; and I set it forth in a letter under date of May 15, 1959. Because the letter corresponds—interestingly enough—to so many of the points which were raised by the Senator from California [Mr. ENGLE] in the exceedingly able speech which he delivered in this Chamber this afternoon, I ask unanimous consent that a copy of my letter of May 15 be printed at this point in the RECORD. Let me say that I have stricken out the name of the person to whom the letter was sent; but I ask unanimous consent that the full contents of the letter be printed at this point in the RECORD.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

MAY 15, 1959.

DEAR SIR: The following is in response to your request for my views on recognition of the Communist government of China and on what should be done about Formosa and the Nationalist Government there.

Ever since the establishment of the Communist government in China, I have taken the position that we should not recognize it diplomatically until it fulfilled the three historic criteria of recognition that we have applied to new governments. They are: (1) the new government must be one that actually controls the territory and machinery of the government over which it claims jurisdiction; (2) it must represent the great majority of people over which it claims control. This does not mean that it necessarily represents those people, at least in the beginning, with their approval. Dictatorships seldom do. It does mean, however, that the new government seeking recognition must control and govern the population living in the territory over which it claims jurisdiction.

Third, we have insisted historically that a new government must satisfy us that it can be counted on to fulfill its international obligations.

Applying these three criteria to the Communist government of China, we see that the first two are met by it. There is no doubt that the Communist government controls the mainland of China. It is likewise true that they control and govern more than 600 million people. Of course, you and I know how they control them. The Communist Chinese Government controls them by police state methods, and the evidence is abundant that any attempt upon the part of anyone or any group to oppose the Communist government results in liquidation or imprisonment.

However, in respect to the third historic criterion, the Communist government of China has completely failed to date to make a record that entitles it to American diplomatic recognition. The Communists have failed time and again to fulfill their inter-

national obligations and keep their international commitments. In proof of that, one need only point to their record of aid that the Communist Chinese have given the North Korean Communists in their many violations of the Korean truce.

Many nations, including Great Britain, do not insist upon the same criteria in diplomatic recognition that the United States has followed. Both Great Britain and Canada have recognized Red China. But it doesn't follow that we should copycat the policies of such friendly nations in respect to recognition policies. To the contrary, I think we have an obligation to hold fast to our recognition requirement that before a nation is entitled to diplomatic recognition by the United States, it must satisfy us that it can be counted on to fulfill its international obligations.

Of course, our recognition policy has not always been consistently applied. Sometimes we have been very quick to recognize a new government following a revolution, before there has been time to determine whether it can be counted on to keep its commitments—Iraq, for example. Likewise, we have extended quick diplomatic recognition to some Latin American regimes. Nevertheless, I believe we should continue to say to Red China, "We will extend diplomatic recognition if, as, and when you demonstrate to the world that your commitments can be relied on."

At the same time, I think it should be made very clear to the American people that we cannot wish out of existence the 600 million Communist-ruled people of China. We must face up to the reality in world affairs that the Red Chinese Government is here to stay for a considerable time, perhaps, in some form, for centuries.

Therefore, the question arises, should we have any relationships with Communist China short of diplomatic recognition? As I have said for the past few years, I think we should.

In my 1956 campaign for the Senate, I favored trade with Red China in non-war goods. In fact, for several years before 1956, I expressed comments in favor of trade with her in nonstrategic goods. There are many reasons why I favor trade with Red China in such goods as textiles, flour, and other foodstuffs, medicines, and other goods for civilian use that would help us reach a better understanding with the masses of China.

One is the purely economic reason. Oregon and other western States have carried on for many decades an historic pattern of trade with China. The refusal of Secretary Dulles to agree to any trade has shut us off, only to have other countries gobble up the economic advantages of trade. So from the standpoint of our long-time international economic interest, I think we should seek to revive trade with China.

A second, more compelling reason is the moral one. I think we are following an immoral policy in refusing to trade with Red China in nonwar goods. What we are really doing is trying to impose upon the people in Red China economic privation unless they do our political bidding by overthrowing a form of government that we, with very good cause, do not like. This adamant position has cost us dearly in prestige and standing and public-opinion support among millions of people in Asia and Africa. They charge us with hypocrisy in that we prate about our high moral standing and then follow a very immoral policy toward China in respect to trade.

It is said by some that diplomatic recognition is a condition precedent to trade. However, that is not the case; Japan, for example, trades with China without recognizing her. It would be much easier to carry on trade in the channels of international commerce opened by diplomatic recognition.

However, we can trade with Red China without recognizing her, and it might very well be that such trade would hasten recognition because it might cause the leaders of Red China to appreciate that they should live up to their international commitments.

Another facet of our policy toward Red China which disturbs me very much and that is the growing danger of a nuclear war. We know that Red China is fast becoming a nuclear power; we also know that there is no hope of any effective control of nuclear testing unless we can reach some agreement with both Russia and China for an effective inspection system. If we do not bring nuclear testing under control and do not work out an effective system for control of nuclear weapons, if not complete nuclear disarmament, the danger of nuclear war is very real.

Such a war would be unthinkable; it would be inexcusable; it would be wholly immoral. I so characterize a nuclear war because we all know that such a war would visit on mankind irreparable injury to civilization for many, many centuries to come. Therefore, Red China presents to us a very ugly reality. The free nations of the world are going to have to deal with her whether we like it or not in respect to the control of nuclear testing, weapons, and disarmament.

Here again, I think the United Nations offers the best vehicle for negotiations with Red China. They should be carried on through the U.N. rather than bilaterally between the United States and Red China, at least until such time as we feel that Red China is deserving of our diplomatic recognition.

Now as to your questions about Formosa. You may remember that in 1955 when the Formosa resolution was before the U.S. Senate, I agreed that Formosa be placed under a United Nations trusteeship accompanied by a pledge from the United States that we could defend Formosa and the Pescadores from any attack of China or Russia until such time as the question of Formosan sovereignty could be determined from the application of the international law procedures of the United Nations. Nothing has changed since 1955 which would change my opinion in regard to the Formosa issue. I continue to say that we must protect Formosa and the Pescadores from a Communist blood bath. At the same time, we should make clear to the world that we claim no sovereignty rights over Formosa and we recognize that the sovereignty of Formosa should in the long run be determined through the procedures of the United Nations.

One of the sad historic facts about our record in Formosa that many people in other countries, particularly in Asia and Africa, point out is that the United States helped impose Chiang Kai-shek's regime upon some 6 or 7 million native Formosans who never had any voice in the matter at all. Thus, in many parts of the world, Chiang's government is referred to as the puppet government of the United States. It seems to me that we can and should protect Formosa from attack from the Communists but we ought to turn the question of Formosa's sovereignty over to the United Nations by urging the establishment of a United Nations trusteeship.

That is my view in Formosa, irrespective of what we do about recognizing Communist China.

Sincerely,

WAYNE MORSE.

MESSAGE FROM THE HOUSE—ENROLLED BILL SIGNED

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the

Speaker had affixed his signature to the enrolled bill (H.R. 3681) to provide for the free entry of certain chapel bells imported for the use of the Abelard Reynolds School No. 42, Rochester, N.Y., and it was signed by the President pro tempore.

TAX REFORM

Mr. PROXMIRE. Mr. President, I am introducing two tax reform bills. The senior Senator from Illinois [Mr. DOUGLAS] is the principal author of one of them, and in his absence I am introducing it in his behalf. I am the principal author of the other bill.

Both bills are in direct response to the solemn promise, made in our Democratic platform at the last National Democratic Convention, when our party freely promised the people of America that "the immediate need is to correct the inequities in the tax structure."

The Democratic Party has an overwhelming control of this Congress, and we have a duty to try to keep our promises. These bills attempt to do that. They are both based squarely on the principle that persons with equal income should pay equal taxes. They will both raise a substantial amount of badly needed Federal revenue without increasing by a nickel the taxes of the citizen who is already paying his full share. They will help balance the budget, retire the debt, and meet the pressing obligations our Government faces. In doing this, these measures will help restrain inflation.

Mr. President, on behalf of the senior Senator from Illinois [Mr. DOUGLAS] the Senator from Pennsylvania [Mr. CLARK], the Senator from Minnesota [Mr. HUMPHREY], the Senator from Missouri [Mr. HENNING], the Senator from Oregon [Mr. MORSE], the Senator from Michigan [Mr. McNAMARA], the Senator from Ohio [Mr. LAUSCHE], the Senator from Colorado [Mr. CARROLL], the Senator from Ohio [Mr. YOUNG], and myself, I introduce for appropriate reference, a bill which would reduce the existing 27½ percent depletion allowance for oil and gas to 15 percent for those who receive income from oil and gas properties in excess of \$5 million a year; from 27½ percent to 21 percent for those who receive income from oil and gas properties between \$1 million and \$5 million a year; but which would keep the existing rate of 27½ percent for those with income from oil and gas properties below \$1 million a year.

I ask unanimous consent, Mr. President, that the text of this bill be printed at this point in the RECORD.

The PRESIDING OFFICER. The bill will be received and appropriately referred; and, without objection, the bill will be printed in the RECORD.

The bill (S. 2037) to amend the Internal Revenue Code of 1954 to provide graduated rates of percentage depletion for oil and gas wells, introduced by Mr. PROXMIRE (for Mr. DOUGLAS, himself, and Senators CLARK, HUMPHREY, HENNING, MORSE, McNAMARA, LAUSCHE, CARROLL, and YOUNG of Ohio), was received, read twice by its title, referred to the Com-

mittee on Finance, and ordered to be printed in the RECORD, as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 613 of the Internal Revenue Code of 1954 (relating to percentage depletion) is amended—

(1) by striking out, in subsection (a), "specified in subsection (b)" and inserting in lieu thereof "specified in subsection (b) and (d)";

(2) by striking out paragraph (1) of subsection (b) and inserting in lieu thereof the following:

"(1) Oil and gas wells.—The percentage applicable under subsection (d) (1)."; and

(3) by redesignating subsection (d) as (e), and by inserting after subsection (c) the following new subsection: "(d) Oil and Gas Wells.—

"(1) Percentage depletion rates.—In the case of oil and gas wells, the percentage referred to in subsection (a) is as follows:

"(A) 27½ percent—if, for the taxable year, the taxpayer's gross income from the oil and gas well, when added to (i) the taxpayer's gross income from all other oil and gas wells, and (ii) the gross income from oil and gas wells of any taxpayer which controls the taxpayer and of all taxpayers controlled by or under common control with the taxpayer, does not exceed \$1,000,000.

"(B) 21 percent—if, for the taxable year, the taxpayer's gross income from the oil and gas well, when added to (i) the taxpayer's gross income from all other oil and gas wells, and (ii) the gross income from oil and gas wells of any taxpayer which controls the taxpayer and of all taxpayers controlled by or under common control with the taxpayer, exceeds \$1,000,000 but does not exceed \$5,000,000.

"(C) 15 percent—if, for the taxable year, the taxpayer's gross income from the oil and gas well, when added to (i) the taxpayer's gross income from all other oil and gas wells, and (ii) the gross income from oil and gas wells of any taxpayer which controls the taxpayer and of all taxpayers controlled by or under common control with the taxpayer, exceeds \$5,000,000.

"(2) Control defined.—For purposes of paragraph (1), the term 'control' means—

"(A) with respect to any corporation, the ownership, directly or indirectly, of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote, or the power (from whatever source derived and by whatever means exercised) to elect a majority of the board of directors, and

"(B) with respect to any taxpayer, the power (from whatever source derived and by whatever means exercised) to select the management or determine the business policies of the taxpayer.

"(3) Constructive ownership of stock.—The provisions of section 318(a) (relating to constructive ownership of stock) shall apply in determining the ownership of stock for purposes of paragraph (2).

"(4) Application under regulations.—This subsection shall be applied under regulations prescribed by the Secretary or his delegate."

(b) The amendments made by subsection (a) shall apply only with respect to taxable years beginning after the date of the enactment of this Act.

Mr. PROXMIRE. Mr. President, I ask unanimous consent that the Douglas oil depletion bill may also lie on the desk for a week so that any Senator who may wish to cosponsor it may do so.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. PROXMIRE. Mr. President, I am introducing the bill for the senior Senator from Illinois [Mr. DOUGLAS], and I

shall read into the RECORD a statement which he has prepared to accompany the introduction of the bill:

DEPLETION ALLOWANCE AMENDMENT

Unjust tax differentials in the aggregate cost the Government several billion dollars a year in revenue. They have increased over the years so that the tax structure of the country is now seriously eroded.

Among the most serious of these inequities and evasions is the excessive depletion allowances in oil and gas. Unless Congress cures this and other erosions and injustices, they will continue to spread like a cancer through our tax system.

Mr. LONG. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield to the distinguished Senator from Louisiana.

Mr. LONG. Do I understand the Senator to say that he is now reading a statement prepared by the senior Senator from Illinois [Mr. DOUGLAS]?

Mr. PROXMIRE. That is correct.

Mr. LONG. When he talks about the revenue—

Mr. PROXMIRE. I should like to interrupt the Senator at this point. I have very carefully gone over the statement, and I may indicate some of my own thoughts as I go along. The amendment was submitted by me last year, as the Proxmire amendment. I am delighted that the senior Senator from Illinois should submit it this year.

Mr. LONG. The Senator is reading a statement prepared by the Senator from Illinois. I hope he is not associating himself with the high interest rate policy of the Senator from Illinois, which as the Senator knows, is costing us \$3 billion a year in additional costs to help finance the national debt, partly as a result of the great leadership of the Senator from Illinois, among others, in imposing so-called freedom on the Federal Reserve to raise interest rates. I hope the Senator from Wisconsin is not supporting that proposal, which has thrown the budget out of balance and has resulted in heaping on the working people a hidden tax to the extent of \$15 billion a year.

While it is true that there might be some need for tax revision, I think the first thing which should be done is to remove the hidden tax of \$15 billion a year which has been imposed in line with the general philosophy of the senior Senator from Illinois. While there should be equitable taxation, I do not think the \$15 billion of hidden taxes should be imposed on the poor people of the Nation. High interest rates operate as a hidden tax, unjust socially, and unfair. I should like to have such taxes removed before getting around to increasing the tax paid by some of those engaged in the oil industry.

I hope the Senator from Wisconsin, in fighting for fair tax treatment, will do all that he can to help to remove the unfair hidden tax of \$15 billion which the working people must pay to the well-to-do classes for the privilege of having a Republican in the White House.

Mr. PROXMIRE. The Senator from Louisiana knows that I have strenuously and vigorously, on the floor of the Senate, opposed the hard money policy. Only recently, I pointed out how expensive it is to the Federal taxpayer. Because of hard money the refunding process will cost in the neighborhood of \$1 billion a year more in taxes than it should. I agree that that is only a part of the tax. The hidden part is greater, because everyone who pays interest, which is a large portion of the American public, will have to pay more.

In defense of the Senator from Illinois, he believes in using monetary policy as an instrument of price stability. He is far better trained in economics than I am and, I think, than most other Senators are.

The senior Senator from Illinois, in the report of the Joint Economic Committee, criticized the Federal Reserve Board for its monetary policy during the recession. He believes that at a time when many persons are unemployed and there is much idle plant capacity, interest rates should not be pushed up, but should be pulled down. So he cannot very well be blamed for the present policy.

Mr. LONG. As the Senator from Wisconsin knows, every time someone tries to do something to reduce high interest rates, he is confronted by the policy of a man like Randolph Burgess, who has spent 20 years in this particular field, and who pulls out the previous statements made by the senior Senator from Illinois.

This all proves one thing. One has to be for the people all the time, or else forget about them, because if he is for the people only a part of the time, his words will be used constantly against his good intentions under different conditions. A person cannot be for high interest rates on one occasion and low interest rates on another and make his position understood. He must be consistent. He must be on one side of the fence or the other; otherwise, he will be victimized, as the senior Senator from Illinois has been. His words will be used to help further such a policy as has been imposed on the people; in some instances for more than 20 years to come.

The people will be paying high interest rates years from now on long-term bonds. I suppose my own little children will be paying high interest rates on bond issues to build schools in Louisiana when their own children are going to the same schools 20 years from now.

Mr. PROXMIRE. I feel very strongly that the senior Senator from Illinois is for the people all the time. His judgment on monetary policy may differ greatly from that of the Senator from Louisiana and that of the junior Senator from Wisconsin. But I know of no Senator who believes more deeply in the welfare of all the people, especially in the little people, and that the little people should have every consideration, than does the senior Senator from Illinois. The fact that we may disagree with him is a matter, I am certain, of judgment, and not of where his heart is.

Mr. LONG. I am certain the Senator from Wisconsin does not approve of the part which the great Senator from Illinois played in putting over the so-called independence of the Federal Reserve Board. There is no more independence there now than there was before. It is unfortunate that the Federal Reserve Board is now in a position to heed the advice of the Wall Street banker friends who desire a higher interest rate policy so that the people of the country will have to pay them more when people must borrow money.

Mr. CLARK. Mr. President, will the Senator from Wisconsin yield?

Mr. PROXMIRE. I yield.

Mr. CLARK. I should like to ask the Senator from Louisiana if he does not think an attack on the senior Senator from Illinois would be in better taste if the Senator from Illinois were here to defend himself.

Mr. LONG. Inasmuch as the Senator makes the point, I may say that I have tried to get the Senator from Illinois to discuss this point on this floor time and again. Perhaps we should wait until he is here, and I shall be glad to do that. But I have suggested to him time and again that once he had helped to put into effect the program, on which Mr. Burgess spent 20 years in sending pamphlets across America seeking to support, the United States will be saddled for many years to come. I do not think a Democrat is serving the public when he is supporting that kind of program.

Mr. PROXMIRE. The senior Senator from Illinois has made a great record in the Senate, and even before he was elected to the Senate, in fighting for the interests of all the people against special interests. He has been very consistent in doing that. I think that is apparent. If the Senator from Louisiana disagrees with the position which the Senator from Illinois and I take on the depletion allowance, he is perfectly free to discuss this issue, and we will welcome his discussion of it. We shall be delighted to have him oppose our proposal on the merits of the issue. If he wants to discuss monetary policy at another time, I shall be delighted to join with him in doing all I can to achieve a much wiser monetary policy than we now have.

Congress is confronted with an extremely serious problem. Congress, which is responsible for the Federal Reserve Board, seems to have its hands tied.

I have heard the Senator from Louisiana say, again and again, that huge amounts of hidden taxes are imposed upon the little people. I agree with him. But I have tried to do all I can to persuade outstanding economists and outstanding Senators to draft proposed legislation which will permit Congress to do something about this, and to do it now. It has been very hard to achieve any results. We can make speeches about it, but we have not been able to have passed bills which would correct or cure the trouble.

When some are given favored treatment, others chafe at the additional burdens imposed upon them and demand similar exemptions. Loopholes widen into huge apertures; a breed of skilled tax lawyers develops, skilled in helping

wealthy clients avoid taxes in return for big fees. The general taxpayer, too public spirited or too uninformed to obtain similar tax favors, is left bearing the burdens. Democratic government is itself weakened by the unfairness of the whole setup. Just as injustices in the collection of taxes helped to undermine the Roman Republic and the ancient regime in France, so similar practices serve to breed discontent here at home and undermine men's faith in their Government.

I should like to say, in my own behalf, that there is no loophole in the tax law which is more widely recognized, which has become more notorious, and which I think is more indefensible than the oil-depletion loophole. If there is any loophole which would persuade the ordinary citizen, the loyal, taxpaying citizen, to have less regard for his Government and less concern for paying his taxes honestly, it is this loophole. He has heard so much about it, and he knows how hard the big oil boys have worked and lobbied and campaigned and entertained to persuade Congress to keep this privilege on the books, that the impact on the ordinary American citizen has been very serious.

Mr. LONG. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. LONG. Does the Senator, in his tax proposals, plan to do anything about the capital gains treatment on the sale of assets?

Mr. PROXMIRE. Last year I proposed that kind of an amendment, and I expect to do so again this year. A number of Senators are introducing different kinds of tax bills. I may say that this is not the end of the matter; it is only the beginning. We certainly expect to introduce reforms of that kind.

I think the capital gains provision has been badly abused. The Treasury has called our attention to it. There is no question that it is a way to compensate executives by enabling them to receive income and enjoy tax privilege by paying a small tax.

Mr. LONG. Certainly a case can be made to support the capital gains treatment. I was curious to know if the Senator had in mind changing the capital gains law, because if he had, he would find that today a person having the benefit of the 27½-percent depletion allowance is really no better off than he would be if he had simply sold his oil and gas property, once he had discovered oil on his property, or sold the mineral rights to it and took the capital gains benefit on the income which was derived from installment payments for his property.

Mr. PROXMIRE. I think I can show shortly that the oil operators are infinitely better off than if they had to pay a 25-percent tax. In one particular case a man had an income of \$14 million, but paid only approximately \$80,000 in taxes—in other words, a great deal less than 25 percent; approximately six-tenths of 1 percent, in fact. That is the kind of advantage this tax loophole permits.

Mr. LONG. I do not know the case the Senator from Wisconsin has in mind. But I am sure he is referring to a number of other factors which do not appear in the example he has given. For instance, he probably is referring to a case in which a person drilled a large number of wells, and wrote off the cost of all the wells—which such a person is permitted to do—in the same year in which he drilled them. In other words, by including his intangible drilling costs, he thereby could reduce his taxable income, because of the additional costs he incurred. If it is because of the intangible drilling costs that such a person is not paying a substantial amount of tax, I do not think the Senator from Wisconsin has proven his point.

Mr. PROXMIRE. Mr. President, of course the junior Senator from Louisiana is correct; the capital gains and the intangible drilling cost provisions of the law are extremely valuable—as I shall point out—to the oil companies. The depletion allowance is only one of a number of special privileges they have. If the junior Senator from Louisiana will help us eliminate the oil depletion allowance abuse, we certainly shall be happy to cooperate with him in eliminating some of the other advantages.

Mr. LONG. Of course the Senator from Wisconsin knows that in order for the United States to have oil, it is necessary for those who are producing oil to be able to make a profit from that business; in fact, they must be able to make enough profit to offset the risk that they will not find any oil at all.

Methods have been improved; but in the case of discovery wells, the ratio still seems to be eight dry holes out of every nine attempts; and even for the overall drilling, if the development of previously discovered fields is included, I believe it will be found that a very high percentage—between 25 and 50 percent—of all wells drilled result in dry holes.

Somewhere in the picture there must be some allowance for the fact that while a man may drill at great expense, and may find oil, on the other hand he may, after drilling at great expense, find nothing. So some allowance must be made to offset the fact that his investment—which might amount to as much as \$1 million for a single hole—might all be lost. As a matter of fact, he might have to drill a number of wells before he would find any oil. The risk he takes must be offset by some factor; and that requires more than merely a deduction for a particular loss, because, in a great many cases, many of the independents must go out of business unless they find oil on their first or their second attempt. Although it might be all very nice to have a deduction allowed later on, in order to cover that cost, if there is not some allowance to cover the risk undertaken, they would not find it very attractive to go into the business; in fact, it would be very unattractive.

Mr. PROXMIRE. Mr. President, it has been stated that eight dry holes in nine attempts is the experience of the oil companies. This is true on discovery

wells, but it seems to me that the most recent statistics indicate a far better record than that, 25 percent at least work out. But even if eight of nine dry were the case, I may point out that no one is saying that the dry-hole costs should be ignored. Of course they should be allowed for; of course the operators should be allowed to write them off. We simply question whether all intangible costs should be written off entirely in one year; or whether that advantage, plus the advantage of writing off all the intangible costs—which amount to from 75 to 90 percent of the total costs, should be permitted to be written off at once—as they are. But even this privilege is not challenged in this amendment.

Let me also point out to my good friend, the Senator from Louisiana, that insofar as the independents are concerned, in the case of those who might be damaged by such a loss, this bill will not affect them, because any firm or individual with a gross of less than \$1 million will not be affected by the proposal we make; and any firm with a gross of between \$1 million and \$5 million will be only very modestly affected, because our proposal is to reduce the depletion allowance from 27½ percent to 21 percent—which still would allow a great advantage over those who produce metals, for whom there is a 15 percent depletion allowance. Only the giants—those with a substantial income of \$5 million or more—will be fully affected by this measure. These are persons who obviously drill a great many more than 10 or 20 wells a year, but they can spread their losses over their good production and therefore are not seriously affected.

Mr. LONG. Mr. President, will the Senator yield further?

Mr. PROXMIRE. I yield to the Senator from Louisiana.

Mr. LONG. The argument the Senator makes, of course, has considerable appeal, and indicates the Senator from Wisconsin wants to be fair. Yet the independent producer in many instances is out of business if he fails in his first attempt to find a productive well.

One trouble about the proposal of the Senator to put allowances in brackets, according to the size of a company, poses this problem: Let us take a stockholder, Grandma Jones, who holds 6 shares in a company which may have \$5 million or \$6 million worth of assets. She would be denied the benefit of the 27½ percent depletion allowance, under the Senator's proposal; while, on the other hand, an independent producer who might be worth \$1 million would, under the Senator's proposal, be permitted the benefit of that allowance, even though he was in better financial shape than Grandma Jones, who had inherited 6 shares of stock. Why should not the old lady, who happened to own 6 shares of stock in a substantial company, receive the same tax treatment as the independent who might be worth \$1 million?

Mr. PROXMIRE. It is interesting, Mr. President, that whenever Standard Oil Company or other corporate enterprises which have such enormous advantages as mentioned, it is always Grandma Jones who is said to have a little

stock and who would be seriously affected. The fact is that all stockholders, whether Grandma Jones or a wealthy stockholder, have the same protection the big corporations have. Grandma Jones is in the same position, as a stockholder, as all the other stockholders of corporations, which can spread their losses over their gains. They can diversify. The problems of the costs of explorations and bringing in dry holes would not adversely affect Grandma Jones. The fact is that the big oil companies pay far less in taxes than do other comparable corporations, that their risks are less than those of comparable corporations, and that the case for giving them special tax treatment cannot be rationally justified on the basis that there are stockholders of the company whose incomes are modest.

On that basis, justification could be made for a complete exemption, I presume, for any corporation, because it could be found that a widow or an orphan depended on that company for income. Therefore, it could be said that when that corporation was forced to pay the same taxes as every other company, we were hurting the poor orphan or widow.

Mr. LONG. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. LONG. The Senator knows I have been fairly consistent in my efforts to favor Grandma Jones. My efforts to provide welfare increase and adequate social security payments should show that my heart is in it.

Mr. PROXMIRE. Grandma Jones has no better friend than the distinguished junior Senator from Louisiana.

Mr. LONG. While the Senator from Wisconsin attempts to be eminently fair to the independent producer, one point that occurs to me is that in a number of cases the practical application of his proposal would mean stockholders—in many instances small stockholders—would be denied, because of the type of corporation in which they have stock, the same treatment, which the Senator describes as favored tax treatment, which the Senator would accord to some very substantial producers in the oil and gas industry.

I point that fact out to the Senator to show him the complexities of the problems to which his proposal is directed. If all the stockholders of Standard Oil Co., for example, were millionaires, I think the Senator's proposal would not present this problem. A problem is presented when one recognizes the fact that the vast majority of stockholders are not wealthy. Perhaps it may be that the ownership of most of the stock is in the hands of the wealthy, but I know that the vast majority of stockholders are not wealthy, and they could, with good grace, claim tax treatment as favorable as that which the Senator would seek to accord to the independent producer of oil and gas.

Mr. PROXMIRE. What we are trying to do is to put all stockholders on the same basis, whether they have stock in oil corporations, steel corporations, or automobile corporations. We are at-

tempting to eliminate discrimination. If some tax benefit should accrue to the independent entrepreneur who owns an oil company, it seems to me there is some justification for it—and the Senator from Louisiana is much more familiar with the field than I am—because the entrepreneur takes risks, he goes out and does the work, and he has the imagination and initiative, and perhaps he should have that extraordinary reward.

It is important, therefore, that we not only stop further erosion of the tax structure, but that we begin to undo some of the damage already done. It would be plainly impossible to cure all the defects at once. But a start can, and should, be made.

SPECIAL PROVISIONS FOR OIL AND GAS

The most conspicuous of these abuses is the 27½ percent depletion allowance on income from oil and gas. Under the present law, a host of costs and special allowances are deductible from gross income even before the depletion allowance applies. These are:

First. Operating costs.

Of course, this is a deduction every industry has, but perhaps it is the only deduction every industry has which is not a special deduction for the oil industry.

This is aside and apart from the depletion allowance. There is this terrific advantage of the fast writeoff, which many experts say is more advantageous than even the oil depletion allowance.

Second. Intangible drilling and development costs. These can be written off in 1 year and not spread over a period of years, as is the case in other industries. It has been estimated that between 75 and 90 percent of all costs can be written off in 1 year in this manner. We have, therefore, accorded to this industry virtually the ultimate in accelerated depreciation and fast tax writeoffs.

Third. Unsuccessful or dry holes, of course, can be written off.

Mr. LONG. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. LONG. When the Senator talks about intangible drilling costs, he is referring to the taking of depreciation at one time. A man drills an oil or gas well. Assuming the well is successful, the cost can be depreciated over a long period of time, it is true; but it is also possible for a person, if he desires it, to elect to take his depreciation at one time, particularly his intangible cost. That cost might include the labor he hired to drill the well, as an example. That labor is gone. The pipe in the ground is not intangible. That is an asset which will remain there, but the labor to help turn the rotary rig is used up at the time the well is drilled.

Unless the person has a vast amount of money to keep tied up in capital over a long period of time, he has to have the advantage of a fast tax writeoff in order to drill more wells. But once he takes the depreciation, it is gone; he cannot take it again.

Mr. PROXMIRE. The enormous advantage to which I have referred is an advantage with which I am familiar to

some extent, as a small businessman. We spent a lot of money in getting our printing company going, and our development costs were substantial. It would have been wonderful if we could have written the costs off at once. Businesses all over America have that problem. It would be a great advantage if such little businesses could have a fast writeoff of such costs, but they cannot. They are required by the internal revenue laws to spread those costs over a period of years. As the Senator from Louisiana has pointed out, that is a disadvantage, because they have to have their money tied up. A fast writeoff is another special benefit that the oil industry has. We are not trying to eliminate that advantage; but we are trying to put it in its proper perspective.

Mr. LONG. I hope the Senator realizes that the problems of an oil or gas producer differ, and very widely, from those in other manufacturing industries. The oil and gas industry is very speculative and risky.

I wonder if the Senator has looked at the study made by the Chase National Bank, which indicates that for domestic producers in this country, even when we consider the 27½ percent depletion allowance and the intangible drilling cost, the profits have been just about the same as those for the average manufacturing industry in America. Does the Senator know that?

Mr. PROXMIRE. I was aware of that. The fact is, of course, that in all industries one tends to get an equalizer, because if there is an industry which has great advantages, as the oil industry has, what happens is that the stock is bid up, more people enter the industry, and competition becomes greater. Therefore, the privilege becomes capitalized into the industry itself. Then when one attempts to eliminate this privilege one encounters the problem of having a capitalized advantage which it is necessary to overcome. I recognize that, certainly.

Mr. LONG. Perhaps the Senator is touching upon the economic theory known as the free-flow-of-capital theory. That is one of the hidden secrets of the capitalistic system which makes it work. In other words, if a business is very profitable, there is a tendency for large numbers of people to go into it. The competitive effect is that it tends more or less to equalize conditions as between industries. The fact that the oil industry today is not producing the full requirements of the Nation for fuel, on the one hand, and the fact that even with these incentives it does not appear to be any more profitable than the average of the manufacturing industries would certainly at least tend to support the argument that this industry, with the tax advantages it is permitted, is really about on the same basis as the average manufacturing industry. I am curious to know the Senator's reaction to that point.

Mr. PROXMIRE. My reaction is that I am astounded and astonished. It is my understanding that in Texas they are now up to 12 days of production a

month, and last year they were down to 7 days of production a month. We have a tremendous amount of oil. We do not need more. The President recently imposed quotas, over the strenuous objections of some of us. We have tried to do what we could to have those quotas rescinded.

We are not in a situation where we desperately need more oil. The situation is almost the same as with the farm problem. We have an embarrassing abundance of oil.

Mr. LONG. Perhaps the Senator realizes there is a problem with respect to limiting the amount of oil which is produced in Texas, and the same thing is true in Louisiana. This relates to the fact that there is only so much storage capacity above ground. If one takes more oil out of the ground than there are tanks in which to store it, all that can be done is to pour the oil on the ground and waste it. It would be better to keep the oil in the ground than to pour it on the ground and watch it evaporate after it has been extracted from the earth. Underneath the ground the oil is in a subterranean reservoir from which it can be extracted. Once it is taken from the ground, if there is no storage in which to put it, the oil is simply lost. That being the case, it makes no sense to waste our resources. I know the Senator is a conservationist and would not want to waste the oil.

Mr. PROXMIRE. I agree with the Senator from Louisiana completely. That is why it seems to me to be ridiculous to provide tax incentives to provide for the exploration and the development of this precious natural resource at a more rapid rate than necessary.

Mr. LONG. Assuming that we were cut off from the Venezuelan oil in the event of war, and assuming we were cut off from the Saudi Arabian oil, does the Senator know that the productive capacity of all the wells in America is just about that which is needed to provide our own requirements for fuel?

Mr. PROXMIRE. I think this is the most eloquent argument there is, perhaps, for us not to provide incentives for the more rapid exploration and development of the oil we have. We have only so much in the reserves in this country, and if we provide incentives for developing that potential more rapidly, making them proved reserves, with incentives for keeping out the importation of foreign oil, we will use up this precious resource, and in the event of a national catastrophe and emergency we will be in a far less powerful position.

Mr. LONG. Is the Senator familiar with the fact that in this Nation we have enough oil, which can be discovered, to provide our oil requirements for the next 100 years, but that one cannot produce the oil unless we have the wells? The President's committee made a study of the matter. The reason the committee proposed limiting oil imports was that the number of new wells was falling off, as the old wells were being depleted, to such an extent that failure to maintain the domestic industry could mean over a period of time that we would not be able to provide the domestic require-

ments in the event of a national emergency. I thought the Senator was familiar with that.

Mr. PROXMIRE. Mr. President, I was familiar with that, and was also familiar with the fact that we have great potential oil development. I am not sure it is a 100-year supply, for that is not exactly the figure I had heard. The length of supply varies somewhat, depending upon the usage of oil as fuel, and other sources of consumption. It might well be that the supply would last 100 years, but it might last for longer than that or for less than that, because of other factors.

One point is fundamental and very simple. If we are going to preserve our natural resources, we cannot do it by providing tax laws to encourage immediate or more rapid exploitation of the resources we have.

Mr. LONG. Does the Senator ever think about the matter from another point of view? Suppose we have to fight for survival in a national emergency. Then the steel we have could not be put into the oil wells, because the steel would be needed for tanks, for ships, for planes, for guns, and for all the various requirements of a war economy. Under those conditions we would need the oil production, but we could not allot steel for it. We need to have the wells at the time the fighting starts. Under the proper conditions, rather than being months or years away from being able to produce the essential fuel requirements, we would be in a position to produce them when the emergency arose.

The administration wisely recognized that point, and that is the basis of the concept upon which the administration is seeking to maintain the fuel industry.

I hope the Senator also knows that if we consider shale, which is a practical source for fuel production even now, and which exists in tremendous quantities in the Western States such as Colorado and Wyoming, there is enough potential fuel in the known shale reserves to last this Nation 1,000 years. There is that much oil which can be extracted from the shale. So far as a danger of running out of oil is concerned, that danger does not exist. The danger is in not being able to produce the oil when it is needed.

I hope the Senator will give some thought to that phase of the question, and I think that phase is where so many people fail to understand the problem. The ability to produce the oil when it is needed is the essential point of the whole problem. It is not a question of the ability to produce the oil ultimately.

Mr. PROXMIRE. Mr. President, to continue my remarks, the next advantage is:

Fourth. The 14-point reduction in the tax itself—or a reduction from 52 percent to 38 percent on taxable income—for income derived from operations abroad in the Western Hemisphere; Venezuela, Canada, Mexico, and so forth.

Fifth. Royalty payments abroad, particularly in the Near East, may be disguised as income tax payments for which the foreign tax credit is then

available so that a company then escapes liability for U.S. tax by being allowed to take a tax credit for payment which a domestic taxpayer would be permitted only to deduct from gross income rather than to take as a credit against tax.

Mr. JOHNSON of Texas. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. Moss in the chair). Does the Senator yield?

Mr. PROXMIRE. I yield to the Senator from Texas.

ORDER OF BUSINESS—UNANIMOUS CONSENT AGREEMENT TO VOTE ON WHEAT BILL

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that the distinguished Senator from Wisconsin may yield to me for the purpose of proposing an order for the Senate, with the understanding that the Senator from Wisconsin will not lose his right to the floor by so doing.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Texas? The Chair hears none, and it is so ordered.

