

**THIRTY-SECOND ANNUAL REPORT OF
GENERAL MOTORS CORPORATION
YEAR ENDED DECEMBER 31, 1940**



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ANNUAL REPORT

OF

GENERAL MOTORS CORPORATION

YEAR ENDED

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CONTENTS

Officers and Directors	<i>page</i> 4
A Policy of Giving the Facts	6

THE REPORT OF THE CHAIRMAN

1940 in Brief	8
An Economic Review	14
The Program of National Defense	20
An Operating Review	24
Product Evolution	31
Labor Economics	33
Cooperative Plans	38
Executive Management Compensation	44
Owner-Management	50
Public Relations	52
Moving Forward	54
Cost of Government	55
A Financial Review	58

FINANCIAL STATEMENTS

Summary of Consolidated Income	72
Summary of Consolidated Surplus	73
Condensed Consolidated Balance Sheet	74
Investments and Miscellaneous Assets	76
Auditor's Certificate	77
General Motors Acceptance Corporation Consolidated Balance Sheet	78

STATISTICS

Record of Sales, Earnings and Dividends	79
Payrolls and Number of Employees	80
Bonus Awards	81
Unit Sales of Cars and Trucks	82
Number of General Motors Stockholders	83
Cars and Trucks Registered in United States	83

TWO DECADES OF PROGRESS	<i>facing page</i> 42
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OFFICERS

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CHARLES E. WILSON, *President*

ALBERT BRADLEY, <i>Vice-President</i>	ORMOND E. HUNT, <i>Vice-President</i>
ERNEST R. BREECH, <i>Vice-President</i>	CHARLES F. KETTERING, <i>Vice-President</i>
DONALDSON BROWN, <i>Vice-President</i>	FREDERICK C. KROEGER, <i>Vice-President</i>
MARVIN E. COYLE, <i>Vice-President</i>	BAYARD D. KUNKLE, <i>Vice-President</i>
HARLOW H. CURTICE, <i>Vice-President</i>	CHARLES L. MCCUEN, <i>Vice-President</i>
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RONALD K. EVANS, <i>Vice-President</i>	JAMES D. MOONEY, <i>Vice-President</i>
EDWARD F. FISHER, <i>Vice-President</i>	JOHN THOMAS SMITH, <i>Vice-President and General Counsel</i>
LAWRENCE P. FISHER, <i>Vice-President</i>	FLOYD O. TANNER, <i>Vice-President</i>
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PAUL GARRETT, <i>Vice-President</i>	MEYER L. PRENTIS, <i>Treasurer</i>
RICHARD H. GRANT, <i>Vice-President</i>	FREDERIC G. DONNER, <i>General Asst. Treasurer</i>
GRAEME K. HOWARD, <i>Vice-President</i>	ANTHONY C. ANDERSON, <i>Comptroller</i>

LISLE R. BEARDSLEE, *Secretary*

TRANSFER OFFICES

BROADWAY AT 57TH STREET
NEW YORK, N. Y.

DU PONT BUILDING
WILMINGTON, DEL.

REGISTRARS

CHASE NATIONAL BANK
NEW YORK, N. Y.

WILMINGTON TRUST CO.
WILMINGTON, DEL.

BOARD OF DIRECTORS

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DONALDSON BROWN, *Vice-Chairman*

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ALBERT BRADLEY	CHARLES F. KETTERING
WALTER S. CARPENTER, JR.	LORD MCGOWAN
MARVIN E. COYLE	R. SAMUEL MCLAUGHLIN
HARLOW H. CURTICE	JAMES D. MOONEY
HENRY B. DU PONT	JUNIUS S. MORGAN
HENRY F. DU PONT	CHARLES S. MOTT
LAMMOT DU PONT	JOHN L. PRATT
PIERRE S. DU PONT	JOHN J. RASKOB
LAWRENCE P. FISHER	JOHN J. SCHUMANN, JR.
WILLIAM A. FISHER	JOHN THOMAS SMITH
RICHARD H. GRANT	GEORGE WHITNEY

CHARLES E. WILSON

POLICY COMMITTEE

ALFRED P. SLOAN, JR., *Chairman*

ALBERT BRADLEY	ORMOND E. HUNT
DONALDSON BROWN	JOHN THOMAS SMITH
WALTER S. CARPENTER, JR.	GEORGE WHITNEY
LAMMOT DU PONT	CHARLES E. WILSON

ADMINISTRATION COMMITTEE

CHARLES E. WILSON, *Chairman*

ALBERT BRADLEY	BAYARD D. KUNKLE
ERNEST R. BREECH	CHARLES L. MCCUEN
RONALD K. EVANS	JAMES D. MOONEY
LAWRENCE P. FISHER	ALFRED P. SLOAN, JR.
RICHARD H. GRANT	FLOYD O. TANNER
ORMOND E. HUNT	WILLIAM C. WILLIAMS, JR.

COMMITTEE ON AUDIT

JOHN L. PRATT, *Chairman*

HENRY B. DU PONT	CHARLES S. MOTT
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A POLICY OF GIVING THE FACTS

The responsibility of an industrial organization to present the important facts of the business to its stockholders has always been fully recognized by the management of General Motors Corporation. The management, however, further believes that, when the operations reach the scope and magnitude of those of General Motors, there enters an added responsibility—one to the community at large. Every effort has been made to discharge adequately both of these obligations. It has not been considered sufficient to present, even in detailed form, just the important facts of a statistical nature. There also has been presented such salient information of a general character as should enable the stockholders and the public at large to obtain as complete an understanding as possible of the Corporation's position as well as of its operating policies. Any forecast as to the future, however, is considered undesirable.

The management's obligation to state its position extends to such general influences as may, in its belief, alter the Corporation's opportunity for constructive accomplishments and hence its contribution to the general welfare. It extends particularly to such forces as may develop within the economic area, which are of great importance as affecting the stockholders' interests. Such influences are reflected in various economic policies that may be adopted from time to time by the management in the interest of the business, or as may result from the general industrial trend, or as may relate to industry by action of government. Irrespective of their origin, or whether their influence be favorable or unfavorable as affecting the operations of the business, it is considered an essential responsibility to inform the stockholders frankly as to such facts and circumstances.

In accordance with this policy, reports are submitted at the end of each of the first three quarters of a year outlining the results of each quarter's operations, accompanied by such comments as seem pertinent. These quarterly reports in turn are supplemented from time to time by messages on special subjects believed to be of importance to the stockholders. As soon as possible after the close of the year, an annual report is submitted, the purpose being to deal comprehensively, in an historical way, with all the important events that have developed during the year under review.

**THE
1940 ANNUAL REPORT
OF THE CHAIRMAN
OF GENERAL MOTORS
CORPORATION**

T O O U R S T O C K H O L D E R S

THERE IS PRESENTED HEREIN a review of the operations of your Corporation and subsidiary and related interests for the year 1940, together with a consolidated balance sheet as of December 31, 1940, and a summary of consolidated income for the year. There is also presented a center spread showing the trend of certain pertinent factors over the years.

It is recognized that not all of the Corporation's stockholders are interested in the detailed presentation of the year's operations as contained in the main body of its annual report. However, a full disclosure therein is essential in order to establish a complete record for future reference. For those who are concerned only with the more salient points, the following resumé is presented.

1940 IN BRIEF

In General

During 1940 the normal production of goods and services in many countries was greatly reduced. Industrial countries at war have subordinated normal peacetime production to the demands for war materials, and their governments have taken over the responsibility of directing production and distribution of essential commodities. Curtailment of distribution facilities has kept goods and services from normal markets in some other areas. In the United States the peacetime organization of industry continued to prevail, although strongly affected, and to an increasing degree, by war abroad. Thus the existence of war in Europe dominated economic activities throughout the world in 1940.

Automotive production in this country was maintained at relatively high levels throughout the first half of the year. After the usual interruption of operations incident to the annual model change, production in September and in the succeeding months reached increasingly higher levels, reflecting a consumer demand substantially above that of the early part of the year. This demand for automotive products was only one of several indications that the national income and purchasing power in the United States had been stimulated by the production of materials needed by the belligerents for the war in Europe and to an increasing degree by the evolution of the domestic program of national defense. Such increased purchasing power was reflected very generally throughout all the Corporation's various activities as will be seen in the following summary.

Sales

In Terms of Value—The Corporation produced and sold to the distributors of its products throughout the world merchandise with a net value of:

1940...	\$1,794,936,642
1939...	\$1,376,828,337
	increase 30%

In Terms of Automotive Units—Passenger cars and trucks produced by the Corporation's United States and Canadian plants and sold throughout the markets of the world totaled:

1940...2,025,343
 1939...1,542,776
 Increase 31%

Sales of non-automotive products also showed substantial increases in 1940.

Competitive Position

During the year, the Corporation's proportion of new passenger cars and trucks sold to consumers in the United States, as measured by registrations, was the highest on record, amounting to 45.6% of the industry.

Stockholders, Earnings and Dividends

The more important figures with respect to these items are tabulated below for 1940 and, for comparative purposes, for 1939 as well:

	1940	1939
STOCKHOLDERS		
Total number of stockholders at end of year.....	<u>397,928</u>	<u>386,100</u>
EARNINGS		
General Motors proportion of net income before income and excess profits taxes.....	\$320,649,462	\$228,142,411
Less income and excess profits taxes.....	<u>125,027,741</u>	<u>44,852,189</u>
Earnings available for dividends.....	<u>\$195,621,721</u>	<u>\$183,290,222</u>
Earnings per share of common stock, after deducting dividends on \$5 series preferred stock.....	\$4.32	\$4.04
AMOUNT OF DIVIDENDS PAID		
On \$5 series preferred stock.....	\$ 9,178,220	\$ 9,178,220
On common stock.....	<u>161,864,924</u>	<u>150,319,682</u>
Total.....	<u>\$171,043,144</u>	<u>\$159,497,902</u>
Percentage of earnings disbursed through dividends....	87.4%	87.0%
DIVIDENDS PAID PER SHARE		
On \$5 series preferred stock.....	\$5.00	\$5.00
On common stock.....	\$3.75	\$3.50
EARNINGS RETAINED IN THE BUSINESS FOR ITS PROTECTION AND EXPANSION		
Total.....	\$24,578,577	\$23,027,468
Per share of common stock.....	\$0.57	\$0.54

Earnings in 1940 are reported after providing for excess profits taxes of \$40,766,505 computed in accordance with the Revenue Acts of 1940. The earnings were reduced in the amount of \$15,000,000 to provide an additional special contingency reserve due to the continuation of disturbed conditions abroad. In 1939, earnings were reduced \$10,000,000 on this account. In addition, it is the policy to exclude those profits realized abroad which cannot be remitted to the United States due to exchange restrictions. The net balance so excluded from earnings for 1940 amounted to \$3,930,634.

Net Working Capital and Cash

The Corporation continues to maintain a strong financial position. Net working capital at the close of 1940 was \$477,940,113, compared with \$434,172,831 at the close of 1939. Cash and marketable securities totaled \$433,207,722, compared with \$289,921,683 at the close of the previous year. Thus the cash position at the end of 1940 showed an increase of \$143,286,039 over that at the end of the previous year. This increase is accounted for in part by special deposits of \$38,500,351 held on government contracts and is accompanied by an increase of \$79,681,854 in the amount of taxes payable within a year.

Plant Development

Expenditures for real estate, plants, and equipment in 1940 amounted to \$59,352,073. The expenditures were principally for machinery and equipment, the purpose of which was to maintain the efficiency of the Corporation's production facilities in line with technological progress. This included readjustments and additions to plants and machinery incident to the introduction of the 1941 line of products. There were no extensive developments during the year involving new plants nor substantial increases in the manufacturing facilities for automotive production. There were included, however, expenditures of \$11,602,992 for facilities to be used in the production of Allison aviation engines and for certain other projects inaugurated to meet the demands of the program of national defense.

Labor Economics

The better business prevailing in 1940 is reflected in the following summary of General Motors employment and payrolls. The increase in

average annual earnings of the regularly employed hourly wage employe in the United States results principally from the increased number of hours worked.

	<u>1940</u>	<u>1939</u>
Average hours worked per week by hourly wage employes in the United States.....	39.1	34.9
Average annual earnings of regularly employed hourly wage employes in the United States.....	\$1,804	\$1,503
Increased purchasing power of above annual earnings over annual earnings in 1929.....	53%	29%
Average number of employes on the Corporation's payrolls..	249,386	220,434
Total salaries and wages paid to all Corporation employes..	\$492,246,017	\$386,292,203

The Income Security and Lay-Off Benefit Plans, announced in November 1938, were in operation in 1939 and 1940. These plans are being continued in 1941.

Executive Management Compensation

The executive management group, as defined on page 47, comprised 184 of the Corporation's major executives at the end of 1940. The total compensation of this executive management group in 1940, consisting of salaries and bonus participation, was equivalent to \$0.14 per share of common stock after allowance for Federal corporate income and excess profits taxes, as against earnings of \$4.32 per share. This compares with \$0.18 per share in 1939.

Total executive management compensation was equivalent to \$0.40 for each \$100 of retail price of the Corporation's products sold in 1940, compared with \$0.52 in 1939. For each dollar of total payroll, total executive management compensation amounted to 2 cents and compares with 2½ cents in 1939.

Bonus Plan

As a result of the year's operations, 226,190 shares of common stock, together with cash provided for awards to employes of certain foreign subsidiaries, were set aside under the Bonus Plan and will be distributed to approximately 10,400 individuals. While final allotment of these shares has not been determined as yet, the maximum bonus award to any one individual will be less than 2% of the total bonus fund.

Employees Savings and Investment Plan

The 1935 Class of the Employees Savings and Investment Plan matured at the end of 1940, and the amounts distributed to 34,623 employees participating in this class are tabulated below:

	<u>Amounts Distributed</u>
On account of employees' original savings.	\$4,230,410
On account of contributions by the Corporation.	<u>3,833,430</u>
Total distributed.	<u>\$8,063,840</u>

Since the inception of the plan in 1919, a total of \$264,301,368 has been distributed to employees through this plan of organized savings, of which amount the Corporation's contribution amounted to \$113,265,321. The Employees Savings and Investment Plan was suspended as of December 31, 1935. The class which matured at the end of 1940 therefore is the last class to participate under the benefits of this plan.