Mr. JOHNSON of Texas. Mr. President, I suggest the absence of a quorum, and I shall ask that the order be rescinded very shortly.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. JOHNSON of Texas. Mr. President, I am informed that my colleagues, the Senator from Wisconsin [Mr. PROXMIRE], the Senator from Pennsylvania [Mr. CLARK], and the Senator from Minnesota [Mr. McCARTHY] have brief statements which they desire to make, which are unrelated to the wheat bill. In order to accommodate certain Senators who expect to be absent from the Senate late tomorrow evening, I have attempted to arrive at a unanimous-consent agreement with the minority leader concerning the wheat bill. Therefore, at a later time, I shall again ask the indulgence of my friend, the Senator from Wisconsin, to propose a unanimous-consent agreement which, in effect, would be as follows: That at the conclusion of the statements of the Senator from Wisconsin, the Senator from Pennsylvania and the Senator from Minnesota, 30 minutes, to be equally divided, be allotted on all amendments to the wheat bill, an hour to Senators in favor of the bill, and an hour to Senators opposed to the bill.

If such an agreement were entered into, I should expect the Senate to remain in session for a reasonable time this evening—perhaps until 7 or 7:30 p.m., or even as late as a quarter to 8, so as to have as much discussion as possible. We would not expect final action on the bill.

I would then ask the Senate to assemble tomorrow at an early hour—say

10 o'clock—in the hope that amendments could be offered, a motion to recommit could be made, and a vote on final passage could be obtained at an hour which would permit Senators to keep speaking engagements tomorrow evening.

I know that all Senators, whether they come from wheat-producing States or not, realize the necessity of early action on the bill. I understand there is an expiration date. Most members of the committee feel that the Senate should take very prompt action, because less than 2 weeks are left.

Certain Senators are on their way to the Chamber. I do not wish to ask the Senator from Wisconsin [Mr. PROXMIRE] to indulge me further at this time. Later, if he will permit me to do so, when certain other Senators arrive in the Chamber, I shall submit a proposed unanimous-consent agreement.

I thank the Senator from Wisconsin very much for his courtesy and consideration.

Mr. DIRKSEN. Mr. President, will the Senator from Wisconsin yield for a question of the majority leader?

Mr. PROXMIRE. I yield.

Mr. DIRKSEN. In order that I may have a clear understanding of the proposal of the majority leader, would it allow an hour on each amendment, to be equally divided?

Mr. JOHNSON of Texas. No. It would allow 30 minutes on each amendment, to be equally divided, and 2 hours on the bill, to be equally divided.

Mr. DIRKSEN. There was no suggestion as to whether or not there would be any votes tonight. My understanding was that there would be no voting tonight.

Mr. JOHNSON of Texas. I shall be glad to agree to that.

I wish to have the Senate complete action on the bill, and I wish every Senator to have an opportunity to say what he wishes to say. This is an important piece of legislation. I have the responsibility of guiding through the Senate proposed legislation reported by the committees. I myself would not object to a vote as late as 7:30 p.m., but if the Senator from Illinois feels that he does not want a vote at 7:30, I am prepared to yield to his desires.

Does the Senator wish to ask me any further questions?

Mr. DIRKSEN. No; but the Senator from Delaware [Mr. WILLIAMS] has just come into the Chamber.

Mr. JOHNSON of Texas. I shall be glad to yield to him, or to resume later, when the Senator from Indiana [Mr. CAPEHART] is present in the Chamber.

Mr. WILLIAMS of Delaware. Mr. President, what is the proposed unanimous-consent agreement?

Mr. JOHNSON of Texas. Mr. President, when the Senator from Indiana [Mr. CAPEHART] and other Senators who are interested reach the Chamber, I expect to propose a unanimous-consent agreement that, following brief statements by certain Senators, there be an agreement as to time, which would allocate 30 minutes on amendments, to be equally divided between the propo-

nent and the opponents, and 2 hours on the bill, to be equally divided. That arrangement seemed to be satisfactory to the minority leader. He came to me and stated that certain Senators on his side of the aisle from wheat-producing States find it necessary to be away from the city tomorrow afternoon, but he was willing to have the Senate convene at an early hour tomorrow. I have spoken with the Senator from Minnesota [Mr. MCCARTHY] who is the author of one amendment, and he seems to think that would be agreeable to him. If no Senator objects, I should like to have that order entered tonight.

Mr. CAPEHART. Mr. President, I have just entered the Chamber. I understand that the majority leader was discussing a proposed unanimous-consent agreement.

Mr. JOHNSON of Texas. Let me explain the circumstances to my friend.

The Senator from Illinois [Mr. DIRKSEN] states that certain Senators on his side of the aisle from wheat-producing States, who are vitally interested in the bill, need to leave the city tomorrow afternoon. He would like to attempt to arrive at an arrangement under which there will be no votes on Friday. I do not believe that we can arrange not to have a vote on Friday, Monday, or any other day—certainly not on any 2 or 3 days.

Certain proponents of amendments will be unable to be present on Friday. Friday and Monday are both bad days, as Senators know. On those days, there is a high absenteeism.

I suggest that we consult the Senator from Minnesota [Mr. MCCARTHY] who has two amendments, and see if he would be agreeable to having the Senate convene early tomorrow, with a time limitation of 30 minutes on amendments and 2 hours on the bill, to be equally divided. The Senator from Illinois could yield 15 minutes to any proponent of an amendment, and I could do the same on my side. That arrangement is satisfactory to the Senator from Minnesota [Mr. MCCARTHY]. I believe it would be satisfactory to other Senators who are interested. If it is satisfactory to the Senator from Delaware and the Senator from Indiana, I shall propose such an agreement.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. I yield.

Mr. AIKEN. The Senator from Kansas [Mr. CARLSON] had a speech.

Mr. JOHNSON of Texas. The Senator from Kansas spoke with me earlier in the day, and expressed the hope that we would not attempt to pass the bill tonight. He would like to have it go over until tomorrow. I assured him that that would be satisfactory, and that I would be glad to consult him and ascertain how much time he desired.

Mr. AIKEN. If we have a limitation of an hour to a side on the bill, and the Senator from Kansas wished to speak for 45 minutes, as I have heard he desires to do, that would leave only 15 minutes on his side.

Mr. JOHNSON of Texas. He would have 15 minutes for an amendment. If that were defeated, he could offer

another amendment, and then he could have time yielded to him on the bill.

Mr. AIKEN. I am sure we will use up all the time that is allowed on the bill.

Mr. JOHNSON of Texas. I am fearful of that. That is why I want to provide for a minimum of time, so that Senators who have engagements on Friday evening may keep them. I have been reading about a do-nothing Congress, and I want to do something to accommodate as many Senators as possible.

Mr. AIKEN. I have not heard a word about a do-nothing Congress in the past 11 years.

Mr. JOHNSON of Texas. The Senator should read some of the slick magazines.

Mr. AIKEN. Members of a do-nothing Congress do not have the time to read magazines.

Mr. CURTIS. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. I yield.

Mr. CURTIS. May I inquire when the limitation of time would begin?

Mr. JOHNSON of Texas. At the conclusion of the statements by the Senator from Wisconsin [Mr. PROXMIRE], the Senator from Minnesota [Mr. MCCARTHY], and the Senator from Pennsylvania [Mr. CLARK].

Mr. CURTIS. In other words, if a Senator desired to speak on the wheat bill this evening, it would be under controlled time.

Mr. JOHNSON of Texas. Yes; if the Senator got to it tonight. I doubt that he could get to it this evening.

Mr. CURTIS. I have been waiting since 12 o'clock to speak on the bill.

Mr. JOHNSON of Texas. I appreciate the Senator's situation. However, I have nothing to do with the rules. A Senator spoke on the China policy. Any Senator, merely by saying "Mr. President," may be recognized, and he has the floor from then on until he finishes with whatever he wishes to say. I am a little hesitant about telling any Senator just when he should speak. I understand the Senator's situation. I do not anticipate that we will have any votes on the wheat bill this evening. I should like to work out an arrangement which will suit the Senator from Illinois, the minority leader, who said two or three Senators on his side had to leave late tomorrow. Therefore, I thought that we could meet at 10 o'clock tomorrow. We could accommodate several Senators. Of course it is entirely immaterial to me. I have no engagement, and I am able to remain here.

Mr. CURTIS. I was going to suggest that perhaps nothing could be gained by operating under a limitation of time this evening. If some of us were able to speak on the wheat bill this evening without limitation, we might simplify matters. Perhaps that could be done.

Mr. JOHNSON of Texas. I believe that is a reasonable suggestion. The Senator is always reasonable.

Mr. CAPEHART. Mr. President, will the Senator yield?

Mr. JOHNSON of Texas. I yield.

Mr. CAPEHART. I have a substitute for the bill.

Mr. JOHNSON of Texas. Does the Senator desire—

Mr. CAPEHART. I should like to make a very brief statement. I have a substitute for the wheat bill. I doubt that any bill which could come before Congress could be quite so important to each individual Senator as the substitute I shall offer. The substitute I shall offer to the wheat bill would repeal all farm price supports beginning with the acreage year 1960, which means January 1. It would likewise freeze the so-called Government surplus of from \$9 or \$10 billion worth on the day the bill would take effect, if it should be passed. It would then permit an orderly disposal of the surplus.

Mr. JOHNSON of Texas. I am familiar with the amendment. I do not want to impose on the other Senators who are waiting to make some remarks by having the Senator explain his amendment at this time. I wish to be courteous to all Senators. If the Senator objects—

Mr. CAPEHART. I object to any unanimous-consent agreement unless I can state what I want to do.

Mr. JOHNSON of Texas. I will not ask my good friend the Senator from Wisconsin to wait until the Senator has made an explanation of his amendment. I have no objection to increasing the time and to follow the suggestion of the Senator from Nebraska not to have the unanimous-consent agreement go into operation this evening, but to have it start tomorrow. I wish to accommodate the minority leader, who told me that two or three Senators on his side had to get away tomorrow. I wanted to make sure that we would have an early vote tomorrow.

Mr. CAPEHART. I was merely endeavoring to impress upon Senators that my substitute would repeal, beginning January 1, 1960, all price supports, and that they ought to have some time to think about it. They ought to have some time to debate it.

Mr. JOHNSON of Texas. How much time does the Senator suggest?

Mr. CAPEHART. I would agree to 3 hours on my substitute, with an hour and a half to each side, and 2 hours of debate on the bill.

Mr. JOHNSON of Texas. Does the Senator believe that an hour and a half will be needed on his side?

Mr. CAPEHART. I do not know, but let me say—

Mr. JOHNSON of Texas. Would the Senator agree to a unanimous-consent agreement if we provided 30 minutes to each side on an amendment, and 2 hours on the Capehart amendment, with the 2 hours to be equally divided, and 2 hours for debate on the bill? A part of the time on the bill could be yielded to the Senator if he needed more time.

Mr. CAPEHART. I would think that all 98 Senators would want to be heard on the substitute, which would repeal all price supports. I am perfectly willing to agree to a unanimous-consent agreement, but I am not certain that all Senators would agree, and 80 percent of the Senators are not present this evening. I would be willing to agree to a

unanimous-consent agreement if it provided for 3 hours of debate on my substitute and 2 hours on the bill, and whatever other time is required on other amendments.

Mr. JOHNSON of Texas. Very well. I ask unanimous consent that when the three statements previously referred to have been concluded, that we have a time limitation of 30 minutes on each amendment, to be equally divided between the proponent and the opponent, with the exception of the Capehart substitute amendment, on which 3 hours is to be allowed, to be equally divided; that we have 2 hours of debate on the bill, to be controlled by the majority leader and minority leader; that the time limitation shall begin at the conclusion of the morning hour tomorrow; and that the Senate meet tomorrow morning at 10 o'clock.

I am told that the Senator from Illinois wants 3 hours of debate on the bill. I modify my request accordingly.

Mr. WILLIAMS of Delaware. Do I understand correctly that the agreement provides time on each and every amendment?

Mr. JOHNSON of Texas. Yes; I have made it very clear, and I told the attachés of the minority to inform the Senator from Delaware that the Williams formula was being followed, so that he need not come to the Chamber. However, they told me that he was already on his way.

The PRESIDING OFFICER. Is there objection?

Mr. DIRKSEN. I expect the Senator from South Dakota [Mr. MUNDT] to walk in at any moment.

Mr. JOHNSON of Texas. I thought he was the one we were trying to accommodate.

Mr. DIRKSEN. I wonder if we could defer the agreement for a few minutes.

Mr. JOHNSON of Texas. If it is not satisfactory to the Senator from South Dakota I will ask that it be reconsidered.

Mr. DIRKSEN. Very well. The PRESIDING OFFICER. Is there objection to the proposed unanimous-consent agreement? There being no objection, the order is entered.

The unanimous-consent agreement, as subsequently reduced to writing, is as follows:

UNANIMOUS-CONSENT AGREEMENT

Ordered. That, effective on Friday, May 22, 1959, at the conclusion of routine morning business, during the further consideration of the bill S. 1968, to strengthen the wheat marketing quota and price support program, debate on any amendment (except an amendment by Mr. CAPEHART in the nature of a substitute for the bill, designated as "5-20-59-B," upon which there shall be a limit of 3 hours' debate), motion, or appeal, except a motion to lay on the table, shall be limited to one-half hour, to be equally divided and controlled by the mover of any such amendment or motion and the majority leader: *Provided*, That in the event the majority leader is in favor of any such amendment or motion, the time in opposition thereto shall be controlled by the minority leader or some Senator designated by him: *Provided further*, That no amendment that is not germane to the provisions of the said bill shall be received.

Ordered further. That on the question of the final passage of the said bill debate shall

be limited to 3 hours, to be equally divided and controlled, respectively, by the majority and minority leaders: *Provided*, That the said leaders, or either of them, may, from the time under their control on the passage of the said bill, allot additional time to any Senator during the consideration of any amendment, motion, or appeal.

Mr. JOHNSON of Texas. It is clear that we will have no votes on the wheat bill this evening. I wish to thank my friend from Wisconsin, my friend from Pennsylvania, and my friend from Minnesota for indulging me. I shall ask for a reconsideration of the unanimous-consent agreement if it is not satisfactory to the Senator from South Dakota [Mr. MUNDT].

Mr. President—
The PRESIDING OFFICER. The Senator from Texas.

ORDER FOR ADJOURNMENT TO 10 A.M. TOMORROW

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that when the Senate completes its business today it stand in adjournment until 10 o'clock tomorrow.

The PRESIDING OFFICER. Without objection, it is so ordered.

TAX REFORM

DEPLETION ALLOWANCE

Mr. PROXMIRE. In addition to all these provisions which would seem to be quite generous, a further allowance is permitted called the percentage depletion allowance. In the case of gas and oil, this amounts to an additional 27½ percent of gross income up to one-half of net income. This allowance is, moreover, permitted in perpetuity as long as there is any flow of oil or gas from the well. It is not limited to recapturing the cost of the well in question, most of which cost—as we have seen—is recovered for tax purposes in the year the outlay is made through the intangible drilling and development cost deduction.

As a matter of fact, competent geologists and economists have estimated that the cost to be recaptured averages some 19 times the cost of the wells; not twice or 3 or 5 times, but 19 times as valuable as the depreciation allowance would be. This allowance is in addition to all other deductions and it continues through time without relationship to the taxpayer's investment in the venture and whether or not that investment has been recovered for tax purposes.

The beginnings of this allowance go back a little over 30 years when an effort was made to revise the prevailing discovery depletion provisions.

Mr. LONG. Mr. President, will the Senator yield?

Mr. PROXMIRE. I am happy to yield, but I wish to say that the Senator from Pennsylvania, the Senator from Nebraska, the Senator from Indiana, and other Senators wish to speak tonight, and, because the hour is late, I must say that I will be able to yield to the Senator only once.

Mr. LONG. Mr. President, did I understand the Senator to say that the

depletion allowance permitted a person to recover the value of his investment 19 times over in a single case, or did he say that in the average case it permits that recovery?

Mr. PROXMIRE. I said that a competent economic study of the cost of the well—not the value, of course, because that is something else—indicated that, on the average, the depletion allowance had permitted oil operators to take 19 times the cost of the well in depletion deductions.

Mr. LONG. Will the Senator make available the study to which he has referred?

Mr. PROXMIRE. I shall be delighted to make it available. I do not have it with me at the time, but I shall certainly make it available in the future.

Mr. President, although by my own limitation I cannot yield further to the Senator from Louisiana, I thank him very much for his extremely helpful colloquy. He has certainly demonstrated, as before, his tremendous knowledge of this subject.

From its inception, the percentage depletion allowance has been 27½ percent. As corporation income taxes have risen from 14 percent to the present 52 percent, the value of this allowance has grown. Not only is this true but it has brought in its train a host of similar deductions on virtually everything else that is extracted from the earth and sea, including oystershells, clamshells, sand and gravel. There would seem to be no danger of dry holes here. It is almost a perfect example of a case where instead of closing a loophole in the law, an attempt has been made to make the loophole universal.

These deductions for depletion allowances in the extractive industries were \$3 billion in 1956, the latest year for which official figures are available. For oil and gas alone, the deductions came to over \$2 billion in that year.

OIL COMPANIES EFFECTIVE TAX RATES LESS THAN HALF NORMAL RATE

The results of investigations which appear in the compendium on Federal tax policy, published by the Joint Economic Committee in 1955—see page 902—show that in 1954, the effective tax rate paid by one major oil company was only 9.2 percent.

As I shall show, the average company which is not engaged in the oil industry paid an average effective tax of 48 percent. In other words, this oil company paid about one-fifth of the tax which other nonoil companies paid.

For another company, the rate was 16.3 percent, while another paid only 18.5 percent. The effective tax rate paid by 24 large petroleum companies was only 22.6 percent, while all other corporations in that year paid taxes at an effective rate of 48.1 percent. In other words, the fact is that the oil industry pays less than half the taxes which other industries pay.

Mr. LONG. Mr. President, will the Senator yield?

Mr. PROXMIRE. I should like to yield; but as I have explained to the Senator from Louisiana, I cannot yield further because of the limitations I have imposed upon myself. I shall be delighted, at some later time, to engage in a colloquy on this subject with the Senator from Louisiana.

A study which the Senator from Illinois [Mr. DOUGLAS] has made of 27 producing companies dealing in oil and/or gas shows that many paid infinitesimal fractions of their profits in taxes.

In 1951, the Secretary of the Treasury published official statistics on certain unidentified individuals in the oil and gas industry which showed that one individual operation, having net income in the years 1943-47 of \$14.3 million, paid

income taxes of only \$80,000 in this period.

In other words, he paid \$6 in taxes for every \$1,000 of income.

Mr. President, a table submitted by the Secretary of the Treasury in the House hearings on the Revenue Act of 1950 gives examples of the excessive income tax deductions from the depletion allowance and the allowance for drilling and development costs. I ask unanimous consent that a table showing income, deductions, and tax liabilities of 10 selected individual oil and gas operators for the 5-year period 1943-47 be printed at this point in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Income, deductions, and tax liabilities of 10 selected individual oil and gas operators, for the 5-year period 1943-47

[Money figures in millions]

Individual operator	Net income			Special deductions		Taxable net income	Income tax liability	
	From oil and gas ¹	From other sources	Total	Percentage depletion ²	Development costs ³		Amount	Percent of total net income
A.....	\$10.5	\$3.8	\$14.3	2.2	\$13.0	\$0.9	\$0.08	0.6
B.....	5.0	.8	5.8	3.1	2.1	.6	.5	8.6
C.....	3.9	.5	4.4	3.2	4.4	3.2	.15	3.4
D.....	9.3	.3	9.6	2.7	0	6.9	6.1	63.5
E.....	2.7	.8	3.5	1.0	.3	2.2	1.4	40.0
F.....	1.7	1.4	3.1	.8	1.5	.8	.6	19.4
G.....	7.7	1.3	6.4	3.5	2.1	.8	.5	7.8
H.....	2.1	3.6	5.7	1.0	.6	4.1	2.2	38.6
I.....	1.7	.1	1.8	.5	1.0	.3	.2	11.1
J.....	8.0	-.7	7.3	2.9	1.7	2.7	2.2	30.1
Total.....	52.6	9.3	61.9	20.9	26.7	14.3	13.93	22.5

¹ Income after deductions for operating expenses, depreciation, adjusted-basis depletion, exploration costs and losses on abandonment.

² Excess of percentage depletion over adjusted-basis depletion.

³ Development costs are expenditures for the preparation of mineral properties for production, which are deducted as expenses in the year incurred. Consequently, these expenditures are not included in the tax basis of the property and future cost or adjusted-basis depletion is correspondingly reduced. The treatment of development costs as a current expense, however, does not diminish percentage depletion in subsequent years, since the latter is determined on the basis of income in those years.

⁴ While special deductions more than offset the total net income for the 5 years, some income tax was paid because there were deficits only in some years. A deficit caused by excess percentage depletion cannot be carried over against net taxable income of other years.

⁵ Includes only 4 years, 1943-46.

Source: Bureau of Internal Revenue, special tabulation.

Mr. PROXMIRE. Mr. President, while no such statistics have been published by the Treasury in recent years, there is no reason to suppose that the facts are any different or any better now.

The justification given for such a high deduction is that it is a needed inducement for exploration and drilling. There is something to this contention, but not enough to justify the added allowance of 27½ percent of gross revenue.

In the first place, the other tax features provided for the industry—as we have seen—are extremely liberal and, in addition to this, the capital gains treatment, which I have not gone into, gives even further advantages.

WHAT THE BILL DOES

I am, therefore, proposing this bill which would reduce the depletion allowance of 27½ percent to 15 percent if the taxpayer's gross income from oil and gas wells exceeds \$5 million in any one year, but that the allowance be reduced only from 27½ percent to 21 percent for those with a gross income from oil and gas wells of between \$1 million and \$5 million, and that the depletion allowance

remain at 27½ percent for those whose gross incomes from oil and gas wells does not exceed \$1 million per year.

Mr. YARBOROUGH. Mr. President, will the Senator yield?

Mr. PROXMIRE. Under the same limitation which I imposed before, I am happy to yield to the distinguished Senator from Texas.

Mr. YARBOROUGH. As I understood the explanation by the distinguished Senator from Wisconsin, the differential in percentages of allowance which the bill would establish is not based upon the net profit of any operator, but upon the gross income.

Mr. PROXMIRE. That is correct.

Mr. YARBOROUGH. So the smaller operator might actually be losing money, but still have the proposed reduction in the depletion allowance apply to him.

Mr. PROXMIRE. That is correct. It is not the net income; it is the gross income figure. But it would rarely happen that a million-gross operator would lose money.

Mr. YARBOROUGH. One other question: Does the Senator from Wisconsin, in the proposed change in the depletion

allowance, draw any distinction between the development of foreign oil and domestic oil? Would he apply the law the same way for oversea production as he would to production from wells drilled in the United States?

Mr. PROXMIRE. That is correct; it is the same for both—overseas and domestic.

Mr. YARBOROUGH. Would oil produced by the Arabian-American Co. in Saudi Arabia receive the same treatment as oil produced in America by an American company?

Mr. PROXMIRE. If the income were brought back to this country and depletion were taken, it would receive the same treatment.

Mr. YARBOROUGH. Can the Senator from Wisconsin tell us on what basis the Arabian-American Oil Co. pays taxes to the United States on oil which it sells?

Mr. PROXMIRE. The Senator from Texas has touched on another interesting loophole which the big oil corporations enjoy. What they do is to pay taxes in lieu of royalties. They pay taxes in such a way that in many cases—perhaps in most cases—they pay virtually no taxes to the Federal Government.

Mr. YARBOROUGH. The Senator is speaking, is he, of oil which is produced abroad?

Mr. PROXMIRE. That is correct. That is a loophole I would be delighted to plug. If the Senator from Texas will introduce a bill to do so, I shall be happy to support it.

Mr. YARBOROUGH. I think it should be plugged. I point out to the Senator from Wisconsin that his proposed amendment would put the American independent producer in a worse competitive position with foreign oil than he is in now with respect to the depletion allowance. The independent producer in America has to compete with those who can produce oil abroad and put it down at dockside in the United States for a dollar a barrel cheaper than the American oil producer can sell it, and the foreign producer pays virtually no taxes to the U.S. Government. Yet the foreign producer is treated in this proposed change in the depletion allowance just like a domestic producer who pays taxes to his local county or State or school district, and his income taxes to the United States.

It seems to me that any tax plan which sought to do justice to the independent producer in America would not place him in a worse competitive position with respect to the foreign producer. It would not worsen his competitive position with respect to American or foreign companies overseas—and most of the companies producing oil overseas are really American companies.

Mr. PROXMIRE. I could not agree more wholeheartedly with the Senator from Texas. On the other hand our bill in no way aggravates that disadvantage. The foreign producer does have an advantage in the present law. There is no way I can see of preventing it without additional legislation. Let us introduce it. I would favor the Committee on Finance holding hearings on

that matter. I would be delighted to have the whole subject considered in detail. I think a tax system could be provided which would procure equitable taxes from oversea operations as well as from domestic operations.

Mr. YARBOROUGH. I express appreciation to the Senator from Wisconsin for frankly stating what is the fact, namely, that under his proposed law the independent American producer, who has his capital invested in the United States and who employs his help in America and pays his taxes here, will be worse off, competitively with foreign oil, than he is right now. The domestic producer will be in a worsened position, competitively with imported foreign oil, in his struggle for existence than he would be without the Senator's proposal.

Mr. PROXMIRE. The small independent, of course, is taken care of by the graduation in the tax. He is not touched if his gross income is \$1 million or less.

Mr. YARBOROUGH. He may not have any profit.

Mr. PROXMIRE. He can go broke on his gross income. But the small producer whose gross income is \$1 million or less is not touched; and \$1 million is a lot of money.

Mr. YARBOROUGH. But it costs a quarter of a million dollars to drill one oil well, I point out. With a million dollars, an operator might drill four wells on a lease, but he would be a very small oil operator.

Under the allowable system, which limits the producer to 20 barrels per well a day, and that is where the allowable is put to keep the domestic producer in business in competition with foreign oil, the independent American oil producer has a hard job to survive, even under the existing tax structure.

Mr. PROXMIRE. Until he grosses \$5 million, he still enjoys a fat 21-percent depletion allowance under our bill. Of course, no tax law can help the man who loses money. That is a sad, but true, fact of life.

My second point is that if income is brought in from abroad, a tax has to be paid on it.

Mr. YARBOROUGH. On imported oil?

Mr. PROXMIRE. Yes. If an American company brings back to the United States its income, it will have its depletion allowance lowered, too.

Mr. YARBOROUGH. Under the provisions of the Senator's bill?

Mr. PROXMIRE. That is correct.

Mr. YARBOROUGH. But the foreign oil importer is already getting a credit on its U.S. income taxes for the income taxes paid abroad; and under an arrangement with Saudi Arabia the company is allowed to pay income taxes in lieu of royalties. That gives oil importers a great advantage, because it is not now paying very much in the way of income taxes to the United States. To increase the tax of the American independent producer, in the face of competition from foreign oil, is to cripple the domestic producer in that competition.

Mr. PROXMIRE. The whole argument of the Senator is correct, because he is talking about the notorious "golden gimmick," the advantages which the really big oil companies have had; and their most profitable operations have been their foreign operations. I could not agree more with the Senator. I am pointing out that I shall join him in correcting this inequity.

But I do not see the logic of not introducing proposed legislation which will plug the loophole which presently exists in the law, or the logic of deferring the consideration of such proposed legislation or not considering it at all, simply because it will not plug all of the loopholes.

Mr. YARBOROUGH. But instead of plugging the big loophole—which occurs in the case of the imported foreign oil—the Senator's proposal would simply worsen the position of the American operators who drill for oil here in the United States, produce the oil here, and who pay their taxes in the United States.

Mr. PROXMIRE. Mr. President, the fact is that this proposal will plug a very large and a very serious loophole.

This amendment is not a punitive one, for, first, it does not do away with the depletion allowance altogether; and second, it would not affect at all the small wildcat driller or the small producer, except to his competitive advantage.

BILL PROTECTS SMALL PRODUCER

There is a good reason for this last provision. Drilling for oil and gas involves some risk. It is estimated that only about one in nine wells which are drilled actually produce gas or oil. The small driller, with only a few wells over which to spread this risk, does not have enough wells to assure that he will hit the 1 in 9 and may, in fact, drill 20 or 30 dry holes before hitting oil or gas. Consequently, without a great number of wells over which to spread the risk, he takes a greater risk than the large driller, who will average 1 in 9 successful wells if he drills 100 or 200 wells a year. It is only proper that this fact be recognized in the law. This is precisely what my amendment is intended to accomplish.

The Treasury estimated a year ago that the adoption of this amendment would result in a net revenue increase to the Federal Treasury of \$305 million to \$310 million per year. At the present time I believe this amount would be at least \$320 million. Others have estimated that it would bring in as much as \$400 million to \$500 million additional revenue a year. I may say that the latter estimate—the more substantial estimate—is one made by the Library of Congress.

Mr. President, I ask unanimous consent that three tables showing the amount of depletion which corporations took as income tax deductions in the period 1946 to 1956, these same deductions by total asset classes for the years 1946-55, and a further table showing corporate depletion deductions and net income by total asset classes for the years 1952 to 1955, be printed in the RECORD at this point in my remarks.

There being no objection, the tables were ordered to be printed in the RECORD, as follows:

TABLE 1.—Selected corporate business deductions, all corporations, 1946-56
[Dollar amounts in millions]

Deduction	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Compensation of officers.....	\$5,143.1	\$6,026.4	\$6,733.3	\$6,743.0	\$7,606.8	\$8,122.0	\$8,430.0	\$8,776.7	\$9,113.2	\$10,480.7	\$11,045.1
Interest paid.....	2,251.0	2,501.4	2,758.7	3,045.1	3,211.9	3,700.5	5,013.2	5,680.9	6,270.6	7,058.4	8,281.0
Taxes paid.....	5,830.5	6,892.9	7,481.7	8,361.3	9,013.2	11,030.8	11,696.8	12,194.9	12,476.9	14,202.6	15,038.5
Contributions or gifts.....	213.9	241.2	239.3	222.6	252.4	343.0	308.6	494.5	313.8	414.8	418.0
Depletion.....	798.9	1,210.3	1,711.3	1,476.2	1,709.3	2,085.1	2,126.5	2,301.8	2,358.6	2,805.5	3,084.3
Depreciation.....	4,201.7	5,220.1	6,298.6	7,190.5	7,858.1	8,829.0	9,604.4	10,410.6	13,691.5	13,418.8	14,952.9
Amortization.....	64.5	58.9	38.9	30.6	43.3	291.9	831.3	1,515.3	2,590.3	2,590.3	2,625.9
Advertising.....	2,408.3	3,032.2	3,466.0	3,772.7	4,097.0	4,552.9	5,026.8	5,480.9	5,770.2	6,601.8	7,061.6
Amounts contributed under pension plans, etc. ¹	834.6	1,038.3	1,153.5	1,216.1	1,660.9	2,326.9	2,551.8	2,936.3	2,840.3	3,296.2	3,645.5
Other ²	5,892.1	7,338.4	8,062.8	7,998.7	8,371.3	9,709.7	10,493.6	11,520.5	11,445.5	12,959.1	14,325.4
Total selected deductions.....	27,638.6	33,560.1	37,944.1	40,056.8	43,824.2	50,991.8	56,803.4	62,273.3	65,191.2	74,975.1	81,781.1

¹ Deductions claimed under sec. 23(p) of the Internal Revenue Code for amount contributed by employers under pension, annuity, stock-bonus, or profit-sharing plans, or other deferred compensation plans.

² Contributions under employee welfare plans.

³ Includes bad debts, repairs, and rent paid on business property.

Source: Internal Revenue Service, Statistics of Income, Corporation Income Tax Returns.

TABLE 2.—Corporate depletion deductions by total assets classes, 1946-55¹
[Millions of dollars]

Assets classes	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	
Under \$50,000.....	\$3.3	\$3.9	\$4.9	\$3.7	\$4.0	\$3.5	\$3.1	\$4.7	\$4.2	\$5.7	
\$50,000 and under \$100,000.....	3.7	4.6	5.5	4.0	4.4	3.7	5.2	3.7	4.3	5.2	
\$100,000 and under \$250,000.....	10.8	14.7	16.1	11.9	12.6	12.1	13.5	13.5	15.7	27.2	
\$250,000 and under \$500,000.....	12.8	18.9	21.4	16.1	17.1	21.4	21.2	21.4	22.6	26.0	
\$500,000 and under \$1,000,000.....	23.2	31.8	40.8	21.4	31.5	41.4	35.1	38.6	32.2	45.1	
\$1,000,000 and under \$5,000,000.....	71.3	108.3	126.1	101.0	120.8	160.8	150.3	154.0	147.4	191.5	
\$5,000,000 and under \$10,000,000.....	38.3	54.3	72.5	57.5	68.5	83.8	85.7	83.3	73.7	80.0	
\$10,000,000 and under \$50,000,000.....	130.7	165.5	245.2	213.1	278.9	318.9	297.7	306.1	290.3	351.2	
\$50,000,000 and under \$100,000,000.....	38.6	85.7	89.7	92.8	115.2	120.8	131.2	119.8	134.0	178.1	
\$100,000,000 or more.....	445.0	713.8	1,076.5	895.1	1,038.8	1,299.3	1,370.0	1,539.3	1,517.9	1,869.0	
Total.....	777.7	1,201.4	1,698.9	1,426.5	1,691.8	2,065.8	2,112.9	2,284.3	2,242.4	2,779.0	
Percentage distribution											
Under \$50,000.....	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2	
\$50,000 and under \$100,000.....	.5	.4	.3	.3	.3	.2	.2	.2	.2	.2	
\$100,000 and under \$250,000.....	1.4	1.2	.9	.8	.7	.6	.6	.6	.7	1.0	
\$250,000 and under \$500,000.....	1.7	1.6	1.3	1.1	1.0	1.0	1.0	.9	1.0	.9	
\$500,000 and under \$1,000,000.....	3.0	2.6	2.4	2.2	1.9	2.0	1.7	1.7	1.4	1.6	
\$1,000,000 and under \$5,000,000.....	9.2	9.0	7.4	7.1	7.1	7.8	7.1	6.7	6.6	6.9	
\$5,000,000 and under \$10,000,000.....	4.9	4.5	4.3	4.0	4.1	4.1	4.1	3.6	3.3	2.9	
\$10,000,000 and under \$50,000,000.....	16.8	13.8	14.4	14.9	16.5	15.4	14.1	31.4	12.9	12.6	
\$50,000,000 and under \$100,000,000.....	5.0	7.1	5.3	6.5	6.8	5.8	6.2	5.2	6.0	6.4	
\$100,000,000 or more.....	57.2	59.4	63.4	62.7	61.4	62.9	64.8	67.4	67.7	67.3	
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

¹ All returns with balance sheets.

Source: Internal Revenue Service, Statistics of Income, pt. 2.

NOTE.—Detail may not add to totals because of rounding.

TABLE 3.—Corporate depletion deductions and net income by total assets classes, 1952-55
[Dollar amounts in millions]

Assets classes	1952			1953			1954			1955		
	Net income ²	Depletion deductions	Depletion deductions as percent of net income	Net income	Depletion deductions	Depletion deductions as percent of net income	Net income	Depletion deductions	Depletion deductions as percent of net income	Net income	Depletion deductions	Depletion deductions as percent of net income
Under \$50,000.....	\$382.5	\$2.6	0.7	\$370.6	\$3.2	0.9	\$354.9	\$3.3	0.9	\$422.6	\$4.7	1.1
\$50,000 and under \$100,000.....	577.0	4.7	.8	539.3	3.1	.6	518.1	2.9	.6	631.3	4.1	.6
\$100,000 and under \$250,000.....	1,364.9	11.2	.8	1,251.1	11.2	.9	1,281.3	13.3	1.0	1,571.8	20.8	1.3
\$250,000 and under \$500,000.....	1,336.0	17.5	1.3	1,228.0	18.0	1.5	1,252.2	17.5	1.4	1,589.6	22.0	1.4
\$500,000 and under \$1,000,000.....	1,644.7	27.4	1.7	1,473.2	28.8	2.0	1,459.3	23.9	1.6	1,871.0	37.0	2.0
\$1,000,000 and under \$5,000,000.....	4,716.4	129.2	2.7	4,331.5	120.1	2.8	4,172.5	120.8	2.9	5,293.6	155.2	2.9
\$5,000,000 and under \$10,000,000.....	2,319.1	64.6	2.8	2,188.6	70.2	3.2	2,025.7	59.5	2.9	2,410.3	65.5	2.7
\$10,000,000 and under \$50,000,000.....	6,105.7	250.9	4.1	6,123.9	263.6	4.3	5,555.0	245.0	4.4	6,736.3	305.1	4.5
\$50,000,000 and under \$100,000,000.....	2,806.5	122.4	4.4	2,854.4	106.5	3.7	2,873.8	113.4	4.0	3,174.9	157.6	5.0
\$100,000,000 or more.....	19,105.5	1,350.5	7.1	21,384.2	1,515.6	7.1	20,085.6	1,489.9	7.4	26,568.5	1,835.9	6.9
Total.....	40,358.3	1,980.9	4.9	41,750.9	2,140.3	5.1	39,518.4	2,089.3	5.3	50,270.9	2,608.1	5.2

¹ Returns with balance sheets and net income.

Source: Internal Revenue Service, Statistics of Income, pt. 2.

² Compiled receipts less compiled deductions as shown in Statistics of Income.

Mr. PROXMIRE. Mr. President, the first table shows that in 1956, the total amount of deductions for depletion by all corporations was in the amount of \$3,084,300,000. The second table shows that some \$1,869 million of the corporate depletion deductions in 1955, or some 67.3 percent of them, were taken by corporations with net assets of over \$100 million.

Thus, the really big corporations took the giant's share—two-thirds—of the depletion allowances.

Mr. President, back in 1950, Secretary of the Treasury Snyder came before the House Ways and Means Committee and urged that it reduce the depletion allowances. He made a very cogent argument for his position, and he further

placed in the RECORD a great many facts and figures which were informative and persuasive. I ask unanimous consent that his testimony and exhibits, which appear in the hearings of the Ways and Means Committee on the Revenue Revision of 1950, volume 1, February 3, 1950, be printed in the RECORD at this point.

There being no objection, the testimony and exhibits were ordered to be printed in the RECORD, as follows:

REVENUE REVISION OF 1950—TESTIMONY OF
SECRETARY OF TREASURY SNYDER

[From Hearings, Ways and Means Committee, 81st Cong., 2d sess., vol. 1, February 3, 1950]

SPECIAL DEPLETION ALLOWANCES

Depletion in ordinary accounting usage is intended to permit taxpayers to recover the cost of mineral properties over the producing life of the properties. Depletion is the counterpart of depreciation which is intended to permit recovery of the cost of other assets over the period of their useful life. When the original investment has been recovered, no further depreciation is allowed for tax purposes. However, in the case of depletion, special provisions which allow recovery of more than the cost of mineral properties have been in the law since 1918.

Under present law, special allowances are granted on the basis of specified percentages of gross income for different types of minerals. The percentage of gross income allowed is 27½ percent for oil and gas, 23 percent for sulfur, 15 percent for metals and a large number of nonmetallic minerals, and 5 percent for coal.

Percentage depletion continues for the life of the property and generally results in the tax-free recovery of many times the cost. It is granted to those purchasing properties as well as to those operating properties they have developed. The allowances have become more valuable as tax rates have been increased.

Furthermore, the benefits from percentage depletion are increased by provisions which permit development costs to be deducted as an expense in the year incurred instead of being treated as a capital cost to be recovered later through depletion deductions. This is equivalent to a double deduction for the same costs, once when they are incurred and again under percentage depletion. In the oil industry during 1946 and 1947, for every \$3 million allowed as percentage depletion, another \$2 million was deducted as development costs.

The combination of percentage depletion and the expensing of development costs provides a mechanism for pyramiding extensive holdings in oil assets with payment of little or no income tax.

As the President has indicated, millions of dollars are made annually from operating oil properties on which little or no income tax is paid. The President mentioned one outstanding example. You will find others in the attached material (exhibit 2). In the examples cited, annual incomes, on the average, of over \$1 million were obtained on which an average tax of only 22½ percent was paid. This is the rate now paid by persons with incomes of less than \$25,000.

These illustrations suggest how much additional revenue the Government would gain by limiting some of these special allowances.

You will find from an examination of the materials I am submitting to assist the committee in considering revision of these provisions that:

First, the estimated revenue loss is between 400 and 500 million dollars annually. This is as much as the yield of all the retail excises.

Second, the allowance is especially excessive in the case of oil and gas and exempts a higher proportion of the earnings of this industry which may expense more of its development costs than the other mineral industries.

Third, the provision has been found to be of little benefit to small prospectors on whose behalf it is so frequently supported.

Fourth, these deductions enable high-income individuals to reduce to negligible proportions taxes on income from sources totally unrelated to these industries.

There are a number of ways in which the necessary revision of present allowances can be accomplished. In general, these involve either the limitation of percentage depletion or the termination of the option to expense development costs. The benefits of expensing development costs are confined to the finding of new properties. Percentage depletion on the other hand may be obtained on established as well as new properties, and regardless of whether the recipient contributed to the development of the property. The reduction of percentage depletion would tend to reduce windfalls while protecting incentives for exploration.

A reasonable way to reduce the excessive benefits would be to limit the percentage of gross income which might be deducted as depletion. A reduction in the present net income limitation would leave the more excessive allowances untouched while reducing the benefits on the small, less profitable properties.

Specifically it is proposed that percentage depletion for oil, gas, and sulfur be reduced to 15 percent of gross income and that percentage depletion for nonmetallic minerals be reduced to 5 percent. The existing 15 percent rate for depletion allowed to the metals would be left unchanged.

It is further proposed that oil and gas operators who elect to expense intangible drilling and development costs be required to reduce income from the property by the amount of such expensed costs in computing their depletion allowance. This requirement will reduce the extent of the double deduction now enjoyed by oil and gas enterprises with respect to certain of their capital costs.

Together these proposals would remove the more obvious inequities of the present system without interfering significantly with production incentives.

EXHIBIT 2

SPECIAL DEPLETION ALLOWANCES FOR MINERAL
PROPERTIES

One of the major avenues of escape from income tax is the special depletion allowance now accorded mineral properties. This subject has received consideration by congressional committees on a number of occasions.

Nearly 25 years have passed, however, since the date of the investigation of depletion costs on which present allowances were established. In the intervening years there have been important basic changes in those industries.

This study presents current information on the basic aspects of this problem and discusses the considerations affecting the desirability of the present allowances.

I. PRESENT PROVISIONS

The Federal income tax recognizes depletion of wasting mineral assets as a deductible cost in determining net taxable income. The purpose is to allow the taxpayer to recover tax free the capital he has invested in the mineral property. Special allowances in excess of cost are granted to certain groups of taxpayers. In most cases these special allowances are based on a percentage of gross income. Of less importance are special allowances based on discovery value.

(a) Percentage depletion

Percentage depletion is computed as a specified percentage of gross income, without regard to the capital cost of the property. The rates range as high as 27½ percent of gross income in the case of petroleum, but the deduction is limited to 50 percent of the net income (computed without regard to depletion) from the particular property. The

following percentages of gross income are allowed different minerals under present law.

Mineral:	Percentage rate on gross income
Oil and gas.....	27½
Sulfur.....	23
Metals.....	15
Coal.....	5
Bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball sagger, and china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, and potash.....	15

Percentage depletion continues to be deductible even after 100 percent of the invested capital has been retrieved tax free. The total tax-free recoveries may be substantially in excess of the cost of the property, and in a large number of cases amount to many times the capital investment.

(b) Discovery depletion

Those minerals which are not eligible for percentage depletion may qualify for discovery depletion, under certain conditions. Owing to the wide range of minerals excluded because they are eligible for percentage depletion, and the special conditions attaching to the use of discovery depletion, it applies only to certain nonmetallic substances and is of limited significance at the present time.

Under discovery depletion, a taxpayer who discovers a mine on an unproven tract, the value of which is materially larger than the cost to the taxpayer, is allowed depletion deductions designed to amortize the appreciated discovery value over the economic life of the mine. As in the case of percentage depletion, the annual deduction for discovery depletion is limited to 50 percent of the net income from the property. However, aggregate tax-free recoveries under this method are limited to the discovery value.

(c) Cost or adjusted-basis depletion

Percentage depletion is one of the most complex provisions in the tax law. Depletion allowances are computed with respect to each individual mineral property. Mineral-tax payers commonly own several, and in many cases thousands of properties. Each year for each property the taxpayer takes the largest depletion deduction allowable. Both gross and net income must be determined for each separate property to compute percentage depletion. Moreover, a corporate-tax payer's accounting for each property entitled to percentage depletion must reflect each of the three different depletion concepts: (1) Allowable depletion, including percentage or discovery, (2) adjusted-basis depletion, and (3) strict cost depletion.

In all cases the taxpayer is allowed depletion based on cost as a minimum. The annual cost depletion (usually termed adjusted-basis depletion) is computed by spreading the original cost, less amounts previously recovered tax free, over the estimated remaining life of the property, measured in units of mineral product. Increased deductions for percentage depletion reduce the remaining cost or adjusted basis more rapidly. Therefore, the adjusted-basis depletion, which represents the minimum annual deduction, must be recomputed at a lower figure each year after percentage depletion is taken.¹ When the original cost is exhausted

¹ In addition to determining the minimum annual allowance, the adjusted-basis depletion is important in computing the net operating loss deduction. Under the present 2-year carryback and 2-year carryforward of net operating losses, the loss to be carried over is reduced by the excess of percentage over cost depletion (and similar tax-exempt

through depletion allowances the adjusted-basis depletion is reduced to zero, although percentage depletion may continue to be deducted.

Corporations also account for annual cost depletion computed without regard to amounts recovered from time to time through percentage depletion, in determining their net profits for reports to stockholders and other purposes. Cost depletion in this sense is also recognized for tax purposes in connection with the treatment of liquidating dividends in the hands of the stockholders.²

For purposes of determining gain or loss upon sale or other disposition of a depletable property, the tax basis is reduced by the total amount of allowable depletion (percentage, discovery, or adjusted-basis depletion) in previous years.³ While percentage depletion may continue even though more than 100 percent of the basis has been recovered tax free, the basis for determining gain or loss is reduced only to zero.

(d) Expensing of capital costs

In addition to depletion allowances, certain capital costs of developing mineral properties are treated as expenses incurred in doing business and allowed as deductions in the year incurred. This expensing treatment does not reduce allowable percentage depletion in future years, which is based on the income from the developed property. This results in a double deduction for recovery on the same capital investment.

Owners of oil or gas wells have wide opportunities for expensing capital costs incurred in developing their properties. At their option, they may treat intangible drilling and development costs of wells (including expenditures for labor, supplies, repairs, and hauling) as current expenses deductible from taxable income from any source. For example, 90 percent of an oil operator's capital outlay, exclusive of depreciable items, may be for intangible drilling and development costs. If this is deducted as a current expense, and thus recovered tax free at the outset, only 10 percent of the investment remains to be recovered through depletion allowances. Hence, depletion allowances based on the entire income in effect overlap the initial deduction of a large portion of the capital outlays.

In the case of mines, development costs can be immediately offset against income only to the extent that there are receipts derived from the mine during the development period. However, if considerable quantities of ore are taken out while developing a mine to full producing status, it is possible for a taxpayer to recoup, tax free, immediately a large part of the capital costs of development.

II. BACKGROUND AND DEVELOPMENT OF SPECIAL DEPLETION ALLOWANCES

The original income-tax legislation provided a "reasonable allowance," not to exceed 5 percent of gross income, for wasting mineral assets. This was later changed to a more specific allowance of depletion based on cost, or 1913 value.

Allowances in excess of cost depletion were first granted in the form of discovery depletion in 1918 as a measure to stimulate min-

eral exploration for war purposes and to lessen tax burdens on small-scale prospectors who made discoveries after years of fruitless search. Discovery depletion deductions allowed the discoverer of any new mineral deposit to retrieve not only his costs but also the materially larger appreciated value of the property at the time its profitability was established. Since no limit was placed on the discovery depletion deduction, in many cases the deduction was in excess of the income from the discovered property and served to offset income from other sources. To prevent such excessive discovery depletion allowances, the annual deduction was limited in 1921 to 100 percent of the net income from the mineral property. In 1924, the limit was reduced to 50 percent of the net income from the property, in order to provide for the taxation of at least one-half of the income from these properties.

Percentage depletion was substituted for discovery depletion in the case of oil and gas properties in 1926 and extended to metals, sulfur, and coal in 1932. The original percentage-depletion rates, still embodied in present law, were in general fixed at levels which would permit the respective industries approximately the same total annual depletion they had previously enjoyed under discovery depletion.

Despite the recommendation of the Treasury in 1942 that percentage depletion be eliminated, it was extended in 1942 and 1943 as a temporary measure to certain nonmetallic minerals at the 15-percent rate applicable to metals. In 1947 the temporary wartime extensions were made permanent, and in addition some items not previously covered were granted the special allowance. Since 1947 a wide range of nonmetallic producers who have not been granted percentage depletion have sought similar preferential tax treatment.⁴

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While the survey covers corporations only, it is estimated that corporations account for more than 80 percent and individuals for less than 20 percent of all depletion deductions.

III. SURVEY OF DEPLETION AND RELATED ALLOWANCES

Information on percentage depletion and other special allowances for mineral producers has been recently developed through a special survey of 350 corporation income-tax returns. These returns accounted for about three-fourths of all corporation income-tax allowances for depletion for the year 1946 (table 1). Although the survey group does not necessarily represent a cross-section of the mineral industries, the high proportion of tax allowances for depletion provides reliable information on the mineral-depletion provisions. The statistical data obtained in the course of this survey are presented in tables 1 to 10.

While the survey covers corporations only, it is estimated that corporations account for more than 80 percent and individuals for less than 20 percent of all depletion deductions.

(a) Excess depletion and resulting revenue loss

The allowable depletion deducted by the corporations included in this survey amounted to \$555 million in 1946 and \$839 million in 1947. Of these amounts only 10 to 15 percent represented adjusted-basis depletion which would have been required to recover original investment cost.⁵ The remaining 85 to 90 percent constituted the excess

allowance attributable to the special depletion provisions for mineral industries (table 2).

The indicated revenue loss for all corporations in the survey due to excess depletion was about \$180 million in 1946 and \$290 million in 1947 (table 3). On the basis of these findings it is estimated that the total revenue loss for all corporations due to excess depletion was nearly \$250 million in 1946 and \$400 million in 1947.

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(b) Distribution of excess depletion by industry groups

The excess of percentage depletion over cost or basis depletion was correspondingly high for most industry groups. Relatively low excess depletion for a few industries, such as coal and the stone, clay, and glass group, reflects either a low-percentage depletion rate (5 percent for coal) or ineligibility of important components of the industry for percentage depletion.

A high proportion of the excess depletion shown in table 2 was received by corporations whose major activity was other than mining and quarrying. In 1946, for example, \$345 million or more than 70 percent of the total excess was deducted by manufacturing enterprises (notably in the petroleum field) representing large integrated firms whose predominant industrial activity was not mineral extraction.

(c) Distribution of special depletion and related allowances by mineral products

Survey data for 1946 and 1947 showing the distribution of depletion allowances (including deductions for development costs) classified by the principal mineral products are presented in tables 4 and 5. As shown in these tables, the bulk of the benefit of percentage depletion in excess of basis depletion was derived by the oil and gas group. They received almost 85 percent of the excess depletion compared with 55 percent of the gross income for corporations included in the survey.

Total deductions for development costs by the selected corporations were \$394 million in 1946 and \$486 million in 1947. Comparison of the development-cost deductions with the excess of percentage over basis depletion for these 2 years indicates that for every \$3 allowed as percentage depletion another \$2 was deducted as development costs. In addition, substantial deductions were taken for exploration costs and losses on abandonment, amounting to \$204 million in 1946 and \$255 million in 1947.

Nearly all of the development-cost deductions were taken by oil and gas producers, and these producers also claimed most of the allowances for exploration and losses on abandonment.

Substantial variations are also shown by tables 4 and 5 in the relative tax benefits derived from special depletion allowances among different types of mineral producers, due in large part to disparities in the rates of percentage depletion. In 1947, for example, allowable depletion was about equivalent to basis depletion for nonmetallics not entitled to percentage depletion, about 3 times basis depletion for coal, 5 times basis depletion for metals, and 16 times basis depletion for oil. Sulfur producers were entitled to virtually no basis depletion, yet more than one-third of their aggregate net income was excluded from taxation through excess percentage depletion.

The relative importance of special depletion allowances for different type of mineral producers is presented in table 6. As shown in this table, all the corporations included in the survey had depletion deductions equal to about 40 percent of their net income before depletion in the years 1946-47. By contrast, the amount of basis depletion required to recover remaining cost ratably over the useful economic life was only 6 per-

⁴ Within the past 3 years bills have been introduced in Congress to extend percentage depletion to ambygonite, oil shale, tripoli, marble, pumice, scoria, limestone, crushed stone, perlite, diatomaceous earth, granite, borax, calcium and magnesium carbonates, shell, sand, gravel, stone, and all other non-metallic clays and minerals.

⁵ In most cases the adjusted-basis depletion was approximately equal to cost depletion.

cent of net income in 1946 and 3.6 percent in 1947. Significant variations are shown among mineral products. Thus, depletion allowances in 1946 amounted to 49 percent of net income in the case of oil and gas compared with 1½ percent for nonmetallic products not entitled to percentage depletion, and 18 percent for all nonmetals.

(d) *Depletion allowances in relation to size of firm*

The distributions of various mineral-depletion allowances in dollar amounts and in relation to income, by size of firm, for 1946 and 1947, are shown in tables 7 and 8.

As shown in table 7, about three-fourths of the total depletion allowances and of the excess of percentage over basis depletion was received by very large corporations, with assets of at least \$100 million. By contrast these firms received slightly less than two-thirds of the total gross income from mining.

The percentage of income excluded from taxation through depletion allowances tends to be greater for larger corporations (table 8). In 1947, for example, firms with assets

of \$100 million and over had depletion allowances of 20 percent of their gross and 38 percent of their net income, as against 9 percent of gross income and 34.5 percent of net income for corporations with assets between \$100,000 and \$1 million. The benefits of special depletion allowances, reflected in the ratio of allowable depletion to basis depletion, also tend to increase with the size of the firm. In 1947, for example, the allowable depletion of corporations with assets of \$100 million and over was 13 times their basis depletion as compared with about 8 times for corporations with assets between \$1 million and \$10 million.

IV. ILLUSTRATIVE CASES SHOWING TAX EFFECTS OF SPECIAL ALLOWANCES

In connection with the survey of special depletion and related allowances, the effect of these provisions on the tax liabilities of particular taxpayers was studied.

Substantial reductions in income taxes were obtained by a number of individual oil and gas operators for the 5 years 1943 to 1947. In 10 illustrative cases, summarized in table 9, the effective rate of tax on net

economic income (based on cost or basis depletion) varied from 63.5 percent to as low as six-tenths of 1 percent. This represents a striking difference between the effective rates of tax actually paid and the general statutory rates on such income, which ranged as high as 90 percent in these years.

During the 5-year period these 10 individual taxpayers received a total economic net income of \$52.6 million from oil and gas properties. This net income was computed after all deductions for operating expenses, depreciation, basis depletion, exploration costs, and losses on unsuccessful ventures. These taxpayers also received a total of \$9.3 million of net income from other sources. Of their aggregate net income from all sources, totaling \$61.9 million, 77 percent was eliminated for tax purposes through the special deductions.

Similar information for 20 corporations taken from income-tax returns for 1947 is shown in table 10.

(NOTE.—In the following tables figures are rounded and will not necessarily add to totals. Percentages were computed on the basis of unrounded figures.)

TABLE 1.—Percentage of allowable mineral depletion included in survey of selected corporations, 1946

[Money figures in millions]

Industry group ¹	Allowable depletion for all corporations ²	Allowable depletion for selected corporations ²		Industry group ¹	Allowable depletion for all corporations ²	Allowable depletion for selected corporations ²	
		Amount	Percent of industry total			Amount	Percent of industry total
Mining and quarrying:				Manufacturing:			
Metal mining.....	\$46.1	\$35.1	76.0	Chemicals and allied products.....	\$14.4	\$9.7	67.1
Coal.....	51.0	17.6	34.4	Petroleum and coal products.....	388.0	350.6	90.3
Crude oil and natural gas.....	124.1	72.7	58.6	Iron, steel, and products.....	21.0	17.3	82.3
Nonmetallic mining.....	15.8	12.8	80.8	Nonferrous metals and products.....	23.5	14.5	61.8
Mining not allocable.....	.3	.1	32.0	Stone, clay, and glass products.....	2.1	.1	7.1
Total mining and quarrying.....	237.3	138.1	58.2	Other manufacturing.....	3.3	0	0
				Total manufacturing.....	452.4	392.2	86.7
				Other groups.....	55.5	24.5	44.2
				Total all groups.....	745.1	554.9	74.5

¹ The industry classification is the business activity reported on the tax return. When multiple businesses are reported, the classification is the business activity which accounts for the largest percentage of total receipts.

² Allowable depletion is the deduction permitted for income tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.

Source: Statistics of Income for 1946, pt. 2, preliminary, for all corporations; Bureau of Internal Revenue, Statistical Division, special tabulation, for the selected corporations.

TABLE 2.—Mineral depletion allowances for selected corporations, by industry groups, 1946 and 1947

[Money figures in millions]

Industry groups ¹	1946				1947			
	Number	Allowable depletion ²	Excess over basis depletion ³		Number	Allowable depletion ²	Excess over basis depletion ³	
			Amount	Percent of allowable depletion			Amount	Percent of allowable depletion
Mining and quarrying:								
Metal mining.....	68	\$35.1	\$28.7	82.0	66	\$64.0	\$54.9	85.9
Coal.....	53	17.6	10.5	59.9	52	21.6	14.9	69.2
Crude oil and natural gas.....	66	72.7	62.0	85.4	60	110.5	100.2	90.9
Nonmetallic mining.....	18	12.8	12.5	98.1	17	16.0	15.8	98.8
Mining not allocable.....	1	.1	(4)	5.0	1	.1	(4)	23.3
Total mining and quarrying.....	206	138.1	113.8	82.4	196	212.2	185.8	87.6
Manufacturing: Chemicals and allied products.....	14	9.7	7.3	75.5	14	\$11.7	9.4	80.3
Petroleum and coal products.....	45	350.6	321.9	91.8	44	538.7	509.0	94.4
Iron, steel, and products.....	14	17.3	11.0	63.4	16	25.9	17.2	66.3
Nonferrous metals and products.....	8	14.5	5.1	34.8	8	17.5	10.4	59.4
Stone, clay, and glass products.....	5	.2	(4)	32.5	5	.2	.1	56.3
Total manufacturing.....	86	392.2	345.3	88.0	87	594.0	546.1	91.9
Other groups.....	60	24.5	20.8	84.9	61	32.6	28.0	86.0
Total all groups.....	352	554.9	479.9	86.5	344	838.7	759.9	90.6

¹ The industry classification is the business activity reported on the tax return. When multiple businesses are reported, the classification is the business activity which accounts for the largest percentage of total receipts.

² Allowable depletion is the deduction permitted for income-tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.

³ Basis depletion is the deduction necessary to recover the unamortized portion of

the taxpayer's depletable property over its estimated remaining useful life. The unamortized portion, or adjusted basis, is reduced each year by the amount of allowable depletion.

⁴ Less than \$50,000.

Source: Bureau of Internal Revenue, Statistical Division, special tabulation.

TABLE 3.—Computed revenue loss resulting from excess mineral depletion deductions, selected corporations, by industry groups, 1946 and 1947 ¹

[In millions]

Industry group ²	1946 (352 returns)	1947 (344 returns)	Industry group ²	1946 (352 returns)	1947 (344 returns)
Mining and quarrying:			Manufacturing—Continued		
Metal mining.....	\$10.9	\$20.9	Petroleum and coal products.....	\$122.3	\$193.4
Coal.....	4.0	5.7	Iron, steel, and products.....	4.2	6.5
Crude oil and natural gas.....	23.6	38.1	Nonferrous metals and products.....	1.9	3.9
Nonmetallic mining.....	4.8	6.0	Stone, clay, and glass products.....	(?)	(?)
Mining not allocable.....	(?)	(?)	Total manufacturing.....	131.2	207.5
Total mining and quarrying.....	43.3	70.6	Other groups.....	7.9	10.6
Manufacturing:			Total all groups.....	182.4	288.8
Chemicals and allied products.....	2.8	3.6			

¹ Computed at the standard corporation rate of 38 percent.² The industry classification is the business activity reported on the tax return.

When multiple businesses are reported, the classification is the business activity which accounts for the largest percentage of total receipts.

³ Less than \$50,000.

TABLE 4.—Mineral depletion and related allowances for selected corporations, by principal mineral products, 1946

[Money figures in millions]

Principal mineral products	Number of corporations	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ¹	Net ²	Allowable ³	Basis ⁴	Development costs ⁵	Exploration costs and losses on abandonment ⁶
Metals:							
Iron.....	20	\$335.0	\$56.2	\$18.9	\$5.6	\$6.1	\$0.1
Copper.....	12	240.4	91.2	23.3	12.0	.6	1.0
Lead and zinc.....	22	68.9	21.0	10.5	2.5	5.0	.3
Gold and silver.....	14	47.1	16.0	6.1	.3	.9	.1
Other metals.....	8	37.8	7.2	3.3	(?)	.1	(?)
Metals not allocable.....	9	32.1	8.5	3.0	.3	(?)	.2
Total, metals.....	85	761.3	200.2	65.0	20.8	12.7	1.8
Coal:							
Anthracite.....	17	209.6	27.7	8.1	5.0	(?)	
Bituminous, lignite, etc.....	52	432.8	44.5	16.2	5.0	(?)	(?)
Total, coal.....	69	642.4	72.2	24.3	10.0	(?)	(?)
Oil and gas:	163	1,837.6	904.2	447.1	41.9	381.2	161.3
Sulfur:	8	66.2	34.5	12.3	(?)		20.7
Nonmetals:							
Entitled to percentage depletion ⁸	19	90.4	20.0	5.9	2.0		0.1
Not entitled to percentage depletion.....	8	56.1	13.4	.2	.2	0.3	20.0
Total nonmetals.....	27	146.6	33.3	6.2	2.2	.3	20.2
Grand total.....	352	3,454.1	1,244.4	554.9	74.9	394.2	204.0

¹ Gross income subject to depletion represents the amount for which the taxpayer sells, or could sell, in the immediate vicinity of the mine or well, the crude mineral output thereof.² Net income subject to depletion represents the gross income subject to depletion less the allowable tax deductions attributable to the particular mineral property.³ Allowable depletion is the deduction permitted for income-tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.⁴ Basis depletion is the deduction necessary to recover the unamortized portion of the taxpayers' depletable property over its estimated remaining useful life. The unamortized portion, or adjusted basis, is reduced each year by the amount of allowable depletion.⁵ Development costs are expenditures for the preparation of mineral properties for production, which are deducted as expenses in the year incurred. Consequently, these expenditures are not included in the tax basis of the property and future cost or adjusted-basis depletion is correspondingly reduced. The treatment of development

costs as a current expense, however, does not diminish percentage depletion in subsequent years, since the latter is determined on the basis of income in those years.

⁶ Tax deductions for exploration costs represent expenditures which are made in the search for mineral deposits but which cannot be attributed to the capital costs of particular depletable properties. Abandonment losses represent tax deductions for recovery of capital invested in particular mineral properties which are abandoned before recovery of adjusted basis. Both exploration costs and abandonment losses represent tax deductions for capital recovery in addition to depletion deductions.⁷ Less than \$50,000.⁸ The following nonmetallics are entitled to percentage depletion: Fluorspar, ball and sagger clay, rock asphalt, potash, flake graphite, vermiculite, beryl, feldspar, mica, talc, lepidolite, spodumene, barite, bauxite, china clay, phosphate rock, bentonite, trona, gilsonite, and thebaridite.

Source: Bureau of Internal Revenue, Statistical Division, special tabulation.

TABLE 5.—Mineral depletion and related allowances for selected corporations, by principal mineral products, 1947

[Money figures in millions]

Principal mineral products	Number of corporations	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ¹	Net ²	Allowable ³	Basis ⁴	Development costs ⁵	Exploration costs and losses on abandonment ⁶
Metals:							
Iron.....	21	\$310.8	\$90.3	\$26.7	\$7.5	\$7.2	\$0.3
Copper.....	11	432.1	224.3	45.3	12.1	.9	.9
Lead and zinc.....	23	99.4	35.3	14.6	3.1	4.8	.1
Gold and silver.....	12	66.8	24.3	9.1	.2	1.1	1.6
Metals—Continued							
Other metals.....	7	\$45.5	\$7.5	\$3.0	(?)	.1	(?)
Metals not allocable.....	12	54.6	17.6	5.5	.4	.1	.3
Total metals.....	86	1,009.2	399.2	104.2	\$23.3	\$14.3	\$3.2

See footnotes at end of table.

TABLE 5.—Mineral depletion and related allowances for selected corporations, by principal mineral products, 1947—Continued
[Money figures in millions]

Principal mineral products	Number of corporations	Income subject to depletion		Depletion		Other capital recovery deductions		Principal mineral products	Number of corporations	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ¹	Net ²	Allowable ³	Basis ⁴	Development costs ⁵	Exploration costs and losses on abandonment ⁶			Gross ¹	Net ²	Allowable ³	Basis ⁴	Development costs ⁵	Exploration costs and losses on abandonment ⁶
Coal:								Nonmetals:							
Anthracite.....	16	\$211.6	\$18.3	\$7.5	\$4.7	(7)	-----	Entitled to percentage depletion ⁸	17	\$68.7	\$20.2	\$8.7	\$1.8	(7)	.2
Bituminous, lignite, etc.....	55	612.5	87.2	25.4	6.2	\$.1	\$.3	Not entitled to percentage depletion.....	9	102.2	53.4	.3	.3	\$.4	\$25.1
Total coal.....	71	\$241.1	\$105.4	\$33.0	\$10.9	.1	.3	Total nonmetals.....	26	170.9	73.6	9.0	2.1	.4	25.4
Oil and gas.....	153	\$2,691.5	\$1,544.9	\$677.7	\$42.6	\$471.1	\$199.9	Grand total.....	344	4,775.9	2,166.9	838.7	78.8	486.0	254.5
Sulfur.....	8	80.3	43.8	14.9	(7)	-----	-----								

¹ Gross income subject to depletion represents the amount for which the taxpayer sells, or could sell, in the immediate vicinity of the mine or well, the crude mineral output thereof.
² Net income subject to depletion represents the gross income subject to depletion less the allowable tax deductions attributable to the particular mineral property.
³ Allowable depletion is the deduction permitted for income-tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.
⁴ Basis depletion is the deduction necessary to recover the unamortized portion of the taxpayer's depletable property over its estimated remaining useful life. The unamortized portion, or adjusted basis, is reduced each year by the amount of allowable depletion.
⁵ Development costs are expenditures for the preparation of mineral properties for production, which are deducted as expenses in the year incurred. Consequently, these expenditures are not included in the tax basis of the property and future cost or adjusted-basis depletion is correspondingly reduced. The treatment of develop-

ment costs as a current expense, however, does not diminish percentage depletion in subsequent years, since the latter is determined on the basis of income in those years.
⁶ Tax deductions for exploration costs represent expenditures which are made in the search for mineral deposits but which cannot be attributed to the capital costs of particular depletable properties. Abandonment losses represent tax deductions for recovery of capital invested in particular mineral properties which are abandoned before recovery of adjusted basis. Both exploration costs and abandonment losses represent tax deductions for capital recovery in addition to depletion deductions.
⁷ Less than \$50,000.
⁸ The following nonmetallics are entitled to percentage depletion: Fluorspar, ball and sagger clay, rock asphalt, potash, flake graphite, vermiculite, beryl, feldspar, mica, talc, lepidolite, spodumene, barite, bauxite, china clay, phosphate rock, bentonite, trona, gilsonite, and thenardite.

Source: Bureau of Internal Revenue, Statistical Division, special tabulation.

TABLE 6.—Allowable and basis depletion related to income, selected corporations, by principal mineral products, 1946 and 1947
[Percent]

Principal mineral products	1946				1947				Principal mineral products	1946				1947				
	Percent of gross income		Percent of net income		Percent of gross income		Percent of net income			Percent of gross income		Percent of net income		Percent of gross income		Percent of net income		
	Allowable depletion ¹	Basis depletion ²		Allowable depletion ¹	Basis depletion ²													
Metals:									Oil and gas.....	24.3	2.2	49.3	4.6	25.1	1.5	43.8	2.7	
Iron.....	5.6	1.7	32.6	9.9	8.5	2.4	29.5	8.3	Sulfur.....	18.6	(2)	35.7	(2)	18.5	(3)	33.9	(2)	
Copper.....	9.6	4.9	25.5	13.1	10.4	2.7	20.1	5.3	Nonmetals:									
Lead and zinc.....	15.2	3.5	50.0	11.7	14.6	3.0	41.3	8.6	Entitled to percentage depletion ⁴	6.5	2.2	29.7	10.1	12.6	2.6	43.0	8.9	
Gold and silver.....	12.8	.5	37.8	1.5	13.0	.3	37.4	.9	Not entitled to percentage depletion.....	.3	.2	1.5	1.2	.3	.2	.6	.4	
Other metals.....	8.6	(2)	44.3	.3	6.6	(2)	40.3	.1	Total nonmetals.....	4.2	1.4	18.4	6.5	5.2	1.2	12.2	2.8	
Metals not allocable.....	9.4	.9	35.6	3.7	10.0	.7	31.0	2.2	Grand total.....	16.0	2.1	44.4	6.0	17.5	1.6	38.6	3.6	
Total metals.....	8.5	2.7	32.2	10.3	10.3	2.3	26.0	5.8										
Coal:																		
Anthracite.....	3.8	2.3	29.0	17.9	3.5	2.2	40.8	25.6										
Bituminous, lignite, peat.....	3.7	1.1	35.5	11.0	4.1	1.0	28.7	6.9										
Total coal.....	3.7	1.5	33.1	13.6	3.9	1.3	30.8	10.1										

¹ Allowable depletion is the deduction permitted for income-tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.
² Basis depletion is the deduction necessary to recover the unamortized portion of the taxpayer's depletable property over its estimated remaining useful life. The unamortized portion, or adjusted basis, is reduced each year by the amount of allowable depletion.

³ Less than 0.1 of 1 percent.
⁴ The following nonmetallics are entitled to percentage depletion: fluorspar, ball and sagger clay, rock, asphalt, potash, flake graphite, vermiculite, beryl, feldspar, mica, talc, lepidolite, spodumene, barite, bauxite, china, clay, phosphate rock, bentonite, trona, gilsonite and thenardite.

Source: Bureau of Internal Revenue, Statistical Division, special tabulation.

TABLE 7.—Mineral depletion and related allowances for selected corporations, by size of total assets, 1946 and 1947
[Money figures in millions]

Total assets classes ¹ (in thousands)	Number of corporations ¹	Income subject to depletion		Depletion		Other capital recovery deductions		Total asset classes ¹ (in thousands)	Number of corporations ¹	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ²	Net ³	Allowable ⁴	Basis ⁵	Development costs ⁶	Exploration costs and losses on abandonment ⁷			Gross ²	Net ³	Allowable ⁴	Basis ⁵	Development costs ⁶	Exploration costs and losses on abandonment ⁷
1946								1947							
\$100 under \$1,000.....	20	\$22.7	\$5.3	\$2.0	\$0.1	\$0.1	\$0.1	\$100 under \$1,000.....	20	\$25.8	\$6.7	\$2.3	\$0.1	\$0.1	(9)
\$1,000 under \$5,000.....	105	207.3	47.3	18.9	3.8	9.2	2.0	\$1,000 under \$5,000.....	101	268.3	72.5	26.8	3.4	11.0	\$1.8
\$5,000 under \$10,000.....	46	135.4	47.7	18.9	3.4	5.3	2.3	\$5,000 under \$10,000.....	42	160.1	60.0	23.5	3.1	7.4	3.6

See footnotes at end of table.

TABLE 7.—Mineral depletion and related allowances for selected corporations, by size of total assets, 1946 and 1947—Continued
[Money figures in millions]

Total assets classes ¹ (in thousands)	Number of corporations ¹	Income subject to depletion		Depletion		Other capital recovery deductions		Total assets classes ¹ (in thousands)	Number of corporations ¹	Income subject to depletion		Depletion		Other capital recovery deductions	
		Gross ²	Net ³	Allowable ⁴	Basis ⁵	Development costs ⁶	Exploration costs and losses on abandonment ⁷			Gross ²	Net ³	Allowable ⁴	Basis ⁵	Development costs ⁶	Exploration costs and losses on abandonment ⁷
1946								1947							
\$10,000 under \$50,000.....	96	\$670.0	\$190.7	\$81.8	\$13.4	\$49.4	\$19.3	\$10,000 under \$50,000.....	97	\$870.2	\$301.7	\$118.4	\$14.4	\$59.0	\$25.8
\$50,000 under \$100,000.....	17	283.1	88.6	35.9	8.7	15.7	8.9	\$50,000 under \$100,000.....	14	353.3	117.2	51.4	10.7	16.5	13.2
\$100,000 and over.....	64	2,129.3	861.3	395.7	45.4	313.2	171.2	\$100,000 and over.....	68	3,108.7	1,604.8	614.3	47.1	390.8	209.6
Total.....	348	3,447.8	1,241.0	553.2	74.8	392.9	203.7	Total.....	342	4,768.6	2,162.9	836.8	78.8	484.8	254.1

¹ Total asset classes are based on the net amount of total assets after reserves for depreciation, depletion, amortization and bad debts, as of the close of the taxable year 1946. Only corporations with balance sheets are included. Consequently, the number of corporations differs slightly from that in the tabulations by industry groups and by principal mineral products.

² Gross income subject to depletion represents the amount for which the taxpayer sells, or could sell, in the immediate vicinity of the mine or well, the crude mineral output thereof.

³ Net income subject to depletion represents the gross income subject to depletion less the allowable tax deductions attributable to the particular mineral property.

⁴ Allowable depletion is the deduction permitted for income tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.

⁵ Basis depletion is the deduction necessary to recover the unamortized portion of the taxpayers depletable property over its estimated remaining useful life. The unamortized portion, or adjusted basis, is reduced each year by the amount of allowable depletion.

⁶ Development costs are expenditures for the preparation of mineral properties for production, which are deducted as expenses in the year incurred. Consequently, these expenditures are not included in the tax basis of the property and future cost or adjusted-basis depletion is correspondingly reduced. The treatment of development costs as a current expense, however, does not diminish percentage depletion in subsequent years, since the latter is determined on the basis of income in those years.