Group Insurance Plan

During 1940 there were paid through the Group Insurance Plan benefits totaling \$6,303,137. This amount included payments to beneficiaries of 1,084 of the Corporation's employees who died during the year. Also included were benefits paid to 23,982 of the Corporation's employees for temporary disability resulting from sickness or non-industrial accidents and to 23,986 employees under the hospitalization and surgical operation insurance features of the plan. The cost of these benefits was shared by the Corporation and the employees, with the expense of administering the plan being borne by the Corporation. More than 99% of the eligible employees were participating in the Group Insurance Plan at the end of 1940.

Employees Contributory Retirement Plan

The Corporation adopted during the year an Employees Contributory Retirement Plan effective July 1, 1940. This plan, which is designed to supplement the old age benefits under the present Federal Social Security Act, provides that all employees in the United States receiving salaries in excess of \$250 per month, who have completed one year of service and who, at the time the other requirements for eligibility have been met, have reached age 40 and are less than 55 years of age,

are eligible to participate. The benefits under this plan supplement the present Federal social security benefits and apply to that portion of the salary above \$250 per month not covered by the Federal plan. The cost of the Contributory Retirement Plan is shared by the employes and the Corporation. Of the eligible employes, over 93% were participating under this plan as of December 31, 1940.

Cost of Government

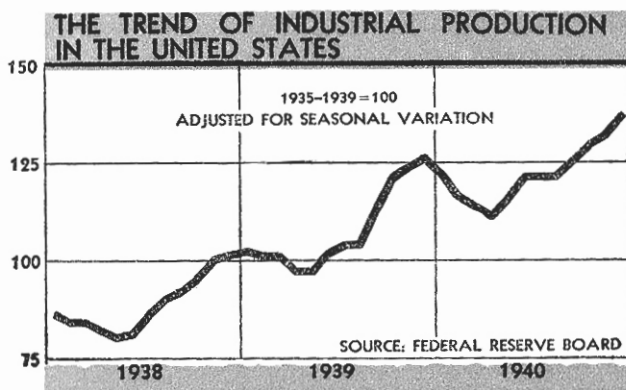
Taxes of the Corporation and its subsidiaries, together with its proportionate share of taxes of manufacturing companies in which a substantial interest is held, accrued or paid in 1940 to the various taxing authorities in the United States, including excise taxes paid on products sold by the Corporation and in turn passed on to the consumer, totaled \$210,411,000. This compares with \$101,884,000 in 1939, an increase of 106.5%. Attention is called to the fact that these figures contain only such taxes as are definitely ascertainable and do not, by any means, represent the entire tax bill. For example, no effect has been given to taxes levied against other products and included in the cost of materials purchased, as such information is not available.

THE TAX BILL DEFINITELY ASCERTAINABLE FOR 1940 WAS EQUIVALENT TO:

- 107.6% of net earnings available to stockholders
- \$4.87 per share of common stock while earnings were \$4.32 per share
- \$12.13 for each \$100 of sales in the United States
- \$875 for each employe in the United States, and
- \$42 for each \$100 of wages and salaries paid in the United States

The total ascertainable tax bill of \$210,411,000 would have been reduced by approximately \$71,500,000 if the tax structure applicable to 1939 had existed in 1940. This is a measure of the increase in taxes during the past year.

AN ECONOMIC REVIEW



Before displaying the statistical and financial facts and other important circumstances reflected in the operations of the Corporation for the year 1940, it is desirable to review in general terms for the purpose of establishing a suitable background the various trends of the world's economy and certain surrounding influences as they affect the Corporation's operations.

Economic activities throughout the world during 1940 were dominated by the war in Europe. In many countries the normal production of goods and services was greatly reduced. In manufacturing countries at war normal peacetime production was subordinated to the demands for the materials of war. In other areas curtailment of distribution facilities prevented goods and services from reaching their normal markets. Governments at war have taken over the responsibility of directing production and distribution of essential commodities and have subordinated the comfort and even the health of the civilian population to the needs of defense. In the domestic area the peacetime organization of industry continued to prevail, although strongly affected to an increasing degree by the existence of war abroad.

In the first four months of 1940, general business activity in the

United States receded somewhat from the peak reached at the end of the previous year. Automotive production, however, was maintained at relatively high levels throughout the first half of the year. After the usual interruption of operations incident to the annual model change, production in September and in the succeeding months reached increasingly higher levels—reflecting a consumer demand substantially above that of the early part of the year.

This demand for automotive products was only one of several indications that the national income and purchasing power in the United States had been stimulated by the production of materials needed by the belligerents for the war in Europe. Residential building construction, employment, payrolls, farm income, estimated national income paid out and retail trade were all substantially higher than in the corresponding months of 1939 and were increasing rapidly as the year came to a close.

This war material stimulation appeared to be on the point of disappearing in June at the time of the defeat of France but it was more than renewed subsequently by the intensification of British war orders. Upon this was superimposed a most intensive program of national defense in the United States. Expenditures for the Army and Navy rose from a monthly average of less than \$150,000,000 in the first half of the year to the neighborhood of \$500,000,000 in December. Private industry, anticipating these government expenditures, accumulated materials and expanded production. This was particularly true of the heavy industries—the machinery and steel industries in particular increased operations to their practical capacity. The textile industry also expanded its output. The resulting increases in employment affected demand for all kinds of consumer goods, particularly for consumer durable goods such as the products of the automotive industry.

A prosperity based upon a stimulation incident to such a program of national defense is temporary. It is not necessarily dangerous if credit, currency and fiscal policies are sound. Such a prosperity, however, is essentially artificial. And because production for national defense is unproductive wealth in the sense that it does not add to the standard of living, it is added overhead on the economy. As a matter of fact, over the long-pull position, it means a reduction in the standard of living, unless otherwise offset. And further, such a prosperity is almost certain to cause a postwar depression to a greater or lesser degree, depending upon the intensity of the movement and the intelligence

with which the various forces within the economy are managed. Sound credit, currency and fiscal policies can moderate a subsequent depression chiefly by preventing an unbalanced rise in the price level.

At the time of the inauguration of the program of national defense, there existed large unused resources in the form of millions of idle workers, idle plant capacity, raw materials in abundance and billions of dollars of idle capital. Manifestly, the first effort should be directed to putting these idle resources to work. The nation should develop to the greatest practicable extent the full utilization of its idle resources. Such is the first responsibility of both government and industry. By so doing, the national income rises. Increased revenues flow from increased activity. The expenses of government may be reduced by eliminating, through increased employment, the cost of maintaining the unemployed. It may well be said that to the degree we bring into use resources now idle, to that extent the cost of the program to the nation as a whole is importantly reduced. In making this statement it is recognized that the distribution of such cost is an entirely separate problem.

The impact of the program of national defense on the economy raises at least four important questions:— (a) the extent of the readjustments that may be required in the economic life of the nation; (b) the effect of the financial cost upon the further growth of the public debt and upon the financial position of the government; (c) the possibilities of a great inflation of the price level; and (d) the danger of a collapse of the economy upon the liquidation of the artificial influence of the defense program.

It is hardly within the province of this review to examine the economic significance of these important problems. Only a few general comments are possible. The observation has already been made that the first responsibility of industry and government is to promote the fullest possible utilization of our idle resources. It must be recognized, however, that even in so doing, bottlenecks are bound to develop, and inasmuch as the policy must be to give the program of national defense first consideration, these bottlenecks must be considered and dealt with on an individual basis, as good judgment may dictate.

At the moment of this writing, the full scope or magnitude of the program of national defense has not been defined. Therefore, such comments as might be made are necessarily subject to review as circumstances change and further information becomes available. Considering all the facts now known, however, it does not appear at this

moment as if the magnitude of the program of national defense is such as to require a profound disorganization of the economic system during its course, that is, if proper economic policies are adopted.

In its first stage, an appreciable expansion of consumer income and its capitalization through expanded output largely within the area of consumer goods appear to be possible without handicapping the program of national defense. As we pass, however, from the initial stage to the point where we are employing, in general, our idle resources to the point of their fullest practical utilization, it may well develop that further expansion of consumer purchasing must be restrained in certain lines in order to permit an increased output of defense materials.

In connection with this particular problem, it must be recognized that the most vital needs in the area of material for national defense lie within a rather narrow area of industry's productivity. Further, it must be recognized that the essential productive capacity for such vital needs even at the beginning of the year was largely in the blueprint or early development stage. Mass production processes do not lend themselves to rapid change. Very little flexibility exists. Our peacetime industrial plants can be adapted only to a small extent to the needs of national defense. Productive capacity to fabricate raw materials into the essential finished product must be developed from the beginning. Therefore, the impact on the economy as measured in terms of materials, workmen, organization and the incidental services, in all probability, will not reach a peak until near the end of the current year, or perhaps even later.

One of the greatest calamities that can befall a nation, and one that is especially liable to occur during a situation such as now exists in the United States, is inflation. A moderate increase in the average of commodity prices is natural and not unduly harmful, because the increase in prices tends to increase the available supply and to retard demand. On the other hand, a drastic and general increase in the price level may be disastrous. It particularly prejudices most wage earners and those with fixed incomes. It invariably leads to more serious deflation with widespread unemployment and the wiping out of values when the time for liquidation comes, as it inevitably must. History shows that all great efforts, such as the national defense program, have been accompanied by a phenomenal rise in the prices of nearly all classes of goods and commodities. History also shows that, if inflation is to be averted, it must be controlled at its incipience. If that is not done, it is

unlikely that any subsequent control can be made effective.

The forces that lead to inflation are numerous. In all probability they can be controlled by preventing credit excesses, by a policy of increasing the yield of taxes through increasing the productive output of the nation by utilizing its full productive capacity, by preventing abnormal increases in wage rates, by controlling consumer purchasing power in relation to the available supply of consumer goods, and by other means. The prevention of credit excesses requires the promotion of savings and their investment in private productive enterprise or in government bonds. The control of consumer purchasing power in relation to the availability of consumer goods suggests special excise taxes on those goods of which the full production is in conflict with the needs of defense.

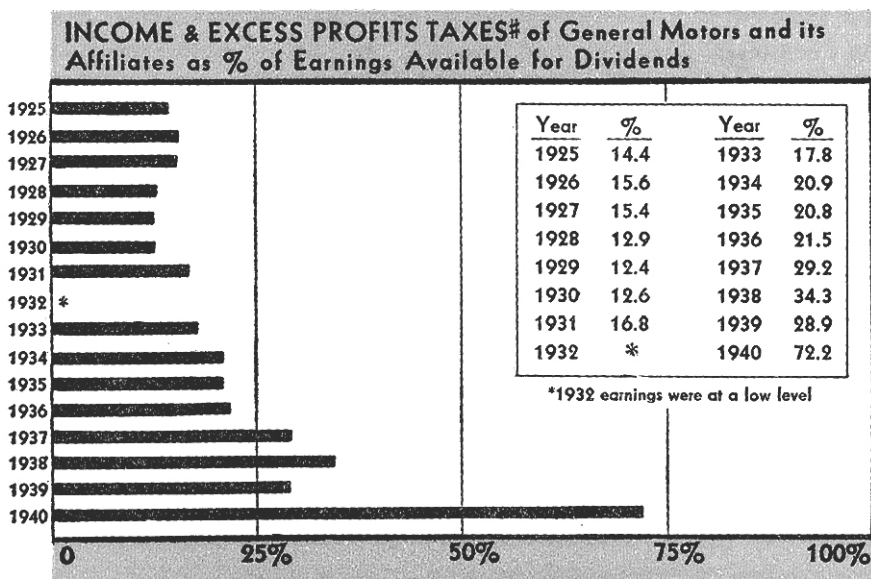
Perhaps the cause of inflation most to be feared is an increase in wage rates. Unless the cost of living rises, there is no economic justification for a general increase in wage rates. Approximately 85% of the price of goods and services consumed reflects the cost of salaries, wages and other payments for labor. If labor capitalizes on the existing emergency to obtain increases in wage rates not justified by an increased cost of living, prices must necessarily rise. That is a very definite inflationary influence. *And there is likely to result an inflationary spiral of advancing prices to a point of real danger.*

Another important problem that arises as a result of the impact of national defense on the economy is the danger of a collapse upon the liquidation of the defense program. And in approximately that time area, the economy must also accept the consequences of other postwar problems. Any attempt to analyze that problem at this time is hardly within the province of a review which should be more importantly confined to the events of 1940. However, it may be said that no more constructive step could be taken, even at this time, than to develop a comprehensive and constructive economic program for the period of reconstruction which *must necessarily be faced sooner or later.* There should be brought to bear the maximum intelligence, experience, courage and statesmanship available, for in the treatment of the problem may well lie the future of democracy and free enterprise—the real objectives which the nation is now united in its determination to defend.

It is recognized that the cost of the program of national defense must be met, involving not only increased national indebtedness but also drastically increased taxes. Nevertheless, too much attention cannot be

concentrated on the appalling increase in the cost of government as reflected in the trend of recent years. If it could be assumed that the economy were to be relieved of what might be referred to as "emergency taxes" on the liquidation of the program, it would be a source of great encouragement to the future of enterprise, but the record does not justify any such assumption. Probably no more fundamental attack on the post-defense problems could be made than an entire reorganization of the tax structure, particularly reflecting the principle that more equitable methods and reduced rates might well result in increased revenues, just as lower prices expand volume in industry. Far too many fail to recognize that the cost of government is paid for in the cost of goods and services, just as is the cost of labor.

While taxes have been both specifically and generally dealt with in the various sections of this annual report as applied to recent years, the 16-year long-time trend indicates more comprehensively just what the facts really are.



Includes income and excess profits taxes accrued by General Motors and its subsidiaries, together with its proportionate share of such taxes accrued by manufacturing companies in which a substantial interest is held.

THE PROGRAM OF NATIONAL DEFENSE

The most important single event that occurred during the year, the impact of which is bound to have a tremendous influence on the Corporation's activities in the short-term future, was the program of national defense, inaugurated about the middle of the year. It influenced the 1940 operations directly only in a small degree. The national defense program may be said to be the greatest productive effort that industry has ever been called upon to make from the standpoints of its magnitude, its technical complications and the limited time available for accomplishment. Its influence on the economy has been dealt with in the section, "An Economic Review." The purpose of this section is to deal with the matter from the operating standpoint.

First, the policy of management with respect to the program for national defense should be clearly established. The responsibility of industry in this time of emergency stands out crystal clear. Industry becomes the backbone of national defense. War today is more particularly a conflict between two opposing technologies. The nation that is able to capitalize the most advanced technology in terms of mass production is bound to have a tremendous advantage over any adversary. This has already been amply demonstrated.