⁷ Tax deductions for exploration costs represent expenditures which are made in the search for mineral deposits but which cannot be attributed to the capital costs of particular depletable properties. Abandonment losses represent tax deductions for recovery of capital invested in particular mineral properties which are abandoned before recovery of adjusted basis. Both exploration costs and abandonment losses represent tax deductions for capital recovery in addition to depletion deductions.

⁸ Less than \$50,000.

Source: Bureau of Internal Revenue, Statistical Division, special tabulation.

TABLE 8.—Allowable and basis depletion related to income, selected corporations, by size of total assets, 1946 and 1947

Total assets classes ¹ (in thousands)	Percent of gross income		Percent of net income		Total assets classes ¹ (in thousands)	Percent of gross income		Percent of net income	
	Allowable depletion ²	Basis depletion ³	Allowable depletion ²	Basis depletion ³		Allowable depletion ²	Basis depletion ³	Allowable depletion ²	Basis depletion ³
1946					1947				
\$100 under \$1,000.....	8.9	0.4	38.2	1.7	\$100 under \$1,000.....	9.0	0.3	34.5	1.0
\$1,000 under \$5,000.....	9.1	1.8	39.4	8.4	\$1,000 under \$5,000.....	9.9	1.2	36.8	4.6
\$5,000 under \$10,000.....	13.9	2.5	39.7	7.1	\$5,000 under \$10,000.....	14.6	1.9	39.1	5.1
\$10,000 under \$50,000.....	12.2	2.0	42.5	6.9	\$10,000 under \$50,000.....	13.6	1.6	39.2	4.7
\$50,000 under \$100,000.....	12.6	3.0	40.4	9.7	\$50,000 under \$100,000.....	15.3	3.1	43.8	9.1
\$100,000 and over.....	18.5	2.1	45.5	5.2	\$100,000 and over.....	19.7	1.5	38.2	2.9
Total.....	16.0	2.1	44.4	6.0	Total.....	17.5	1.6	38.6	3.6

¹ Total asset classes are based on the net amount of total assets after reserves for depreciation, depletion, amortization and bad debts, as of the close of the taxable year 1946. Only corporations with balance sheets are included. Consequently, the number of corporations differs slightly from that in the tabulations by industry groups and by principal mineral products.

² Allowable depletion is the deduction permitted for income tax purposes, and is the larger of either adjusted-basis depletion or percentage depletion.

³ Basis depletion is the deduction necessary to recover the unamortized portion of the taxpayers depletable property over its estimated remaining useful life. The unamortized portion, or adjusted basis, is reduced each year by the amount of allowable depletion.

Source: Bureau of Internal Revenue, Statistical Division, special tabulation.

TABLE 9.—Income, deductions, and tax liabilities of 10 selected individual oil and gas operators, for the 5-year period 1943-47

[Money figures in millions]

Individual operator	New income			Special deduction		Taxable net income	Income tax liability		Individual operator	New income			Special deduction		Taxable net income	Income tax liability	
	From oil and gas ¹	From other sources	Total	Percentage depletion ²	Development costs ³		Amount	Percent of total net income		From oil and gas ¹	From other sources	Total	Percentage depletion ²	Development costs ³		Amount	Percent of total net income
A.....	\$10.5	\$3.8	\$14.3	2.2	\$13.0	-\$0.9	\$0.08	0.6	G.....	\$7.7	-\$1.3	\$6.4	3.5	2.1	\$0.8	\$0.5	7.8
B.....	5.0	.8	5.8	3.1	2.1	.6	.5	8.6	H.....	2.1	3.6	5.7	1.0	.6	4.1	2.2	38.6
C.....	3.9	.5	4.4	3.2	4.4	-3.2	.15	3.4	I.....	1.7	.1	1.8	.5	1.0	.3	.2	11.1
D.....	9.3	.3	9.6	2.7	0	6.9	6.1	63.5	J.....	8.0	-.7	7.3	2.9	1.7	2.7	2.2	30.1
E.....	2.7	.8	3.5	1.0	.3	2.2	1.4	40.0	Total.....	52.6	9.3	61.9	20.9	26.7	14.3	13.93	22.5
F.....	1.7	1.4	3.1	.8	1.5	.8	.6	19.4									

¹ Income after deductions for operating expenses, depreciation, adjusted-basis depletion, exploration costs and losses on abandonment.

² Excess of percentage depletion over adjusted-basis depletion.

³ Development costs are expenditures for the preparation of mineral properties for production, which are deducted as expenses in the year incurred. Consequently, these expenditures are not included in the tax basis of the property and future cost of adjusted-basis depletion is correspondingly reduced. The treatment of development costs as a current expense, however, does not diminish percentage depletion in

subsequent years, since the latter is determined on the basis of income in those years.

⁴ While special deductions more than offset the total net income for the 5 years, some income tax was paid because there were deficits only in some years. A deficit caused by excess percentage depletion cannot be carried over against net taxable income of other years.

⁵ Includes only 4 years, 1943-46.

Source: Bureau of Internal Revenue, special tabulation.

Mr. PROXMIRE. Mr. President, in 1955, the Joint Economic Committee asked a number of tax experts to participate in its study of Federal tax policy for economic growth and stability. One of the finest papers which was presented to the Committee was that by William F. Hellmuth, Jr., of Oberlin College, who wrote on the subject of the "Erosion of the Federal Corporation Income Tax Base." This paper appears on pages 888 to 917. I ask unanimous consent that a section of that paper, which appears on pages 897 to 903 and which deals with the percentage depletion question, be printed at this point in the RECORD.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

DEPLETION

Present depletion deductions are probably the most glaring and most widely condemned source of erosion in the corporate income-tax base. These deductions may also be the ones which have been most liberalized and extended over the past 15 years.

Corporations have been permitted a tax deduction for the exhaustion of oil and mineral resources since 1913. In economics and in our tax law, the principle is well established that the gradual exhaustion in use of a well or mineral deposit represents a cost of production for which deductions should be allowed in computing net income. Controversy exists as to timing and total amount of depletion deductions allowable.

On the basis of tax neutrality between different industries and economic activities, deductions from income over the life of a property would be limited to original cost, with annual tax-free recovery reflecting the portion of the total deposit which is extracted during the year. Using the business-income yardstick, there would be depletion deductions based on actual cost or in some cases no deductions at all for depletion.¹ Full recovery of actual cost under cost depletion would correspond to tax treatment of depreciation or amortization for other capital assets.

Existing legislation allows taxpayers owning an economic interest in mineral deposits the choice of a depletion deduction based on cost or percentage depletion. Percentage depletion gives an annual deduction equal to the smaller of a statutory percentage of gross income from mineral property or 50 percent of net income from the property before any allowance for depletion. Total tax-free deductions under percentage depletion are not limited or even necessarily related to capital cost. Annual percentage depletion deductions are related to production, prices, net income, and statutory percentages. There is no ceiling on the total amount of these deductions and over the life of a property they may total many times a taxpayer's actual investment costs. Thus percentage depletion deductions diverge from allowable deductions which conform either to tax neutrality or to business-income concepts and are an important element of erosion.

The dollar estimate of the excess of percentage over cost depletion is based on Treasury studies of those corporations which accounted for 75 to 80 percent of all depletion allowances claimed by corporations during 1946-49.

¹ Smith and Butters, op. cit., pp. 80-84. Some businesses make no deduction for depletion due to the difficulty of estimating the future life of a deposit accurately.

Year	Number of corporations	Allowable depletion	Adjusted basis depletion	Excess of allowable over basis		
				Amount	Percent of allowable	Percent of net income
1946.....	352	\$555	\$75	\$480	86.5	38.4
1947.....	344	839	79	760	90.6	35.0
1948.....	260	1,291	77	1,214	94.0	38.3
1949.....	260	1,120	61	1,059	94.6	40.1
Total.....		3,805	292	3,513		
Weighted average.....					92.3	

NOTE.—See also an interpretation of the 1946-47 data by D. H. Eldridge, Tax Incentives for Mineral Enterprise, Journal of Political Economy, June 1950, pp. 222-240.

Sources: 1946 and 1957 data from Revenues Revision of 1950, hearings before the Committee on Ways and Means, House, 81st Cong., 2d sess., vol. I, pp. 194, 197; 1948 and 1949 data from E. E. Oakes, Incentives for Mineral Industries, the President's Materials Policy Commission, Resources for Freedom, vol. 5, pp. 14-15. Admittedly adjusted-basis depletion is not identical to cost depletion but is based on cost less allowable depletion (larger of percentage or cost depletion) in prior years.

This table indicates that total allowable depletion deductions were at least 10 times depletion deductions based on cost. As legislation in 1951 and 1954 further liberalized percentage depletion and extended the opportunity to expense (currently or deferred) exploration and development costs so they never are charged to a depletion basis, allowable depletion may now be nearer 20 times cost depletion. These figures conceal a wide variation between individual products. Percentage depletion deduction as a multiple of cost depletion during 1946-49 varied from a high of over 200 for sulfur to 19 for oil and gas down to about 3½ for copper and coal. Note that oil and gas accounted for more than 80 percent of all depletion deductions:

Allowable depletion compared with adjusted basis depletion for certain products, 1946-49 combined

[In millions]

	Allowable depletion	Adjusted-basis depletion	Allowable as multiple of adjusted-basis	Product percent of total allowable
All products.....	\$3,805	\$292	3.7	100.0
Oil and gas.....	3,143	167	18.9	82.8
Sulfur.....	60	(1)	(1)	1.6
Coal.....	136	38	3.5	3.6
Copper.....	182	49	3.7	4.8

¹ Allowable depletion for sulfur was less than \$300,000 for all 4 years combined. Individual years' totals were too small to be reported in tables. Thus allowable depletion for sulfur was at least 200 times the amount of adjusted-basis depletion and possibly much more.

Source: Computed from Treasury depletion studies of several hundred large companies for 1946-49, op. cit.

The most recent Statistics of Income indicate corporate depletion deductions of \$2,126 million for 1952. Corporate depletion in 1955 might amount to \$2,500 million, assuming increased dollar volume and another \$100 million for the liberalization of depletion by the 1954 code. Ninety percent of this total gives \$2,250 million as the conservatively estimated amount of corporate income excluded from taxable income due to overgenerous percentage depletion.²

Erosion of the tax base due to depletion has been rapid in recent years and perhaps has now come to a position of equilibrium, at a position of great liberality, with percentage depletion now available to every

² Since corporations account roughly for 80 percent of all depletion, an additional \$500 to \$600 million of depletion erosion would be estimated for the 1955 individual income-tax base. Revenue Revision of 1950, hearings before the Committee on Ways and Means, House, 81st Cong., 2d sess., vol. I, p. 180.

metallic and nonmetallic mineral from anorthosite to zinc, including even oystershells and peat. Under section 613(b) of the 1954 Code, only soil, sod, dirt, turf, water, and mosses, or minerals from sea water, the air, or similar inexhaustible sources are not eligible for percentage depletion.

But this hope—that there will be no further erosion from depletion—is probably too optimistic. Industries entitled to a low rate of percentage depletion are continually pressing for higher rates; pass-through of depletion deduction opportunities to corporate stockholders in extractive industries has been requested. A Federal circuit court recently held that the value of finished brick could be used in the income measure for percentage depletion.³ If this view prevails for brick, other industries will push for equal treatment, possibly even to the value of gasoline for a vertically integrated oil company.

The statutory history of depletion is a superb example of at least three types of tax changes which erode the corporate tax base.

The initial break from cost depletion came in 1918 when Congress allowed, to the discoverer only, tax-free deductions based on value of property at the time of the discovery or within 30 days thereafter. This was probably the first instance under the Federal income tax where increment of value after 1913 was not taxed. Usually, of course, discovery of oil or minerals increases the value of a property substantially over cost. This higher value was justified as an incentive to exploration and discovery to meet the World War I emergency. A comparable situation arose during World War II when percentage depletion, restricted until then to oil and gas (1926), and sulfur, metal mines, and coal (1932), was extended in 1942 to 3 nonmetals and in 1943 to 10 additional nonmetallic minerals. This expansion of percentage depletion was limited to the period of the war emergency to encourage production of minerals believed to be scarce for meeting the wartime demands. After both wars, these incentive features first introduced to meet temporary emergencies were not rescinded nor allowed to expire, but instead remained permanently in the tax structure. The first generalization is that temporary tax incentives are difficult or impossible to terminate.

A second observation from experience with depletion is that simplification of tax administration is often advanced at the expense of revenue or equity or both. To overcome administrative difficulties from the use of discovery value,⁴ percentage depletion was

³ Cherokee Brick & Tile Co. (122 Fed. Supp. 59 (5 CCA, 1954)).

⁴ Such questions as what was a new discovery, determination of value just after the discovery, and whether the owner was the discoverer plagued tax administrators.

allowed in 1926 for oil and gas wells. A figure of 27½ percent of gross income was chosen, apparently to give approximately equal dollar deductions under the new method as had been available under the discovery value method. But this percentage method became more valuable as tax rates rose far above the 1926 corporate rate of 13.5 percent and as price levels increased, causing a high revenue cost to the Treasury and arousing the envy of other industries still restricted to cost or discovery value depletion. And the percentage depletion method, as noted above, unlike the cost and discovery value methods, has no overall limit so that deductions continue as long as a property is producing income.

A third lesson is that it is difficult to limit tax favors to just those who discover a new oil or mineral deposit or even to a few selected entire industries, however justified this special incentive is on grounds of relative risks or probable scarcity relative to needs for economic growth and national security. The other extractive industries regarded the availability of percentage depletion at liberal rates to a few industries as unfair discrimination and a tax deduction to which they were equally entitled. Politically the have-nots broke the dikes against percentage depletion in 1947, 1951, and again in 1954. Coverage was extended, percentage rates were raised, processes covered were broadened, and even mine residues were made eligible for percentage depletion. Apparent discrimination against certain industries was ended by extending the liberal deductions to all.⁵ Companies exploiting sand and gravel pits and oystershells now qualify for percentage depletion along with oil companies and uranium prospectors, though at different rates.

The incentive value of percentage depletion for certain scarce minerals has been blunted by extending the favors to all. One problem is that there are no yardsticks to indicate the incentives needed to get the socially desired amount of investment in different fields. Congress has no guide to determine which industries are entitled to percentage depletion and what depletion rates produce the needed amount and distribution of investment in the extractive industries.⁶

The economic defense of generous percentage depletion results from national policy to provide an incentive or subsidy for certain selected minerals for reasons of national security. But on grounds of tax neutrality, tax equity, and conformity to business income accounting practice, the excess of percentage over cost depletion reflects erosion in the income-tax base. In fact from the standpoint of accounting or economics, it is questionable whether these deductions are properly called depletion since they do not relate to any capital sum which is being exhausted. In some cases the income against which the statutory percentages apply includes not only extraction but also processes which are essentially

manufacturing in character, such as finished brick or industrial talc.

The excess of percentage over cost-depletion deductions reduces corporate taxable net income by about \$2¼ billion in 1955 and this figure, under existing legislation, will tend to increase with an expanding economy.

EXPLORATION AND DEVELOPMENT COSTS

Exploration and development costs are closely allied with the problem of depletion for mineral and oil producers. Current tax legislation allows these producers the option of capitalizing or expensing development and, with qualifications, exploration costs.

Oil and gas producers have enjoyed this option since 1917, first by Treasury regulation, now codified by the 1954 Internal Revenue Code. Intangible drilling and development costs include all costs of labor, fuel, repairs, materials, and construction, except cost of assets which have a salvage value, the latter assets being depreciated. The development costs eligible for expensing account on the average for about 75 percent of the costs incurred in bringing in a well.⁷

The Revenue Act of 1951 extended this option even more fully to mining. A taxpayer with mining interests may now decide each year for each mine to expense or capitalize development costs. Mine exploration and development costs can be deducted currently or set up as deferred expense to run over the life of ore benefited. In either case a deduction in lieu of cost depletion is given, but percentage-depletion deductions continue undiminished. Before 1951 all development costs in excess of current net income from a property during the development stage had to be capitalized.

This option to expense what are essentially capital costs is another loss to the tax base. Tax neutrality and conformity to business accounting would require that these costs be capitalized and amortized over the life of the assets or, if the assets cannot be moved, over the life of the mineral deposit, if it will be exhausted before the assets are fully depreciated.

The erosion here is twofold. First, the option to expense development costs allows deductions to be taken sooner than if these costs were capitalized and deducted gradually over a period of years. This means that total deductions to any given date are larger than if these costs were spread over several years. Secondly, expensing of development

costs combined with percentage depletion allows double deductions for the same costs. To the extent that development costs are expensed, there is no need for depletion to recover investment. If 75 percent of the cost of an oil well is expensed, only the remaining 25 percent remains to be recovered tax free through cost depletion. But with percentage depletion, the annual and total deductions bear no direct relation to capital costs but depend on gross and net income. The dollar amount of deductions under percentage depletion is not influenced by the election to capitalize or expense.

Thus, with the expensing of development costs, percentage depletion becomes more than ever an additional deduction which must be justified on grounds other than recovery of costs for these are recovered through expensing. Leasehold costs cannot be expensed but they are usually in the form of royalty payments. Development costs may be offset against income from all sources, a feature which has attracted corporations (and individuals) primarily interested in other industries to finance new oil wells, thus reducing or even eliminating their taxable income while building up their capital assets.⁸

The Treasury study for 1946-47 cited above reported that 96.8 percent of all corporate development costs were claimed by oil and gas producers and that these deductions were about two-thirds of the excess of percentage over cost depletion. Applied to 1955, this suggests about \$1.5 billion of costs which are expense in addition to being recovered through percentage depletion. Without percentage depletion, to avoid any erosion these costs would still not be expense but would be capitalized and deducted gradually over the life of the assets or the life of the well, whichever is shorter; from this point of view erosion would be at least \$1.1 billion a year at first, declining gradually as annual depreciation charges accumulate for all such property in use.

The great value of these tax-saving features to the oil industry is documented by published 1954 annual reports. The following table compares the tax position of 3 companies which specialize in crude-oil production, 24 large oil companies combined (whose annual reports were available), and all corporations. Note that the effective tax rate increases from 9.2 percent for Tidewater, to 22.6 percent for 24-company aggregate, to 48.1 percent for all corporations.

Federal taxes and effective tax rates for oil companies and all corporations, 1954

	Net income before tax	Federal income tax	Effective tax rate	Per share	
				Earnings before tax	Federal income tax
	Millions	Millions	Percent		
Tidewater Associated Oil Co.....	\$38.0	\$3.5	9.2	\$3.45	\$0.32
Humble Oil & Refining Co.....	174.8	28.5	16.3	4.86	.79
SKelly Oil Co.....	35.1	6.7	18.5	6.28	1.16
24 large petroleum companies.....	2,541.0	575.0	22.6		
All corporations.....	34,042.0	16,369.0	48.1		

Source: Annual reports: Department of Commerce estimate of corporate profits and Federal tax liability.

Since the Revenue Act of 1951, mining companies may expense a limited amount of exploration costs, even if for a productive property. The limit on such costs of a mining taxpayer was raised to \$100,000 a year and \$400,000 total by the 1954 code. The cost here is relatively small, although taxpayers are increasing their tax saving by incorporating each mine separately. Exploratory expenses above these limits by mining corporations must be capitalized. Only exploratory expenses which lead to dry holes may be expensed currently by the oil and gas industry. This conforms to neutrality and accounting concepts.

⁷Oakes, op. cit., p. 17.

Mr. PROXMIRE. Mr. President, among other points he makes is that in 1954, one major oil company paid taxes at an effective rate of 9.2 percent, another at 16.3 percent, and still another at 18.5 percent. He shows further that 24 large petroleum companies paid taxes at an effective rate of only 22.6 percent.

⁸J. K. Butters, L. E. Thompson, L. L. Bollinger, *Effects of Taxation: Investments by individuals*, pp. 201-202 (1953). Some investors regard investments in the oil industry as a source of tax exempt income, competitive with State and municipal securities.

⁵No reduction in depletion rates has ever been voted by Congress. In 1954 every amendment extending percentage depletion was passed in the Senate. It was impossible even to get the necessary 10 Senators to request a record rollcall on any of these votes. See CONGRESSIONAL RECORD, vol. 100, pt. 7, especially pp. 9301-9319.

⁶The President's Materials Policy Commission, op. cit., vol. I, pp. 33-35. The Commission recommended that percentage depletion be retained because of its strong inducement to risk capital to enter the minerals field. It also recommended that no depletion rates be raised above the 1952 level and that recent additions to minerals eligible for percentage depletion be reexamined to see if incentives are needed for their production.

TAX RATES OF SPECIFIC COMPANIES

Mr. President, I, myself, have been collecting some facts and figures on the taxes paid by oil and gas producing companies. I have collected figures for these 27 companies since 1945; and I have figures which show the amount of income taxes they have paid, compared with their net income before taxes. As we all know, since World War II, these taxes for most corporations have been in the neighborhood of 47 to 52 percent. However, these oil and gas companies have paid taxes at a considerably lower rate than what one would believe they should pay, and what other corporations actually pay.

I am calling these companies company A, company B, company C, and so forth, for they have done nothing illegal, and I do not wish to condemn them, but merely wish to condemn the principle of percentage depletion. Thus, I have not reason to go after any of the individual companies; but I do wish to illustrate the effects of the great many legal tax avoidance provisions of the tax code on the taxes which these companies actually pay.

Mr. President, I ask unanimous consent to have tabulations in that connection printed at this point in the RECORD.

There being no objection, the tabulations were ordered to be printed in the RECORD, as follows:

Company A

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$22,485,135	(¹)	\$22,485,135	-----
1957	35,208,979	\$5,260,000	29,948,979	14.94
1956	29,523,395	3,024,000	26,499,395	10.24
1955	28,143,673	2,780,000	25,363,673	9.88
1954	21,029,684	1,252,000	19,777,684	5.95
1953	18,812,590	367,000	18,445,590	1.95
1952	16,550,361	654,000	15,896,361	3.95
1951	17,369,652	1,073,000	16,296,652	6.17
1950	18,467,607	3,068,000	15,399,607	16.61
1949	14,759,193	375,000	14,384,193	2.54
1948	27,367,252	4,725,000	22,642,252	17.27
1947	17,749,626	2,830,000	14,919,626	15.94
1946	10,130,975	1,275,000	8,855,975	12.59
1945	5,611,770	215,000	5,396,770	3.83

¹ Not available.

Company B

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$4,371,094	\$525,000	\$3,846,094	12.01
1957	5,392,505	150,000	5,242,505	2.78
1956	6,975,382	1,095,000	5,880,382	15.70
1955	5,975,382	485,000	5,490,382	8.12
1954	3,291,733	38,172	3,253,561	1.16
1953	5,594,074	1,552,500	4,041,574	27.75
1952	4,436,030	669,500	3,766,530	15.09
1951	5,561,770	714,880	4,846,890	12.85
1950	5,709,537	1,023,900	4,685,637	17.93
1949	3,259,328	163,040	3,096,288	5.00
1948	6,295,858	898,900	5,396,958	14.28
1947	4,011,073	1,023,126	2,987,947	25.51
1946	2,089,932	417,000	1,672,932	19.95
1945	2,321,605	205,908	2,115,697	8.87

Company C

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$5,402,894	\$481,413	\$4,921,481	8.91
1957	5,561,652	640,635	4,921,017	11.52
1956	4,770,495	261,837	4,508,658	5.49
1955	4,826,687	417,388	4,409,299	8.65
1954	4,625,759	336,889	4,288,870	7.28
1953	4,391,404	179,114	4,212,290	4.08
1952	3,588,107	91,660	3,496,447	2.55
1951	3,934,107	399,397	3,534,710	10.15
1950	3,696,584	847,072	2,849,512	22.91
1949	3,373,448	679,553	2,693,895	20.14
1948	4,542,842	982,540	3,560,302	21.63
1947	2,284,109	529,781	1,754,328	23.19
1946	161,816	212	161,604	.13
1945	33,895	256	33,639	.76

Company D

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$156,130	¹ \$13,000	\$169,130	0
1957	271,515	5,000	266,515	1.84
1956	427,556	35,000	437,556	7.41
1955	549,093	15,000	534,093	2.73
1954	309,405	-----	309,405	-----
1953	303,453	11,332	292,121	3.73
1952	159,084	25,686	133,398	16.15
1951	415,948	8,234	407,714	1.98
1950	277,514	1,500	276,014	.54
1949	177,187	1,000	176,187	.56
1948	326,061	35,000	491,061	6.65
1947	339,643	52,000	347,643	13.01
1946	139,923	1,000	138,923	.71
1945	140,101	1,500	138,601	1.07

¹ Credit.

Company E

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$8,108,706	\$800,000	\$7,308,706	9.87
1957	11,303,747	1,600,000	9,703,747	14.15
1956	11,379,241	1,900,000	9,479,241	16.69
1955	8,509,136	1,500,000	7,009,136	17.63
1954	5,320,750	-----	5,320,750	-----
1953	6,420,968	1,048,000	5,372,968	16.32
1952	5,601,723	1,400,000	4,201,723	24.50
1951	5,866,052	2,000,000	3,866,052	34.09
1950	4,951,476	1,500,000	3,451,476	30.29
1949	4,928,459	1,020,000	3,908,459	20.70
1948	5,766,543	960,000	4,806,543	16.65
1947	3,630,374	600,000	3,030,374	16.44
1946	3,248,813	200,000	3,048,813	6.16

Company G

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$804,716	\$50,000	\$754,716	6.21
1957	1,167,546	115,000	1,052,546	9.85
1956	560,753	-----	560,753	-----
1955	832,765	-----	832,765	-----
1954	785,624	-----	785,624	-----
1953	730,699	-----	730,699	-----
1952	968,287	69,022	899,265	7.13
1951	935,134	137,220	797,914	14.67
1950	892,552	147,275	745,277	16.50
1949	969,991	204,860	765,131	21.12
1948	872,719	150,367	722,352	17.23
1947	654,922	160,452	494,470	24.45
1946	471,923	135,664	336,259	28.75
1945	461,448	180,808	280,640	39.18

Company H

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$1,760,794	0	\$1,760,794	0
1957	2,176,226	\$160,000	2,016,226	7.35
1956	2,647,058	93,000	2,554,058	3.51
1955	1,994,072	86,000	1,908,072	4.31
1954	2,276,415	238,329	2,038,086	10.47
1953	1,899,343	156,039	1,743,304	8.22
1952	1,998,758	370,291	1,628,467	18.53
1951	1,992,234	411,166	1,581,068	20.64
1950	1,270,271	72,843	1,197,428	5.73

NOTE.—Records available only for last 9 years.

Company I

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$7,076,455	² \$23,352	\$7,099,807	0
1957	9,079,022	² 5,860	9,084,882	0
1956	9,078,922	² 5,860	9,084,882	(³)
1955	8,886,172	151,000	8,735,172	1.69
1954	8,106,746	429,075	7,677,671	5.29
1953	6,769,145	196,335	6,572,810	2.90
1952	5,414,053	26,156	5,387,897	.48
1951	5,067,243	410,539	4,656,704	8.10
1950	4,477,673	404	4,477,269	.01
1949	3,456,001	202,087	3,253,914	5.85
1948	2,949,585	72,628	2,876,957	2.46
1947	2,774,079	201,176	2,572,903	7.25
1946	3,172,001	504,487	2,667,514	15.90
1945	755,220	258,488	496,732	34.23
1944	102,860	65,966	368,946	64.13

¹ 12 months ended June 30.

² Credit.

³ Credit taxes.

NOTE.—In total analysis 1956 equals 1957 on this company, etc.

Company F

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$54,865,371	\$7,400,000	\$47,465,371	13.49
1957	51,273,749	4,550,000	46,723,749	8.87
1956	67,517,000	15,700,000	51,817,000	23.25
1955	56,259,000	9,900,000	46,359,000	17.60
1954	50,383,000	8,700,000	41,683,000	17.27
1953	55,775,000	14,900,000	40,875,000	26.71
1952	52,488,000	14,400,000	38,088,000	27.43
1951	58,593,000	17,300,000	41,293,000	29.53
1950	57,407,000	15,000,000	42,407,000	26.13
1949	46,487,000	10,390,000	36,097,000	22.35
1948	74,080,000	19,863,000	54,217,000	26.81
1947	40,655,000	9,298,000	31,357,000	22.87
1946	22,599,000	3,585,000	19,014,000	15.86
1945	16,371,000	1,228,000	15,143,000	7.50

Company J

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958	\$2,950,700	\$90,000	\$2,860,700	3.05
1957	3,154,900	20,000	3,134,900	.63
1956	3,168,549	75,000	3,093,549	2.37
1955	3,656,274	150,000	3,506,274	4.10
1954	3,570,162	360,000	3,210,162	10.08
1953	3,363,964	500,000	2,863,964	14.86
1952	2,561,162	267,461	2,293,701	10.44
1951	3,971,370	965,230	3,006,140	24.30
1950	2,302,729	519,263	1,783,466	22.55
1949	1,541,586	104,000	1,437,586	6.70
1948	1,344,021	150,000	1,194,021	11.16
1947	1,230,364	50,000	780,364	4.06
1946	409,171	-----	409,171	-----
1945	328,260	-----	328,260	-----

Company K

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$14,145,331	\$2,300,000	\$11,845,331	16.23
1957...	17,938,378	3,400,000	14,538,378	18.95
1956...	16,316,268	2,500,000	13,816,268	15.32
1955...	15,599,264	1,900,000	13,699,264	12.18
1954...	11,541,464	1,278,154	10,263,310	10.01
1953...	11,762,519	1,590,080	10,172,439	13.52
1952...	9,218,224	1,875,000	7,343,224	20.34
1951...	10,327,002	2,400,000	7,927,002	23.24
1950...	8,723,484	2,000,000	6,723,484	22.93
1949...	8,716,231	1,800,000	6,916,231	20.65
1948...	17,245,547	4,000,000	13,245,547	23.19
1947...	9,301,386	2,300,000	7,001,386	24.73
1946...	5,321,560	1,010,000	4,311,560	18.98
1945...	4,235,097	257,000	3,978,097	6.07

Company L—Liquidated Apr. 11, 1957

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1954...	\$7,762,785	\$1,275,000	\$6,487,785	16.42
1953...	8,494,844	1,785,000	6,709,844	21.01
1952...	7,844,057	1,500,000	6,344,057	19.12
1951...	8,553,640	1,500,000	7,053,640	17.54
1950...	8,086,702	1,983,000	6,103,702	24.52
1949...	7,805,345	1,900,000	5,905,345	24.34
1948...	7,512,733	1,726,006	5,786,727	22.97
1947...	7,667,536	1,575,000	6,092,536	20.54
1946...	5,146,094	1,100,000	4,046,094	21.38
1945...	3,209,359	831,500	2,377,859	25.91
1944...	3,519,208	1,068,790	2,450,418	30.37

Company M

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$152,543,223	\$16,000,000	\$136,543,223	10.49
1957...	192,910,393	17,000,000	175,910,393	8.81
1956...	212,961,000	34,000,000	178,961,000	15.97
1955...	215,997,000	41,000,000	174,997,000	18.98
1954...	174,803,000	28,500,000	146,303,000	16.30
1953...	207,757,854	43,500,000	164,257,854	20.94
1952...	175,792,000	30,500,000	145,292,000	14.68
1951...	220,981,000	51,500,000	169,481,000	23.30
1950...	161,360,000	32,000,000	129,360,000	19.83
1949...	138,480,000	18,000,000	120,480,000	13.00
1948...	240,069,000	54,000,000	186,069,000	22.49
1947...	153,207,000	29,100,000	124,107,000	18.99
1946...	79,332,000	7,500,000	71,832,000	9.45
1945...	80,395,000	9,500,000	70,895,000	11.82

Company N

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$5,378,973	0	\$5,378,973	0
1957...	7,972,558	\$1,727,910	6,244,648	21.67
1956...	5,378,994	699,000	4,679,994	13.00
1955...	2,502,867	18,000	2,484,867	.72
1954...	1,603,682	23,923	1,579,759	1.49
1953...	3,077,447	4,724	3,072,723	.15
1952...	2,334,532	99,844	2,234,688	4.28
1951...	1,209,045	31,250	1,177,795	2.58
1950...	282,202	49,750	232,452	17.63
1949...	1,225,576	6,949	1,218,627	.57
1948...	1,395,517	29,053	1,366,464	2.08
1947...	359,903	15,000	344,903	4.17
1946...	106,098	200	105,898	0.19
1945...	1,537,551	406,500	1,131,051	26.44

Company O

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	(1)	(1)	(1)	-----
1957...	\$1,573,165	-----	\$1,573,165	-----
1956...	1,034,094	(2)	1,034,094	-----
1955...	1,006,718	(2)	1,006,718	-----
1954...	1,690,567	\$42,130	1,648,437	2.49
1953...	1,873,226	50,000	1,823,226	2.67
1952...	1,502,077	40,000	1,462,077	2.66
1951...	2,714,277	30,000	2,684,277	1.11
1950...	2,692,947	40,000	2,652,947	1.49
1949...	3,382,140	42,323	3,339,817	1.25
1948...	4,236,057	348,900	3,887,157	8.24
1947...	1,517,480	48,919	1,468,561	3.22
1946...	689,609	10,241	679,368	1.51
1945...	664,526	4,103	660,423	.62
1954...	2,205,837	42,130	2,163,707	1.91
1953...	2,600,271	50,000	2,550,271	1.92
1952...	2,202,835	40,000	2,162,835	1.81
1951...	2,623,191	30,000	2,593,191	1.14
1950...	3,744,852	40,000	3,704,852	1.01
1949...	4,158,672	42,322	4,116,350	1.00
1948...	4,353,435	348,900	4,004,535	8.01

¹ Not available.
² Not reported.
³ Figures for 1954-48 restated as result of revision of estimates of recoverable oil and gas reserves.

NOTE.—Company O felt not liable for Federal income tax in this period.

Company P

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$6,135,363	\$470,000	\$5,765,363	7.66
1957...	6,611,110	660,000	5,951,110	9.98
1956...	6,277,997	478,000	5,799,997	7.61
1955...	6,211,916	470,000	5,741,916	7.56
1954...	6,209,385	470,000	5,739,385	7.57
1953...	6,761,834	515,000	6,246,834	7.62
1952...	7,023,582	540,000	6,483,582	7.69
1951...	7,008,444	535,000	6,473,444	7.63
1950...	6,616,103	415,000	6,201,103	6.27
1949...	4,940,029	270,000	4,670,029	5.47
1948...	5,679,055	333,000	5,346,055	5.86
1947...	2,827,824	159,000	2,668,824	5.62
1946...	2,532,718	151,000	2,381,718	5.96
1945...	2,522,301	157,075	2,365,226	6.23

Company Q

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$16,144,274	\$3,271,000	\$12,873,274	20.26
1957...	19,137,735	4,500,000	14,637,735	23.51
1956...	10,590,947	2,703,000	7,887,947	25.52
1955...	13,034,071	1,852,000	11,182,071	14.21
1954...	14,484,813	1,967,000	12,517,813	13.58
1953...	12,815,586	1,143,000	11,672,586	8.92
1952...	9,570,934	602,000	8,968,934	6.29
1951...	8,190,680	385,000	7,805,680	4.70
1950...	6,263,638	400,000	5,863,638	6.39
1949...	5,183,830	210,000	4,973,830	4.05
1948...	7,713,057	407,623	7,305,434	5.28
1947...	3,896,936	85,000	3,811,936	2.02
1946...	1,614,888	65,000	1,549,888	4.02
1945...	997,075	40,000	957,075	4.01

Company R

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$3,620,312	¹ \$968,000	\$4,588,312	-----
1957...	6,908,969	882,000	6,026,969	12.77
1956...	10,595,588	2,640,000	7,955,588	24.92
1955...	8,052,718	1,164,559	6,888,159	14.46
1954...	8,395,561	1,636,500	6,759,061	19.49

¹ Credit

Company R—Continued

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1953...	\$11,536,428	\$3,477,350	\$8,059,078	30.14
1952...	13,532,095	3,884,000	9,648,095	28.70
1951...	14,940,795	4,645,000	10,295,795	30.11
1950...	10,850,226	2,351,801	8,498,425	21.68
1949...	6,470,610	299,023	6,171,587	4.62
1948...	8,229,656	1,635,000	6,594,656	19.87
1947...	4,773,864	576,444	4,197,420	12.07
1946...	2,475,239	370,000	2,105,239	14.95
1945...	1,983,259	252,500	1,730,759	10.27

Company S

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$3,337,324	² \$236,642	\$3,100,682	7.09
1957...	4,712,841	330,000	4,382,841	7.00
1956...	4,712,841	330,000	4,382,841	7.02
1955...	4,060,798	260,000	3,800,798	6.40
1954...	5,241,179	43,000	5,198,179	.82
1953...	5,525,948	583,000	4,942,948	10.55
1952...	5,618,762	1,425,000	4,193,762	25.36
1951...	5,280,578	964,000	4,316,578	18.26
1950...	2,944,322	191,000	2,753,322	6.49
1949...	4,736,153	342,000	4,394,153	7.22
1948...	4,213,001	266,000	3,947,001	6.31
1947...	3,200,034	160,000	3,040,034	4.99
1946...	1,809,404	30,000	1,779,404	1.66

¹ 12 months ended June 30.
² Includes credit of \$171,642 prior years' tax adjustment.
 NOTE.—In total analysis 1956 equals 1957 for this company, etc.

Company T

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$1,011,165	¹ \$235,320	\$1,246,485	0
1957...	701,822	0	701,822	0
1956...	949,659	138,000	811,659	14.53
1955...	1,385,335	185,000	1,200,335	13.35
1954...	542,208	2,500	539,708	4.61
1953...	408,107	-----	408,107	-----
1952...	431,569	-----	431,569	-----
1951...	273,473	-----	273,473	-----
1950...	183,116	5,000	178,116	2.73
1949...	1,600	-----	1,600	-----

¹ Credit.

Company U

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	(1)	(1)	(1)	-----
1957...	\$11,719,324	\$560,482	\$11,158,842	4.78
1956...	9,568,842	200,000	9,368,842	2.09
1955...	9,340,810	900,000	8,440,810	9.64
1954...	7,805,307	335,000	7,470,307	4.29
1953...	7,140,132	600,000	6,540,132	8.40
1952...	7,715,591	1,000,000	6,715,591	12.96
1951...	10,239,600	2,900,000	7,339,600	28.32
1950...	7,659,000	1,200,000	6,459,000	15.67
1949...	6,656,347	875,000	5,781,347	13.15
1948...	9,030,713	2,250,000	6,780,713	24.91
1947...	7,191,002	1,250,000	5,941,002	17.38
1946...	3,400,586	400,000	3,000,586	11.76

¹ Not available.
² Restated to conform with accounting practice effective Jan. 1, 1956—method of charging intangible development costs was changed. 1956 net income would have been \$1,470,000 less without such change.

¹ 12 months ended June 30.
² Deficit.
 NOTE.—In totals analysis, 1956 equals 1957 for this company, etc.

Company V, liquidated

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1954...	\$4,173,767		\$4,173,767	
1953...	3,951,367	\$350,000	3,601,367	8.86
1952...	4,414,623	660,000	3,754,623	14.95
1951...	3,112,871		3,112,871	
1950...	1,904,836	526,000	1,378,836	27.61
1949...	592,448	7,500	584,948	1.26
1948...	461,640	2,400	459,240	.52
1947...	416,506	4,100	412,406	.98
1946...	328,052	11,282	316,770	3.44
1945 ¹ ...	176,841	5,250	171,591	2.97
1945 ² ...	293,539	6,127	287,412	2.00

¹ Before \$653,408 loss on wells abandoned.
² 12 months ended Apr. 30. In 1946, the company changed to a calendar year basis so 1946 taxes are shown both ways.

Company W

Year ¹	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958 ¹ ...	\$16,726,337	² \$175,000	\$16,551,337	1.05
1957 ¹ ...	18,877,389	0	18,877,389	0
1956 ¹ ...	18,877,389		18,877,389	
1956 ⁴ ...	5,040,752		⁵ 5,040,752	
1955 ⁴ ...	(5)		(5)	
1954 ⁴ ...	3,395,446		3,395,446	
1954 ⁴ ...	10,260,388	⁶ 100,000	10,360,388	(?)
1953 ⁴ ...	11,500,382	⁶ 500,000	12,000,382	(?)
1952...	12,100,165	200,000	11,900,165	1.65
1951...	15,195,639	1,900,000	13,295,639	12.03
1950...	7,128,542	200,000	6,928,542	2.81
1949...	7,483,443	200,000	7,283,443	2.67
1948...	17,917,474	3,000,000	14,917,474	16.74
1947...	5,266,897	400,000	4,866,897	7.59
1946...	1,844,156		1,844,156	
1945...	5,422,254	450,000	4,972,254	8.29

¹ 12 months ended Aug. 31.
² Foreign income taxes.
³ Same for both consolidated and co. only.
⁴ Consolidated.
⁵ Same.
⁶ Credit.
⁷ Credit taxes.

NOTE.—In total analysis, 1956 equals 1957 on this company, etc.

Company X

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$4,642,978	\$670,023	\$3,972,955	14.43
1957...	7,670,654	840,709	6,829,945	10.95
1956...	6,057,708	400,000	5,657,708	6.60
1955...	6,720,029	400,000	6,320,029	5.95
1954...	5,245,527		5,245,527	
1953...	4,470,659	240,000	4,230,659	5.37
1952...	3,635,498	450,000	3,185,498	12.38
1951...	3,702,765	550,000	3,152,765	14.85
1950...	3,770,706	696,200	3,074,506	18.46
1949...	4,022,266	640,907	3,381,359	15.93
1948...	4,731,952	901,906	3,830,046	19.06
1947...	2,940,750	597,621	2,343,129	20.32
1946...	1,394,512	163,973	1,230,539	11.75
1945...	666,557		666,557	

Company Y

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$6,231,481	0	\$6,231,481	0
1957...	7,802,218	\$570,000	7,232,218	7.31
1956...	7,859,694	650,000	7,209,694	8.27
1955...	8,449,374	500,000	7,949,374	5.92
1954...	8,256,034	400,000	7,856,034	4.85

Company Y—Continued

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1953...	\$8,874,068	\$1,275,000	\$7,599,068	14.37
1952...	8,101,335	1,255,000	6,846,335	15.49
1951...	8,009,124	1,185,000	6,824,124	14.79
1950...	7,047,367	1,050,000	5,997,367	14.89
1949...	7,048,753	710,000	6,338,753	10.07
1948...	9,186,038	1,725,000	7,461,038	18.78
1947...	4,883,907	760,000	4,123,907	15.56
1946...	2,428,249	315,000	2,113,249	12.97
1945...	1,934,850	175,000	1,759,850	9.04

Company Z

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$2,065,816	0	\$2,065,816	0
1957...	2,215,290	0	2,215,290	0
1956 ¹ ...	746,447		746,447	
1956 ² ...	1,602,988		1,602,988	
1955...	1,262,177		1,262,177	
1954...	1,720,086		1,720,086	
1953...	1,508,988		1,508,988	
1952...	1,547,048		1,547,048	
1951...	703,747		703,747	
1950...	151,488		151,488	
1949...	154,707		154,707	
1948...	134,881		134,881	

¹ Adjusted.
² 7 months ending Dec. 31.
³ In totals analysis, May 31 ending years used.

NOTE.—Years end May 31 prior to 1957.

Company A-Z

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$909,982	0	\$909,982	0
1957...	891,025	0	891,025	0
1956...	783,082		783,082	
1955...	981,994		981,994	
1954...	647,516		647,516	
1953...	1,008,416	\$80,000	928,416	7.93
1952...	768,664		768,664	
1951...	1,143,004	283,000	860,004	24.76
1950...	969,156	264,774	704,382	27.32
1949...	394,227		394,227	
1948...	874,306	173,000	701,306	19.79
1947...	655,289	73,000	582,289	11.14
1946...	227,789		227,789	
1945...	322,232		322,232	

Company B-Z

Year	Net income before income taxes	Income taxes	Net income after income taxes	Percent of income taxes to income before taxes
1958...	\$31,647,420	¹ \$4,074,902	\$33,825,276	
1957...	35,009,503	² 1,827,610	35,669,759	

¹ State and foreign income taxes included.
² Credit.

Mr. PROXMIRE. Mr. President, we have already seen some of the methods which are used to bring about this great tax advantage for those who invest in oil and gas properties. I have asked that further explanations of some of these methods be prepared, so that I might also place them in the RECORD.

The first is a comparison of the tax advantages which come from an invest-

ment in an oil property, as compared with an investment in depreciable facilities, or what would be called ordinary investment. I ask unanimous consent that this comparison be printed at this point in the RECORD.

There being no objection, the comparison was ordered to be printed in the RECORD, as follows:

COMPARATIVE TAX BENEFITS IN INVESTMENT IN OIL PROPERTY AND IN DEPRECIABLE FACILITIES

Taxpayer A invests \$100,000 in developing an oil property. Taxpayer B invests \$100,000 in, say, a manufacturing enterprise through purchase of \$100,000 of depreciable facilities.

In the year in which these investments are made, Taxpayer A in computing his Federal tax liability, may claim a deduction for that portion of the \$100,000 outlay which goes into intangible drilling and developments costs, i.e., costs of labor, fuel and power, materials and supplies, tool rental, repairs of drilling equipment, etc., incurred during the drilling of wells and their preparation for production. Such outlays may aggregate two-thirds of the total capital outlay in bringing the well into production. Of his initial \$100,000 outlay, therefore, Taxpayer A will have recovered, for tax purposes, all but one-third in the first year, through the privilege of expending certain capital costs. Most if not all of this remaining one-third will represent depreciable facilities, e.g., drilling rigs, structures, etc., which are subject to depreciation allowances for tax purposes. Assuming the average useful life of these facilities is, say 10 years, Taxpayer A may claim, for tax purposes, an additional deduction of about 6 2/3 percent of his capital outlay.¹ Together with the intangible drilling and development cost deduction, therefore, he may claim in the year of his investment close to 75 percent of his outlay.

Taxpayer B, on the other hand, can claim as a tax deduction, with respect to his capital outlay in the year the investment is made, only the amount allowable as depreciation on the facilities he acquired. Assuming the average economically useful life of these facilities is, say 10 years (and ignoring salvage value), the most liberal depreciation he can claim would be 20 percent of his outlay.

Assuming both A and B are corporate taxpayers, taxpayer A will enjoy a tax advantage of \$28,000 (= 52 (.75 × 100,000 - .20 × 100,000)) in the year in which the investment is made with respect to direct capital recovery charges.

In addition, however, taxpayer A can claim a percentage depletion allowance equal to 27 1/2 percent of the gross income produced by the oil property up to 50 percent of the net income therefrom. If, conservatively estimated, the oil property produces an annual gross income of \$50,000 and a net income of, say, \$25,000, annual depletion allowances will be \$13,750. Accordingly, taxpayer A's total deductions for intangible drilling and development costs, depreciation, and percentage depletion will exceed his actual \$100,000 investment in less than 2 taxable years. Over the same 2 years, taxpayer B's capital recovery deductions through depreciation will total 36 percent of his investment. In 2 years' time, therefore, taxpayer A will enjoy a tax advantage compared to taxpayer B of \$33,713, or more than one-third of the original capital outlay.

Since total percentage depletion allowances which may be claimed are not limited by the unrecovered investment in the prop-

¹ Using the double declining-balance depreciation method, the first year's depreciation deduction would be 20 percent of \$33,333, or \$6,666.

erty, taxpayer A may continue to claim percentage depletion so long as the well continues to produce. In this example, therefore, he will be able to claim, during the remaining 8 years of production by the well, additional deductions of \$110,000, or total deductions over the 10 years of about \$210,000, more than double his actual investment.

Taxpayer A's actual savings, with a 52 percent corporate tax rate, will amount to almost \$110,000, or 10 percent more than his actual investment. On the other hand, taxpayer B's actual tax savings will be \$52,000, less than half taxpayer A's.

MR. PROXMIRE. Mr. President, one of the really major loopholes in the tax code—and this one was discussed in part of the colloquy in which I engaged, or was raised in the colloquy which I had, with the Senator from Louisiana [Mr. LONG]—is the method by which capital gains may be applied to oil and gas properties. As this subject is little understood, I have again asked that a memorandum be prepared concerning it; and I ask unanimous consent that this memorandum, entitled "Application of Capital Gains Treatment to Income From Oil and Gas Properties," be inserted at this point in the RECORD.

There being no objection, the memorandum was ordered to be printed in the RECORD, as follows:

APPLICATION OF CAPITAL GAINS TREATMENT TO INCOME FROM OIL AND GAS PROPERTIES

A taxpayer owning rights in an oil and gas property may sell a fractional share in these rights and claim capital gains treatment with respect to the excess of the proceeds from the sale over his adjusted basis in the fractional share sold. The character of the fractional share as a capital asset within the meaning of section 1221 of the Internal Revenue Code of 1954 is not and has not been seriously questioned. The distinguishing characteristic of such fractional shares is that the original owner permanently divests himself of all interests therein, i.e., no provision is made for a return of the rights to him after a specified period of time, or after a specified volume of production or number of dollars of royalties realized with respect to the fractional share.

On the other hand, for some considerable time past there has been considerable confusion about the tax treatment of "carved out" oil payments. These differ from assignment or sale of fractional shares in that the taxpayer does not permanently relinquish rights to income in the oil and gas property but merely assigns or sells some portion thereof for a limited period of time. For example, he may sell the next 2 years' production, or the next 100,000 barrels, or the next \$1 million worth of output. Upon satisfaction of these conditions, the rights revert to the taxpayer. Numerous court decisions, at variance with Treasury rulings, maintained that the proceeds from such sales should be treated as capital gains.

Quite recently, however, the U.S. Supreme Court in the Lake case, ruled that proceeds from sale or exchange of carved-out oil payments were to be construed as realization of future income and therefore subject to ordinary income-tax treatment. The Treasury Department apparently feels that the Supreme Court ruling is sufficiently broad and sufficiently definite as to preclude further dispute about the tax treatment of carved-out oil payments. However, the ingenuity of the American taxpayer must never be underestimated.

Mr. PROXMIRE. Mr. President, in addition, I ask unanimous consent that a paper by Paul Haber, J.D., Ph.D., en-

titled "Writeoffs, Cost Depletion, and Percentage Depletion—An Appraisal," be printed at this point in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

WRITEOFFS, COST DEPLETION, AND PERCENTAGE DEPLETION—AN APPRAISAL

(By Paul Haber, J.D., Ph.D.)

INTRODUCTION

Our Federal tax system is supposed to be based on the principle of progressive taxation or "ability to pay"—the higher the net income, the higher the rate of tax. In the case of taxpayers who engage in the business of crude oil, however, this principle is made to work in reverse—the higher the net income from the production and sale of crude oil, the lower the rate of tax.

There seems to be considerable misconception as to the true value of the tax subsidy to crude oil. It is generally assumed that it consists of "percentage depletion" only, which is supposed to be worth about \$1.5 billion a year. Those who are acquainted with the subject know that the "writeoffs" subsidy is worth at least \$7 billion more. Nobody, however, seems to be aware of the fact that "cost depletion" also represents a subsidy to crude oil. Because this last subsidy is concealed in a provision of the code which on the surface seems to have nothing to do with depletion, it seems to have escaped everybody's attention. It is the "sleeper" subsidy and it is costing the country at least \$5 billion a year.

WHO ENTERS THE CRUDE OIL BUSINESS?

Consider the tax situation of individuals in the following groups:

1. The stockholders who own large blocks of stock in the corporations listed on the various stock exchanges, who receive fabulous incomes from dividends;
2. The active heads of these listed corporations, who receive substantial salaries for their services and dividends on any stock they may own in the corporation;
3. The professional advisers for these corporations, who receive large fees for their services;
4. The movie stars and other independent professional men who earn large salaries and fees;
5. The more than 150,000 partners, stockholders and sole proprietors, who own the thousands of medium-size businesses in this country, who derive substantial income from dividends, salaries, interest, or profits.

The more than 200,000 individuals who comprise these 5 groups derive incomes anywhere from \$100,000 to \$25 million a year, are subject to taxes in the very top brackets. Would it be reasonable to assume that if these people are smart enough to earn such large incomes, they are naive enough to pay it out in taxes? Especially, when the tax laws applicable to crude oil offer them a safe and sure way out by transforming the "progressive tax rates" into "regressive tax rates," so that instead of paying out 90 percent of their incomes in taxes and keeping 10 percent they are able to keep 90 percent and pay out 10 percent?

THE WRITEOFFS SUBSIDY

Mr. Smith, whose income is \$1 million a year, decides to avail himself of the tax subsidies to crude oil instead of paying a 90-percent tax on the income. He spends his income buying fractional interests in a large number of pools or joint ventures which engage in the search for oil. In this manner, he spreads the risk over a large number of drilling operations, one or more of which are bound to find oil.

The million dollars thus spent by Mr. Smith is costing him \$100,000, because the tax laws permit him to write off the cost of

the search for oil, irrespective of whether the search results in a dry hole, a commercial producer, or a gusher. Only a small fraction of the cost of the search must be capitalized, less than 12 percent, when the well finds any oil at all. Thus, as far as the costs of the search are concerned, the odds are 9 to 1 in favor of Mr. Smith, because Mr. Smith is drilling for oil with money which would otherwise have gone to pay the income tax on the million dollar income. These 9-to-1 odds in favor of Mr. Smith more than make up for the risk of not finding oil. In actual practice, because the risk is spread over a great many drilling operations, the overall odds in favor of Mr. Smith are 20 to 1 that he will come out a happier man drilling for oil than he would be paying income taxes. When a taxpayer enters the crude-oil business, he forgets about income taxes; there simply are not any to pay, as we shall see below.

The best evidence as to Mr. Smith's probabilities of becoming a happy and prosperous oilman can be attested by the more than 55,000 wells which are being drilled each year in this country, at an average cost of \$150,000 per well, or a total cost of \$2,250 million a year. We are drilling in this country 6 times as many wells as the rest of the world does, even though our oil reserves are less than one-sixth the world's reserves (our 30 billion barrels to the world's 200 billion barrels).

Drilling for oil is like playing dice with the Treasury: "Heads I win, tails you lose," with the Treasury always on the losing end. As a matter of fact, high tax rates are a boon to the crude-oil industry rather than a burden, because the higher the rate of tax the lower the net cost (the after-tax cost) of the drilling operation. This explains why the American Petroleum Institute does not support the National Association of Manufacturers in its fight to reduce the top tax bracket from 90 percent to 40 percent. If the rate were reduced to 40 percent, the search for crude oil would fall off tremendously, because the taxpayer's share of the cost of the search would have been increased from 10 percent (100 percent less 90 percent tax) to 60 percent (100 percent less 40 percent tax). As a matter of fact, the phenomenal growth of the crude-oil industry dates back to the year 1940, the year in which the wartime rates were first brought into the statute.

It is evident from the above that tax-wise it is far more profitable when the drilling operation is done by a taxpayer (as an individual) who is in the 90 percent tax bracket than by a corporation which is subject to the 52 percent tax bracket. That is why at least 40,000 wells a year, out of the total of 55,000, are drilled by individual taxpayers and only 15,000 are drilled by the major oil companies. On this altogether plausible assumption, the value of the "writeoffs" subsidy is \$6,557 million, computed as follows:

90 percent of 40,000 wells	
multiplied by \$150,000	\$5,400,000,000
52 percent of 15,000 wells	
multiplied by \$150,000	1,157,000,000
Total value of tax subsidy	6,557,000,000

THE "COST DEPLETION" SUBSIDY

Having gotten rid of his original income in the search for oil, the taxpayer's next problem is to get rid of the income from the oil property after an oil discovery. Since the taxpayer has no cost basis in the oil property (having previously written off the cost of the search through "writeoffs"), the taxpayer cannot compute the deduction for depletion on the basis of full discovery value of the property. His deduction for depletion is limited to "percentage depletion" (27½ percent of the gross income from the property, not to exceed 50 percent of the net income from such property). This, however, would leave him with a substan-

tial amount of income from oil, subject to ordinary income tax rates. To relieve him of such excess income the code contains a "sleeper" provision which makes it possible for him to convert the income from the oil property into capital gain without his giving up ownership in the property.

During the hearings conducted by the Senate Committee on Economic Growth ("Federal Tax Policy for Economic Growth," 84th Cong., 1st sess., Joint Committee on the Economic Report), neither Prof. Horace M. Gray nor Prof. Arnold C. Harberger, nor Prof. James R. Nelson—who argued against the depletion subsidy—were aware of the "sleeper" provision in the code. Messrs. Henry B. Fernald, Lowell Stanley, and Arthur A. Smith, who argued in favor of depletion, were, of course, careful to keep the "sleeper" provision well hidden under cover.

The "sleeper" provision

Section 1239 of the 1954 code, which corresponds to section 117(o) of the 1939 code, provides as follows:

"(a) In the case of a sale or exchange, directly or indirectly, of property described in subsection (b)—

- "1. Between a husband and wife; or
- "2. Between an individual and a corporation more than 80 percent in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren; any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231.

"(b) This section shall apply only in the case of a sale or exchange by a transferor of property which in the hands of the transferee is property of a character which is subject to the allowance for depreciation."

In simple English, this section states that when property which is subject to depreciation, such as real estate, patents, etc., is sold to a spouse or to a corporation controlled by the transferor (and/or the transferor's spouse, minor children, and minor grandchildren), the gain realized on the sale is ordinary income not capital gain. The same rule applies when the sale is from one corporation to another corporation, if the selling corporation owns 80 percent or more of the stock of the buying corporation. The purpose of this provision in the code is to prevent fictitious sales, for the sole purpose of establishing a higher depreciation basis in the hands of the "related" transferee by the payment of a capital-gains tax on the part of the transferor.

Section 1239, however, does not apply to property which is subject to depletion, as distinguished from property which is subject to depreciation. Consequently, a taxpayer (whether an individual or a corporation) who has no cost basis in an oil property (such costs having been previously written off from the taxpayer's income) is not limited to the deduction of 27½ percent of the gross income from the property ("percentage depletion"). The income from the property can be made fully deductible through "cost depletion" by the simple device of a "sale" of the property for its full discovery value to one's spouse or to one's "controlled" corporation. The 25-percent capital-gains tax incurred on the transaction is then reported on the installment basis, spread over the life of the oil property. In this way the income from the oil property automatically is limited to a maximum tax rate of 25 percent, payable as, when, and if the oil is produced.

The value to the crude-oil industry of this loophole in the law is approximately \$5 billion a year. Since the value of all the oil minerals produced in this country each year is \$8 billion (see "Facts and Figures for 1956," p. 149, published by the American

Petroleum Institute), the depletion, if it were computed on the "percentage depletion" basis, would have amounted to \$2.2 billion (27½ percent of \$8 billion). Computed on a "cost depletion" basis, the depletion is automatically increased from \$2.2 billion to \$8 billion, at a tax savings of some \$5 billion.

PERCENTAGE DEPLETION

This subsidy, which has been assumed generally to be the principal villain in our tax laws, is by comparison with the last two subsidies a small handout. Its principal purpose is to scoop up the tax leftovers to which the taxpayers in the crude oil business may unexpectedly be exposed to. Thus, if the property should be found to contain oil after the deductions have been taken under the "cost depletion" methods, "percentage depletion" steps in to absorb the excess income with which the taxpayer is inconvenienced. "Percentage depletion" may be said to act as a sort of basket for any leftover income, left after the "cost depletion" subsidy has been fully availed of.

The value of "percentage depletion" subsidy to the crude oil industry is comparatively small, less than half a billion a year, as compared with a total of some \$12 billion from the "writeoffs" and "cost depletion" subsidies. This being the case, why does the crude oil industry so bitterly resist any cut in the 27½-percent rate?

Is it because by resisting a cut in the very smallest subsidy the people's attention remains focused on "percentage depletion" as the apparent villain and is thus diverted from the real villains—"writeoffs" and "cost depletion"—which are worth at least 25 times as much? There is no other explanation.

THE GROWTH OF THE INDUSTRY

As would be expected, an industry which is the beneficiary of three tax subsidies aggregating close to \$13 billion a year would grow fast and big. The crude oil industry has grown very fast and very big. The shares of the listed oil companies are worth more than \$50 billion, or more than the combined value of all the listed shares of the steel, chemical, and automobile industries. This does not include the value of the tens of thousands of unlisted companies, the stock of which is held by the hundreds of thousands of spouses, minor children, and minor grandchildren of the top bracket taxpayers engaged in the crude oil business. And to think that less than 20 years ago the crude oil industry was a small industry by comparison with either steel, chemicals, or automobiles.

The rate of the crude oil industry's growth may be better appreciated when the stock splitups of a few of the major oil companies are taken into consideration. Humble Oil Co., the second largest subsidiary of Standard Oil of New Jersey, has split its stock 5 times since 1922; 4 shares for 1 in 1922; 3 shares for 1 in 1933 (a depression year); 2 shares for 1 in 1943; 2 shares for 1 in 1951; 2 shares for 1 in 1957. Thus, each share of the 1922 vintage stock is today 96 shares, and this does not take into account the many stock dividends voted by the company from time to time. The stock is selling for approximately 100 times its earnings after taxes. What makes this stock so valuable? When 90 percent of a corporation's true income (concealed in the writeoffs and cost depletion) is exempt from income taxes and only 10 percent is subject to tax, a stock is bound to sell for 100 times the amount of earnings. In reality, however, the value of the stock reflects the fact that 90 percent of the company's true earnings are exempt from tax.

Standard Oil Co. of California split its stock twice in recent years: 2 for 1 in 1951 and 2 for 1 in 1956. The same is true of Texas Co. Standard of New Jersey had 2 recent splitups: 2 for 1 in 1951 and 3 for 1 in

1956. The latter company now has more than 200 million shares outstanding, selling around \$50, or a total of more than \$10 billion.

It may be interesting to observe that after each stock splitup the price of the postsplit stock soon catches up with the price of the presplit stock. Apparently you cannot keep a crude oil stock down. When a stock remains unsplit, as in the case of Superior Oil Co. of California, its prize zooms to fantastic heights. This stock has recently been selling at \$1,800 per share, even though its earnings are about \$10 a share. Thus, the stock is selling at 180 times its net earnings. For the 5-year period from 1952 to 1956, the company wrote off on the average \$36 million a year; its net income before depletion was \$9 million a year, on the average; the average amount of income tax paid by it was \$40,000 a year. Even a religious organization could not ask for more.

The Oil Record, published by the Petroleum Institute Projects, lists several hundred oil companies, giving their financial operations for the 5-year period from 1952 to 1956. These results, of 25 companies selected at random, are reproduced in the table below. To appreciate the significance of the figures in the table, it is suggested that they be examined carefully, reading each line across rather than down.

Name of company	Writeoffs	Net income	Income tax paid
Union Oil & Gas Co. of Louisiana	\$7,000,000	\$3,000,000	\$30,000
Superior Oil Co. of California	36,000,000	9,000,000	40,000
Texas Pacific Coal & Oil Co.	6,000,000	7,500,000	800,000
Franco Wyoming Oil Co.	1,650,000	1,500,000	160,000
Kewanee Oil Co.	7,000,000	2,000,000	75,000
Crown Central Petroleum Co.	1,700,000	1,750,000	500,000
General Crude Oil Co.	6,000,000	3,500,000	200,000
Bishop Oil Co.	600,000	370,000	18,000
Humble Oil Co.	130,000,000	160,000,000	33,000,000
Tidewater Oil Co.	35,000,000	35,000,000	4,000,000
Sunray Mid-Continent Oil Co.	44,000,000	42,000,000	16,000,000
Phillips Petroleum Co.	90,000,000	85,000,000	22,000,000
Reserve Oil & Gas Co.	850,000	700,000	100,000
Skelly Oil Co.	30,000,000	30,000,000	10,000,000
Fason Oil Co.	700,000	600,000	45,000
Kerr-McGee Oil Industries	7,500,000	3,500,000	350,000
Anderson-Pritchard Oil Co.	7,750,000	4,750,000	500,000
Argo Oil Co.	2,750,000	4,000,000	225,000
Drilling & Exploration Co.	2,900,000	750,000	22,000
Petroleum Exploration	500,000	750,000	80,000
Getty Oil Co.	5,000,000	10,000,000	1,500,000
Aztec Oil & Gas Co.	650,000	600,000	-----
Weststates Petroleum Co.	575,000	150,000	30,000

Is it any wonder that the growth in the ranks of oil millionaires keeps pace with the growth in the ranks of unemployed? Such crude distortion of the principle of progressive taxation in the case of crude oil is bound to cause periodic depressions. When the people's purchasing power is being drained by high taxes in order to make up the loss of \$13 billion in revenue which should come from the crude oil industry, there is bound to be unemployment. Some people in high office say that the current depression is temporary—the economy is catching its breath. A more correct explanation for the current condition would be: The people are taking a rest to get up more strength to pay the taxes which should be paid by our largest industry.

How can we fight the battle of peace with any degree of success, when our own house is in such disorder? Our cause is not too convincing so long as people are allowed to bore into the vitals of our national economy through excessive drilling, to add to the

swollen ranks of oil millionaires and the swollen ranks of jobless.

In order to eliminate one of the principal causes of periodic depressions and to restore a modicum of social justice, the following changes in our tax laws are proposed:

1. The deduction for intangible drilling costs should be limited to situations where the well finds no oil;

2. Intangible drilling costs should be capitalized when the well does find oil;

3. The loophole in section 1239 should be plugged, to discourage fictitious sales to related taxpayers or a controlled corporation, to prevent a stepped-up depletion basis based on cost;

4. Enact legislation to prevent the tens of thousands of reciprocal sales from one taxpayer to another, for the twofold purpose of establishing capital gains and cost-depletion basis. Apply the dealer rule to sales of oil properties which now applies to sales of real estate;

5. Eliminate percentage depletion as an unwarranted handout.

The above changes in our tax laws would discourage tax drilling and encourage scientific drilling. It would bring many billions of revenue to the Treasury.

The world's known oil reserves are estimated at 250 billion, enough to last us more than 100 years. Why not start using them?

The crude oil industry now enjoys a \$3 monopoly price per barrel of oil and a \$13 billion tax subsidy. The people can make it give up one or the other through reduced consumption of gas and oil.

Mr. PROXMIRE. Finally, Mr. President, I ask unanimous consent that correspondence between Dean Erwin N. Griswold, of the Harvard Law School, and Mr. Rex G. Baker, who was then general counsel of the Humble Oil & Refining Co., which first appeared in the Harvard Law Review, volume 64, No. 3, January 1951, and which was reproduced by the Joint Economic Committee in the Compendium on Federal Tax Policy, for Economic Growth and Stability, be printed at this point in the RECORD.

There being no objection, the correspondence was ordered to be printed in the RECORD, as follows:

PERCENTAGE DEPLETION—A CORRESPONDENCE¹
(By Rex G. Baker, general counsel, Humble Oil & Refining Co.; Erwin N. Griswold, dean, Harvard Law School)

(EDITOR'S NOTE.—On September 18, 1950, Dean Erwin N. Griswold made a speech before the tax section of the American Bar Association,² in which he referred to "gross inequities of the law in favor of the oil and gas interests." A number of newspaper accounts of the speech reported this as an attack on the percentage-depletion provision of the Internal Revenue Code.³ On

¹ This correspondence appeared in the Harvard Law Review, vol. 64, No. 3, January 1951, and is reproduced here with the permission of the authors and the Harvard Law Review.

² Sec. 86, A.B.A.J. 999, 1057 (1950).

³ Internal Revenue Code, sec. 114(b)(3), provides as follows: "In the case of oil and gas wells the allowance for depletion under sec. 28(m) shall be 27½ percent of the gross income from the property during the taxable year, excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property. Such allowances shall not exceed 50 percent of the net income of the taxpayer (computed without allowance for depletion) from the property, except that in no case shall the depletion allow-

the basis of these reports, Mr. Rex G. Baker, general counsel of the Humble Oil & Refining Co., wrote the letter that began the correspondence reproduced herein. Neither author had any intention to publish these letters at the time they were written. No revisions have been made except to eliminate those parts irrelevant to the percentage-depletion controversy and to add footnotes where it has been thought useful to refer to source materials.)

SEPTEMBER 22, 1950.

DEAR DEAN GRISWOLD: You will recall our conversation in Washington concerning the percentage-depletion allowance for oil and gas wells.

Your remarks before the tax section regarding the depletion allowance received widespread publicity, and I am afraid they will be very damaging to the producers of oil and gas in view of your reputation and the responsible position you occupy in the education world.

Both in peace and in war the country must have and is very dependent upon oil and gas. Our civilian economy and the national safety would be jeopardized if we failed to maintain adequate reserves of petroleum and a backlog of reserve producing capacity. This means that it is essential to our country's welfare and safety that the exploration for oil and gas within the United States be continued at an accelerated rate due to increasing demands for petroleum and its products year after year.

The exploration for petroleum is an extremely costly and hazardous business. Oilmen must lease vast areas, must spend large sums in geophysical operations, must drill very expensive wildcat wells, of which 4 out of 5 on the average are dry holes, and must then make enormous expenditures of money in developing proven or semiproven acreage. Risk capital is not invested unless there is hope of reward.

The producer of oil depletes his capital asset. If he is to stay in the business he must find and develop new sources of supply. If the depletion allowance were taken off, our present tax laws would tax away a large portion of his capital.

It must be remembered that a large percentage of exploratory activity is carried on by the independent wildcatter. He often spends a lot of money and goes broke without finding anything. To say that he would be protected by charging off losses ignores the fact that until he finds oil he has no income against which to charge off his losses. This is quite typical of the wildcatter. If he finally succeeds in finding oil he creates new capital and must be rewarded for the risks he has taken. This reward can be adequate only if the depletion allowance is maintained.

The fact of the matter is that the oil industry has consistently spent in exploratory effort a good deal more than the 27½-percent depletion allowance. It has thus had to look elsewhere for funds with which to help finance its quest for oil.

The 27½-percent depletion allowance was established in 1926. Congress has made searching inquiries on several occasions since as to the necessity for the depletion allowance and the wisdom of maintaining it at 27½ percent. Each time after full investigation and inquiry it has sustained the 27½-percent allowance. This fact alone should, it seems to me, cause anyone to be sure of his ground before he launches an attack upon the depletion allowance.

Herewith I enclose some material which I believe you will find helpful in your future consideration of this matter: a booklet entitled "Let's Keep on Hunting Oil," some statistical data which will show that the 30 leading oil companies have found it neces-

sary to secure new capital by issuing stock and borrowing, that their net worth has consistently been lower than the comparable figures of manufacturing companies, that a large percentage of the net investment of the 30 leading oil companies is in oil and gas producing facilities, data showing the ratio of dividends to net income, the cost of replacing crude petroleum, this cost having steadily risen, financial information for the 25 leading oil companies which shows moderate incomes, and a chart showing a comparison of petroleum prices with the price of coal and all commodities. This chart shows that the public have been the beneficiaries of the depletion allowance in the form of low prices for petroleum products.

Your attention is also invited to the hearings before the Committee on Ways and Means of the House of Representatives relating to the 1950 revision of the revenue laws.⁴

Yours sincerely,

REX G. BAKER.

SEPTEMBER 25, 1950.

DEAR MR. BAKER: Thank you very much for your letter of September 22, which has reached me this morning. I particularly appreciate its fair and restrained tone. This is in considerable contrast with the attitude which is often taken on this matter by others in your area.

As a matter of fact, I said nothing at all in my speech in Washington about percentage depletion. My remarks were directed entirely to the so-called in-oil payment provisions which had been added to the bill by the Senate.⁵ This seemed to me, and still seems to me, to have been a rather clear matter of special privilege. Naturally, I am pleased that it was finally eliminated by the conference committee.

As I have indicated, I did not talk about percentage depletion and had no thought of doing so. There is lots to talk about there, though. In the first place, I would want to make it plain that I have never advocated eliminating the depletion allowance. That would be taxing capital. There would be no more sense in it than in eliminating the depreciation allowance.

Nor do I disagree with you at all as to the importance of oil in our economy, and the desirability of encouraging the industry, particularly with respect to exploration. I do think, though, that there is real reason to question whether the present 27½-percent depletion allowance is not excessive, whether it does not cost more than other ways of achieving the same results, and whether a very large proportion of the benefits do not now go in fact to persons who are not the ones who do the exploring and take the risks.

How about direct subsidies to explorers, for example? Might this not be a better way, and at the same time, a cheaper way? We use subsidies in maritime shipping and elsewhere in our economy. It might be a much more effective stimulus than the present backhanded way of doing it through the depletion allowance.

⁴ Hearings before Committee on Ways and Means on H.R. 8920, 81st Cong., 2d sess., 49-60, 100-101, 119, 133-134, 177-309, 733-740, 818-895, 901-926, 1267-1269, 1282-1286, 2975-2983, 2999-3001, 3017-3026, 3028-3029, 3040-3046 (1950).

⁵ The Revenue Act of 1950, as reported by the Finance Committee of the Senate, provided that the amount received from the sale of the right to obtain a stated amount of production from an oil, gas, or mineral property, while retaining a continuing interest in such property, should be treated as proceeds from the sale or exchange of a capital asset. (H.R. 8920, 81st Cong., 2d sess., sec. 214 (1950) (as passed by Senate); see S. Rept. 2375, 81st Cong., 2d sess., 66, 91 (1950).

For example, may I call your attention to the sentence in your letter which reads as follows: "To say that he would be protected by charging off losses ignores the fact that until he finds oil he has no income against which to charge off his losses." I think you will agree that this is really no argument, since it is equally applicable to the percentage depletion deduction. The wildcatter gets no depletion deduction until he finds oil. In other words, the method I suggested then, as far as this point is concerned, would be just as effective, indeed, even more effective (because I would allow a 100-percent deduction until all principal costs had been recovered while percentage depletion allows only a 27½-percent deduction) than is the percentage depletion allowance.

You must know of situations where the present system of taxing oil production works out outrageously. I hear about actual cases from time to time, and they must come to your attention much more frequently. What I would like to see us do is to work out a system which would maintain adequate incentive and stimulate further production of oil without granting enormous tax advantages to drones and others who take little or no risk. I think it is a very real problem, and it would be a great contribution if people in your area, who are familiar with the situation, would devote themselves toward developing a sound and sensible solution to it.