Now, what does this mean? To illustrate:—it means airplanes of higher speed, superior maneuverability, greater carrying capacity, wider radius of action, and equipped with instruments of superior effectiveness. It means that every instrument in the whole category of defense equipment must embody the most advanced ideas that the most aggressive engineering and production processes make possible. Likewise, every such instrument must reflect in its design the maximum adaptability to the essential processes of mass production. That is why war is a "technological" competition. That is why the responsibility lies so definitely within the realm of industry—and, moreover, in a rather narrow area of industry.

As to the management of General Motors Corporation, its policy is very definitely established. It proposes to do not only its part, but more than its part. It proposes to contribute to the utmost the services of its highly organized units of industry together with the experience and ability of its operating and technical staffs, particularly in the development of the many additional specialized production units that are demanded of a program of this character. It believes that its maximum contribution to the objective can be made in the more highly technical area where, as a matter of fact, the needs are by far the most consequential, the difficulties of meeting these needs are the greatest and the available experience in relation to the necessities of the case is the least. It believes that the emergency involves two prime objectives:—first and foremost, to make America impregnable to attack from without; second, to maintain the strongest and most virile economy based upon the fundamental principles of free enterprise. While we are preparing to defend ourselves against aggression from without, we must not overlook the importance of defending our way of living. We must win not only the defense, or if need be the war, but in doing so we must not lose the peace.

In accordance with the Corporation's policy just defined, contracts for defense purposes have been assumed for the account of the United States and foreign governments which, as of the end of January 1941, totaled \$683,400,000. It is estimated that when the plants now under construction are completed and running at capacity, the number of workers involved in such defense activities will be upward of 60,000. These commitments are in addition to large obligations assumed by companies affiliated with the Corporation. To produce all but a small part of this material for national defense requires the development of entirely new production facilities in which the time element is an important factor.

Special defense materials delivered to the United States, British and Canadian governments in 1940 amounted to approximately \$60,000,000. About 25% of this total represented December deliveries. It is to be expected that production for defense will rapidly accelerate in volume as the plants under construction come into productive use. It might be said, however, in general terms, that there must elapse a period of about a year between the conception of a project and its development to a point where production begins. Even then, further time must elapse before the full capacity is realized.

The sales value of the materials delivered to the United States, British and Canadian governments was $3\frac{1}{3}\%$ of the total sales volume of General Motors in 1940. The net income realized on such business in 1940, before Federal taxes, was 1.5% of the Corporation's total net income for the year, before deducting Federal taxes. The management subscribes to the belief that profit resulting from war or defense should be importantly restricted. Likewise, it believes that there is a responsibility—and a very important one—resting upon industrial management to maintain, without prejudice to the program of national defense, the financial and operating integrity of our industrial enterprises, in order that after the war is over they may continue to discharge their responsibilities to the economy in a virile and aggressive manner.

There is a great deal of misunderstanding as to the limitation that exists in the production of materials for national defense. From the standpoint of a long-pull position, there are practically no limitations. The capacity and the ability exist to expand indefinitely. In other words, such limitation as exists involves solely the essential time of preparation. The quantities that are needed involve mass production. Mass or quantity production is not a process that can be started at will. It is a factory system and requires the most careful coordination between many important factors as well as definite procedure involving rigid limitations. These processes and limitations must be recognized if satisfactory results are to be obtained.

The essential element in mass production is the period of preparatory work, or make-ready. Only after this is completed can mass production, as it is popularly conceived, really begin. In projecting quantity output of any particular product, such preparation involves first finding out what is wanted; then designing the product, selecting materials to suit the purpose, testing the samples and correcting their shortcomings; and next determining the most desirable methods of manufacture, the development and construction of tools and machinery adequate for the job, laying out the plant for efficient flow of work and planning the final production process itself. All of which is required before the first finished products are turned out for use.

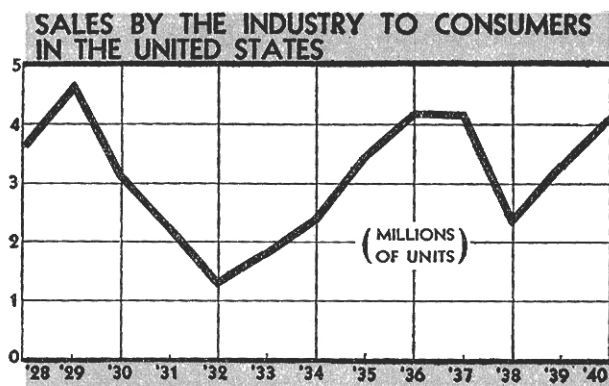
Even in the automobile industry with its long experience in quantity production and its yearly model change, no substitute has been found for the many months of careful planning and preparation before production can be started on a new design. A year's intensive work is essential.

As a general rule the intricate devices that characterize modern warfare require plants specifically designed and equipped with special machinery to do the particular job. Where existing plants can be utilized, there is usually required a complete rearrangement and re-coordination of plant facilities to allow for installation of a vast quantity of new tools and machines before production can get under way. It can all be done and there is assurance on every hand that the job will be carried forward most aggressively. But any expectation that miracles can be performed overnight will only lead to confusion in the program and to unnecessary disappointment. The realities must be faced.

Another factor importantly influencing the production of defense material is the difficulty experienced in determining the specific type of equipment to be produced and its design. Especially is this true under current conditions. Military technology appears to be undergoing a rapid change—one might almost say a revolution—so far as types and specifications of particular war implements are concerned. Designs considered adequate yesterday are obsolete today. If, then, new designs become necessary, further delays are inevitable. With the essential technique of quantity production based upon careful preparation after the approval of a design, even minor changes frequently require a rebuilding of tool equipment and a re-planning of the job.

America is the home of the machine. Through the process of industrial research and the intensive application of an ever-advancing technology it has become possible to produce more useful things and in a greater variety than anywhere else in the world. The efficiency of our enterprise, the skill of our workmen and the resourcefulness of industrial management have importantly contributed to the strength and productive capacity of this country. These are now being capitalized in the interest of national defense. Whatever the demands upon American industry in this great program may be, they will be met intelligently and aggressively. The task is an important one requiring the utmost understanding and cooperation of which we all are capable. But time is an essential factor.

AN OPERATING REVIEW



CAR, TRUCK, BODY AND ACCESSORY OPERATIONS

In presenting statistics of the world's markets in last year's annual report, only incomplete information was available. Censorship, the inclusion of statistical data in the category of military secrets and other exigencies of the war have imposed further limitations during the year under review so that the difficulty of obtaining statistics for the world market is greatly increased. Accordingly, certain of the tabulations in this section are modifications of those shown in annual reports of previous years. In addition, certain other tabulations have been omitted entirely, due to lack of data pertaining to 1940.

The world trend of unit volume of the automotive industry as presented heretofore in the form of registrations or consumer sales of new cars and trucks in the major markets of the world is omitted due to lack of information.

Likewise, it has been customary to present statistics on the sales of General Motors cars and trucks to dealers throughout the world, involving production from all Corporation producing sources—domestic and overseas. In view of the fact that complete data are not available from sources overseas, statistics on sales of General Motors cars and

trucks to dealers throughout the world are limited to data on production of domestic and Canadian plants, and as such, will be dealt with elsewhere in this review.

It is reasonable to believe, however, that the total production of cars and trucks in units throughout the world as a whole was not substantially different in 1940 from 1939. In other words, the increased production of the industry in the United States and Canada was undoubtedly more than sufficient to offset the reduced production of sources overseas.

Domestic Operations

The trend of production by the automotive industry in the United States and Canada is shown in the following table:

CARS AND TRUCKS PRODUCED BY THE INDUSTRY—UNITED STATES AND CANADA

<u>Year</u>	<u>Units</u>	<u>Estimated Retail Sales Value</u>
1929.....	5,621,000	\$5,147,000,000
1930.....	3,509,000	3,060,000,000
1931.....	2,472,000	2,053,000,000
1932.....	1,431,000	1,149,000,000
1933.....	1,986,000	1,450,000,000
1934.....	2,870,000	2,258,000,000
1935.....	4,120,000	3,213,000,000
1936.....	4,616,000	3,705,000,000
1937.....	5,016,000	3,966,000,000
1938.....	2,655,000	2,256,000,000
1939.....	3,733,000	3,228,000,000
1940.....	4,692,000	4,200,000,000
Increase 1940 Over 1939	26%	30%

Compared with 1937, the best year since 1929, the unit volume produced by the industry in 1940 was 6% less, while the estimated value of retail sales was 6% higher. Compared with the peak year 1929, production in the year 1940 showed a reduction of 17% in units and a reduction of 18% in the estimated retail sales value.

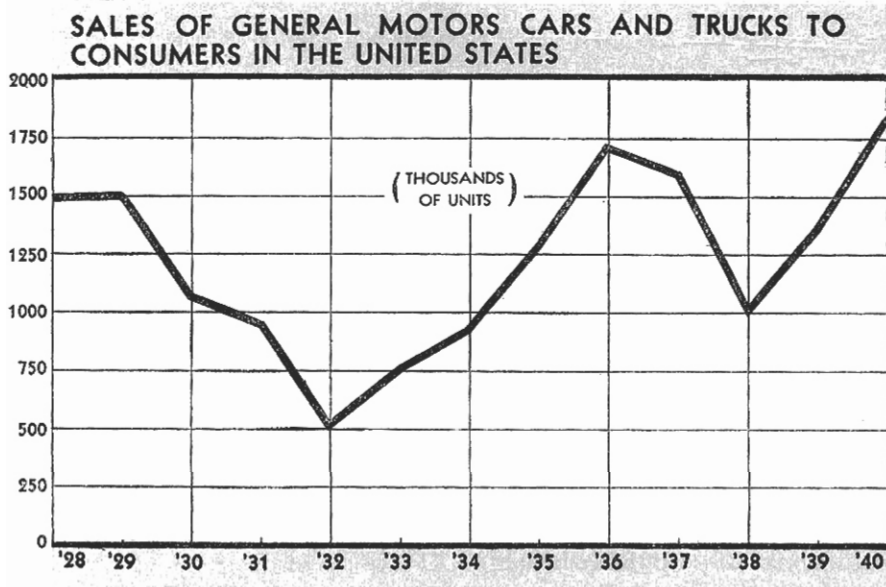
The trend of sales by the automotive industry in the United States is evidenced by sales to consumers. From the low point of the industry's sales to consumers, reached in the year 1932, when sales were equivalent to 27.8% of the record year 1929, each year showed an improvement through 1936 and 1937, indicating a recovery in those years to a level equal to about 90% of the 1929 volume. Sales to consumers declined to

about 50% of the 1929 volume in the secondary depression year of 1938, and in 1940 increased to 88.7% of sales to consumers in 1929—a level not substantially different from that established in the years 1936 and 1937. These facts are indicated in the following tabulation:

SALES BY THE INDUSTRY TO CONSUMERS IN THE UNITED STATES

Year	Number of Cars & Trucks	Percentage of 1929	Year	Number of Cars & Trucks	Percentage of 1929
1929.....	4,620,000	100.0%	1935.....	3,419,000	74.0%
1930.....	3,091,000	66.9	1936.....	4,163,000	90.1
1931.....	2,231,000	48.3	1937.....	4,153,000	89.9
1932.....	1,285,000	27.8	1938.....	2,345,000	50.8
1933.....	1,787,000	38.7	1939.....	3,244,000	70.2
1934.....	2,359,000	51.1	1940.....	4,096,000	88.7

The following chart shows the trend of sales of General Motors cars and trucks by dealers to consumers in the United States:



The competitive position of the Corporation in the United States in the year under review, as evidenced by its proportion of the total industry's registrations, was the best on record, being 45.6% of the new passenger cars and trucks registered, and 47.6% of the new passenger cars.

The sales of General Motors cars and trucks in the United States were as follows:

	<u>1940</u>	<u>1939</u>	<u>Increase</u>
General Motors cars and trucks sold to dealers in the U. S.	1,860,354	1,364,426	36%
General Motors cars and trucks sold by dealers to consumers in the U. S.	1,827,241	1,364,761	34%

The Corporation's sales to dealers within the United States of 1,860,354 cars and trucks in 1940 constituted a new all-time record and exceeded by 11% the previous record in 1936 of 1,682,594 units. Likewise, sales by General Motors dealers to consumers in the United States of 1,827,241 cars and trucks in 1940 constituted a record and exceeded by 6% the best previous record in 1936 of 1,720,213.

Overseas Operations

It has been the custom in this section of previous annual reports to present the sales trend in the overseas markets of the cars and trucks produced in the United States and Canada in relation to the trend of those produced outside of the United States and Canada. The latter is important. In particular, attention has been called to the increasing strength of foreign production, when measured by its percentage of total world-wide production, due in large degree to the constant trend toward national industrial independence, regardless of the economic consequences. Superimposed upon that are the increasing handicaps on exports from domestic sources, resulting from restrictions on international trade. For the reasons previously stated, statistics relating to sales of foreign manufacturers must be omitted.

Any appraisal of the operating results of the Corporation's overseas operations for the year must give full recognition to the disruption in international trade resulting from the European and Asiatic wars.

Due to the almost total absence of reliable information from manufacturing countries abroad for 1940, no picture of the world trend is presented. Instead, the facts are limited to the Corporation's sales to dealers in overseas markets of cars and trucks from domestic and Canadian sources. These are shown in the following tabulation:

GENERAL MOTORS SALES TO DEALERS IN OVERSEAS MARKETS OF CARS AND TRUCKS OF UNITED STATES AND CANADIAN MANUFACTURE

<u>Year</u>	<u>Units</u>	<u>Year</u>	<u>Units</u>	<u>Year</u>	<u>Units</u>
1930.....	129,029	1934.....	110,918	1938.....	154,951
1931.....	86,581	1935.....	134,858	1939.....	145,238
1932.....	40,706	1936.....	154,194	1940.....	119,520
1933.....	54,978	1937.....	179,841		

Cars and trucks produced by the Corporation's domestic and Canadian plants and sold to dealers in overseas markets amounted to 119,520 units in 1940. This was a decrease of 18% from the previous year. The sales for the year 1940 were lower than those in any of the previous five years. The war was the reason for the decline which undoubtedly would have been greater except for the sale of trucks to foreign governments for military purposes.

While the Corporation's sales from American sources have thus declined, its competitive position has been well maintained. In other words, the Corporation's percentage of the business in those territories from which returns are available not only shows an increase over the preceding year but also indicates a new record for the past twelve years, in fact the second highest all-time record. Fairly viewed, the record for 1940 may be considered the all-time record, because the previous record was established in the year when a major manufacturer was practically out of the market.