At any rate, having the benefit of percentage depletion, it would seem to me to be the heart of wisdom for persons interested in the oil industry not to jeopardize that advantage by seeking to get additional tax favors which are less warranted. I refer, of course, to such things as the in-oil provision, and others which are suggested from time to time. There is a good deal of feeling about percentage depletion but it is very likely that nothing can or will be done about it. I would point out, though, that the community property problem was finally solved, though it seemed for many years at least as difficult. The surest way that I can think of to focus attention of other parts of the country on the percentage-depletion situation, and possibly to produce fairly strong reaction, is to push it even more in the way of tax privileges.

Very truly yours,

ERWIN N. GRISWOLD.

OCTOBER 11, 1950.

DEAR DEAN GRISWOLD: I did not have an opportunity to hear your speech in Washington. My information came from remarks made by people who did hear it and from press reports. It is reassuring to be told that you had nothing to say in your speech about percentage depletion. As for the "in-oil" payment provision referred to, I quite agree with you that this proposed legislation was not justified. I do not know who sponsored it. It is my belief that no responsible person in the oil industry did so. I, too, am pleased to know that the conference committee eliminated this measure from the bill that was finally passed.

It helps clarify our thinking for you to state that you have never advocated elimination of the depletion allowance. I agree with you that to do so would amount to taxing capital. The question is at what point the depletion allowance should be placed in order to encourage the generation of risk capital so essential in finding oil. Those of us in the oil industry who have lived close to the subject believe that the 27½-percent depletion allowance is more than justified.

The rate of 27½ percent for the depletion allowance has resulted over a period of years in a depletion which has been very nearly equal to the actual expenditures for finding oil by the industry. A survey by the Mid-Continent Oil and Gas Association of companies producing approximately half of the

oil in the United States showed that in the period 1925-48 the expenditures for finding oil were within 10 percent of the allowable depletion. In 3 of the 5 years, 1944-48, the expenditures for finding oil exceeded the allowable depletion of this group of producers and for the 5-year period, 1944-48, allowable depletion was within about 6 percent of the expenditure for finding oil. These close relations indicate that the allowable depletion does have a direct effect on expenditures for finding oil and that the amount is not excessive in relation to the capital risked in the search for oil.

The rate of 27½ percent for depletion was determined by Congress after study of experience on the part of the industry in the years immediately prior to 1926 when this method was first adopted. The rate has been reexamined subsequently a number of times and approved by Congress in spite of attack by the Treasury Department. The depletion provision has encouraged the search for oil, resulting in great discoveries and supplies. Even if the rate of 27½ percent had been too high at one time, it has become part of the industry's cost and price structure so that any change in the rate now would tend to affect supply and price.

You have raised the question whether the 27½ percent depletion allowance does not cost more than other ways of achieving the same results. Percentage depletion probably costs less than any other way which could be devised to compensate for the risks involved in the exploration for oil and to encourage the necessary amount of exploration. This is probable from an economic standpoint, because the provision stimulates efficiency on the part of operators, since depletion is limited to 50 percent of the net profit margin. The operator has, in addition to the normal stimulus of profit from efficiency, the further attraction of a tax incentive under the present law. The depletion provision also attracts into the search for oil some capital that otherwise never would be risked in the industry, some of which adds to the discovery of oil and some of which is lost forever.

Direct subsidies to explorers probably would cost more and be less effective than percentage depletion. In the year 1949 there were 14,109 dry holes drilled in the United States. The average cost of these wells was at least \$50,000 and the total cost was about \$700 million. The Treasury Department has never claimed that taxes could be increased by any amount approaching such a figure through a change in percentage depletion. Even if Government subsidies involved paying only part of the cost of dry holes instead of the complete cost, the cost of the program might be greater than \$700 million a year because of the additional number of dry holes that could be encouraged by the subsidies. A drilling contractor, unable to find sufficient work to keep all of his rigs busy, for example, very probably would be led by subsidies into drilling wells even if he did not expect to establish production. Efforts to limit the cost of the subsidy by controlling the drilling location of wells would involve the Government in endless details and expense regarding geology, geophysics, and other matters, and subject the industry to stifling controls by men in Government who know nothing about the business of finding oil.

Subsidies in maritime shipping are closely related to the fact that the Government has imposed regulations on the shipping industry which result in high costs relative to the merchant marine of foreign countries. There is no comparable reason for subsidies in petroleum production. The oil-producing industry feels that it is entitled to reasonable tax treatment to avoid the taxation of the capital which it creates through the discovery of new reserves, but it does not seek subsidies which at best would be de-

structive of efficiency, difficult of interpretation and administration, and extremely expensive to the taxpayers. Oilmen are by nature individualists and are opposed in principle to Government subsidies.

You further inquire whether a very large portion of the benefits from the depletion allowance does not go to persons "who are not the ones who do the exploring and take the risks." Statistics cited by the Treasury Department in its latest proposal to reduce percentage depletion make it clear that the great majority of the benefits go to the companies—both small and large—which are now engaged in exploration and development.⁶ All of the large oil companies which produce more than half of the oil in the United States, are engaged in extensive and expensive exploration and development programs. A review of the annual reports of these companies demonstrates the vast sums of money, running into the billions of dollars, which have been poured into the search for and development of new reserves within the past few years. The small operators, similarly, are spending sums proportionately as large considering their production. It is not true, as is sometimes alleged, that the small operator searching for oil today sells his property upon development of production. Occasionally some operators sell producing properties, principally to put their estates in liquid conditions to pay inheritance taxes, but the great majority of the operators, who discover production today develop their properties and produce them. Such operators are receiving the benefits of the reasonable tax provisions applicable to oil production as a result of taking risks in exploration and development.

The purchaser of a proved property, who is still taking considerable risks with respect to the amount of recoverable oil and the future price, generally pays a price which means that percentage depletion is of no benefit to him because it is less than cost depletion. At the present time, for example, developed oil reserves in the ground generally sell for about \$1 a barrel which exceeds the percentage depletion, amounting to a maximum of 71 cents a barrel on the present price of \$2.58 a barrel. If the percentage depletion provision is applicable and appears to place the purchaser in a position to save taxes, it influences the price he is willing to pay for the property and so results in a benefit to the operator who found and developed it. An inflationary trend which raises the price of all commodities may result in tax benefits even to a purchaser whose cost depletion at the time of the purchase exceeded the prevailing percentage depletion, but that is the reason for criticism of the conditions which bring about inflation and not for criticism of the operator who purchased an oil property on the basis that it was a reasonable investment at the prices then prevailing.

Perhaps the criticism that the benefits of percentage depletion go to persons who are not the ones who do the exploring and taking of risk is meant to apply to royalty owners. Even the royalty owner, however, may take risks and there are, in fact, many royalty owners who are also engaged in exploration and drilling. In fact, many independent operators regularly buy royalties as part of their business. Basically, however, the reason for application of percentage depletion even to the royalty interest is to protect the capital of the royalty owner which arises from the discovery and development of oil. The royalty owner, as much as the producer, has a known capital value as soon as production is established and is entitled to protection of that capital value before his income is subjected to the ordinary tax rates.

⁶ Hearings before Committee on Ways and Means on H.R. 8920, 81st Cong., 2d sess., pp. 49-60 (1950).

In your comments relative to the "in oil" provision you seem to imply that percentage depletion is an advantage amounting to a tax favor, even though you can see it is warranted more than the provision regarding oil payments.⁷ In the opinion of the oil industry the percentage depletion provision is merely a recognition of the penalties inherent in the risks involved in finding oil, and is necessary to avoid a tax penalty amounting to taxation of its capital to which it should not be subjected. Percentage depletion merely places the oil industry, insofar as the taxing of capital is concerned, on an equal footing with other industries which do not create new capital through discovery of hidden resources.

Yours sincerely,

REX G. BAKER.

OCTOBER 14, 1950.

DEAR MR. BAKER: The figures which you cited in your last letter are interesting and significant. However, they do not, I believe, take account of the fact that a large proportion of these expenses are deducted in computing income taxes, in addition to the percentage depletion deduction. I am referring, of course, to the optional deduction allowed for intangible drilling costs, and other similar deductions.⁸ The figures you give would be more persuasive to me if they showed a comparison between the costs on the one hand and the aggregate deduction on the other. By aggregate deduction, I mean not only percentage depletion, but also the deduction allowed for intangible drilling costs and other expenses. I do not believe that the comparison would be nearly as favorable as the figures you give indicate. Indeed, I should think this might be a major weakness in your argument.

Now let me turn to the last paragraph of your letter. The basic difficulty here, it seems to me, is one which is rarely disclosed in discussions from the oil country. This is the "discovery" allowance which is implicit in percentage depletion. I know of no other area in our tax law where very large increments in capital value are wholly exempt from taxation. You say that percentage depletion is necessary to enable the industry to preserve its capital. But this is obviously using capital in a double sense, and in a sense which is not applicable to other taxpayers. For other taxpayers, that capital, recoverable through depreciation, or on sale, or otherwise, is their investment in the property. Only in the oil business do "discoveries" become capital for tax purposes. Frankly, I find some trouble seeing why this should be so.

You suggest that this is necessary because of the risks involved in finding oil. I do not minimize these risks. I know that in a sense, they are very great. However, I think a pretty good case can be made for the proposition that large outfits, like the Texas Co., or the various Standard Oil companies do not take very substantial risks, except in a sense analogous to that in which it is said that the New York Life Insurance Co. takes risks. Or, to put it another way, when the operations are on a large scale, as in the life insurance business, the probability that things will come out somewhat as planned is very great. I do not mean to say that the probability is nearly as great in the oil industry as in the life insurance business. Nevertheless, experience has shown over the past 20 years that the big oil companies stand a high probability of success. They have no difficulty recovering the costs of their unsuccessful ventures from the products of their successful ones. I really seriously question whether it can be shown that percentage depletion is a necessary compen-

sation for risks taken in these cases. The situation with respect to wildcaters, and the problem of stripper wells, are quite different. But the big companies account for a very large proportion of the production. It is far from clear to me that percentage depletion is ever necessary either (a) to compensate them for risks taken or (b) to safeguard their capital investments.

Very truly yours,

ERWIN N. GRISWOLD.

OCTOBER 16, 1950.

DEAR DEAN GRISWOLD: Enclosed is a section of yesterday's Houston Chronicle which contains a good deal of information concerning the oil and gas industry.⁹ It will give you some idea of the enormous cost involved in finding and developing oil and gas, and of the tax burdens borne by the industry.

Yours sincerely,

REX G. BAKER.

OCTOBER 20, 1950.

DEAR MR. BAKER: It was good of you to send me the oil progress section of last Sunday's Houston Chronicle. I have looked at this with much interest.

I must confess, though that I am still not impressed by the tax burdens borne by the industry. I have no doubt that the industry presents many problems and bears a good many burdens. But its tax burdens would surely seem to be lighter than those carried by most other industrial enterprises. Take a look someday at the proportion of taxes to net income of three large oil companies, on the one hand, and three large nonoil industrial enterprises on the other. The figures are astounding.

If you say that you are not talking about the big companies, but about the little fellows, then I think we might meet on common ground. But a very high proportion of the tax benefit goes to the big companies.

Very truly yours,

ERWIN N. GRISWOLD.

OCTOBER 26, 1950.

DEAR DEAN GRISWOLD: It is a pleasure to receive your letters of October 14 and 20 on the subject of taxes paid by the oil industry. Your interest in this subject leads me to set forth a few additional points about the operations of the oil industry, for it seems that the lack of general understanding of the peculiarities of oil production is one of the principal reasons why the tax provisions relating to oil production are often criticized.

A crucial point, as brought out in your letter of October 14, is the question of contribution of the developer of oil production and the measure of the capital which he is entitled to recover free of tax. Two points seem pertinent on this question.

In the first place, let us consider two individuals investing \$500,000 each, one in the search for oil and the other in an office building. The individual searching for oil may spend \$100,000 on each of five different leases and establish production on only one of the leases. The other individual erects an office building with his \$500,000. Would it be fair to allow the oil operator to recover as capital on his productive lease only the \$100,000 that he put into that lease? If the individual is to risk his money in the search for oil it would seem that he would do so only with the prospect that he would recover more than the \$500,000 spent on all of his ventures if he is successful. There is always the chance that he may find no production with his investment and all of his capital may be lost. To offset that risk there must be the attraction of a reward commensurate with his success if he finds oil. Another individual might venture \$500,000 in the search for oil and discover

twice as many barrels of reserves as his competitor, due to skill and good fortune. In this latter case he has made a contribution to society which is worth twice as much as that of his competitor. As soon as the oil is discovered and developed it can be sold in place, without being produced, for a known capital value, and, in case of such sale, taxes are on the basis of capital gain rather than current income.

The second point is that a producer of oil realizes two distinct kinds of income; namely, a capital gain on the sale of an asset which has been held for a long period of time and a short-term income on the operation of a producing property. The capital gain is measured by the difference between his investment in establishing the production and the price at which he could sell the oil in place and turn it over to someone else who would then make the current profit on the operation of the producing property. The percentage-depletion provision results in substantially the same rate of taxation as would result from the separation of income into its two component economic parts and the taxation of one part as capital gains and one at current income-tax rates. In the absence of such consideration in the income-tax laws, operators discovering and developing oil would be encouraged to sell their oil in place rather than to continue in business. It would seem to be in the public interest for tax policy to permit and encourage successful operators to stay in the business rather than to sell their properties to others who may have been less successful in the search for oil.

You raise the question whether the operations of large oil companies do not in effect reduce the risks of this business to those comparable with a life-insurance company and suggest that the probability that things will come out somewhat as planned is very great. I am sure you would find that the life-insurance companies do not consider their business in any way comparable with that of oil production, else with their large funds they would already have entered this business. A life-insurance company not only knows the risks but also the precise amount of money which it is going to spend and take in. The company engaged in the search for oil has not such assurance. It only knows that if it has average experience more than 1 out of 3 wells that it drills will be dry, but it has no way of knowing how much oil its productive wells will develop or what the value of that production will be when the oil is produced over a period of 20 or 40 years. A decline in the price of crude oil, for example, such as occurred between 1926 and 1933, can wipe out the apparent profits anticipated on the basis of cost and price realizations at the time of the investment. Naturally, the investments of the oil companies made during the depression seem very successful, but so do practically all other investments made at the same time. That fact does not provide any assurance against a decline in prices. The big oil companies are definitely taking very substantial risks which may break them as well as make them in the future. The Humble Oil & Refining Co., for example, has spent millions of dollars in Florida and to date established only a very small production. Unless our efforts and luck in that area improve, we stand to lose a very large sum of capital that Humble has risked in the venture. If we do lose our investment, we can deduct it in calculating our income-tax payments just as any other business could deduct its losses on an unsuccessful investment, but that does not return to us the capital which Humble has risked. In the year 1949 alone Humble's dry-hole costs were \$32,267,000, and even after consideration of the reduction in income taxes due to such loss it is clear that we risked and lost a very substantial sum of money. We can have no

⁷ See p. 365, supra.

⁸ U.S. Treasury Regulation III, sec. 29.23 (m)—16 (b) 1943.

⁹ Houston Chronicle, Oct. 15, 1950, sec. E.

hope of realizing a return on that investment. Indeed, the investment itself is wiped out.

One final observation may help to throw additional light on the question of the oil industry's risks and the relation between its costs and deductions. I mentioned in the previous letter that a survey by the Mid-Continent Oil & Gas Association showed a close relation between the expenditures for finding oil and the allowable depletion. In your letter of October 14 you ask about the optional deduction allowed for intangible drilling costs. The same study previously referred to shows that the investment of the companies included in the survey in drilling and equipping productive wells exceeded their expenditures for finding oil. The sum of the expenditures for finding oil and for drilling and equipping productive wells was approximately twice the total allowable depletion of the companies for the period 1925-48. The investment in drilling and equipping productive wells was recovered only once as a deduction of intangible drilling costs and depreciation of tangible drilling costs. I did not mention this fact in my previous letter because percentage depletion relates to the depletion of the oil itself and, therefore, to the expenditures incurred in the search for oil rather than to the tangible and intangible investments in drilling, which are recovered through the option to expense intangible drilling costs and the depreciation of other drilling costs. This evidence is quite significant on the point which you considered a weakness in my previous argument.

In your letter of October 20, 1950, you suggest that we look at the proportion of taxes to net income for three large oil companies on the one hand and three industrial enterprises on the other. The point you are referring to can be illustrated from the comparison of the reports of United States Steel and Humble. In 1948 United States Steel showed a net income before Federal income taxes of \$239 million, compared with Humble's net income on the same basis of \$240 million, while United States Steel paid Federal income taxes of \$109 million and Humble paid \$54 million. In 1949 United States Steel paid \$126 million in Federal income taxes on a net income before taxes of \$292 million, whereas Humble paid Federal income taxes of \$18 million on an indicated net income before taxes of \$138 million. The explanation of the difference in the effective rate lies, of course, in the fact that a considerable part of Humble's net income really represents capital gain on the sale of its oil, and this capital gain should be taxed at 25 percent rather than at the normal corporate income tax rate, also in the fact that Humble is taking its depreciation on intangible drilling costs as it makes such investment rather than spreading the depreciation over the life of the properties. If Humble were to quit drilling or to reduce its drilling operations, the effective income tax rate would materially increase. Over a period of time the only difference between the effective tax rate on a steel company and an oil-producing company would be because of the percentage depletion, which is thoroughly justified in order to afford fair treatment of the capital gains realized on the sale of oil as it is produced.

I have taken the liberty to write at length on points suggested by your letters because you have shown a genuine interest in an objective inquiry about the facts with respect to the tax provisions on oil production. We find in our own operations that the business of exploration for and development of oil and gas is very complicated and not always fully understood even by some of the operators engaged in this business. It has been my endeavor to set forth information which may help to give you a better picture of the prob-

lems of oil production. We believe that the problems and peculiarities of the oil-producing business warrant and require the tax provisions now applicable with respect to percentage depletion and the option to expense intangible drilling costs.

Sincerely yours,

REX G. BAKER.

NOVEMBER 6, 1950.

DEAR MR. BAKER: Please let me thank you for your letter of October 26. I have read it with much interest, and I would like to make certain observations.

In the first place, it seems to me entirely clear that the costs of any oil operations should be fully deductible from income, including subsequent income from other operations, where there is no current income against which the costs may be deducted. Taking as an example the situation given near the beginning of your letter, if a person spent \$100,000 on each of five different leases, and established production on only one of the leases, I would allow the full \$500,000 to be deducted against income, other current income from any source if there was such income, or against subsequent income from any source. This could be done by a system of carryovers. If the present 5-year limit¹⁰ on carryovers is not enough, I would have no objection to its being extended. I am entirely in favor of taxing no more than the net income of oil operations. I still find it somewhat difficult to see why we should tax less than that net income, which may be, and often is, the result of the 27½ percent depletion allowance, which goes on without limit, and without relation to (a) actual depletion sustained or (b) the aggregate amount invested by the taxpayer in oil production.

The rest of your letter is devoted to what seems to me to be the heart of your argument. In substance, you seem to be saying that all income from oil production should, in effect, be taxed as capital gain, and that this gives an adequate justification for the present depletion allowance. This argument, I must confess, I find very hard to follow.

Is it not clear that income derived from oil production is business income? Is there any other sort of business income which is taxable as capital gain? When the grocer sells you a can of peas, he sells you property, but the gain is taxable as ordinary income, no matter how long he has held the peas. The same is true of a manufacturer, or of a real-estate operator. Indeed, the same is true of every other sort of business income. Why should income derived from oil production be treated in any other way? Perhaps the answer is that all income should be treated as capital gain. That would, of course, be attractive, and it would not result in discrimination between different types of business activity, as is the situation now. But it would hardly produce the revenue which, for better or for worse, is necessary under current conditions.

You mention the fact that in the year 1949 alone Humble's dry-hole costs were \$32,267,000. But every nickel of that was deducted against other income, and Humble was not taxed on anything in excess of its net income. On the contrary, Humble paid taxes on much less than its economic net income, as can easily be shown by comparing the company's net income, in its reports to stockholders, and the much lower figure for net income which was undoubtedly given on its income tax return as a result of the 27½-percent depletion deduction. It is true that Humble risked and lost a lot of money on dry holes. But it is also true that it made even more money on other activities. And no one suggests that it should be taxed on anything more than its net income, after

¹⁰ Internal Revenue Code, sec. 122.

making full allowance for all the losing ventures. Frankly, I find it very hard to see why the dry-hole costs, fully allowed as tax reductions, have any bearing on the justification of the depletion allowance. There are many other industries which have to risk large sums, without any immediate or current tax deduction. I need to refer only to the steel industry for an illustration. There, large sums must be spent which are capital costs, and not deductible at all, except through carefully measured and limited depreciation deductions. In this respect, it seems to me that the oil industry has a great tax advantage, quite apart from the unlimited depletion deduction.

When all is said and done, your argument seems to boil down to the proposition that income from oil production should be taxed as capital gain. This appears near the end of your letter when you state that the percentage depletion deduction "is thoroughly justified in order to afford fair treatment of the capital gains realized on the sale of oil as it is produced." This argument seems to me to be clearly unsound. I can see no reason why, if valid at all, it would not be equally valid to all other income from production. Take, for example, the income from farms or from manufacturing. The farmer produces property. The manufacturer produces property. Yet no one has ever seriously argued, I believe, that their gains on the sale of this property should be taxed as capital gains, or that they are capital gains. The income from the conduct of the business is clearly business income. Oil production is clearly a business. I can see no reason why the income derived from the business of oil production should not be taxed as ordinary income. I repeat that I refer only to the net income, after full allowance for all costs incurred and for all capital actually invested in the business. But the percentage depletion deduction goes far beyond this. It gives a very large deduction, which bears no relation either to costs or to actual capital investment. I am still puzzled why anyone should think that it has a proper place in a fair and equitable tax system.

I have no hostility to the oil industry. On the contrary, I admire its great achievements, and its great contributions to the country, its economy, and its defense. But there are also many other forms of activity which contribute greatly to the country, its economy, and its defense. Why should they not all be treated the same? Why should the oil industry be the recipient of a tax deduction, enormous in the aggregate, which bears no relation to its costs, or to the capital invested in oil production?

Very truly yours,

ERWIN N. GRISWOLD.

NOVEMBER 8, 1950.

DEAR DEAN GRISWOLD: Your letter reveals the difficulty that even a man of your ability has in understanding the real nature of the oil business and the risks involved in finding and producing oil. After all, the basic principle involved in the depletion allowance is rather simple. The man who explores for oil must invest vast sums of risk capital. He may lose this capital altogether on unsuccessful ventures. He may through luck or skill succeed in finding an oilfield. If he does, he creates new capital. In producing that oil he depletes the corpus, and if the taxing away of his capital is to be avoided he must have a depletion allowance. Only in this way can he, under our existing tax rates, have enough left with which to do further exploratory work with the hope of finding new reserves to replace those depleted by production.

There is no way to compare his real situation with that of the steel manufacturer or the farmer mentioned in your letter. The man who builds a steel mill can depreciate

every dollar of his investment in time, and through depreciation get his capital investment back tax-free. The farmer who raises a crop does not deplete the corpus of his farm, for he is able to grow a new crop year after year. Therefore, any sums he may realize from the sale of his crops are ordinary income. Of course, he can charge off depreciation on his tools and equipment because they wear out and must be replaced.

Thus in its essentials depletion does nothing more than afford the oilman an opportunity to replace his capital. This is exactly what is done with the owner of the steel mill who is allowed depreciation on his plant investment. To me this analysis is simplicity itself and I cannot see how its validity can be questioned.

I sincerely hope that you will be able to come to Texas some day. Perhaps you would enjoy a trip to the oilfields and an opportunity to witness the widespread wildcat operations which are taking place in this part of the country. Then I believe you could better understand why the enormous risk capital involved in operations must be regenerated out of the depletion allowance on the oil that is found and produced.

Sincerely yours,

REX G. BAKER.

NOVEMBER 27, 1950.

DEAR MR. BAKER: It seems to me that your position boils down essentially to one matter; namely, that oil producers are entitled to special tax treatment because their income is essentially capital gain.

The argument that the present percentage depletion allowance is necessary to enable you to recover your actual cost will not stand up, particularly as applied to a company like yours. I have made it plain that you, or any other oil producer, should be able to recover all of your actual investment before any tax liability is incurred. As a matter of fact, though, the combination of the deduction of intangible drilling costs plus percentage depletion gives you, and most oil producers, a deduction far in excess of your costs. I have no doubt, for example, that the aggregate of these two deductions taken by Humble in the years since percentage depletion became available is far in excess of the aggregate of Humble's actual costs in those years. There is no other type of business enterprise in this country which receives deductions in excess of costs through depreciation or otherwise.

In the case of certain independent wildcaters, it may be that a succession of dry holes will produce costs which cannot be offset, under present laws, against subsequent income. This should be largely taken care of, however, by the present provision of the law allowing losses to be carried forward for 5 years. If this is not enough, I would have no objection whatever to any change in the law which would make it plain that no oil producer was subject to tax until he had received deductions equal to all of his costs which had not previously been effectively deducted from gross income.

Let us try to test your capital gains argument. Suppose we had a tax, like the English tax or the Canadian tax, in which capital gains are not taxed at all. Could you successfully maintain the position that income from oil production is not subject to tax at all, because it is capital gain? It seems to me that the answer to this is quite plainly "No."

The tax systems which do not tax capital gains all draw the line closely between what they regard as capital gain and profits from trade or business. It is clear that the operations of oil production are a trade or business, within this concept, as well as under our own law.

We do not have to speculate about this. The Canadian income tax is a clear example. Under that law, capital gains are not taxed.

But it has never been seriously suggested, as far as I know, that the income from the production of oil and gas in Canada should be wholly exempted from tax on the ground that it is capital gain. On the contrary, it is clear that it is regarded as income from trade or business, and subject to tax as income. It is true that there is special allowance for depletion under the Canadian tax law. This may, however, be a reflection of the special deduction allowed in the United States law.

On the whole it seems to me that the best position you have developed is the capital-gain one. Even on that basis, though, I think you claim too much. Under our law capital gains are taxed, though at a maximum rate of 25 percent. But the percentage depletion deduction is supposed to reflect the old discovery-value allowance. The effect of this was to make the capital gain on the discovery of oil (or other minerals) wholly exempt from tax. In other words, discovery value—and, therefore, percentage depletion, to some extent—clearly goes too far. I think I could understand a provision which said that income from oil and gas production should be taxed as capital gain, and which, accordingly, completely eliminated the percentage-depletion deduction. Trying to get both capital-gain treatment, and the percentage-depletion deduction, as in the recently defeated provision about in-oil payments, is clearly trying to get too much. And if income from oil production was taxable as capital gain, I should feel that, under current conditions, the present 25-percent rate was far too low.

However, it still seems to me that taxing income from oil production as capital gain would be quite wrong. Such income is clearly income from the conduct of a trade or business and is not capital in its nature, even though it arises, in a sense, out of increases in the value of property. After all, the income of any manufacturer or retailer likewise arises out of increases in the value of property; namely, the property which is manufactured or sold. Such income, however, is clearly not capital gain. There is no better reason, as far as I can see, why the business income of oil producers should be taxed as capital gain merely because it is derived by selling the property that they produce.

You suggest at various places in your letters that the oil producer should be able to get tax free the capital he has produced. I do not know any other line of activity in which a person recovers tax free any capital he may have produced. Even in the case of capital gains, the basis for determining gain or loss will be only the amount actually invested in the property. It is only the oil industry which gets a return free of tax in excess of its actual capital investment.

Thus, the percentage depletion allowance turns out to be nothing more than a special subsidy. If that fact were more generally understood, I cannot help wondering whether the present allowance would be continued unmodified.

Very truly yours,

ERWIN N. GRISWOLD.

DECEMBER 12, 1950.

DEAR DEAN GRISWOLD: As I interpret your letter of November 28, you insist that oil producers receive special and unwarranted tax treatment and that all their income should be taxed as ordinary income, despite the fact that in your letter of September 25, you concede that oil producers are entitled to a depletion allowance, merely questioning the advisability of placing it at 27½ percent. Actually, the depletion allowance is applicable to relatively few oil-producing properties. In practice, cost depletion applies to the poorer properties. Furthermore, percentage depletion is limited to 50 percent of net income derived from a producing property. Thus, in general, it is improper to

refer to 27½ percent depletion rate as applicable to all oil properties.

The producer of oil receives two different kinds of income. He realizes a capital gain or loss on the sale of an asset held over a long period of time and a normal income on the operation of a producing property. The income-tax law authorizes the taxation of income and not capital. Therefore, any capital gain from the sale of an asset held over a long period of time should not be taxed as normal income. Only the income derived from producing operations can justly be taxed as normal income. Consequently, the depletion allowance, which makes it possible to avoid the taxing away of capital, does not give special treatment to the oil industry and is completely justified. This is proved by the fact that the profit figures for the oil industry clearly follow the same pattern as for other industries.

There is no evidence that the tax provisions have resulted in advantage for oil producers as compared with businesses in general. The fairness of a tax cannot be judged by merely looking at the most successful operators, but must be tested by considering the average results for all operators.

The function of such profits as are realized after taxes is to direct investment capital into different activities in proportion to need. There is no evidence that profits have been so high as to attract any more capital into the oil industry than is needed. While the oil industry has constantly expanded, the expansion has contributed greatly to the maintenance of low prices for fuels, to economic progress, and an expanding economy. If the profit rate on oil production had been reduced by higher taxes, the capital attracted into the industry would have been reduced; additions to oil reserves would have been less. The smaller supply of energy would have retarded economic progress in the United States, and the price of gasoline and other petroleum products to the consuming public would have been materially increased.

Thus, it seems clear that the wisdom of the depletion allowance is more than justified, and experience has demonstrated that the depletion allowance is not excessive but has been only enough to generate new risk capital required in exploring for oil.

Yours sincerely,

REX G. BAKER.

Mr. PROXMIRE. Mr. President, that completes my presentation on the oil-depletion-allowance question.

Mr. CLARK. Mr. President, will the Senator from Wisconsin yield briefly to me?

Mr. PROXMIRE. I yield.

Mr. CLARK. In connection with the comments made by the Senator from Wisconsin on the oil depletion allowance, I wonder whether he noticed an article entitled "A Plan For Tax Reform," which was written by Robert Lubar, and was published in the March 1950, issue of Fortune magazine. The article sets forth, under a subheading "That Famous 27.5 Percent," a presentation of the depletion question which refers to the present rate of depletion allowance as "the classic example" of "preferential treatment" in the code. I wonder whether he will be willing to have an excerpt covering the section on depletion allowance printed in the RECORD immediately following the insertions he has made.

Mr. PROXMIRE. Mr. President, I shall be delighted to have that done. I think it extremely significant that Fortune magazine—which is primarily written for top executives in big industry, and subscribed to by them—has recog-

nized the inequity of this tax privilege and the fact that it has very little justice to it. The article speaks eloquently on that point.

Mr. CLARK. Then, Mr. President, I request unanimous consent that the cited excerpt from the article be printed at this point in the RECORD.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

THAT FAMOUS 27.5 PERCENT

Let us consider some of the most important of the preferential treatments now lodged in the tax structure. The classic example is the percentage depletion allowance given producers of oil and gas and virtually every other natural resource. Since most of the benefits of percentage depletion go to corporations rather than to individuals, the subject will be more fully discussed later in this series, in the article on the corporation tax. But the points at issue are important to a discussion of personal-income taxation.

There were good grounds in public policy for the special stimulus that the 27.5 percent allowance gave to oil exploration, as Fortune argued in an article 9 years ago ("The Depletion Uproar," April 1950). But there have been a good many changes in the United States and the world since then. In that pre-Korea day, for one thing, the Federal revenue requirement was only half as big as it is today, and the Nation could more easily afford preferential treatment of certain forms of income. Today the depletion allowance puts \$700 million of personal income out of reach of taxation. A second change is that the defense argument for percentage depletion is not so weighty as it once was, for nobody any longer expects the kind of war in which proved oil reserves will play a decisive part. And finally, there is a political and emotional reality that must be taken into account: the depletion allowance has become the very symbol of special tax treatment. It cannot be overlooked in any program that undertakes to introduce broad principles of uniform taxation. If the depletion allowance remains untouched, the case against other kinds of preferential treatment collapses at the start. In a reformed tax system, therefore, the allowance for depletion of a natural resource should be based on full recovery of the developer's initial investment—and no more. The step down in the allowance would have to be gradual, of course, so as not to have the retroactive punitive effect of destroying property values already set up on the basis of percentage depletion.

WITHHOLDING AT THE SOURCE ON DIVIDENDS AND INTEREST

Mr. PROXMIRE. Mr. President, I ask unanimous consent to introduce, on behalf of myself, the Senator from Illinois [Mr. DOUGLAS], the Senator from Pennsylvania [Mr. CLARK], and the Senator from Minnesota [Mr. McCARTHY] a bill to withhold at the source on dividends and interest, as is now done in the case of wages and salaries.

It is often forgotten that while the basic income tax is withheld at the source for those who earn wages and salaries, that is not true for dividends and interest. Consequently, vast sums which are received by individuals as dividends and as interest—and which should be treated as ordinary income—are never reported on the tax returns of these individuals, and no tax is paid on these sums. In fact, this is one of the most glaring ex-

amples of actual tax avoidance which is to be found in our tax structure.

The latest conservative estimate from thoroughly competent and authoritative tax experts which we have is that approximately \$1.5 billion in dividends paid out are never reported as income. Thus, there is this large gap between the dividends which individuals receive and the dividends which are reported and on which income tax is paid. Even if as much as one-fifth of this amount—and this is certainly a generous estimate—is paid to those who need not report their income because they have incomes which are below the level—\$600 a year—on which income tax is paid, that still leaves approximately \$1.2 billion in dividends which are paid, but on which no tax is collected.

Withholding the basic tax of 20 percent at the source would thus bring in an estimated \$240 million a year. In addition, if the basic tax were withheld, the individual who received the dividends would then not be able to escape or evade the full tax, and he would have to report the receipt of this income on his return. Since the great bulk of dividends go to those in the upper income groups, and since it has been estimated that the average rate of income tax which is paid by those who receive dividends is at least 40 percent, this part of the bill would, in fact, bring in additional revenue in the neighborhood of \$500 million a year. Of course, I have been dealing only with that part of the bill which has to do with withholding on dividends at the source.

In addition to that, Mr. President, the bill provides for withholding at the source of certain interest payments. Daniel Holland and C. Harry Kahn estimated that for the taxable year 1952, the difference or gap between the interest which was received by individuals and that which was reported on tax returns was \$3.4 billion. They estimated that something like 60 percent of interest receipts were not reported in that year.

Of course, a greater proportion of interest payments are received by low-income groups than are dividend payments, and, in addition, there are numerous administrative difficulties involved in collecting and withholding interest at the source. Consequently, at least \$250 million could be derived in additional income to the Government from this part of the bill, and if ways and means can be devised—and, we hope, with the help of the Treasury itself—to solve some of the administrative problems, much greater sums than this could be recouped.

Such a system as is proposed in this bill to withhold taxes on certain dividend and interest income would help very much to improve compliance with the law of the land. From the point of view of those people who do not want to break the law, this bill would have the very good effect of helping them to be as honest as they would wish to be. From the point of view of the deliberate evader of income tax payments on dividends and interest, this bill would produce a great gain in revenues above those from the actual withholding itself, as this type of person is more often than not in a bracket much higher than the one from which the basic or minimum rate is with-

held. It would further have the virtue of reducing the rewards for deliberate dishonesty.

Mr. President, I see no reason whatsoever why this bill or a similar bill should not be passed by the Congress of the United States. Further, it ought to have the very active support of the administration, which, while it is very vocal in its opposition to inflation and deficits, nonetheless has refused to use its powers of persuasion to effect any really equitable change in our tax laws and has thus, by its neutrality, aided and abetted those who now escape taxation altogether on income which is properly taxable.

There will be those who will say that we should not withhold on interest and dividends. But the best answer to that opposition is that we now do withhold on personal incomes and on wages and salaries at the source. This is not too cumbersome and as a result, only 5 percent of wages are not reported as income, compared to 60 percent in the case of interest and vast sums received as dividends. If it can be done in the case of the wage earner, it certainly can be done in the case of those who receive income from dividends and interest.

Mr. President, I ask unanimous consent that two memorandums and a table dealing with the question of withholding on interest and dividends be printed in the RECORD at this point in my remarks.

There being no objection, the memorandums and table were ordered to be printed in the RECORD, as follows:

WITHHOLDING INDIVIDUAL INCOME TAX ON DIVIDENDS AND INTEREST PAYMENTS

I. THE NEED FOR WITHHOLDING

A. Extent of dividend and interest gap

Virtually every study made of income reporting for the Federal individual income tax shows a significant gap between the amount of dividends and interest which should be reported and the amount actually reported on individual tax returns. The extent of this gap cannot be measured with precision for the following reasons:

1. The basic data are taken from the Internal Revenue Service's Statistics of Income, part 1, and the Department of Commerce series on personal income. Since the income concepts in these two sources differ, adjustments to reconcile these differences must be made before an estimate of nonreported income can be arrived at. While the character of those adjustments is fairly clearly established, the specific data required to express them quantitatively is not always available. For example, the commerce series includes in personal income dividend and interest receipts of nonprofit organizations and of self-insured corporate pension funds. Such receipts on behalf of individuals need not be reported in the individual taxpayer's return, and therefore, must be subtracted from the commerce total as one step in arriving at the "to be reported" income-tax total. The measurement of these receipts, however, is imprecise at best, since no regular statistical series contains this information.