GENERAL ENGINE, HOUSEHOLD APPLIANCE AND MISCELLANEOUS OPERATIONS

The purpose of this particular section is to present such developments as occurred within the year other than those involving the Corporation's car, truck, body and accessory operations, as already discussed. It is not intended to deal specifically with each operation in each of these groups, but rather to report such facts and circumstances more or less unusual, as distinguished from those of a routine character; and in the case of new activities, to report their progress until they become established as a constructive and productive addition to the Corporation's activities as a whole. From the latter standpoint, the following, although to some extent dealing in generalities, may be of interest. And it might be added that constructive progress has been made on all fronts during the year—perhaps more so than ever before.

General Engine Group

Recent annual reports have traced the evolution of the Corporation's activities in the design and production of Diesel engines. The broadening acceptance of the economies and other advantages of the Diesel type of engine and the promising opportunities lying ahead of the Corporation in this activity have already been made a matter of record.

Results in 1940 showed a marked improvement over previous years and the outlook for further constructive development from the technical standpoint more than justifies the observations already made and gives great encouragement as to the future possibilities.

During the year under review there has been a further increase in the recognition and use of Diesel power for transportation by rail, truck and bus. Diesel locomotives for railroad use are manufactured by the Electro-Motive Corporation, a wholly owned subsidiary. Production exceeded by a wide margin any previous year. A new Diesel freight unit was produced during the year and operated on trial runs on twenty leading American railroads. Substantial orders for the new equipment resulted. This product gives Electro-Motive a line of locomotives which makes possible, for the first time, a completely Diesel equipped railroad, with many important resulting economies.

Smaller Diesel units for use in trucks and busses are manufactured by the Detroit Diesel Engine Division. Diesel engines for propulsion and auxiliary use in naval units as well as for general purposes in commercial ships are produced by the Cleveland Diesel Engine Division. These divisions operated during the year at a high rate. The Cleveland Diesel Engine Division in particular has received important contracts as a result of the program of national defense.

The Allison aviation engine manufactured by the Allison Division received increased recognition during the year as a part of the program of national defense. Supplementing the new engine plant which was completed in March 1940, referred to in the 1939 Annual Report, an addition was constructed and completed during the year, increasing the capacity of the plant to approximately 350 aviation engines per month. Notwithstanding the fact that the new plant was not physically complete until March 1940 and having in mind the difficulties in organizing an entirely new unit, involving a highly technical product, 1,153 engines were produced during the year as compared with 48 the year before. A further expansion of the plant is already under way and will be completed by next Fall. Production capacity of the entire plant when fully developed will be 1,000 engines a month.

Aeroproducts Division

During the year under review, the Corporation expanded its participation in the airplane industry through the acquisition of the assets

of Engineering Projects, Incorporated of Dayton, Ohio, engaged in the development of airplane propellers. This unit is now known as the Aero-products Division of General Motors Corporation. While its operations are still in the experimental stage, it nevertheless promises to add additional strength to the productive capacity of the aviation industry by contributing manufacturing facilities for an important component, applicable not only to defense but to commercial purposes as well.

Household Appliance Group

The Frigidaire Division continued to maintain the position of leadership which it has held in the electric refrigeration industry since the early days of that particular business. In 1940 a new record was established for the electric household refrigeration industry, a gain of 37% in units over 1939. This was made possible in part by a substantial reduction in prices. About 2,600,000 household units were sold in the United States by the industry in 1940. This compares with the previous record of 2,310,000 in 1937. Frigidaire sales of electric household refrigerators in the domestic market attained a new high in 1940 when over 600,000 units were sold, a gain of more than 80% over 1939.

The Frigidaire Division added an electric range to its line of products four years ago. Sales of about 450,000 electric ranges in 1940 by the industry in the United States established a new record. This compares with the previous record of 405,000 in 1937. Sales of electric ranges in 1940 by Frigidaire constituted a new high for the Division.

PRODUCT EVOLUTION

Through General Motors established policy of product improvement by continued evolutionary advancements, the 1941 General Motors cars represent the highest level of operating efficiency, comfort and styling yet achieved. The fact that General Motors 1940 models were so successful created a challenge to present 1941 products surpassing in value their immediate predecessors. That this challenge has been successfully met is witnessed by the wide public acceptance of the current models, which exemplify the utilization of new developments as well as the improvement of existing features.

Among the many engineering developments and refinements for the year, two are of particular interest. Hydra-Matic Drive, which first appeared on the market with the announcement of the 1940 models, has been further refined and, with the facilities for its manufacture expanded, is now available on a wider range of cars than heretofore. This important feature, which eliminates the clutch, takes the operation of manual gear shifting out of driving technique. The changes in gear ratios, or speeds, are made automatically, thus providing extreme flexibility and ease in handling.

The second engineering advancement is the development of a fuel system known as "Compound Carburetion," representing an innovation in motor car engineering practice. To the regular dual carburetion system is added a second, or supplementary, dual carburetor which operates only when extra power is needed. From the standpoint of the owner, the benefits of this new development come from increased fuel economy and added power.

The 1941 models incorporate an important safety feature in that all doors are hinged at the front to open against the windstream of the car in motion. This tends to eliminate the hazard of doors swinging wide open if accidentally unlatched, and thus further contributes to the all-around safety for passengers and driver created by the strength and

sturdiness of the Unisteel Turret Top body construction introduced by General Motors some years ago.

Greater roominess, comfort and luxury have been achieved in the 1941 models through the use of wider bodies, increased wheelbase, new materials and the refinement of interior appointments. Style leadership has been maintained with the continuation in an improved form of the popular "Torpedo" type body introduced by General Motors in 1940, and the addition of a similar type body in the low priced car lines. A new streamlined body type, the "aero-dynamic," has also been accorded a very favorable reception by the public.

While such advancements as these represent the more striking and dramatic features of the new cars, they do not tell by any means the full story of the year's progress. Inside and out, these automobiles embody in their details of design and workmanship the refinements resulting from the persistent application of engineering and technical research. While some features are to be found in one line of cars, some in another, throughout there is exemplified the constant striving for product betterment for which General Motors engineers have achieved distinction. It has always been the policy of the Corporation to build into its products the greatest possible value, and it is a matter of gratification that through the years General Motors research and engineering groups have been able to contribute importantly to making the motor car the serviceable mechanism it is today.

The versatility and progressiveness of General Motors technicians in fields outside that of automotive engineering have been demonstrated in the past by such developments as the two-cycle Diesel engine, the Allison liquid-cooled airplane engine and the use of tetraethyl lead as a component of gasoline. These three developments have not only revolutionized technique in their respective fields but have become important elements in the national defense program. It is a source of satisfaction to the management that these technical developments, as well as many others that have resulted from General Motors research and engineering activity, are now available for the more effective implementation of the nation's vital efforts toward building a strong defense. But their contributions by no means end there. They will continue in the years to come to add to the effectiveness of the nation's industrial and economic resources.

LABOR ECONOMICS

The Corporation recognizes the importance of improving the economic position of its workers from the standpoint of both their progress and stability, hence advancing their status in a fundamental way. Such a policy is not only socially desirable but economically necessary because of the vital importance of the purchasing power of the factory worker.

The wage level in relation to prices is important. Too many are of the belief that the wage level is at the discretion of management—that there is no ceiling other than that which management seeks to establish arbitrarily. Such an approach is far from a realistic one. As a matter of fact, the problem which confronts the national economy is how to establish the essential balance between the component parts of productive enterprise, so that there may result the greatest productivity to the end that more of the people may have more that will add to the comforts and pleasures of living. In other words, the wage level is part of a great economic problem affecting all. The trend of General Motors wages over the years has been steadily upward. Increased wages and reduced prices are possible only through the capitalization of technological progress, supported by a constantly improving operating technique, thus reducing real costs. It is to be regretted that this fact is not more generally appreciated.

While the wage rate determines the labor content in costs, and hence selling prices, it is not the sole index in determining the economic position of the worker nor his ability to consume industry's products. In that problem is further involved the number of hours of work and the continuity of employment throughout the year. These are important considerations to the extent that fluctuations in automobile production cannot be entirely avoided due to the seasonal characteristics of consumer demand.

Attention has been concentrated during the past few years upon ways and means whereby a greater continuity of employment may be effected. The model year has been advanced by the industry with this objective in mind. Employment is being stimulated during the months of low consumer demand by accumulating inventories of component parts. Employee Benefit Plans have been adopted by the Corporation to equalize income in relation to the seasonal trend and the business cycle. Further progress can be looked forward to in the leveling of production and in the greater continuity of employment for the worker, but in the final analysis, production schedules of the automotive industry must be determined largely by the consumer demand after an adequate stock has been established in the field for distribution.

Employee Benefit Plans

Income Security and Lay-Off Benefit Plans.

These plans were adopted in the year 1938 and became effective January 1, 1939. They were described in the annual report covering the year 1938. They have now been in operation for two years and are being continued in 1941.

The purpose of these plans is to supplement the income of workers during slack periods which may result from seasonal factors, model change-overs or from reduced operations incident to the business cycle. Under the Income Security Plan advances are made to hourly wage employes with five years' service or more, to insure weekly earnings up to 60% of the standard weekly earnings. The employe's standard weekly earnings are defined as 40 hours pay at his latest average earned hourly rate. The maximum amount that may be advanced under this plan is limited to 360 hours pay. Under the Lay-Off Benefit Plan advances are made to hourly wage employes with more than two years but less than five years of service to insure weekly earnings up to 40% of the standard weekly earnings. Advances under this plan are limited to 72 hours pay. Advances made under these plans are repaid when work is available to the extent of one-half of the earnings in excess of 60% of the standard weekly earnings. It should be repeated that the employes' total earnings or income over a period of time are not changed by the operation of the plans. The cost to the Corporation, in addition to the expense of administering the plans, results from the cancellation of advances outstanding of employes who die or permanently leave.

The results of the operation of these plans in 1940 are summarized below:

Total number of employes receiving advances.....	26,796
Advances under the plans.....	\$1,132,686
Advances repaid through work during the year.....	\$1,053,823
Advances outstanding at end of year, after deducting uncollectible items	\$71,949

Outstandings on account of 1939 advances were reduced from \$159,720 at December 31, 1939 to \$17,211 at December 31, 1940, so that total advances outstanding at December 31, 1940 were \$89,160.

Separation Allowance Plan.

In March 1940 the Corporation announced the adoption of a Separation Allowance Plan applicable to all salaried employes of the Corporation and its wholly owned subsidiaries in the United States. Any salaried employe with one year or more of continuous service who is released for reasons beyond his control is paid a separation allowance. The separation allowance amounts to 25% of one month's salary for each year of service up to ten years. For each year of service in excess of ten years the allowance is 35% of a month's salary. The minimum separation allowance is one-half of one month's salary and the maximum six months' pay.

Under the plan, any salaried employe whose separation is recommended is assured a thorough consideration and review of all the facts before final action is taken regarding release or layoff. An organized effort is made to retain, through transfer, such employes if an opening is available and the employe is qualified.

The plan also provides that any released or laid-off salaried employe, who has a complaint regarding his separation and who has exhausted all steps for adjusting the complaint within the division from which he was separated, may appeal the case to an official of the Corporation.

Employment and Payrolls

The following summary illustrates the increase in the Corporation's total employment and payrolls in 1940 over 1939:

	<u>1940</u>	<u>1939</u>	<u>Increase</u>
Average number of salaried and hourly employes on the Corporation's payrolls.....	249,386	220,434	13.1%
Total payrolls of the Corporation.....	\$492,246,017	\$386,292,203	27.4%

During 1940, all hourly wage employes in the United States having one or more year's service were granted one week's vacation with pay, or in lieu of vacation, an allowance equal to 40 hours pay. This allowance was paid during the last half of 1940. Substantially similar benefits were extended to hourly wage employes in Canada.

The following shows the number of hourly workers employed by the Corporation in the United States and wage payments to those employes:

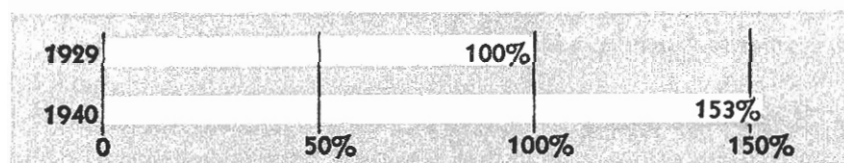
	<u>1940</u>	<u>1939</u>	<u>Increase</u>
Average number of hourly workers in the United States	180,576	155,765	15.9%
Wages paid to hourly workers in the United States	\$357,252,822	\$263,848,703	35.4%

The average number of employes in the United States in December 1940, including both hourly and salaried employes, amounted to 258,308, which was an all-time record in the history of the Corporation for employment during a month.

Annual Earnings per Worker

Regularly employed hourly workers in the United States received average annual earnings of \$1,804 during 1940, compared with \$1,503 in 1939. The increase in 1940 was due principally to the increase in the average number of hours worked. There were 175,499 hourly workers on the payrolls in the United States throughout the entire year, compared with 154,070 in 1939.

Purchasing Power of Annual Earnings



Reflecting changes in the cost of living as measured by the revised index of the United States Bureau of Labor Statistics, the average annual earnings of regularly employed General Motors workers in 1940 had a purchasing power which was approximately 53% greater than their average annual earnings in 1929.

Working Hours per Week

As a result of the higher level of operations during 1940 the average number of hours worked per week by the hourly wage employe in the Corporation's plants in the United States was 39.1 hours which is an increase of 12.0% over the average of 34.9 hours worked in 1939.

The Corporation's policy of a basic forty hour week with time and one-half for work in excess of eight hours a day and forty hours a week remained unchanged during the year under review. In addition, except to employes who rotate on continuous operations, double time is paid for work on Sundays and on certain specified holidays, and in weeks containing one of the specified holidays time and one-half is paid for work on Saturday.

Wage Level

The average hourly earned rate of the Corporation in the United States in 1940 was about 43% higher than that prevailing in all manufacturing plants and 29% higher than that in 25 major manufacturing industries. The average hourly earned rate of the Corporation's employes in 1940 was 38.3% above that of 1929.

Medical and Health Service

The Corporation expended the following sums in the United States for medical service, hospitalization, physical examinations and certain miscellaneous activities to safeguard employes from occupational diseases:

<u>Year</u>	<u>Total Expended</u>	<u>Average per Hourly Worker</u>
1940	\$1,298,395	\$7.19
1939	\$1,119,019	\$7.18

In addition, expenditures of more than \$3,500,000 were made in 1940 for the installation of mechanical safeguards in furtherance of the Corporation's effort to provide the most healthful working conditions and to protect employes from accidents. A new all-time safety record in 1940, from the standpoint of the reduction of lost-time accidents, marked another year of safety improvement in General Motors plants. Records of the National Safety Council indicate that General Motors plants are among the safest in the country.

COOPERATIVE PLANS

Through its Cooperative Plans, the Corporation has two objectives: first, to develop such programs as will promote security and protection, in so far as it is practicably possible, for the benefit of the organization as a whole; and second, to supplement the normal relationship between the Corporation and its executive and supervisory groups, whereby an opportunity is provided for those groups to participate in the success of the business for which they are directly responsible, and in proportion to each individual's relative capacity to contribute.

The second objective merits some amplification. The success of General Motors depends upon the individual initiative and ability of a large group of important executives. Many of this group operate independently for the most part because of the magnitude of the Corporation's operations, their geographical distribution, and the many different phases of the Corporation's activity. The most effective result and the greatest security for progress and stability are achieved by placing such executives in the same relative position, in so far as is practicable, as if they were in business on their own account. In that way, managerial talent is attracted to the Corporation on account of the opportunities offered, and means are provided for developing the talent within the Corporation's organization. Both are vital to success.

The Corporation has submitted to the stockholders, from time to time, various proposals directed toward the purposes just mentioned. The results of these various plans have been duly reported in detail in each annual report. At times, altered circumstances have made it desirable to effect changes in the plans.

The Corporation's Cooperative Plans now consist of the following:

Bonus Plan

The General Motors Bonus Plan was established in 1918; hence has been in operation for more than twenty years. It now provides that after

deducting 7% on the net capital employed during the year, there shall be set aside as a bonus fund 10% of each year's net earnings after all taxes including excess profits taxes. This means that before there was a bonus fund available in 1940, there was earned for the stockholders approximately \$86,135,000, equivalent to \$1.78 per share on the common stock outstanding.

At the inception of the Bonus Plan, all salaried employes who had been with the Corporation for a full year were eligible to participate. Subsequently, the eligibility was confined to those receiving \$5,000 a year or more. This minimum was later reduced to \$4,200 a year. Beginning with the 1936 bonus distribution, the salary limit was again reduced and the group eligible for bonus consideration now consists of those who receive salaries at the rate of \$2,400 a year or more. This reduction in the salary limit substantially increased the number of eligible employes. Bonus awards, based upon recommendations made by the Chairman of the Board of Directors, are made on the authority of the Bonus and Salary Committee which is composed of five Directors who are not actively engaged in the management of the Corporation and who are not eligible for bonus. The action of the Bonus and Salary Committee is submitted to the Board of Directors for review and final approval. The distribution of the bonus is made in the form of common stock of the Corporation, except in the case of certain foreign subsidiaries which distribute their bonuses in local currency. Awards to employes receiving salaries of \$2,400 to \$4,200 a year are delivered in total immediately. For those bonus beneficiaries receiving salaries at the rate of \$4,200 a year or more, one-fourth of the award is delivered immediately after notification and the balance in three equal annual instalments.

As pointed out above, the General Motors Bonus Plan provides for the establishment of a bonus fund, to which shall be credited an amount not to exceed 10% of the net earnings for the year after deducting 7% on the net capital employed, to be invested in General Motors common stock. The amount of the total bonus fund in 1940 on the basis of this calculation was \$11,387,010. When the stock for the bonus awards can be taken from the Corporation's treasury, as was the case in 1940, the number of shares required has been limited to the number computed by dividing the bonus fund by the stock's average daily closing market price during the year. Attention is called to the fact that stock in the treasury does not consist of shares unissued but rather stock that has been purchased in the open market by the Corporation in previous years for cash.

In other words the transaction does not alter the total number of shares issued. The 226,190 shares available for distribution out of earnings for the year 1940 were determined on the basis of the average daily market price of \$49.24 a share. These shares, together with \$250,033 payable in cash to the employes of certain foreign subsidiaries, constituted the Corporation's bonus fund in 1940. This amount excludes the equivalent of \$110,000 payable in local currency as bonus to employes of foreign subsidiaries and applicable to unremitted earnings of such subsidiaries. The average cost of acquisition of the stock allocated from the Corporation's treasury was approximately \$18.28 a share, so that the net amount of the bonus fund in 1940, in terms of cost of acquisition of the stock distributable, was \$4,382,953.

The individual bonus awards have not been finally determined for 1940. It is estimated now that approximately 10,400 employes of the Corporation will benefit by the distribution of the 1940 fund. The maximum bonus award, however, to any one individual will be less than a 2% participation in the total bonus fund. The Chairman of the Board, at his own request, is not considered to be eligible to participate in the 1940 bonus distribution.

The record of bonus awards from the inception of the plan through the year 1940 is displayed on page 81 of this report.

Employes Savings and Investment Plan

This plan was inaugurated in 1919 and was suspended as of December 31, 1935 because of uncertainty as to the legal requirements under the Social Security Act and the Securities Act of 1933. The last class formed, that of the year 1935, matured on December 31, 1940. This report, therefore, closes the record of this particular plan.

The plan at the time of its suspension provided that any employe receiving less than \$4,200 per year was permitted to pay into the Savings Fund an amount not to exceed 10% of his earnings, but not in excess of \$300 per year. For each dollar of savings paid in, the Corporation contributed \$0.35 to the Investment Fund. Interest was allowed on the employe's payments, while the Corporation invested its own contribution and the income thereon in its own common stock. The entire amount was paid to the employe at the end of a five-year period, an employe who withdrew prior to maturity receiving pro rata benefits.

Each employe who paid \$100.00 into the fund throughout the year 1935 was entitled to receive the equivalent of \$190.91 at the maturity

of the 1935 Class on December 31, 1940. Of this settlement \$100.00 represented the employe's original savings, while the balance of \$90.91 represented benefits contributed by the Corporation in cash and General Motors common stock.

A total of \$8,063,840 was distributed early in 1941 to the 34,623 employes who participated at the maturity of the Class of 1935, as follows:

On account of common stock contributed by the Corporation.....	\$2,564,695
On account of 5% interest on savings, paid by the Corporation...	<u>1,268,735</u>
Total contributed by the Corporation.....	\$3,833,430
On account of employes' savings.....	<u>4,230,410</u>
This makes a total distribution of.....	<u>\$8,063,840</u>

Since the inception of the plan in 1919, a total of \$264,301,368 has been paid out to the Corporation's employes through settlements of maturing classes and withdrawals before maturity. Of this amount, \$151,036,047 represented employes' savings and \$113,265,321 was contributed by the Corporation. The return to the employes, over and above the amount of their own savings, consisted of the Corporation's contribution to the Investment Fund at the formation of each class, together with interest on savings, dividends on the common stock and appreciation in the value of the stock during the life of these classes.

Group Insurance Plan

The Group Insurance Plan offers three types of protection at a very low rate to the Corporation's employes who have completed three months' service. Life insurance is available to all such employes. In addition, employes receiving less than \$4,200 a year may participate in sickness and accident insurance and in hospitalization and surgical operation insurance.

The plan is cooperative, the direct cost being shared by the Corporation and the employes, the Corporation assuming the entire administrative expense.

During 1940 there were paid through the Group Insurance Plan benefits totaling \$6,303,137. This amount included payments to beneficiaries of 1,084 of the Corporation's employes who died during the year. Temporary disability benefits resulting from sickness or non-industrial accidents were paid to 23,982 employes, and benefits were paid to 23,986 employes under the surgical benefits and hospitalization insurance features of the plan. Since the inception of the Group Insurance Plan in December 1926, claims totaling \$46,199,037 have been paid.

At December 31, 1940 more than 99% of the eligible employees were participating in the life insurance feature of the plan; nearly 99% were participating in sickness and accident insurance; while over 95% were participating in hospitalization and surgical insurance, which has been in effect since July 1, 1939.

Employees Contributory Retirement Plan

At the annual meeting of the stockholders held on April 30, 1940, the adoption of the Employees Contributory Retirement Plan was approved. The plan was made effective as of July 1, 1940.

The plan, which is designed to supplement the old age benefits under the present Federal Social Security Act that covers the first \$250 of monthly earnings, provides that all employees in the United States receiving salaries in excess of \$250 per month, who have completed one year of service and who, at the time the other requirements for eligibility have been met, have reached age 40 and are less than 55 years of age, are eligible to participate.

The plan as adopted provides that each participating employee will contribute 5% of the amount of his monthly salary in excess of \$250. As of October 1, 1940 the minimum monthly contribution was fixed at \$2 for employees receiving in excess of \$250 and up to \$290 per month. The employee may contribute into the plan only up to age 60, except those employees who become eligible after age 45, who may contribute for a period of 15 years or to the date of retirement, whichever is earlier.

The Corporation contributes the balance of the funds necessary to provide the annuity benefits under the plan. It is estimated that the cost of the plan to the Corporation for the year ending June 30, 1941 will be \$735,000, including \$35,000 on account of the increase in the minimum contribution to \$2 per month. After allowing for savings in Federal normal corporate income taxes, the net cost to the stockholders would be \$558,600.

Monthly retirement benefits at age 65 under the plan will be equal to 30% of the employee's average monthly contribution into the plan during his participation in the plan multiplied by the number of years he has contributed under the plan. The maximum monthly benefit paid to an employee on his retirement may in no event exceed \$1,250.

All employees eligible to participate in the plan will be retired automatically at age 65 except in special cases. At the Corporation's option, an employee may be retired at any time between ages 60 and 65, in which

event the employe will suffer no reduction in retirement income already provided by his own and the Corporation's contributions. If the employe retires voluntarily between ages 60 and 65, provision is made for the payment of retirement income on a reduced basis.

A contract has recently been negotiated between the Corporation and the Aetna Life Insurance Company, the Metropolitan Life Insurance Company and the Prudential Insurance Company of America providing for the purchase from these companies of the annuities payable under the plan.

As of December 31, 1940, over 93% of the total eligible employes were participating under the plan.

Education and Training

The urgent requirements of the national defense program are focusing attention on the need for trained personnel for the production in quantity of technically intricate products. General Motors has always recognized this need and for many years past has conducted for its employes a number of organized training activities. These are composed of the apprenticeship and foreman training programs offered by many of the Corporation's divisions, and the work of the General Motors Institute at Flint, Michigan.

The General Motors Institute was established in 1920, and in its 21 years of existence it has trained more than 75,000 General Motors workers and supervisors. The current academic year began with an expanded physical plant and teaching staff.

The Institute's long background of experience with methods of instruction and training procedures now is invaluable to General Motors divisions engaged in or preparing for production of defense equipment. At General Motors plants where defense requirements have demanded new skills, the practice generally is being followed of familiarizing men with specific operations by means of short, intensive training courses. Procedures of instruction are adapted to local needs and problems, and the General Motors Institute cooperates with the various divisions by furnishing training plans and instruction material. These training courses for special defense work are separate and apart from the standard apprenticeship programs designed to produce all-around mechanics and expert craftsmen. It is hoped that this intensification of industrial education will be an additional contribution to the progress of the national defense program.

EXECUTIVE MANAGEMENT COMPENSATION

Compensation of the Corporation's executives is from two sources—a salary and an opportunity to participate in the profits above a return of 7% on the net capital employed. Both factors, as affecting any particular individual, vary with the ability of the individual and with the opportunity for accomplishment. As to ability there is no need of elaboration. By “opportunity for accomplishment” is meant the degree of responsibility involved in the individual's contribution to the Corporation's progress, affected, as it must be, by volume possibilities.

It follows that when the volume of business importantly declines the opportunity to accomplish is likewise reduced. That part of total compensation emanating from a participation in the profits automatically adjusts itself with the state of business, because as volume recedes profits decline at an increasing rate. That part emanating from salary is subject to adjustment, depending upon general economic conditions.

Executive management participation in profits comes through the application of the Bonus Plan. With respect to profit possibilities, the effect of taxes, corporate and personal, has become a factor of increasing importance. Compensation arising out of profit participation through the Bonus Plan is based upon profits after the deduction of income and excess profits taxes. Thus, the increase in taxes results in a reduction in compensation.

There is a broad coverage of the Corporation's total salary group eligible for benefits under the Bonus Plan. For several years previous to 1936 all members of the organization receiving salaries at the annual rate of \$4,200 and over were eligible. Beginning with 1936, a part of the bonus fund has been allocated to the group receiving salaries at the rates

of \$2,400 up to \$4,200 a year. The Bonus Plan is described in detail under "Cooperative Plans."

Total Compensation Position of the Three Highest Remunerated Executives

Both the salary and the bonus participation factors which constitute total compensation are affected importantly by the opportunity to accomplish, and are further influenced by the state of the business. The fluctuations in the business cycle not only affect business profits but also result in wide variations from year to year in that part of an executive's compensation resulting from profit participation, so that the real level of compensation can be measured only by the average received over a period of years.

Any consideration of the problem of compensation must also involve the influence of personal income taxes as affecting the amount available to the individual to spend. For, as the cost of government must be paid for by the consumer in the form of higher selling prices, thus diminishing real purchasing power, so such cost must be reflected in all components of the national economy. Compensation, whether it be of the worker or the executive, is no exception.

To show the influence of the business cycle and the effect of taxes on total compensation, the three highest remunerated executives over the past ten years have been selected for illustration, based on the assumptions hereafter stated:

TEN YEARS—1930 THROUGH 1939

	Highest Salaried Executive	Second Highest Salaried Executive	Third Highest Salaried Executive
SALARY			
Maximum.....	\$200,000	\$150,000	\$120,000
Minimum.....	112,500	76,666	83,173
BONUS PARTICIPATION			
Maximum.....	\$411,161	\$387,450	\$258,615
Minimum.....	—0—	—0—	—0—
TOTAL ANNUAL COMPENSATION			
Maximum.....	\$561,161	\$507,450	\$353,655
Minimum.....	112,500	76,666	90,000
AVERAGE ANNUAL TOTAL COMPENSATION			
Before allowance for personal			
Federal income taxes.....	\$274,796	\$289,681	\$205,707
After allowance for personal			
Federal income taxes.....	119,192	124,802	98,152

The above representations are based upon the following premises: (a) The period used covers the ten years through 1939. Five years reflected reasonably good earnings, while the remaining five were years of relatively low earnings. (b) Deductions from the individual incomes due to taxes are based upon personal normal and surtax rates as they exist today, but do not reflect the deduction for "defense taxes" applicable to individual incomes for the five years beginning with 1940. (c) While the total tax liability is influenced by income from investments and other sources, nevertheless it has been assumed that the executives in question had no income other than that derived from the compensation received from the Corporation. (d) The tax liability is based upon the assumption that the executive received his total compensation within the year in which it was earned and paid a tax thereon at the present rates, even though delivery of stock under the Bonus Plan is actually made in four equal instalments over a period of three years. (e) Bonus stock is valued on the same basis as it is awarded and not at the cost to the Corporation which was generally lower. (f) No deductions have been made for State income taxes which in New York currently would approximate 8%.