2. Even after the difference between the Commerce Department and Statistics of Income tables is approximated, there is a problem in allocating the remaining nonreported dividends between individuals required and those not required to file tax returns and then between taxable and nontaxable returns. Some of the nonreported dividends and interest, for example, undoubtedly are received by individuals with less than \$600

in gross income (income tax definition of gross income) who need file no tax return. Some individuals with gross income less than \$600 do file returns as a means of claiming refunds for taxes withheld on wages. At present, one can only guess at the amount of dividends and interest received but not reported by these individuals. In addition, some dividends and interest are received by individuals required to file tax returns but who pay no tax because their exemptions and deductions exceed their adjusted gross incomes. How much of the nonreported interest or dividend receipts go to people in this situation?

Recognizing these difficulties, it is, nevertheless, possible to make a fair approximation of the amount of dividend and interest income which should, but does not appear on tax returns. Daniel Holland and C. Harry Kahn estimated the dividend and interest gap at \$1.1 billion and \$3.4 billion, respectively, for the taxable year 1952. About 13 percent of properly reportable dividends and 61 percent of interest receipts were not reported for that year. This compares with a 5-percent gap for wages and a 30-percent gap for entrepreneurial income (cf. Daniel M. Holland and C. Harry Kahn, Comparison of Personal and Taxable Income, Federal Tax Policy for Economic Growth and Stability, papers submitted by panelists appearing before the Subcommittee on Tax Policy, Joint Economic Committee, November 1955, pp. 313-338, especially pp. 318-320 and 336-337). The Holland and Kahn results accord closely with the estimates of Selma F. Goldsmith for the taxable years 1944-46 (cf. Selma F. Goldsmith, Appraisal of Basic Data for Constructing Income Size Distributions, Studies in Income and Wealth, vol. 13 (National Bureau of Economic Research, 1951)).

More recently, in a paper presented to the American Finance Association, December 29, 1957, Holland estimated the dividend "gap" for the taxable year 1955 to be about \$1.235 billion, or about 12.1 percent of total dividend receipts adjusted for comparability with tax returns. Even if one assumes that 20 percent of this "gap"—about \$250 million—were the dividends received by individuals not required to file returns and/or by individuals required to file returns but not taxable (because deductions and exemptions exceeded income), there remains about \$1 billion of dividends which should have appeared, but did not, on taxable individual returns in 1955.

Using the techniques developed by Goldsmith, Rechman, Holland, and Kahn, the interest gap for 1955 appears to be about \$4.6 billion. Again assuming that 20 percent of this amount was received by individuals not required to file returns and/or by individuals filing nontaxable returns, there remains about \$3.7 billion of personal interest receipts which should have been reported, but were not, on taxable individual returns in 1955.

B. Revenue loss attributable to nonreporting of dividends and interest

Determination of the revenue loss involved in nonreporting of dividends and interest is complicated not only by the statistical vagaries in measuring the dividend and interest gap but also by the lack of persuasive evidence concerning the distribution by taxable income brackets of the nonreported income. The \$1 billion dividend gap estimated above, for example, may imply a revenue loss as little as \$150 million or as much as, say, \$350 million (and conceivably the upper amount could be significantly larger).

The Bureau of Internal Revenue conducted an extensive investigation of the amount and kind of error appearing on individual tax returns for the taxable year 1948. This audit control program indicated some concentration of nonreporting at the lower end of the income distribution and, in addition, a rela-

tively larger rate of underreporting at the lower than at the upper ranges of the income distribution. These results can hardly be taken as definitive, but suggest that the average effective rate which would be applicable to dividends and interest not now reported would be somewhat lower than that in fact applicable to reported dividends and interest receipts. Even supposing that the appropriate effective rate were only 20 percent in the case of dividends, however, nonreporting of this income in 1955 probably resulted in a \$200 million revenue loss to the Treasury. If one applies a 15 percent effective rate (allowing for the effect of exemptions and deductions) to nonreported interest, the revenue loss in 1955 from this source appears to be about \$475 million. Even allowing a 50-percent margin of error in computing the dividend and interest gap leaves a revenue loss of about \$350 million. This amount should certainly be regarded as a rockbottom estimate.

C. Reasons for nonreporting

Three sets of reasons may be adduced for the failure of taxable individuals to report the full amount of their taxable dividend and interest income. The principal reason probably is deliberate evasion. Holland's most recent study of the dividend gap shows a good positive correlation of the size of the gap with tax rates over time. A second reason is honest forgetfulness. It is a reasonable assumption, for example, that many taxpayers do not know and make no regular effort to determine the amount of interest credited to their savings accounts, and simply overlook this income item in preparing their tax returns. Taxpayers receiving relatively small quarterly dividends from a number of corporations, similarly, may easily forget one or more such receipts because of poor bookkeeping. A final reason for nonreporting may be ignorance of the law's requirements. The accrued interest on U.S. savings bonds, for example, need not be reported on the taxpayer's return until the bonds are redeemed. It is quite possible that many taxpayers are not aware that they must include such realized interest in their gross incomes for tax purposes. Conjecturally, some taxpayers may reason that since U.S. savings bond interest need not be reported until the bond is redeemed, it is not required to report savings account interest until withdrawn.

Whatever the reason for nonreporting of interest and dividends, a system of withholding on such incomes would contribute materially to improving compliance with the law's requirements. From the point of view of the taxpayer who is not a willing evader of the law, dividend and interest withholding has the positive virtue of assisting him to be as honest as he would wish to be. From the point of view of the deliberate tax evader, withholding, by substantially reducing the rewards of dishonesty, might well produce a net gain in revenues above those from the withholding itself.

II. WITHHOLDING PLANS

Three major efforts have been made to provide for withholding on dividends and interest.

A. The 1942 plan

The first of these was in connection with the introduction of withholding on wages and salaries in 1942. The plan then proposed would have withheld tax at the rate of 10 percent on dividends and interest payments in excess of the amount of such payments determined to be nontaxable on the basis of withholding exemption certificates to be filed with the payor by the dividend or interest recipient. The paying corporation would have been required to file quarterly returns showing dividend and interest payments and to furnish the dividend or interest recipient a receipt for the tax

withheld, very much like the withholding receipt provided wage and salary earners. When the dividend or interest payment was made to a nominee of the recipient, rather than to the recipient directly, the paying company was, nevertheless, to be required to withhold the tax.

In rejecting this proposal, major emphasis was placed on the compliance problems raised by the proposed requirement for a withholding exemption certificate. It was pointed out that a relatively much larger number of such certificates would call for no withholding of tax (whether or not tax was actually payable) than in the case of wage and salary certificates. The payor organization, it was argued would incur substantial costs in soliciting exemption certificates from each stockholder or interest recipient of register on the payment date, in maintaining a file of such certificates, and in collating interest and dividend payments with the taxable status of each recipient.

In addition, the proposed withholding scheme could hardly be applied in the case of coupon bond interest. Transactions in the coupons, it was argued, would not in all cases involve the bond-issuing organization so that a substantial volume of such interest might be realized without opportunity for a withholding agent to withhold the tax due.

B. The 1950 plan

The proposal in 1950 would have provided for withholding tax at the rate of 10 percent from dividends only. No provision was made for exemption certificates, although certain types of payor organizations were to be exempt from the withholding requirement. The withholding company was to be required to provide the dividend recipient a withholding receipt although this might take the form of a notation on the dividend check or check stub of the amount of tax withheld. As in the 1942 plan, the paying company was to be required to withhold tax where the dividend payment was made to the shareholder's nominee. Provision for returns by withholding companies was to be made in regulations.

The 1950 plan was criticized primarily on the basis that it would require withholding on dividends paid to both nontaxable individuals and tax-exempt organizations. Moreover, it was argued, the plan would involve a good deal of expensive paperwork by the payor corporation with respect to very small amounts of dividend payments, a significant proportion of which would be nontaxable in any case. Furthermore, it was maintained that proper administrative procedures, for which adequate provisions were made in then existing law, would greatly increase taxpayer compliance. Specifically, the Bureau of Internal Revenue was directed to make fuller use of the information return, form 1099, which all payor corporations were required to file for all dividend payments in excess of \$100. The administrative problems of collating such information returns, many of which showed nominees or street addresses as payees, with individual tax returns, of determining any difference in aggregate dividend payments between amounts reported on the information return and those reported on the taxpayers' returns, and of determining the amount and collecting any tax due on the basis of such differences were not adequately or persuasively delineated to the tax-writing committees.

For example, take the not unreasonable case of an individual taxpayer owning shares, in, say, 10 companies, each of which makes a quarterly dividend payment. Some of these payments might well be below the minimum

¹ Currently, the payor corporation must file a form 1099 for all dividends which exceed \$10 annually.

amount for which the payor is required to file an information return. Suppose, therefore, that 30 of the 40 payments involve the filing of an information return. Suppose, moreover, that in some of these cases, the taxpayer's minor child is registered as a co-owner of the shares and the dividend is addressed to the child. With an adequate investment in machinery, the problems of collating the information returns, of associating them with the taxpayer's income tax return, and of determining the amount of any tax deficiencies would not be insuperable. Such machinery was not available to the Bureau of Internal Revenue in 1950, however, and is not now.

C. The 1951 plan

In connection with the Revenue Act of 1951, the Treasury proposed withholding on dividends, interest, and royalties at a 20 percent rate. As in the 1950 proposal, no exemption certificate was to be filed by the dividend, interest, or royalty recipient, although certain specified classes of payments were to be exempt from the withholding requirement.

On this occasion, the Committee on Finance spelled out its objections to the plan in considerable detail (S. Rept. No. 781, 82d Cong., 1st sess., pp. 65-67).

1. The committee indicated that although there may be substantial underreporting of dividend, interest and royalty income, it was not impressed by the results of the investigation presented to it and accordingly did not feel that a solution of the problem as drastic as that contained in the House bill was warranted. Specifically, the committee report pointed out that no information was available with respect to the number of persons receiving dividends, interest and royalties who do not file a tax return. Accordingly, accurate information was not available with respect to either (1) the number of individuals now required to file returns and who would be required to file for refunds or (2) the number of individuals who should file returns but do not do so. "Information of this type is essential to any appraisal of the need and the desirability for legislation in this area."

2. Withholding would impose expensive administrative burdens upon withholding agents and would work great hardships on many taxpayers. This hardship would be particularly severe with respect to nontaxable individuals and tax-exempt organizations who would be deprived of the use of amounts of tax withheld until such time as claims for refunds were processed and refunds were paid. The committee observed that no adequate system for providing quick refunds had yet been called to its attention.

3. The 20-percent withholding rate would be applied to dividends, interest, and royalties without allowance of personal exemptions. This would impose greater hardship on recipients of investment income, particularly those with large families, than is involved in the withholding on wage earners.

4. Substantial administrative burdens would be imposed upon withholding agents even though the proposed plan would not require payor corporations to notify stockholders of amounts withheld from dividends. Thus payor corporations, in the interest of good stockholder relations, would in practice be required to indicate to dividend recipients why dividend payments have suddenly been reduced and what the amount of tax withheld was in each case.

5. The plan would have required withholding on royalty payments. The committee was skeptical of the need for withholding in this area and assumed that virtually complete reporting was the practice.

6. The Senate Finance Committee asserted that more effective use of the information returns then required by the law would substantially improve taxpayer compliance

in reporting receipts of dividends and interest.

The legislative history of efforts to withhold taxes on dividends and interest shows the following major objections:

1. The extent of under- or non-reporting of dividend and interest income has not been accurately or adequately expressed by those favoring withholding.

2. Statistical investigations have not adequately revealed the type of problems with respect to underreporting of dividends and interest, on the one hand, and of overwithholding on dividends and interest, should a withholding plan be adopted, on the other.

3. Compliance problems for withholding agents would be very great even if the withholding plan did not require the payor to furnish payees with formal withholding statements.

4. Any withholding plan would require development of a system of quick refunds for dividend and interest recipients who are either not taxable or who would have too much tax withheld. No adequate plan for such quick refunds has yet been presented.

III. A PROPOSAL FOR DIVIDEND AND INTEREST WITHHOLDING

The principal stumbling block to withholding on dividends and interest appears to be the problem of avoiding overwithholding on nontaxable individuals and tax-exempt organizations without imposing substantial compliance burdens on dividend and interest payors. The 1951 plan went far in the direction of eliminating compliance burdens for withholding corporations by requiring no withholding receipt and no elaborate return form to be filed with the Government at the time of remission of withholding taxes. Elimination of the receipt and return form requirements, however, necessarily involved across-the-board withholding at a uniform rate on the gross amount of dividends and interest paid. This necessarily involved overwithholding on payments made to tax-exempt organizations, nontaxable individuals, and individuals the effective rate of tax on whose total income is less than the withholding rate.

A compromise between considerations of avoiding overwithholding on the one hand and minimizing compliance burdens for withholding corporations on the other, therefore, is highly desirable. The following plan might well represent such a compromise without sacrifice of substantial improvement in compliance by individual dividend and interest recipients.

A. The basic withholding plan would be identical with that proposed in 1951

The payor company would withhold a flat percentage of dividend and interest payments. At present tax rates, this withholding rate would be 20 percent, i.e., the first bracket rate.² The payor would not be required to keep records of each dividend or interest payment or of the amount withheld with respect to each payment. The payor would not be required to submit withholding receipts to the individual at the end of each quarter. The payor would remit to the Internal Revenue Service 20 percent of the gross dividend and interest payments made (subject to the exceptions provided in the 1951 plan: cf. Revenue Act of 1951, H.R. 4473, sections 201-204). The dividend or interest recipient would make the following entries on his tax return: (1) the net amount of dividends and interest he received after withholding, (2) one-quarter of the net amounts received (i.e., if the withholding

² If allowance were to be made for the standard deduction in order to minimize overwithholding, the withholding rate would be 18 percent, as in the case of wage and salary withholding.

rate were 20 percent, the amount withheld),³ (3) the sum of 1 and 2, which is the total dividend or interest received before withholding.

The taxpayer would compute his tax on his total taxable income including the amount in 3 and would take a credit against his final tax liability for the amount computed in 2.

B. The payor corporation would attach to the dividend or interest check, if the check were in an amount less than, say, \$1,000, a simple refund claim form on which the dividend or interest recipient would indicate exemptions from tax on nontaxability either because of inadequate gross income, or deductions or exemptions in excess of income

The dividend or interest recipient completing this form would send it to the paying corporation, upon receipt of which the paying corporation would immediately refund the tax withheld. The quick refund, in other words, would be provided by the payor corporation rather than the Internal Revenue Service. The payor corporation would remit these refund claim forms to the Treasury quarterly as a basis for reimbursement by the Treasury for the refunds of overwithheld tax. The refund claim forms would then be used by the Internal Revenue Service as a check against individual tax returns. This would, of course, require elaboration of existing machinery for collating information returns with individual tax returns. Since such collating would be required only where the dividend or interest recipient actually claimed a refund, it may be fairly assumed that the magnitude of the collating task would be substantially less than that presently involved in tracing information returns to tax returns.

Further simplification might be achieved by requiring the payor corporation to attach refund claim forms only to the first quarterly or semiannual dividend or interest payment and to determine whether tax should be withheld on subsequent payments within the year on the basis of the dividend or interest recipient's response to the first payment.

The proposal to make payor corporation attach the refund claim form only in the case of dividend or interest checks in amounts less than the suggested \$1,000 takes into account the fact that where dividend or interest payments exceed this amount the likelihood of overwithholding would be at best remote. In the case of interest payments this proposal might not materially reduce the load on the paying company in view of the likely concentration of interest payments at the lower end of the income distribution. In the case of dividends, however, providing that the quick refund mechanism would be available only with respect to dividends less than \$1,000 could be expected to reduce paying corporations' compliance burdens quite significantly below what they would be if the refund claim form were to be attached to all dividend checks.

Admittedly this proposal would involve additional accounting burdens for dividend and interest payors. The magnitude of these burdens is clearly less than would be the case under a withholding plan involving filing of exemption certificates by the interest or dividend recipient. They are somewhat, but presumably only moderately, greater than those involved in the 1951 plan.

³ If tax were withheld at 18 percent the amount of tax withheld to be reported by the taxpayer in this step would be 22 percent of the net dividend or interest receipt. The formula for determining this amount is T equals t_w divided by the quantity 1 minus t_w (net interest or dividend receipt), where t_w equals the withholding tax rate.

The possibility of eliminating the overwithholding problem by use of this device while substantially improving revenue collections from dividend and interest sources, however, must surely be more persuasive than the modest additional cost which would be incurred by dividend and interest payors.

WITHHOLDING INDIVIDUAL INCOME TAX ON DIVIDENDS AND INTEREST PAYMENTS

1. TECHNICAL FEATURES IN PROPOSAL FOR DIVIDEND AND INTEREST WITHHOLDING

Since, with the exception of the provision for quick refund, the dividend and interest withholding proposal outlined in the principal memo is substantially identical to the 1951 plan, the technical problems discussed in connection with that plan should be reviewed in connection with this proposal.

A. Coverage

As originally proposed, the 1951 plan was to apply to virtually all dividend and interest receipts of individuals. As passed by the House, however, the plan excluded withholding on interest on bank deposits and series E bonds even though these are the most important sources of interest for individuals.

Presumably, the basis for these exclusions was the complaint received from bank representatives that withholding on savings account interest would discourage savings by individuals. It was also argued that withholding on interest included in redemption proceeds on series E bonds would be regarded by holders of E bonds as a reduction in net interest yields and would, therefore, discourage E-bond sales.

Certain types of dividend and interest payments were specifically excluded from the 1951 plan either because the practical problems of withholding were too great or because the recipient was not generally subject to income tax. The specific exclusions were:

- (a) Stock dividends or stock rights.
- (b) Distributions to shareholders in connection with corporate reorganization and the redemption of outstanding stock.
- (c) Dividends paid by Federal Reserve banks, Federal land banks, Federal home loan banks and cooperative banks.
- (d) Dividends paid by a corporation, all the stock of which is owned by one or more (a) governments; (b) political subdivisions thereof; (c) international organizations; or (d) wholly owned instrumentalities or agencies of any of the foregoing if such instrumentalities or agencies are exempt from tax.
- (e) Dividends and interest paid by a foreign corporation.
- (f) Dividends and interest paid by one corporation to another corporation if both corporations are members of the same affiliated group which is required to file a consolidated return for the taxable year, or which did file a consolidated return for the preceding taxable year.
- (g) Interest payments by State and local governments.
- (h) Interest payments made by individuals.
- (i) Interest paid on open accounts, notes, and mortgages.
- (j) Interest on equipment trusts.
- (k) Tax-free covenant bond interest as defined in section 1451 (1954 Code).
- (l) Interest and dividends subject to withholding under section 1441 (1954 Code).
- (m) Dividends and interest on corporate obligations, issued prior to effective date of the withholding proposal enactment, paid pursuant to a lease under which the obligor is required by the terms of the contract to absorb the tax.
- (n) Patronage dividends of cooperatives.

B. Withholding on bank deposit and series E bond interest

As noted above, withholding on bank deposit and series E bond interest was dropped from the 1951 plan on the basis that such withholding would discourage these forms of savings. The argument, in effect, assumes that the volume of such savings depends on illicit tax exemption for their interest accruals rather than on the rate of such accruals. Whatever objections may be raised to withholding on this type of income, certainly no serious consideration should be given to this argument.

Little difficulty is to be anticipated in withholding on individuals' bank deposit interest. The bank would reduce credit to individuals' accounts by the amount of tax to be withheld. These amounts would, of course, be remitted to the Treasury by the bank. The computation by the individual on his tax return for the amount of tax withheld on bank deposit interest would be

the same as in the case of dividends. All the individual taxpayer would need to know would be the net amount of interest credited to his account annually.

There was some fear in 1951 that withholding on series E bonds would involve mechanical difficulties. The Treasury, however, submitted a plan whereby banks and other agents authorized to redeem E-bonds would be provided with tables showing gross redemption values, the amount of interest included in this redemption value, the income tax to be withheld on the interest and net amount to be paid at redemption. For example, the redemption of a \$50 face-amount bond at maturity would include \$12.50 interest on which tax in the amount of 18 percent would be withheld, resulting in a net redemption of \$47.75. The individual taxpayer would, of course, gross up the \$10.25 interest (equals net redemption proceeds minus original purchase price of \$37.50) in the same manner that he would gross up net dividends receipts.

Additional tax or refund due on selected amounts of dividends, assuming integrated withholding and dividend received credit

Wages or salaries and amount withheld () on such income	\$100 (\$14 withheld)		\$500 (\$70 withheld)		\$1,000 (\$140 withheld)		\$10,000 (\$1,400 withheld)	
	Tax liability	Additional tax due or refund ()	Tax liability	Additional tax due or refund ()	Tax liability	Additional tax due or refund ()	Tax liability	Additional tax due or refund ()
A. Single person, no dependents								
0 (..)		(\$14)		(\$70)	\$13	(\$127)	\$1,683	\$283
\$1,000 (\$60)	\$67	(7)	\$123	(7)	193	(7)	1,989	529
\$2,000 (\$240)	247	(7)	303	(7)	374	(6)	2,301	691
\$5,000 (\$780)	826	32	901	51	998	78	3,370	1,190
B. Married person, 2 dependents								
0 (..)		(\$14)		(\$70)		(\$140)	\$956	(\$444)
\$1,000 (..)		(14)		(70)		(140)	1,154	(246)
\$2,000 (..)		(14)		(70)	\$6	(134)	1,365	(35)
\$5,000 (\$420)	\$420	(14)	\$476	(14)	546	(14)	2,067	247

NOTE.—Tax computation assumes deductions equal to 10 percent of gross income after dividend exclusion.

Mr. PROXMIRE. Mr. President, I further ask unanimous consent that the bill may lie on the desk for a period of 1 week, so that any Senator who may desire to do so may cosponsor it.

The PRESIDING OFFICER. Without objection, it is so ordered.

The bill will be received and appropriately referred; and, without objection, the bill will lie on the desk, as requested by the Senator from Wisconsin.

The bill (S. 2038) to amend the Internal Revenue Code of 1954 to provide for withholding of tax at source on interest and dividends, introduced by Mr. PROXMIRE (for himself, Mr. DOUGLAS, Mr. CLARK, and Mr. MCCARTHY), was received, read twice by its title, and referred to the Committee on Finance.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield to the Senator from Pennsylvania.

Mr. CLARK. I wonder if the Senator would be willing to include in his material on withholding of taxes on dividends and interest, a reference to an exhaustive study made by Selma F. Goldsmith, of the Department of Commerce, entitled "Appraisal of Basic Data Available for Constructing Income Size Distributions." The study was published in volume 13 of the Conference on

Research in Income and Wealth Studies by the National Bureau of Economic Research (1951) showed that 63 percent of all interest, 23 percent of all dividends, and only 5 percent of all civilian wages and salaries are not reported for income tax purposes.

Mr. PROXMIRE. I thank the Senator. I think the reference is a useful one. The facts cited from the study further demonstrate how much can be recovered by our Federal Treasury by providing for this very, very simple reform. From the standpoint of simple justice if a wage earner has his income tax withheld, certainly the recipient of dividends or interest should have his tax withheld.

THE SITUATION AT THE CAPE CANAVERAL MISSILE RANGE

Mr. HOLLAND. Mr. President, I believe that on yesterday all Senators noted a news item to the effect that all of the unions whose members are employed at the huge guided-missile base at Cape Canaveral, other than the one union which was striking, declined to honor the picket line, and did so on the ground of the importance of the work being done there. The necessity of protecting the tremendously important

national interest in that connection suggested their doing so.

A few minutes ago, I noted the following item on the Associated Press ticker:

CAPE CANAVERAL, FLA.—An attempt by striking carpenters to halt all union activity at the missile test center apparently failed today.

Other union workers refused to honor the carpenters' picket lines despite a show of strength by most of the 115 strikers.

A few hours later, business agents of other unions represented at the cape failed to show up at a meeting called by the carpenters.

The carpenters summoned the business agents to ask them to keep their union members off the job at the missile launching area and nearby Patrick Air Force Base. However, only carpenters union representatives attended the session.

A carpenter spokesman expressed disappointment, but declined further comment. He said the union may still get the business agents together.

Mr. President, I wish to compliment the agents of the other unions and the members of the other unions for recognizing the supreme importance to the Nation of continuance of the vital guided-missile tests which are being conducted there, and for the action they have taken in refusing to recognize that picket line.

Mr. President, in a little lighter vein, let me say that at almost the same time, there came over the ticker the following item, also from Cape Canaveral:

CAPE CANAVERAL, FLA.—America's seven candidates for a trip to outer space today were given their first look at the launching site from where one of them will be blasted aloft in a rocket sometime in 1961.

The mercury astronauts arrived unheralded late last night "for familiarization of the Atlantic missile range and its facilities," an Air Force spokesman said.

Their schedule and the length of their stay was not announced immediately, but it was expected to be only several days.

Mr. President, it seems to me that nothing could more appropriately punctuate the point made by the earlier comment that the Nation's vital activities are involved in the operations there than the arrival of the astronauts there, today.

AMENDMENT OF INTERNAL REVENUE CODE OF 1954, RELATING TO REPEAL OF PROVISIONS ALLOWING CERTAIN TAX CREDITS

Mr. McCARTHY. Mr. President, earlier today, on behalf of myself, the Senator from Pennsylvania [Mr. CLARK], the Senator from Illinois [Mr. DOUGLAS], and the Senator from Wisconsin [Mr. PROXMIRE], I introduced a bill which provides for the repeal of section 34 and section 116 of the Internal Revenue Code of 1954. This is the section which allows credit against tax and exclusion from gross income for dividends received by individuals. It is estimated that the removal of this privilege will produce approximately \$400 million a year in additional revenue for the Federal Government.

Members of the Senate are familiar with the background of these provisions in the Internal Revenue Code. In the

early years of income tax legislation, a situation arose under which a man who received income from salary and wages paid a smaller tax than the man who received the same amount of income from dividends. This disparity was eliminated by the Tax Adjustment Act of 1943, when the law was changed so that those with incomes from dividends paid a tax which was equal to that paid on similar incomes derived from wages and salaries. In 1954, the tax bill, which was passed with the strong support of Secretary of the Treasury George Humphrey, gave preferential treatment to those with incomes from dividends. The act of 1954 provided a \$50 deduction for dividend income in addition to the regular deductions which were given to all taxpayers, and it provided for a straight deduction from income taxes of an amount equal to 4 percent of the dividend income up to 4 percent of the individual's taxable income. The original bill proposed by the Treasury proposed a tax deduction which would have risen to 10 percent. The amount was reduced to 4 percent. This provision, it should be noted, is not a deduction from taxable income, but a tax credit; in other words, a deduction from the tax itself, and is determined in this way: After the tax liabilities of taxpayers are determined, a man with income from dividends is permitted to subtract from this amount an amount equal to 4 percent of the amount of his dividends, with a top limit of 4 percent of his taxable income. A man who receives an income from salary or wages has no such privilege.

The arguments advanced for this preferential treatment included, first, the argument that the tax laws had been devised to punish success since the tax laws encouraged people to invest in tax-exempt rather than in risk-capital through stock purchases. In my opinion, this point was never proved, but if it were true in 1954, the proper action, it seems to me, should have been by way of removing the tax exemption from bonds. In any case, no one could call the stock market sluggish today. On the contrary, if there is need for incentive, it is to encourage people to buy government securities, either State or Federal.

The basic question is whether special treatment should be given to the man whose income comes from investments in corporate securities, as against a man whose income comes from wages and salaries. There is nothing in my bill which discriminates against the investor, and it is not a soak-the-rich proposal. The man who invests is entitled to his income. Investment capital is needed in our economy just as labor is needed. The question, however, which is important here, is whether or not income from investments is to be given preferred tax status as against income from labor. It is my opinion that income gained in the way of wages and salaries should not be taxed more heavily than income from investments.

The second argument which was advanced for the administration bill of

1954 was that section 34 and section 116 would decrease the burden of double taxation. The argument was that, since corporations had already paid a tax on profits, it would be double taxation if individual investors should pay individual taxes on their dividends.

We must recognize that nearly all particular taxes are compromises of competing claims—economic or social desirability, plus consideration of ease of administration, and, in some cases, political expediency.

It also should be noted that the imposition of two or more taxes on the same income has considerable precedent, and is not necessarily unjustified.

A person is taxed once on income he receives, and again when he spends it on any of the many items that carry excise taxes—cars, gasoline, jewelry, tobacco, and so forth.

A farmer pays a property tax on the value of his land, and the size of the tax is closely related to the income the farm will yield. Then he is taxed by the Federal Government, and, in many States, by the State government on the income the land produces.

When a man with income from salary or wages hires help for his family, the wages he pays were first taxed as his income, and are then subject to tax on his employee's income.

Of course, legally, the corporation tax and the tax on dividends to individuals do not result in double taxation. The corporation and its stockholders are, by law, different persons from the individuals who are taxed on their dividend income.

But even in the economic sense, the taxation of dividends is not usually double taxation in the strict sense of the term. In the case of the large corporation, it requires little imagination to note the separation of the stockholders and the corporation. Taxing both the profits of the public corporation and the dividends received by the stockholders is not so much double taxation of the same income as separate taxation of the income of two related economic entities. It is on this basis that undistributed profits of a public corporation are not included in the taxable income of the stockholders. None of the supporters of the dividend credit are urging that undistributed profits of corporations be assigned to stockholders annually, and thus become subject to personal income tax rates.

Richard Goode, in his excellent work on the corporation income tax, points out that the validity of the double taxation criticism is limited also by the effect of the corporation tax on the prices of stocks. The corporation income tax should be reflected in the market price of stocks. An anticipated increase in corporation income tax should be reflected in a decline of the price of stocks. An anticipated reduction should normally be reflected also in an increase in the market price of stocks. A corporation tax is, in effect, a one-time levy on stockholders. It immediately depresses the value of the stock. Stockholders who later buy the stock escape the tax. And since stock ownership changes so

frequently, it seems unlikely that many present owners are subject to double taxation.

Actually, the corporation profits tax is largely a regressive tax. Its cost is ultimately paid by the consumer who purchases the company's goods or services—and to this extent it is more of a sales tax than a corporation tax. In effect, corporations tend to price their goods to the level that they will be able, after taxes, to pay dividends comparable to what the investors would receive even if there were no tax. The pertinent question for the Senate is whether the corporation profits tax is inequitable, whether it actually is so high as to injure the economy. If so, the proper step is to reduce the corporation tax.

We all recognize that overlapping of taxation is inevitable whenever revenues come from more than one source. If paying a tax on dividends is double taxation, then there is scarcely a taxpayer who cannot complain of double taxation in comparable instances. The fact is that the individual investor pays only one tax on his personal income. If we decide to give deductions for every claim of so-called double taxation, there will not be much left of the local, State, and Federal tax structure.

Finally, there is no evidence that those who benefit by the dividend credit and exclusion section are in need of special tax relief. In 1955, for instance, 75 percent of all reported dividends were contained in only 2.2 percent of the returns filed. No studies have indicated that this small percentage of our population is in greater need than those who make their income by working for wages or salary.

Mr. President, I ask unanimous consent to have printed at this point in the RECORD a table drawn up last year by the Senator from Illinois [Mr. DOUGLAS].

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Married taxpayer with two children and income of \$10,000 per year

JOINT RETURN OF TAXPAYER A—ALL INCOME FROM WAGES AND SALARY	
Income	\$10,000.00
Less 10 percent standard deduction	1,000.00
Income after deduction	9,000.00
Less personal exemptions	2,400.00
Taxable income	6,600.00
Tax owed	1,372.00
JOINT RETURN OF TAXPAYER B—ALL INCOME FROM DIVIDENDS ¹	
Income from dividends	\$10,000.00
Less dividend exclusion	100.00
Income after dividend exclusion	9,900.00
Less 10 percent standard deduction	990.00
Income after 10 percent standard deduction and dividend exclusion	8,910.00

¹ Stock on which dividends paid owned jointly by husband and wife.

Married taxpayer with two children and income of \$10,000 per year—Continued

Less personal exemption	\$2,400.00
Taxable income	6,510.00
Tax liability before credit	1,352.20
Less 4 percent of dividends up to 4 percent of taxable income	260.40
Tax owed	1,091.80
Difference between taxpayer A and taxpayer B	280.20

Mr. McCARTHY. Mr. President, this table illustrates the tax difference between a family which receives \$10,000 a year from salaries as compared with the tax of a similar family with the same income from dividends. The tax advantage to the family living on dividends is \$280.20, or 20.4 percent. My bill will remove this disparity. I believe that the Congress will be acting responsibly in taking this step to put taxpayers on an equal basis—and at the same time raise an estimated \$400 million in revenue.

The PRESIDING OFFICER. The bill will be received and appropriately referred and, without objection, the bill will lie on the table, as requested by the Senator from Minnesota.

The bill (S. 2036) to amend the Internal Revenue Code of 1954 to repeal provisions allowing credit against tax and exclusion from gross income for dividends received by individuals, introduced by Mr. McCARTHY (for himself, Mr. CLARK, Mr. DOUGLAS, and Mr. PROXMIRE), was received, read twice by its title, and referred to the Committee on Finance.

Mr. McCARTHY. Mr. President, I ask unanimous consent that the bill I have introduced may lie on the table for a week so that other Senators may sponsor it if they wish to do so.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. PROXMIRE. Mr. President, will the Senator yield?

Mr. McCARTHY. I yield.

Mr. PROXMIRE. First, I should like to commend the Senator from Minnesota for what he has done. I think he is completely right. There is no question that the present dividend exclusion is discriminatory and favors the dividend recipient. There is no reason for it. The fact that corporation income is taxed is no ground for excluding dividend income from taxation. It is just as illogical to say that, because a corporation pays an income, the same income should not be taxed when it goes in dividends to a stockholder, as it is to say that an individual who owns a home and pays an income tax to the Federal Government should not have to pay a tax to the local government on the property he owns because that tax is just as much a tax on his income. True, it is in a different form, but the fact is that the tax reduces his income, and comes out of his income, and has to be related to his income. Therefore, as the Senator from Minnesota has so well said, there is a combination and a cascading of taxes on some incomes. When a person pays a sales tax or an excise tax, the same thing occurs.

Mr. McCARTHY. The Senator from Wisconsin is exactly correct. The point the Senator makes applies even more pertinently to the whole area of sales taxes. This is the most obvious case of double taxation. Since a man's income is taxed when he receives it, if, when he spends what is left, he is assessed a sales tax, it is clearly a case of double taxation.

Mr. PROXMIRE. I should like to ask the Senator from Minnesota a further question. Is it not true that the corporate income tax, in the judgment of many economists, does not fall exclusively on the stockholder, but falls in many cases on the customer and falls to some extent on the wage earner who works for the particular corporation? All the people who contribute to the corporate entity, whether they contribute as customers, wage earners, or stockholders, have their income diminished.

Mr. McCARTHY. I will say to the Senator from Wisconsin that in the opinion of most of the tax economists it is essentially a regressive tax. It is my opinion that is the reason why, at the time the particular exclusion was given in the way of dividend income—when Congress had the easy choice of reducing, if they wished to, the rate of tax of corporate income—the choice was made, because the corporate income tax is essentially regressive and is in the nature of a sales tax.

Mr. PROXMIRE. I think the Senator from Minnesota.

AMENDMENTS OF THE INTERNAL REVENUE CODE

Mr. CLARK. Mr. President, I am happy to join with the senior Senator from Illinois [Mr. DOUGLAS], the junior Senator from Wisconsin [Mr. PROXMIRE], and the junior Senator from Minnesota [Mr. McCARTHY] in sponsoring these bills to close tax loopholes.

On the 5th of March I made a speech on the floor outlining my views as to why the budget of the President was inadequate and insufficient to meet the needs of our national defense and of our domestic economy. At that time, I suggested 11 specific tax loopholes which, if closed, would raise an additional \$7 billion of revenue, or enough to permit additional appropriations of from \$4 billion to \$5 billion in the coming fiscal year and still leave a substantial surplus to make a payment on the national debt.

The bills which have been introduced this afternoon are the first step to achieve that result.

I wish to state how grateful I am to my colleagues for joining in the introduction of these bills. I wish to be the first to acknowledge that the Senator from Wisconsin and the Senator from Illinois were ahead of me in introducing the bill reducing the oil depletion allowance—and this is no doubt true of several other Senators.

Before very many more weeks have passed, there will be additional bills introduced to close other loopholes. Next week when the Treasury-Post Office appropriation bill comes before the Senate,

we shall have an opportunity to provide funds to increase the number of internal revenue enforcement personnel, and, by virtue of the additional verifications and audits of tax returns which the increased personnel can perform, obtain many hundreds of millions of dollars in additional revenue.

Mr. President, the purposes for which revenue raised by closing loopholes could be used are threefold. First, it would provide funds for additional public services, such as schools, urban renewal and housing, area redevelopment, hospitals, medical research, and the like. Second, it would make available sums for debt retirement. Third, it would permit, eventually, I hope, tax reforms which would make our tax system more equitable than at present.