The amount of bonus participation for 1940 has not been finally determined, so that 1940 has not been included in this comparison. It is anticipated that the 1940 bonus participation of these executives will be determined by following the practice of past years, except that the Chairman, who is one of the executives used in this comparison, has at his own request been eliminated since January 1, 1937 from further participation in the bonus.

It will be noted from the above table that in a year of good business total compensation has been relatively large. In years of poor business, total compensation is reduced by about 80% as applied to these illustrations. The increasing cost of government has the effect of reducing the profits of the stockholders, increasing selling prices and reducing volume. Likewise, the amount of executive compensation to the recipient is drastically reduced by increasing taxes. The amount paid to General Motors executives is one thing. The net amount remaining after taxes is quite another and the all-important thing. From that standpoint it will be noted that the current cost of government would absorb, in the case of these three particular executives, practically the equivalent of their share of bonus for the entire ten-year period, so that, generally

speaking, each of the three executives would be left with an amount only substantially equal to the base salary.

Total Compensation of Executive Management Group

In order to report the cost of executive management, the question is necessarily raised as to what constitutes management in a business of such magnitude, involving as it does a highly diversified and highly technical line of products with operations conducted not only in the domestic markets but in nearly every market throughout the world. And in 1940, there was superimposed on these normal activities the added responsibilities in connection with the national defense program. In defining the group comprising executive management, for the purpose of discharging the responsibility involved in the above policy, the following formula has been used:

“ . . . the principal executive officers of the Corporation; the executive heads of its General Administrative Staffs; the executive heads of the Operating Divisions and wholly owned Subsidiaries; the four principal functional executives of the more important operating units; and the executive in charge of each of the assembly and manufacturing plants in the United States located away from divisional headquarters and of the overseas assembly and merchandising operations.”

A total of 184 individuals was included in the above defined list at December 31, 1940, the same as at the end of 1939. In the comparisons which follow, compensation is represented by salary and bonus participation. As to the latter, it includes that part and only that part of the bonus fund distributed to the executives within the group included in the executive management category as defined above. The amount of their bonus participation for the year 1940 has not been finally determined. The figures used in the following comparisons, therefore, are based on a preliminary estimate of the 1940 bonus participation of these executives as a group.

To enable the stockholders to obtain an understanding of the cost of executive management, certain relationships have been developed as shown below. In these relationships the estimated 1940 bonus awards are valued at \$49.24 per share of General Motors common stock which is the average daily closing market price of the stock for the year 1940. This is also the price used in determining the number of common shares available for distribution from the bonus fund provided out of 1940

earnings. For 1939, the bonus awards were valued at \$48.19 per share of common stock, the average market price for that year. In the relationship of executive management cost to profits, allowance is made for the fact that such costs are deductible in the determination of Federal income and excess profits taxes.

EXECUTIVE MANAGEMENT COST

PER SHARE OF COMMON STOCK	1940	1939
Executive management salaries.....	\$0.06½	\$0.08½
Supplemental compensation under bonus plan.....	0.07½	0.09½
Total.....	\$0.14	\$0.18

(Earnings per share of common stock in 1940 were \$4.32, and in 1939, \$4.04)

PER \$100 OF RETAIL PRICE OF PRODUCTS SOLD		
Executive management salaries.....	\$0.20	\$0.26
Supplemental compensation under bonus plan.....	0.20	0.26
Total.....	\$0.40	\$0.52

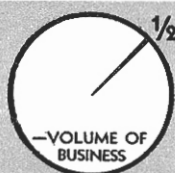
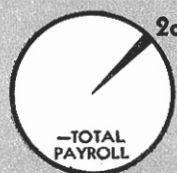
PER DOLLAR OF TOTAL PAYROLL		
Executive management salaries.....	\$0.01	\$0.01¼
Supplemental compensation under bonus plan.....	0.01	0.01¼
Total.....	\$0.02	\$0.02½

PER DOLLAR OF PROFITS EARNED FOR STOCKHOLDERS		
Executive management salaries.....	\$0.01⅔	\$0.02
Supplemental compensation under bonus plan.....	0.01⅓	0.02¼
Total.....	\$0.03	\$0.04¼

PER DOLLAR OF TOTAL VOLUME OF BUSINESS		
Executive management salaries.....	\$0.00¼	\$0.00⅓
Supplemental compensation under bonus plan.....	0.00¼	0.00⅓
Total.....	\$0.00½	\$0.00⅔

EXECUTIVE MANAGEMENT COST IN 1940

FOR EACH DOLLAR OF



Number of Individuals Receiving Salaries of \$10,000 or More per Annum

The following tabulation shows the number of executives in various salary groups receiving salaries at the rate of \$10,000 or more per annum as of December 31, 1940, whether or not included in the executive management group as defined above:

<u>Amount of Salary</u>	<u>Number of Individuals</u>
\$10,000 to \$ 20,000.....	300
20,001 to 30,000.....	49
30,001 to 50,000.....	18
50,001 to 75,000.....	12
75,001 to 100,000.....	7
100,001 to 200,000.....	1
Total.....	<u>387</u>

The number of executives in this group is simply indicative of the magnitude, diversity and geographical distribution of the Corporation's operations.

OWNER-MANAGEMENT

The relationship of management and ownership in modern industry is an interesting subject. And it is of particular consequence in view of the general interest and importance that surrounds industry's problems and policies in the discussions of the day. Therefore, a statement as to the position of General Motors Corporation might be interesting to the stockholders.

Due to the force of economic necessity and through a process of evolution, certain units of industry have become large. This is because of the continuously broadening market for industry's products and services resulting from the production of more useful things at continually lowered prices. There is superimposed upon this evolutionary process the additional influence of an increasing need for integration of manufacturing processes involved in mass production. The effect of such an evolution on the capital structure is to require ever increasing amounts of capital. The old concept of individual ownership is less applicable in mass production industries. The position is being approached, if it has not already been reached, when management, speaking in the broad sense, will become largely divorced from ownership in the mass production organizations of the industry of today. And while this may apply particularly to the United States, due to the larger markets that industry has enjoyed here, the general trend is not essentially different in the other industrial countries of the world.

The problems that arise out of this evolutionary process are both social and economic in character. Is the responsibility of management as it assumes the role of a trusteeship likely to be as adequately discharged both in the public interest and in the interest of the business itself, all things considered, as where management and ownership are synonymous? It is not within the province of this annual report to present the philosophy involved in this particular question. But it is desirable that the facts be stated as they exist, so far as General Motors

Corporation is concerned, leaving the interpretation of the facts to the judgment of those who may be concerned therewith.

General Motors differs quite outstandingly from other large units of American industry in respect to the subject now being discussed. Ownership represented in the executive management of the Corporation exists to an unusual degree. While such managerial ownership may not bulk very large on a percentage basis, due to the large aggregation of capital involved, yet if it is to be assumed that the responsibility of any management to any business cause has any relationship whatsoever to the personal stake involved in that cause, then that relationship is important in the instance of General Motors Corporation.

Among the twenty-seven Directors, fifteen are directly concerned with and devote all their time to the management of the Corporation's affairs. This particular group owns and controls 1,908,400 shares of General Motors common stock which at \$48.00 per share, the closing market price on December 31, 1940, represent an investment of \$91,603,000. Three other members of the Board, not directly concerned with the operating management, own 670,500 shares, representing an investment of \$32,184,000 at \$48.00 per share. Six other members have holdings of 268,900 shares, an investment of \$12,907,000 at \$48.00 per share, and also represent the large stock interest of the E. I. du Pont de Nemours & Company. The remaining three members are neither concerned directly with the operating management nor are they the owners of a large amount of stock but are members of the Board because of their ability to contribute to the general progress of the business.

In addition, approximately 3,600 individuals in the supervisory group within the operating organization, who devote all their time to its service, are owners to the extent of 932,400 shares, an investment of \$44,755,000. Thus there is directly involved in ownership management in General Motors Corporation a total of 3,782,300 shares, an investment of \$181,550,000.

While it may be accepted as a fact that the larger individual holdings are likely to be redistributed through the passage of time as new executives take the place of those who must necessarily pass on, yet through the operations of the Bonus Plan, managerial ownership is being constantly expanded as new participants develop and present participants advance to positions of greater responsibility.

The operating management group of General Motors Corporation has a very real personal stake in the success of the enterprise.

PUBLIC RELATIONS

One of the important and continuing responsibilities of industrial management is the promotion of a better understanding of mutual problems affecting various elements of our industrial and economic life. This means that there must be not only a better knowledge and understanding of the public by industry, but a wider knowledge of the principles and processes of industry by the public.

General Motors has long recognized that good relationships in the broader sense begin with constructive and mutually satisfactory policies as affecting those with whom the Corporation has direct and immediate dealings. Included are employes, customers, stockholders, dealers and suppliers. To these must be added its relationships with the community itself. In this connection it is gratifying to note an increasing interest on the part of the public in the role of industry in our society, an awakened desire to understand better industry's functions in the general economy. This spirit of inquiry is one of the most promising indications of progress toward still further satisfactory relationships.

Under our democratic way of life understanding is the basis of all progress. Accordingly, industry must strive to know ever better the needs and desires of those it serves. In General Motors the Customer Research Staff maintains carefully planned and continuous studies to determine the public's likes and dislikes as regards the Corporation's products. This to the end that those products and services may become *of constantly greater benefit and usefulness to the buyer.*

The community is entitled to an understanding of the basic principles that govern industry's ability to contribute to its well-being. Throughout its field organization and wherever its plants are located, General Motors endeavors to be a "good neighbor," to promote mutual understanding and hence better relationships everywhere. There is no conflict—and there can be no conflict—between sound business policies and the public interest.

Important as these factors are under normal conditions, they become of far greater consequence under conditions of emergency and stress. Today industry's productive facilities, its resources of manpower, skill and technical ability are being called upon to supply the implements for an impregnable national defense. As evolved under our system of free enterprise, industry's ability to produce, which in normal times served to advance our standards of living, now, in time of emergency, is emphasized as a vital source of national strength. Thus on a new and dramatic front the interests of industry and the community at large are bound together. It may be said that the progress and effectiveness of the defense effort will depend to a considerable degree upon a widespread understanding of the problems involved and the means through which our national defense objectives must be attained.

In General Motors it is recognized that the more widespread the understanding, internally and in the community at large, of the basic factors, policies and problems of its operations, the better service the organization is able to render, whether in normal or in emergency times. To the promotion of such understanding as will make possible in its own field a maximum contribution to the welfare and progress of all concerned, General Motors continues to devote its persistent efforts.

With the close last fall of the New York World's Fair and the Golden Gate Exposition in San Francisco, General Motors concluded one of its most dramatic presentations to the public. The attendance at the General Motors exhibits during the two years of showing was about 24,000,000 persons at the New York World's Fair and 6,800,000 at the Golden Gate Exposition. Not only did these millions of people have the opportunity of inspecting a full line of General Motors products but in the Previews of Progress and in other demonstrations they saw and heard dramatically portrayed the processes through which scientific research and industrial enterprise move forward in the production of more goods for more people. Particularly did the Futurama—considered one of the outstanding attractions of the New York World's Fair—express the concept of the social and economic function of industry and transportation as related to the future. This feature was presented not as a forecast, but rather as a symbol of progress in many fields of industry.

It is a matter of satisfaction that these exhibits received such enthusiastic response from visitors from all parts of the country. It is reasonable to believe that the beneficial results accruing to the Corporation will continue for many years to come.

MOVING FORWARD

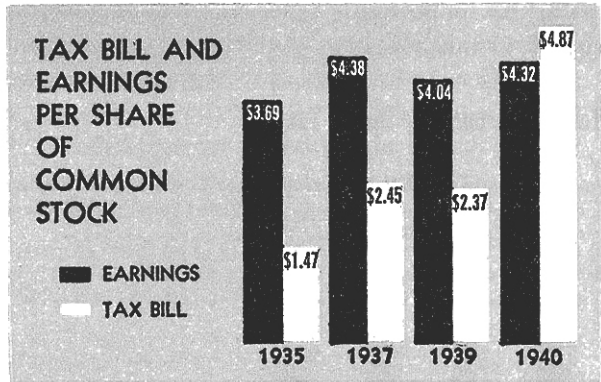
General Motors Corporation has not deviated from the policy it has followed down through the years of investing the capital essential to maintain the efficiency of its manufacturing operations; and it has in all cases expanded its plants when justified by the possibility of increased sales. It has not hesitated to broaden its line of products when constructive opportunities have presented themselves. It has continued its research and engineering activities aggressively for the purpose of increasing its efficiency and developing new and useful products.

Expressing this policy in terms of the capital investment which is applicable to plant utilized in its regular operations, exclusive of tools, dies, etc. specifically related to its yearly product program and written off as a part of the cost of production of the model to which they apply, the Corporation expended \$47,749,081 for plant construction, real estate and equipment in 1940 and approximately \$338,000,000 over the seven years since the low point of the world depression.

The expenditures for plant construction and the purchase of real estate and equipment for regular operations in 1940 did not involve any important increase in existing facilities as such, but represented in part an adjustment to bring such facilities in line with current technology, and to provide equipment essential for the 1941 line of products.

The Corporation's participation in the national defense program and in the production of war materials for the British and Canadian governments, exclusive of existing plant facilities directly or indirectly assigned for such work, has necessitated the expenditure during 1940 of \$11,602,992 for plant construction, real estate and equipment for its own account. In addition, the Corporation appropriated \$27,578,000 in 1940 to be expended for plant construction, real estate, equipment and tools for the account of the United States, British and Canadian governments, of which \$7,764,203 was expended in 1940. The Corporation is to be reimbursed for these expenditures and title to the assets passes to the respective governments.

COST OF GOVERNMENT



Previous annual reports have included a section on the "Cost of Government." This section is included again because it is recognized that the continuous increase in the cost of government must, of necessity, more and more adversely affect costs and selling prices, and, likewise, reduce the ability of the consumer to purchase, both from the standpoint of higher selling prices and also from the standpoint of reduced income with which to buy. The more government takes, the less other component parts can receive, all other things being equal. It is recognized of course that the defense program must be paid for. Nevertheless the alarming increase in the cost of government over the past few years, with its economic influence upon industry and on the individual, is beginning to penetrate the consciousness of the people at large. It is an encouraging sign that this is so.

It is manifestly impossible to determine the extent to which the cost of government influences the purchase price of the broad range of goods and services which the Corporation requires in its extensive operations and passes on to the consumer as a component part of its own costs. On the other hand, it is possible to determine definitely the cost of government in terms of taxes levied directly on the Corporation's own opera-

tions. For the purpose of reflecting the cost of government as measured by taxes definitely ascertainable, there are presented herein data based upon all taxes accrued or paid directly by the Corporation and its subsidiaries, together with its proportionate share of direct taxes paid by manufacturing companies in which a substantial interest is held, and including excise taxes paid on products sold by the Corporation. It must be recognized that from the consumer standpoint, even as applied to the Corporation's products, there are additional taxes, such as sales taxes, that importantly reflect the cost of government but are not included in this analysis.

Total Ascertainable Direct Tax Bill

	<u>1940</u>
Taxes accrued or paid by General Motors Corporation and its affiliates to the various taxing authorities within the United States (including excess profits taxes of \$45,932,000).....	\$170,832,000
Excise taxes on products sold by the Corporation and paid directly to the government.....	<u>39,579,000</u>
Total ascertainable direct tax bill.....	<u>\$210,411,000</u>

The Trend of Cost of Government

Substantially higher taxes were paid in 1940 due to increases in corporate income, excise and other tax rates and the imposition of the excess profits tax. The ascertainable direct tax bill of \$210,411,000 in 1940 was approximately \$71,500,000, or 51.5% higher than it would have been if computed under the 1939 tax structure. The difference is a measure of the increase during the last year of the cost of government to the consumer and to the stockholders of General Motors Corporation.

Tax Bill in Relation to Earnings, Sales and Payrolls

The ascertainable direct tax bill in 1940 of \$210,411,000 was 7.6% greater than total net earnings available for dividends, and more than twice the corresponding figure of \$101,884,000 in 1939.

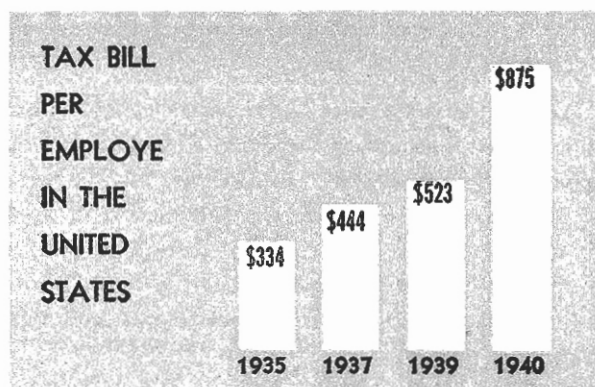
The effect of this total ascertainable tax bill can be illustrated by the following relations:

	<u>1940</u>	<u>1939</u>	<u>1938</u>	<u>1937</u>
Tax bill per share of common stock . . .	\$ 4.87	\$2.37	\$1.72	\$2.45
Tax bill per \$100 of sales in U. S.	\$12.13	\$8.12	\$7.95	\$7.22

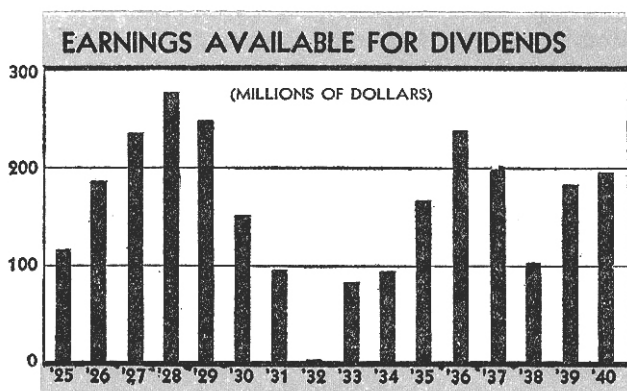
The relationships below express the effect of the total ascertainable tax bill in still another way:

	<u>1940</u>	<u>1939</u>	<u>1938</u>	<u>1937</u>
Tax bill per employe in U. S.....	\$ 875	\$ 523	\$ 450	\$ 444
Tax bill per \$100 of payroll in U. S...	\$ 42	\$ 28	\$ 27	\$ 24

Attention is called particularly to the fact that the tax bill referred to in the above relationships does not represent, by any means, the actual cost of government to the stockholder and to the consumer of General Motors products, inasmuch as there are included only those taxes definitely ascertainable and paid or accrued with respect to the Corporation's direct operations and sales. In other words, it reflects in no sense the tax bill as a whole. No effect has been given to the cost of government as reflected in the cost of materials purchased and consumed or in the cost of services rendered the Corporation and its affiliates in the conduct of their business, nor to the effect of taxes imposed upon channels of distribution.



A FINANCIAL REVIEW



The condensed consolidated balance sheet, summary of consolidated income and summary of consolidated surplus of General Motors Corporation and its consolidated subsidiaries for the year ended December 31, 1940, in comparison with the previous year, are submitted on pages 72 to 75 of this report. A list of certain subsidiary companies, the accounts of which are not consolidated in the accounts of the Corporation, together with certain other investments and miscellaneous assets, is shown on page 76.

Earnings

The constantly increasing burden of taxation has made it desirable to deal with earnings both before and after United States and foreign income and excess profits taxes. The stockholders may thus better determine the trend of the earning strength of the Corporation—that part within the influence of management as distinguished from that part over which management has no control.

A comparison of consolidated net earnings of General Motors Corporation, including equity in the earnings of subsidiary companies

not consolidated, both before and after income and excess profits taxes, for the years 1940 and 1939, together with a comparison of the provision made for such taxes, follows:

	<u>1940</u>	<u>1939</u>	<u>Increase in 1940</u>
General Motors proportion of net income before income and excess profits taxes..	\$320,649,462	\$228,142,411	\$92,507,051
Less provision for:			
U. S. and foreign income taxes.	\$ 84,261,236	\$ 44,852,189	\$39,409,047
U. S. excess profits taxes.	<u>40,766,505</u>	<u>—</u>	<u>40,766,505</u>
Total provision for U. S. and foreign income and excess profits taxes.	<u>\$125,027,741</u>	<u>\$ 44,852,189</u>	<u>\$80,175,552</u>
Earnings available for dividends.	\$195,621,721	\$183,290,222	\$12,331,499
Dividends accrued on preferred capital stock	<u>9,178,220</u>	<u>9,943,072</u>	<u>764,852</u>
Earned on common capital stock: Amount...	\$186,443,501	\$173,347,150	\$13,096,351
Per share.	\$4.32	\$4.04	\$0.28

The total provision in 1940 for United States and foreign income and excess profits taxes reflects, in addition to the new Federal excess profits tax, an increase of one-third in the Federal corporate income tax rate applicable to 1940 earnings, or from an 18% rate to a 24% rate. The provision for the excess profits tax has been computed on the basis of the excess in 1940 of the taxable income, after the deduction of the normal tax, over 95% of the four-year average, 1936 through 1939, as provided in the Second Revenue Act of 1940. On all such excess profits over \$500,000, a tax of 50% must be paid.

After deducting the provision for taxes and preferred dividends there remained earnings of \$186,443,501 on the common stock for the year 1940, equivalent to \$4.32 per share on the average number of common shares outstanding during the year. For the year 1939, after deducting provision for taxes and preferred dividends there remained earnings of \$173,347,150 on the common stock, equivalent to \$4.04 per share.

The net earnings for the year 1940 were increased by \$1,381,752 due to the reversal of a portion of the reserve provided in 1933 on account of balances in closed banks. The reserve remaining at the close of 1940 amounted to \$500,000 and is considered adequate to cover balances of \$806,981 remaining in the account.

In view of the continuation of disturbed conditions abroad, and to cover possible future losses which may be considered as applicable to the current period, a special contingency reserve of \$15,000,000, equiv-

alent to \$0.32 per share, was provided out of earnings in 1940. This provision increased the special contingency reserve to \$25,000,000 at December 31, 1940, \$10,000,000 having been provided in 1939.

A provision of \$4,546,619 was charged to 1940 earnings for payments and possible losses on advances to be made subsequent to 1940 to present employes under the Employe Benefit Plans. These plans cover the Income Security and Lay-Off Benefit Plans for wage employes and the Separation Allowance Plan for salaried employes. The reserve for the cost and any possible losses which may be incurred under these plans subsequent to 1940 amounted to \$6,930,665 at December 31, 1940. The cost of these plans covering operations since inception to December 31, 1940 was \$251,833.

The revaluation of net working capital outside the United States to current or last quoted exchange rates resulted in a charge of \$735,074 against 1940 earnings. This charge can be attributed primarily to the decline in foreign exchange rates as a result of the war. In the event that changes in the rates of foreign exchange result in a reduction in the value, as measured in dollars, of the working capital in use in foreign operations, the Corporation's accounting practice provides that the reduction becomes a charge against reserves where provided, or to the Corporation's earnings if in excess of reserves.

It has been the policy since December 31, 1933 to exclude from net earnings those profits realized abroad which could not be remitted to the United States due to exchange restrictions. The dollar amount of such profits in each year was based upon rates of exchange then current. Earnings in 1940 of foreign subsidiaries, other than Adam Opel A.G., which could not be remitted due to exchange restrictions amounted to \$5,879,696. However, profits of \$1,949,062 previously deferred were included in income on account of remittances to the United States during the year, so that earnings of foreign subsidiaries in the net amount of \$3,930,634 were excluded from the 1940 consolidated earnings of the Corporation. Earnings subsequent to 1939 have not been reported by Adam Opel A.G.

On a cumulative basis through December 31, 1940, profits realized abroad but not reflected in earnings because of exchange restrictions amounted to \$27,160,325, equivalent to \$0.63 per share of common stock. Unremitted profits of Adam Opel A.G. account for \$15,682,460 of the cumulative restricted earnings, equivalent to \$0.36 per common share. In stating the dollar amount of Adam Opel A.G. profits excluded,

the Reichsmark has been converted at 23.8 cents.

Dividend Payments and Earnings Retained in the Business

Dividends paid and earnings retained in the business in 1940 compare with 1939 as follows:

	<u>1940</u>	<u>1939</u>
Earnings available for dividends.....	\$195,621,721	\$183,290,222
Dividends paid on the \$5 series preferred stock..	\$ 9,178,220	\$ 9,178,220
Dividends paid on the common stock, \$3.75 per share in 1940 and \$3.50 per share in 1939..	<u>161,864,924</u>	<u>150,319,682</u>
Total dividends paid to the stockholders.....	<u>\$171,043,144</u>	<u>\$159,497,902</u>
Earnings retained in the business, \$0.57 per share in 1940 and \$0.54 per share in 1939.....	<u>\$ 24,578,577</u>	<u>\$ 23,027,468</u>
Total dividend payments as per cent of net earnings	87.4%	87.0%

In the ten years ended December 31, 1940, dividends paid were 89.9% of the earnings available for all dividends.

A record of the Corporation's sales, earnings and dividends by years from 1917 through 1940, is shown on page 79.

Net Working Capital and Cash

Net working capital amounted to \$477,940,113 at December 31, 1940, an increase of \$43,767,282 over net working capital of \$434,172,831 at December 31, 1939. This increase in net working capital in 1940 was accounted for principally by earnings of \$24,578,577 retained in the business and by an increase of \$15,000,000 in the special contingency reserve.

Cash, United States Government and other marketable securities amounted to \$433,207,722 at December 31, 1940, an increase of \$143,286,039 over corresponding items of \$289,921,683 at December 31, 1939. It should be noted that income and excess profits taxes payable within a year are now a far greater drain on cash than a year ago. These tax liabilities at the end of 1940 amounted to \$126,621,183 as compared with \$46,939,329 at the end of 1939. Furthermore, the cash balances at December 31, 1940 include special deposits of \$38,500,351 on government contracts. The consolidated cash account at December 31, 1940 excludes an amount of \$3,834,463 representing that portion of cash in

excess of operating needs which is held outside the United States and which cannot be remitted due to exchange restrictions. This foreign cash arose principally from profits realized by certain foreign subsidiaries in countries under exchange restrictions. The amount so excluded has been transferred to miscellaneous assets and a reserve of \$3,386,649 applied, leaving a net balance of \$447,814 in miscellaneous assets on this account. The reserve applied against restricted cash consists, for the most part, of a portion of the reserve set up in 1940 and prior years representing unremitted profits of these foreign subsidiaries. Foreign working capital included in the consolidated balance sheet items consists mainly of cash, inventories and receivables normally required in the conduct of the business.

Inventories amounted to \$265,000,682 at December 31, 1940, which compare with inventories of \$233,764,789 at December 31, 1939.

Surplus

There were no adjustments to the surplus account during the year under review. Earned surplus of \$471,021,153 at December 31, 1940 compares with \$446,442,576 at the end of 1939, an increase of \$24,578,577 which is accounted for by the excess of earnings over dividends paid during the year.

Real Estate, Plants, and Equipment

The gross real estate, plants and equipment account amounted to \$814,219,268 at December 31, 1940, an increase of \$44,801,850 over the total of \$769,417,418 at December 31, 1939. Reserves for depreciation increased \$28,042,971 during the year, or from \$383,557,809 at December 31, 1939 to \$411,600,780 at December 31, 1940. The net book value of real estate, plants, and equipment, therefore, increased \$16,758,879 during the year and amounted to \$402,618,488 at December 31, 1940.

There was a net increase during 1940 of \$7,010,950 in special tools, dies, etc., accounted for principally by expenditures for special tools applicable to defense contracts.

Excluding special tools, dies, etc., the increase in gross plant account amounted to \$37,790,900 and, after making allowance for the increase of \$28,042,971 in depreciation reserves, the net plant account increased \$9,747,929. The increase in gross plant account may be accounted for

by the following items: (a) gross plant expenditures for additions and improvements applicable to regular operations amounted to \$47,749,081; (b) gross plant expenditures applicable to the national defense program amounted to \$11,602,992; (c) a gross amount of \$2,885,679 of idle plant was reinstated as active plant, while conversely \$3,444,991 was transferred from active to idle plant, so that there was a net decrease of \$559,312 in the gross plant on this account; and (d) property disposed of and other adjustments reduced gross plant account by \$21,001,861.