Mr. President, we had in mind presenting these loophole-closing bills in the form of amendments to the insurance tax bill which passed the Senate earlier this week, but we did not wish to complicate that bill with amendments which had not been adequately discussed in the Senate at this session. Accordingly we determined on the procedure we have followed this afternoon.

I hope our friends on the Finance Committee, to which I assume these bills will be referred, will give them careful consideration and will indeed hold hearings on them, because, Mr. President, it is our intention to bring these bills forward as proposed amendments to later tax legislation, in the constitutional manner provided by law, when proposed tax legislation comes to the Senate after having been passed by the House of Representatives.

We hope very much that when we do propose these bills as amendments to pending tax legislation we shall not be met with the argument that this is a matter being raised for the first time, or that the committee has had no opportunity to consider the proposals; because the bill which is before the Senate may have to be passed within 1, 2, or 3 days in order to prevent existing tax legislation from expiring. So that such may not be the fact, we are bringing these bills before the Senate and engaging in this discussion of them on the 21st day of May, in order that about 6 weeks of notice can be given before the bills are actually brought to a vote in the form of amendments.

Mr. President, on behalf of myself, the Senator from Illinois [Mr. DOUGLAS], the Senator from Wisconsin [Mr. PROXMIRE], the Senator from Minnesota, [Mr. MCCARTHY], and the Senator from Maine [Mr. MUSKIE], I introduce for appropriate reference, two bills dealing with deduction for expense account spending; the first to amend the Internal Revenue Code of 1954 to provide for additional information on certain returns, and the second to amend the Internal Revenue Code of 1954 to prohibit the deduction of certain expenditures as trade or business expenses.

I ask unanimous consent that the bills lie on the table for 1 week in order that additional Senators may have an opportunity to join as sponsors.

The PRESIDING OFFICER. The bills will be received and appropriately referred; and, without objection, the bills will lie on the table for 1 week.

The bills, introduced by Mr. CLARK (for himself, Mr. DOUGLAS, Mr. PROXMIRE, Mr. MCCARTHY, and Mr. MUSKIE), were received, read twice by their titles, and referred to the Committee on Finance, as follows:

S. 2039. A bill to amend the Internal Revenue Code of 1954 to provide for additional information on certain returns; and

S. 2040. A bill to amend the Internal Revenue Code of 1954 to prohibit the deduction of certain expenditures as trade or business expenses.

Mr. YARBOROUGH. Mr. President, will the Senator yield?

Mr. CLARK. I am happy to yield to the Senator from Texas.

Mr. YARBOROUGH. I wish to commend the Senator from Pennsylvania for his announced determination to seek additional funds for the Internal Revenue Service, so that there may be a reasonable number of agents provided and so that a reasonable check may be made with regard to some of the loopholes which have been discovered and with regard to the failure of certain persons to file adequate tax returns.

Mr. CLARK. I thank my friend for his support, and I look forward to working with him on the floor next week in an effort to have that done.

Mr. President, it appears that from \$5 to \$10 billion are being spent annually on expense accounts, which are claimed as business expense deductions for income tax purposes, at an estimated revenue loss of from \$1 to \$2 billion. It is my view that a large portion of these expenditures should not be allowed as deductions, and I estimate that the enactment of these bills would raise at least an additional \$800 million in taxes a year.

Most of these expenditures are in the following categories: Entertainment at nightclubs, theaters, sporting events, maintenance or operation of yachts or seasonal or vacation lodges or houses, gifts, dues or initiation fees in social organizations, and traveling expenses to conventions outside the United States.

A well-advised individual quoted in an article by V. Henry Rothschild and Rudolph Sobernheim in the July 1958 issue of the Yale Law Journal stated, with respect to the expense account aristocracy:

In cities like New York, Washington, and Chicago it is safe to say that at any given moment well over half the people in the best hotels, restaurants, and nightclubs are charging the bill as an expense of their company.

Uncle Sam pays 52 percent of the cost of the theater tickets or nightclub performances, all on the theory that this is a justifiable business expense.

I make the statement that permitting this type of tax deduction lowers public moral standards and results in an utterly unjustifiable reduction of the revenue which the Federal Government is entitled to receive.

Mr. President, the two bills I am introducing at this time have a common

objective: to raise a substantial amount of public revenue by ending tax abuses permitted by that popular business device—the expense account.

As I stated before, expense account spending has been estimated by a Revenue Service spokesman to total between \$5 and \$10 billion a year, and the annual total has been increasing sharply in recent years. Deductions claimed for these sums have been computed to result in an annual revenue loss of from \$1 to \$2 billion.

The Internal Revenue Code permits expense account spending to be deducted by corporations and business executives as "ordinary and necessary expenses in carrying on a trade or business," if certain broad administrative standards are met.

This general rule permitting deductions of "ordinary and necessary" business expenses has probably been the subject of more tugging and hauling by taxpayers and tax lawyers on one side and internal revenue representatives and courts on the other than any rule of comparable length ever devised by Congress. Under the circumstances it is scarcely surprising to find that the words "ordinary and necessary" have been tortured to cover some rather "extraordinary and unnecessary" deductions.

Thus in one recent case the \$17,000 cost of a 6-month big game safari to Africa by the head of a dairy company and his wife was held to be an "ordinary and necessary" business expense of the dairy because of the promotional value to the business of the game and film brought back. The facts that this fortunate couple were "both experienced hunters" and that their trip included stopovers in London, Paris, and Rome on the way to Africa were not considered to contradict the tax ruling in any way.

Mr. YARBOROUGH. Mr. President, will the Senator yield?

Mr. CLARK. I yield.

Mr. YARBOROUGH. Is the Senator from Pennsylvania of the opinion that shooting lions and elephants in Africa increased the yield of milk of the cows of the dairy owner who charged the safari trip to his expense account?

Mr. CLARK. It is for the very reason that I have hesitated to accept that theory that I have introduced the proposed legislation.

Mr. President, the situation is so ridiculous that it almost speaks for itself. My good friend from Texas, who comes from a cattle-producing and dairy State, can judge far better than I what the effect of the safari on the milk yield of the cows in question would be. I think he is correct in assuming that it would be very little, indeed.

In another case a prominent movie actress was allowed to deduct as ordinary and necessary business expenses, the costs of gifts of a \$775 oil painting to her agent, a \$920 silver tea set and coffeepot to her dialog director, and an \$810 gold necklace and gold clips to her dress designer. In each instance, the actress certified and the tax authorities found that the gift was made solely for business, not personal reasons, and that its

value was commensurate with the services rendered. One may be permitted a doubt as to whether similar gifts by a surgeon to his operating room staff or a school principal to his teachers would have been held deductible.

I wonder what the national bank examiners would have done if the president of a bank had made similar gifts to customers of the bank and attempted to charge them off as business expenses. Mr. President, permitting the cost of gifts between businessmen to be charged as tax deductions is a racket, and the Congress should put an end to it.

Other rulings have allowed as deductible business expenses part or all of the costs of food and liquor at nightclubs, tickets for hit musicals, expenses of attending the Kentucky Derby, the Mardi Gras, football games, country club dues and initiation fees, the costs of maintaining seasonal residences, yachts, and hunting lodges.

In almost all of these instances the auditing agent is faced with a well-nigh impossible task of determining whether the entertainment expense was undertaken primarily for reasons of personal pleasure or for reasons of duty and business and then of allocating costs accordingly.

I contend, Mr. President, that the Government should cease to subsidize the yacht and lodge owners, the Stork Clubs, and the theatrical and sporting events in America by this indirect means. If the privileged few in business circles who enjoy the luxuries permitted by the expense accounts wish to continue to do so, let them do it at their own expense as in the case of the overwhelming majority of other taxpayers.

Expense account spending would be nondeductible on income tax returns under one bill I am sending to the desk on behalf of the senior Senator from Illinois [Mr. DOUGLAS], the junior Senator from Wisconsin [Mr. PROXMIRE] and the junior Senator from Minnesota [Mr. MCCARTHY], if the money has been used for entertainment at night clubs, theaters and sporting events. Similar tax prohibitions would cover spending for maintenance of yachts and hunting lodges, gifts between businessmen, country club dues and travel to conventions outside the United States.

It will be said that tighter administration of existing tax laws could rule out most claims for deductions in these cases, and that no change in the law is necessary. This may be true in theory, but it belies the facts.

Once an extension of deduction privileges for expense account spending is conceded it tends to become considered as a fixed and definite right by all taxpayers affected. Administrative attempts to tighten the rules and exclude such expenditures from privileged tax status raise immediate and overpowering opposition.

The tax amendment proposed would prevent a corporation or business executive from claiming as deductions the sums spent for items on which the return to the taxpayer in terms of personal services is apt to be high and the business purpose subordinate or indis-

tinguishable. To force auditing agents to pass on the reasonableness of claims when the personal and business purpose of the expenditures are almost sure to be blurred is totally unrealistic.

I do not pretend that the list of items cited in this bill will eliminate all tax abuses in the expense account field. It would eliminate some of the worst. Perhaps hearings will indicate that the list should be lengthened or revised. I hope very much that such hearings will be scheduled on this and other bills dealing with tax loopholes bills to be introduced.

The second bill which I am introducing at this time on behalf of Senators DOUGLAS, PROXMIRE, MCCARTHY and myself is designed to enable the Internal Revenue Service to enforce existing rules regarding all expense account deductions more thoroughly.

Corporations and other employers are today required to file information returns in the case of compensation payments of more than \$600 per person. The amounts included on those returns, however, are only those which the employer regards as compensation. The purpose of this bill is to permit the Internal Revenue Service to acquire information as to employer payments whether or not the employer regarded them as compensation. In this way the payments would be identified, and the Service could independently consider payments taxable to the employee or nontaxable reimbursements of expenses.

Two exemptions are contained in the bill. The first would eliminate reporting of payments totaling less than \$200 to any person per year, and the second exempts disclosure of payments made equally available to all employees or class of employees, unless the group consists primarily of officers, shareholders, or highly compensated employees.

The additional control that this proposal would give over expense account deductions would act as a brake on loose use of this item on tax returns.

Anyone who doubts the effectiveness of such a move should review the history of a recent proposal in this field. In 1957 the Treasury Department put out a tax form containing a new line 6-A to require total reimbursed expenses to be reported in the employees gross income and claimed business expenses to be deducted with appropriate itemization. Strong protests from many quarters led to the abandonment of this requirement in short order. "You have no idea of the pressure that was brought on the Service from people who get expense account money" said one official of the Internal Revenue Service.

The proposal made in this bill was favored by the Treasury in the past—H.R. 7893, 82d Congress, 2d session, section 104—and the exemptions which are included make the proposed requirement entirely reasonable.

Mr. President, I enjoy luxuries as much as does the next man, but I see no reason why such services should be subsidized by the U.S. Treasury. It is no longer open to question that expense accounts, which are enjoyed by the privileged few, are widely and flagrantly abused. These bills will eliminate some

of the worst abuses and provide the administrative means to eliminate others.

Mr. President, I yield the floor.

IRRESPONSIBLE STATEMENT BY JAMES HOFFA

During the delivery of Mr. CLARK'S speech,

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. CLARK. Mr. President, I ask unanimous consent that I may yield to the Senator from Delaware without losing my right to the floor and that his remarks may be printed in the RECORD after the conclusion of my remarks, since I should like to have my remarks connected with the remarks of the Senator from Minnesota and of the Senator from Wisconsin.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Pennsylvania? The Chair hears none, and it is so ordered.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent to have printed in the body of the RECORD an editorial which was published in today's issue of the Wall Street Journal entitled, "The Public Be Damned."

This editorial calls attention to the recent irresponsible statement by James Hoffa, when he threatened Congress and the American people with a nationwide strike as a protest against any law he did not like.

This statement by Mr. Hoffa demonstrates the great need for Congress to pass adequate legislation curbing the power of such arrogant and irresponsible individuals.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

THE PUBLIC BE DAMNED

It was a long time ago that one of our leading tycoons, questioned about the public interest in a private decision he had made, was quoted as saying, "The public be damned."

Nonetheless, the phrase has passed into history as a symbol of arrogance and ruthlessness on the part of private power over the public weal. It is usually encountered in schoolbooks under a Nast cartoon portraying the stereotyped "robber baron" of the turn of the century.

Yet the Goulds, the Fisks, the Vanderbilts, the Rockefellers and all the rest had in their day not so much power all combined as one or two men each now holds in their little fingers. And just the other day, one of these men, Jimmy Hoffa, told us how he might use that power, though later he promised not to use it right now.

Mr. Hoffa, the durable boss of the Teamsters Union, envisioned one solitary strike throughout the United States to tie up all the employers of the Nation at one time. And his threat was given a rousing endorsement by William Bradley, president of the International Longshoremen's Union.

Now the cause of all this is the fact that the Congress of the United States is considering legislation to regulate labor unions. In one much discussed bill the regulation is so mild it would hardly affect Mr. Hoffa's power at all; even in another form it would seek only to apply to the conduct of some labor unions the same legal restrictions, such as the antitrust laws, that apply to other types of economic organizations of people, such as shareholders in a business.

But Mr. Hoffa disapproves. So does Mr. Bradley. Disapproving, they are prepared to show employers a thing or two. And the Congress. And the public. For a general strike is a strike against everybody, big employers, little employers, housewives, and employees everywhere who may not share the Hoffa views but who are put out of work just the same.

Technically speaking, the Messrs. Hoffa and Bradley may not be able to order the steelworkers or the bakery workers not to work. But they can order the longshoremen not to load cargo and the truckdrivers not to carry it, and when the members do as they are told it will not be long before there is no steel in the shops and no bread in the stores.

Now the disturbing part of all this is that under our present laws no one can say "nay" to the Messrs. Hoffa and Bradley. Or to Mr. McDonald if he wants to shut down all the steel mills. Or to Mr. Reuther if he wants to shut down all the auto factories.

And the shocking part of it is that the public has not only let this power grow but seems to be apathetic about its continuance. People can get excited when some labor official, as many have, dips his hand in the union till or has somebody knocked in the head. Very few show concern about the power of unions to knock the country in the head.

Perhaps it's just one of those cases where people ignore a threat until it becomes a real disaster; a "Mein Kampf" always seems too arrogantly fantastic to be true. If so, no one ought to be surprised if one day a Jimmy Hoffa says "the public be damned"—and the public finds that it is.

WHEAT ACT OF 1959

The Senate resumed the consideration of the bill (S. 1968) to strengthen the wheat marketing quota and price support program.

Mr. CURTIS. Mr. President, I wish to speak briefly on the pending legislation, Senate bill 1968, a bill dealing with the support price on wheat and the wheat program.

I regret that this bill is before us. It seems to me that we should have a better program for our wheat farmers. I offer no criticism of individual members of the Committee on Agriculture and Forestry, or of individuals in the Department of Agriculture; but it seems to me that the bill falls far short of being of value to the wheat farmers and the consumers of bread, or to the U.S. Treasury.

As I understand, the bill would call for a reduction of the support price on wheat to 65 percent of parity unless the farmer should choose to cut his acreage by 20 percent.

It is debatable how many farmers would choose to cut their acreage by 20 percent. Some would. Perhaps all of them would be compelled to increase their production per acre. The costs to a farmer are so great that he must produce every bushel he can in order to remain in business.

I do not believe that the passage of the bill would reduce the amount of wheat production. It would lessen the income of our wheat farmers. This is particularly true if the farmers, as individuals, find it impossible to apply the 20 percent acreage reduction.

We should bear in mind that the acreage has been reduced and reduced, year

after year. We should also bear in mind that the proposed legislation would in no sense reduce the cost of bread or of other food made from wheat. For many years we have seen the price of wheat go down. Likewise, we have seen the price of bread go up. That situation is true now, and it has been true for some years. If we should lower the price of wheat—and the support price does fix the price of wheat—when we know that such action would not lower the price of bread, who would gain?

The economics of the bill need further scrutiny. The bill in its present form is of very doubtful value. I am unable to state exactly how much wheat the Federal Government owns. It is reported to be in excess of a billion bushels, perhaps a billion and a third. If the support price fixes the market price of wheat, and Congress lowers the support price of wheat, we will also lower the value of the wheat owned by the Government by several hundred million dollars. Again I say that the economics of the bill need some attention. I cannot see how it will benefit the farmers, the consumers, or the Federal Treasury.

Mr. President, I would have no right to criticize the proposed legislation if I did not suggest something else. The organized wheat growers of the country and many individual wheatgrowers favor what is called the domestic parity plan. It is before the Senate. It has been offered by the distinguished Senator from Kansas [Mr. CARLSON]. Other Senators have joined as cosponsors. Many persons believe it would work, and a sizable group of wheat producers want it enacted. It will lessen the cost to the Federal Treasury. It will increase the income of wheat farmers. It is based on the principle that that part of our wheat production which is consumed in our country should have a fair American price, and that if production goes over that, a lower price should prevail in order to export the wheat and use it for other purposes.

That is my first suggestion.

My second suggestion is that the Government ought to be about the business of providing greater uses for the products of farms. About 3 years ago I sponsored legislation which created a Presidential commission to recommend industrial uses of our farm surpluses. They made an excellent report. The Senate last year passed a bill to implement that report. The Committee on Agriculture and Forestry has again reported such a bill. It has not yet been called up. I am sure it will be.

However, the entire program has not moved forward as it should have done. Bureaucracy is not excited about it. All through the years, ever since the Department of Agriculture has been created, the bureaucrats have made no noticeable efforts to find new uses for what the farmers produce. They have resisted the creation of the President's bipartisan commission to find new uses. The bureaucracy have not backed legislation to implement the recommendations of the commission as they should. They will go along if they are forced to do so, provided every little nook in the bureaucracy

can have something to do with it and maintain or enlarge its domain.

What we need, Mr. President, is to have someone become excited about the farm program, and do something for agriculture, rather than to maintain the status quo in the Department of Agriculture, or to enlarge the scope of the Department of Agriculture and the various sections of it, because people are interested in having bigger and better jobs.

Mr. President, the hour is late. I merely wish to recite a few illustrations. I hold in my hand a piece of paper. We are short of paper in this country. We must import it. Quite often the publishers of the country become concerned about the short supply of paper.

We could add to the present ingredients of paper about 10 percent by the use of starch made from farm products. However, if we folded the paper it would be brittle and would crack. Scientists tell us it is a small undertaking in research to overcome the brittleness. Yet nothing is being done about such research, because our program of research and pilot development and finding new uses is stalled on dead center. Were we to put 5 percent of starch from our farm surpluses into the paper used in the country, it would take 100 million bushels of grain.

That is only one use.

At the present time there is a great need in industry for industrial alcohol, plastics, fuels, and everything else that is derived from alcohol. It is not made from farm products, because it can be made cheaper from petroleum.

That does not have to be the answer. The way alcohol is made now from farm products is through the fermentation process. After the starch is taken out of the surplus grains and alcohol is made from it, the residue is not fit for human consumption. It is a high protein and very good for livestock, but it is a waste product so far as human food is concerned.

It is believed by many capable scientists that, with a little research, we can separate the starch from the protein in our surplus grain and have remaining a protein residue which is fit for human consumption. That protein residue then will have a very high value. It will sell by the pound, instead of by the ton. It will no longer be a waste product.

Second, the starch which is turned into alcohol will be a byproduct. It will be much cheaper. It will compete with alcohol made from other sources.

I might add, Mr. President, that there is no surplus of protein in the world. Our surpluses are in starch. All the foreign countries want protein. If the required research and development could be carried on, so that we could have a concentrate of protein, there would be a market for it throughout the world. At this time Italy realizes that a diet of macaroni and spaghetti has its deficiencies, even though it is very tasty, and that the Italian people need more proteins. We could take our farm surpluses, remove the starch from them, turn them into industrial uses, and have a concentrate of protein, with a great sale value and a worldwide market.

Mr. President, the recommendations of the Welsh Commission, the bipartisan Commission appointed by the President, call for a program of broad research and pilot testing and trial commercialization. These things are the answer not only to the wheat problem but also to the problems of agriculture generally.

The task force on sugar, potatoes, and all the other products pointed out that industry can use our surplus agricultural products. The earth produces 250,000 plants; but not more than 150 have ever been domesticated—not 150,000, but 150. It remains for research to find industrial uses for the rest of those plants, whether those uses be for paints and varnishes, or drilling muds, or paving materials, or what not. Thus they will have a value. Also, the good earth will produce things besides food.

The bill before the Senate continues up the same blind alley of not bringing relief to farmers, not enlarging markets, not saving the Federal Government money, and certainly not doing the consumer any good.

Mr. President, I am disappointed with the bill. I hope its basic premises can be reexamined. I hope the amendment which will be offered by the distinguished junior Senator from Kansas [Mr. CARLSON], providing for the domestic parity plan, will be adopted.

I urge, although it is not a part of the proposed legislation, that the program of industrial uses for farm products move forward. It is my hope that someone will rise up in the bureaucracy and decide that Government agencies have a responsibility to find markets for the farmers of the country.

ADJOURNMENT UNTIL 10 A.M. TOMORROW

The PRESIDING OFFICER. Pursuant to the order previously entered, the Senate will stand adjourned until 10 o'clock tomorrow morning.

Thereupon (at 6 o'clock and 51 minutes p.m.) the Senate adjourned, under the order previously entered, until tomorrow, Friday, May 22, 1959, at 10 o'clock a.m.

NOMINATIONS

Executive nominations received by the Senate May 21, 1959:

DIPLOMATIC AND FOREIGN SERVICE

John M. Cabot, of the District of Columbia, a Foreign Service officer of the class of career minister, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to Brazil.

The following-named persons for appointment as Foreign Service officers of class 4, consuls, and secretaries in the diplomatic service of the United States of America:

Harry Grossman, of California.
Paul Kelly, of Pennsylvania.
Edward W. Lawrence, of Virginia.
Robert F. Lent, of New York.
Henry C. Martin, of Virginia.
George Lewis Warren, Jr., of Connecticut.

Miss Emily C. Cox, of South Carolina, for appointment as a Foreign Service officer of class 5, a consul, and a secretary in the diplomatic service of the United States of America.

The following-named persons for appointment as Foreign Service officers of class 6, vice consuls of career, and secretaries in the diplomatic service of the United States of America:

Mrs. Erna V. Beckett, of California.
Miss Evelyn Blue, of New York.
Miss Jean M. Chisholm, of Minnesota.
Miss Edna Grenlie, of Wisconsin.
Clement J. Mulligan, of Maryland.
William E. Paul, of Pennsylvania.
Rafael F. Torres, of Texas.
Mrs. Marguerite Whitehead, of Washington.
Deering E. Wilson, of Indiana.

The following-named persons for appointment as Foreign Service officers of class 7, vice consuls of career, and secretaries in the diplomatic service of the United States of America:

Robert G. Adam, of California.
Josiah H. Brownell, of Iowa.
Maurice C. Burke, of Massachusetts.
Allen Cooper, of New York.
John M. Curry, of New York.
Charles S. Hellyer, of Florida.
Miss C. Patricia Junk, of Ohio.
James E. Kiley, of California.
Miss Loreice E. Lutfy, of Michigan.
Paul B. McCarty, of Massachusetts.
Miss Carmen McKee, of Washington.
Louis M. Marrano, of California.
Miss Georgiana M. Prince, of Illinois.
John Susko, of Pennsylvania.
Miss Martha E. Turnbull, of Ohio.
Elwin T. Vangas, of New Hampshire.
Robert E. Waska, of Texas.

The following-named persons for appointment as Foreign Service officers of class 8, vice consuls of career, and secretaries in the diplomatic service of the United States of America:

Robert L. Bruce, of California.
Homer M. Byington III, of Connecticut.
Thomas J. Carolan, Jr., of Maryland.
Allen E. Caswell, of New York.
Gordon A. Cornell, of Massachusetts.
William O. Dingwall, of Maryland.
Frazier Draper, of Florida.
Brandon H. Grove, Jr., of New York.
James T. Hackett, of California.
Keith M. Heim, of Nebraska.
Henry A. Holmes, of the District of Columbia.

Miss Carolyn E. Kingsley, of Minnesota.
William H. Mansfield III, of Connecticut.
Frank Micelotta, of New York.
William G. Miller, of Massachusetts.
Gerald Joseph Monroe, of New York.
Albert W. Noonan, Jr., of Illinois.
William Ophuls, of New York.
Nicholas Platt, of the District of Columbia.
Russell O. Prickett, of Minnesota.
Walter F. Schepp, Jr., of New York.
Robert Siegel, of New York.
Miss Helen M. Steiner, of New York.
James P. Sullivan, of Pennsylvania.
T. Elkin Taylor, of Georgia.
Thomas M. Tonkin, of Illinois.

The following-named Foreign Service Reserve officers to be consuls of the United States of America:

Robert E. Boles, of the District of Columbia.

Joyce R. Herrmann, of Indiana.
Robert G. Mahon, of California.

The following-named Foreign Service Reserve officers to be vice consuls of the United States of America:

Robert H. Lupton, of New York.
David L. Milbank, of California.
Richard J. Shugrue, of Virginia.

The following-named Foreign Service Reserve officers to be secretaries in the diplomatic service of the United States of America:

Robert G. Bent, of Maine.
Robert G. Brewster, of Illinois.

William D. Carey, of Virginia.
Morris H. Lax, of Maryland.
Frank H. Oram, Jr., of the District of Columbia.

TENNESSEE VALLEY AUTHORITY

Brooks Hays, of Arkansas, to be a member of the Board of Directors of the Tennessee Valley Authority for the remainder of the term expiring May 18, 1960, vice Frank James Welch, resigned.

APPOINTMENTS IN THE NAVY AND MARINE CORPS

The following-named midshipmen (Naval Academy) to be ensigns in the restricted line of the Navy, subject to qualifications therefor as provided by law:

James A. Kelly
Peter S. VanNort
Daniel E. Ralston, midshipman (Naval Academy) to be an ensign in the Supply Corps of the Navy, subject to qualifications therefor as provided by law.

Richard M. Krol (Naval Reserve Officers' Training Corps) to be an ensign in the line of the Navy, subject to qualifications therefor as provided by law.

Alan G. Brown (Naval Reserve Officers' Training Corps) to be an ensign in the Supply Corps of the Navy, subject to qualifications therefor as provided by law.

The following-named Reserve officers to be lieutenants in the Medical Corps of the Navy, subject to qualifications therefor as provided by law:

Donald J. Conlon
Fredrick Y. Durrance, Jr.
Hugh A. Klotz

The following-named Reserve officers to be permanent lieutenants (junior grade) and temporary lieutenants in the Medical Corps of the Navy, subject to qualifications therefor as provided by law:

George W. Oden
John L. Ickler
Richard A. Lockwood
George W. Oden
Vincent J. Scavo
Donald E. Willard, Jr.

The following-named Reserve officers to be permanent lieutenants and temporary lieutenant commanders in the Medical Corps of the Navy, subject to qualifications therefor as provided by law:

Fred R. Edens
George F. Monahan, Jr.

Daniel P. DeLave, Reserve officer to be a lieutenant in the Medical Corps of the Navy and to be promoted to lieutenant commander when his line running mate is so promoted, subject to qualifications therefor as provided by law.

The following-named (Naval Reserve aviators) to be lieutenants (junior grade) in the Navy, subject to qualifications therefor as provided by law:

Julian R. Abbott
James B. Aucoin
Richard B. Baumstark
Clyde A. Beagle, Jr.
Dennis G. Bisek
Ronald R. Boyle
Brian K. Bryans
Richard W. Burt, Jr.
William L. Cain
Carl E. Campbell
Donald V. Davis
Jimmy W. Davis
Robert V. Dean
James F. Dorsey, Jr.
James M. Ferry
Charles E. Foster
John K. Gardella
Thomas V. Golder
Lewis S. Gray
Jim F. Hagan
Sam H. Hawkins
Jack M. Jackson
Milton L. Jines
William D. Kiper
Christian A. Lange, Jr.
Daniel G. MacIntyre
Charles H. McNeil
Wendell E. Miller
Charles K. Moran, Jr.
Charles P. Muhl, Jr.
Joe R. Newsom
George R. Persons
Ronald T. Pollard
Ronald L. Ream
Duane O. Schumacher
Norman T. Self
Allen F. Spouster
David R. Streeter
Theodore R. Swartz
James W. Thomas
Richard A. Walker
Jerry D. Walston
Harold B. Walter
Charles T. Wells
John V. Wheeler
William L. Wilke
Benjamin B.
Woodworth
A. Courtney Yelle

The following-named officers in the Medical Corps of the U.S. Navy for permanent promotion to the grade of rear admiral:

Allan S. Chrisman
Calvin B. Galloway
Bernard D. Garrett, U.S. Navy, for temporary promotion to the grade of lieutenant, subject to qualification therefor as provided by law.

Robert M. Stanford, U.S. Navy, for permanent promotion to the grade of lieutenant (junior grade), subject to qualification therefor as provided by law.

William D. Munsey, U.S. Navy, for permanent promotion to the grade of lieutenant (junior grade), subject to qualification therefor as provided by law.

The following-named officers of the Navy for permanent promotion to the grade indicated:

LIEUTENANT COMMANDERS, LINE

Wayne E. Spainhour
Jacob P. Smith
John L. O'Neill
Paul J. Cunningham
Robert B. Read
Leland E. Kirkemo
Robert L. Clarke
George R. Gill
Robert Cummings
Harold O. Richards
Joseph L. Delaware
Harold K. Matthes
Robert F. Byrnes
Joseph Casco
Robert P. Buerger
John C. McKee
William C. O'Brien
Roman V. Maraszek
Donald W. McMaster
James C. Skipper, Jr.
William P. Pendery
John C. McCabe
Walter Scott
Daniel V. Marshall, Jr.
Fred W. Woessner, Jr.
Robert S. Sutherland
Lester M. Heller
George F. Bean
Melvin W. Jasper
James L. Mullen
John H. Brandenburg
Edward F. Roth
Gordon R. Barnett
Jimmie C. Jones
John Grentzer
Shuler H. Mayes
Alfred C. Dinnel
William E. Hubert
Marvin S. Blair
Henry S. Morgan, Jr.
Lincoln H. Lippincott, Jr.
Thomas J. Murray
Warren H. Miles
Myrtis B. Smith
Calvin R. Davis
David D. Work
Jack A. Jester
David D. Ditzler
Robert A. Moore
Ray L. Humphries
Rembrandt C. Robinson
William R. Trotter
Donald J. Hanson
Sam K. Irving
Ernest C. Connelley, Jr.
Henry E. Sodke, Jr.
Charles D. Everhart
Harold L. Cravens
Richard A. DuVall
Thomas J. Quarton
Phillip F. Mohr
Robert S. Hoyle
Richard R. Justice
Carl Durtche, Jr.
Paul J. Hoffman

Albert C. Lauer
Gordon W. Bailey
George "L." Ayers, Jr.
William W. R. Meyring
Joseph W. Brown, Jr.
Marvin D. Montgomery
Robert Tull
Earl R. Bergsma
William J. Vaught
Robert H. Lenson, Jr.
Frank C. Brtek
Robert A. Du Biel
Isaac N. Pell, Jr.
Milton E. Fife
Francis Y. Thigpen
Burke W. Stout
Laurens W. Youmans, Jr.
Burke D. Lucas, Jr.
Frederick T. Rooney
David B. Holland
Cliff Stewart
Robert V. Rasko
Richard D. Herman
Julius H. Moessner
John J. Gallagher
Harry W. Cook
Bruce W. Robertson
Melvin A. Feher
Hugh W. Smith
Philip P. Doyle
Joseph P. Gregonis
Joseph L. Reilly, Jr.
Harry M. Wagner
Robert Heiderer
Donald D. Whitney, Jr.
Albert T. Holt
Horace G. Smith, Jr.
Robert J. Sadler
John D. Nevins
John S. Grischy
Robert E. Brownlee, Jr.
Albert H. Folsensbee
Robert G. Wallace
Walter T. Broughton
II
Robert J. Baker
George E. Barton
Richard R. Carlson
Robert H. St. Clair, Jr.
Elton V. Conger
John F. Condren
Robert F. Roemer
Richard J. McAndrew
Gerald Johnson
Francis E. Rivers
George Elmles
William P. Becker
Stephen E. Gamwell
Robert J. Blaisdell
Mahlon H. King
Eugene N. Berglund, Jr.
John A. Jenkins
George H. Garbark
John W. Hamilton
John L. Howard
Jack Caldwell
Prentice J. Custer
Ray D. Schmoranc
Robert R. Ellis
Stuart T. Faulkner
Willoughby W. Penney
Edward Ciulis
Robert A. Burt, Jr.
Francis N. Masuen
Robert F. Wheeler
Herbert A. Yarbrough
Albert W. Bradbury
Arthur W. Price, Jr.
Lester H. Boutte
John H. Capistran
John P. Blair
"D" Hunt Williams
Lawrence E. Willson, Jr.
John J. Dulhagen
Frederick J. Brown
Billy D. Howard
Jack N. Lindsay
Ernest "G" Greene

LIEUTENANT COMMANDERS, SUPPLY CORPS

Elgie L. Burrus
John M. O. Jones
Emil Anderson
Alfred R. Kallaus, Jr.
Dean C. Stafford, Jr.
Robert W. Stewart
Garnett "E" Howard
Francis Roche
Raymond A. Jones
Walter H. Bray
Charlie B. Aycock, Jr.
James A. Hart, Jr.

LIEUTENANT COMMANDERS, CHAPLAIN CORPS

William T. Kennedy
Calvin H. Elliott, Jr.
Marshall E. Brenne-
man
Bashford S. Power
Arnold P. Spohn
Ross H. Trower

John W. Brown
Royal W. Baker
Ernest J. Mills
James D. O'Shaughnessy
Carson R. Tallent
Henry L. Newbill III
Harvey Black
James A. Beaubouef
Wayne J. Pike
William R. Dolan, Jr.
William L. Burns
George J. Webb
Charles P. Gehrmann, Jr.
John B. Warfield
John C. Humphreys
Keith E. Bailey
Robert H. Hunter
Kenneth R. Karr
Robert A. Norin
George D. Quinn, Jr.
Herman G. McGrath, Jr.
George D. Hudson
Frank J. Last, Jr.
Richard T. Zettel
Howard D. Mentzer
Gerald W. Smith
George E. Richards
Leroy V. Aitz, Jr.
Howard N. Martin
George H. Edmondson
Edward J. McCarthy
James E. Odom, Jr.
Louis J. Collister
Frank T. Hemler
Paul D. Diamantides
Harold L. Jones
Joseph M. Schneiders
James C. Wilkins, Jr.
Edward L. Carpenter
Thomas L. Tranter
Wayne F. Smith, Jr.
William H. Velt
Joseph C. Finnigan
Andrew A. Tonkovic
Harry C. Scarborough, Jr.
Willard M. Mound
Paul E. Spencer
Henry J. Airey
Burna D. Levi, Jr.
Wallace E. Sharp
George J. Rehe
Robert M. Gardner
Hoyt P. Maulden
Max A. Zesiger
William J. Forgy
Wayne C. Shepard
Harold R. MacMillan
Donald C. Oliver
Harold R. Miller
George M. Miller
Howard N. Wegmet
Henry F. De Ment
Lachlan B. Poppellwell

LIEUTENANT COMMANDERS, CIVIL ENGINEER CORPS

Jason M. Patrick
Townsend H. Cushman, Jr.
David P. Cunning
Frank M. Laurenzano
Lawrence H. Eding
Bernard L. Hansen
Richard L. Divoll

LIEUTENANT COMMANDERS, DENTAL CORPS

Ernest E. Davies
June L. Cox

LIEUTENANT COMMANDERS, MEDICAL SERVICE CORPS

Calvin "F" Wallace
James O. Atkinson
Woodrow C. Manley
Stewart P. Tipton
Jack A. Chapdelaine
David J. McLellan
William H. Shepherd
Robert W. Eastman
Thomas A. Boyd, Jr.
Nova Longest
Thomas L. Hollis
Byron C. Raybourn

The following-named (Naval Academy graduate) for permanent appointment to the rank of second lieutenant in the Marine Corps, subject to the qualifications therefor as provided by law:

Arthur E. Archambault

The following-named (Army Reserve Officers Training Corps) for permanent appointment to the rank of second lieutenant in the Marine Corps, subject to the qualifications therefor as provided by law:

Robert M. Hall

CONFIRMATION

Executive nomination confirmed by the Senate May 21, 1959:

INTERNATIONAL ATOMIC ENERGY AGENCY

Paul F. Foster, of Maryland, to be representative of the United States of America to the International Atomic Energy Agency.

HOUSE OF REPRESENTATIVES

THURSDAY, MAY 21, 1959

The House met at 12 o'clock noon.

The Chaplain, Rev. Bernard Braskamp, D.D., offered the following prayer:

Romans 14: 19: *Let us therefore follow after the things which make for peace.*

Eternal God, inspire us in this moment of prayer with a wholehearted desire to meet and discharge faithfully the duties and demands of our high vocation.

Grant that we may define and interpret the meaning and significance of our life in terms of the service that we are rendering to establish the kingdom of righteousness on the earth.

May our minds and hearts be filled with glorious hopes and longings for the coming of that day when all men and nations shall seek and follow those ways which make for peace.

In Christ's name we pray. Amen.

The Journal of the proceedings of yesterday was read and approved.