There has been no change during 1940 in the Corporation's policy with respect to the provisions for depreciation or in the depreciation rates, except, in certain instances, an increase in depreciation and amortization rates has been applied to some of the facilities and equipment utilized in the production of defense and war materials under contract with the United States and foreign governments. The amount of depreciation and amortization charged against earnings in 1940 was \$45,971,036, including \$1,237,953 for accelerated depreciation and amortization on defense facilities. In the year 1939, depreciation and amortization in the amount of \$43,092,427 were charged against earnings.

The policy governing transfers between active and idle plant was described in detail in the annual report for the year 1932, and continues to apply to properties in the United States. At December 31, 1940, the gross value of surplus and idle plant in the United States and Canada was \$17,236,533 and was carried on the Corporation's books at a net salvage value of \$4,146,259. Since the difference between the gross value and the salvage value of this idle property has been charged to reserves for depreciation, the net book value of real estate, plants, and equipment was not affected by these transfers.

Investment Outside of the United States

It has been the practice of the Corporation to consolidate in its accounts, the assets, liabilities and income of its foreign subsidiaries other than Adam Opel A.G. and Vauxhall Motors Limited—the latter are carried in Investments in Subsidiary Companies Not Consolidated at cost adjusted to include the Corporation's proportion of undivided profits or losses since acquisition, exclusive of amounts deferred because of exchange restrictions. This practice has been continued for the year 1940 notwithstanding the fact that the Corporation's activities in certain foreign countries, particularly England and Continental Europe, have

been seriously affected by war conditions. The amounts involved in the case of the European subsidiaries included in consolidation are not large enough relatively to require separate treatment in the financial statements, and the amount of net working capital employed is particularly small. These conditions together with the present uncertainty as to the duration of the current situation, considered in relation to the desire to maintain continuity in the scope of consolidation, have led to the decision to make no change in the practice followed in the preparation of consolidated statements. It should also be noted that data are available as to certain operations in Europe only for varying parts of the year 1940.

Further, it may be said that the Corporation's accounting practice provides that, in the event it is impossible due to exchange restrictions to transfer profits from the country of origin to the United States, such amounts are excluded in determining the Corporation's profits. Furthermore, in the event that a change in the rate of exchange between any country in which the Corporation may be operating and the United States results in a reduction in the value, as measured in dollars, of the net working capital in use in that operation, the reduction becomes a charge against the Corporation's earnings if it exceeds reserves previously provided. Reference has been made on page 60 to the amount of profits excluded in 1940 because of exchange restrictions as well as to the charge to 1940 earnings for the revaluation of foreign working capital to current or last quoted exchange rates.

The net investment of General Motors Corporation and its consolidated subsidiaries outside of the United States amounted to \$80,488,444 at December 31, 1940, after deducting allocable reserves of \$24,418,769 which have been set up to provide against contingent losses that may arise in any locality in which foreign investments are located. Allocable reserves do not include any portion of the special contingency reserve of \$25,000,000 provided in view of the continuation of disturbed conditions abroad. The net investment outside of the United States at December 31, 1939 amounted to \$86,955,087, after deducting allocable reserves of \$21,400,201. The net investment at December 31, 1940 was 7.4% of the Corporation's total capital stock and surplus of \$1,093,557,753. Earnings from sources outside of the United States which have been included in consolidated net income in 1940 constituted about 4.5% of earnings available for dividends.

The following table summarizes the total General Motors investment

outside of the United States at December 31, 1940 in comparison with December 31, 1939:

SUMMARY OF GENERAL MOTORS INVESTMENT OUTSIDE THE UNITED STATES

	December 31, 1940	December 31, 1939
Assets of consolidated foreign subsidiaries:		
Current assets	\$ 68,408,537	\$ 58,718,194
Fixed assets (after deducting reserves for depreciation) ..	29,099,038	30,345,027
Total assets	<u>\$ 97,507,575</u>	<u>\$ 89,063,221</u>
Investment in subsidiary companies not consolidated:		
Adam Opel A.G.	34,890,024	34,890,024
Vauxhall Motors Limited	19,037,398	19,717,203
Total	<u>\$ 151,434,997</u>	<u>\$ 143,670,448</u>
Less current and other liabilities	<u>46,527,784</u>	<u>35,315,160</u>
Total investment outside of the United States before deducting allocable reserves	\$ 104,907,213	\$ 108,355,288
Less allocable reserves provided against contingent losses ..	24,418,769	21,400,201
Net investment outside of the United States	<u>\$ 80,488,444</u>	<u>\$ 86,955,087</u>

The total investment outside of the United States at December 31, 1940 may be classified geographically into three groups, as follows:

GEOGRAPHIC CLASSIFICATION OF GENERAL MOTORS INVESTMENT
OUTSIDE THE UNITED STATES—DECEMBER 31, 1940

	Canadian	European	All Other	Total
Assets of consolidated foreign subsidiaries:				
Current assets	\$24,152,339	\$10,118,493	\$34,137,705	\$ 68,408,537
Fixed assets (after deducting reserves for depreciation)	11,993,892	4,448,653	12,656,493	29,099,038
Total assets	<u>\$36,146,231</u>	<u>\$14,567,146</u>	<u>\$46,794,198</u>	<u>\$ 97,507,575</u>
Less: Current liabilities	12,224,316	10,681,860	16,830,228	39,736,404
Other liabilities	140,113	1,590,000	5,061,267	6,791,380
Net investment in subsidiaries included in consolidation ..	<u>\$23,781,802</u>	<u>\$ 2,295,286</u>	<u>\$24,902,703</u>	<u>\$ 50,979,791</u>
Investment in subsidiary companies not consolidated:				
Adam Opel A.G.	—	34,890,024	—	34,890,024
Vauxhall Motors Limited	—	19,037,398	—	19,037,398
Total investment outside of the United States before deducting allocable reserves	<u>\$23,781,802</u>	<u>\$56,222,708</u>	<u>\$24,902,703</u>	<u>\$104,907,213</u>
Less allocable reserves provided against contingent losses				<u>24,418,769</u>
Net investment outside of the United States				<u>\$ 80,488,444</u>

In addition to the foregoing, General Motors Acceptance Corporation, a wholly owned non-consolidated subsidiary, had total gross assets outside of the United States of \$32,421,944. After deducting funds borrowed from foreign institutions to finance the wholesale and retail sales of the Corporation's products, and other liabilities and reserves, General Motors Acceptance Corporation's net equity in the assets was \$2,601,748.

Investments and Miscellaneous Assets

The Corporation's investments in subsidiary companies not consolidated, other investments and miscellaneous assets are listed on page 76 of this report. The aggregate of all such items totaled \$242,200,056 at December 31, 1940, compared with \$246,434,121 at December 31, 1939.

The Corporation's investment in subsidiary companies not consolidated amounted to \$188,732,828 at December 31, 1940, which compares with \$191,291,823 at December 31, 1939. These investments include companies more than 50% owned by General Motors Corporation, and whose business is closely related to the Corporation's activities. Total income realized in 1940 from these investments, together with the Corporation's proportion of undivided profits or losses, amounted to \$18,997,672, which compares with total income of \$18,836,070 in 1939.

Other investments in partially owned companies amounted to \$42,376,575 at December 31, 1940 and compare with \$40,163,947 at December 31, 1939. Total income from such other investments in 1940 amounted to \$12,962,875 representing dividends and interest received and compares with \$12,365,350 received in 1939.

Prior to 1936 the Corporation reflected in earnings its proportion of the undivided profits or losses of certain companies not controlled; i.e., 50% or less owned. Beginning in 1936, however, and as stated in the annual report of that year, earnings of such companies have been reflected in the Corporation's income account only when received as dividends, with adjustments for net losses in any year since December 31, 1935 or net recoveries of losses absorbed to that date. General Motors Corporation's proportion of the undivided profits of companies not controlled which was excluded from the Corporation's income in accordance with the policy just enunciated, amounted to \$1,544,066 for the year 1940 and to \$5,793,902 for the entire period beginning with the year 1936.

The changes in the more important investments are outlined in the following items:

General Motors Acceptance Corporation

The investment of the Corporation in General Motors Acceptance Corporation amounted to \$85,898,078 at December 31, 1940 as compared with \$85,717,083 at December 31, 1939. The increase in the investment is accounted for by the excess of the consolidated earnings of General Motors Acceptance Corporation over dividends paid to General Motors Corporation. During 1940, Motors Insurance Corporation, a wholly owned subsidiary organized by General Motors Acceptance Corporation in 1939, expanded its operations to insure automobiles financed by General Motors Acceptance Corporation in eleven western states where the business was formerly carried on by General Exchange Insurance Corporation.

General Exchange Insurance Corporation

The Corporation's investment in General Exchange Insurance Corporation amounted to \$12,310,205 at December 31, 1940 and compares with an investment of \$13,461,129 at December 31, 1939, a decrease of \$1,150,924. The decrease in the investment represents the excess of dividends paid to General Motors Corporation over the earnings of General Exchange Insurance Corporation.

Yellow Truck & Coach Manufacturing Company

The Corporation's investment of \$28,715,553 in Yellow Truck & Coach Manufacturing Company at December 31, 1940 compares with an investment of \$28,803,252 at December 31, 1939. The decrease in the Corporation's investment was due to the excess of the dividends received by General Motors Corporation over the Corporation's equity in the earnings of Yellow Truck & Coach Manufacturing Company. During 1940, the Corporation purchased for \$161,705, 14,500 shares of Class B stock of Yellow Truck & Coach Manufacturing Company.

Vauxhall Motors Limited

The investment of the Corporation in Vauxhall Motors Limited amounted to \$19,037,398 at the close of 1940, a decrease of \$679,805

from the investment of \$19,717,203 at December 31, 1939. The Corporation's equity in unremitted earnings of Vauxhall Motors Limited in 1940 has not been included in the Corporation's accounts due to foreign exchange restrictions. In 1940 the Corporation did, however, receive dividends from Vauxhall out of prior year earnings, accounting for the major portion of the reduction in the investment.

Adam Opel A.G.

In recognition of foreign exchange restrictions, the net earnings of Adam Opel A.G. have not been included in the consolidated earnings of the Corporation since 1933. The investment in Adam Opel A.G. at December 31, 1940 is carried at \$34,890,024 and reflects no change from the previous year.

Automobile Dealerships

The Corporation's investment in automobile dealerships held by the Motors Holding Division amounted to \$7,592,870 at December 31, 1940, a decrease of \$806,261 from the investment of \$8,399,131 at December 31, 1939.

Ethyl Gasoline Corporation

The investment of the Corporation in Ethyl Gasoline Corporation amounted to \$14,956,054 at December 31, 1940, an increase of \$3,499,400 over the investment of \$11,456,654 at December 31, 1939. This increase in the investment during 1940 represents advances made for the expansion of the manufacturing facilities of Ethyl Gasoline Corporation.

Bendix Aviation Corporation

The investment of the Corporation in Bendix Aviation Corporation at December 31, 1940 amounted to \$12,273,021, compared with \$14,605,260 at December 31, 1939. The decrease of \$2,332,239 resulted entirely from the sale of 76,010 shares of the Corporation's holdings in the common stock of this company.

National Bank of Detroit

The investment of the Corporation in the National Bank of Detroit amounted to \$6,433,251 at December 31, 1940, a decrease of \$89,424 from

the investment at December 31, 1939. During the year, 5,902 shares of stock of the National Bank of Detroit were sold to the executives of the bank.

Balances in Closed Banks

During the year 1940, balances in closed banks, before deducting reserves, were reduced \$2,329,547, principally by the recovery of funds. Of total balances of \$21,197,530 originally impounded, a total of \$20,390,549 has been recovered or written off through December 31, 1940, leaving an amount of \$806,981 remaining impounded. The remaining impounded balances at December 31, 1940 are carried in miscellaneous assets and a reserve of \$500,000 has been applied.

Treasury Stock

At December 31, 1940, General Motors Corporation held in its treasury stock account 349,271 shares of common stock, carried at \$5,274,597, and 39,722 shares of preferred stock, carried at \$3,267,219.

The common stock held in the treasury at December 31, 1940 showed a decrease during the year of 219,809 shares, or \$6,877,816. This decrease is due principally to the use of 232,403 shares for the bonus awards made for the year 1939, partly offset by an increase of 14,005 shares due to the operations of the Employees Savings and Investment Plan. Of the common stock held in the treasury at December 31, 1940, 226,190 shares, available for distribution as bonus awards out of earnings for the year 1940, are being carried at an average of approximately \$18.28 per share.

There was no change during the year in the 39,722 shares of preferred stock held in the treasury and carried at \$3,267,219, or \$82.25 per share.

Goodwill, Patents, Etc.

The Corporation's goodwill and patent account as of December 31, 1940 amounted to \$50,322,686 and shows no change from the balance at December 31, 1939. Patents are carried at a nominal amount of \$1.

Goodwill under the Corporation's standard accounting practice is the difference between the purchase price and the book value of properties acquired.

Goodwill as reported in the balance sheet is not intended to represent an appraisal even in a minor degree of the intangible value of an out-

standing group of highly specialized manufacturing organizations and their executive personnel, supported by vast distributing organizations, operating in practically every country in the world. Neither does it include the likewise intangible value of the favorable attitude of the markets of the world toward a group of products, the quality and excellence of which are well established in practically every market in every country.

STOCKHOLDERS

The ownership of General Motors Corporation is widely distributed geographically and among a large number of individuals. At the last date of record in the year under review there was a total of 397,928 stockholders. It is particularly interesting to note that, of this large number of stockholders, approximately 154,000 individuals have holdings of ten shares or less. It is not only to the interest of the Corporation, but it is to the interest of the community that American business should be owned in the broadest possible way by the American public. Its security and the opportunities for accomplishment are enhanced thereby.

The total number of preferred and common stockholders at the end of each year since 1917 is shown on page 83 of this report.

CONCLUSION

The year 1940 from the standpoint of progress was outstanding, whether measured by earnings or by technical and operating advancement. It can fairly be said that the Corporation has enhanced its position, as a major unit of American enterprise. The superimposing of the program of national defense, with all its complications, upon an organization already dealing with the most highly involved research, engineering and production problems of industry, constitutes a greater test than ever before of the ability of the organization particularly as applying to the unusual demands of the immediate future. As to the adequate discharge of that great responsibility, there can be no question. The loyalty of everyone in the organization to the institution and to one another, the progressiveness of their thinking especially in dealing with new problems and the aggressiveness of their action, are amply demonstrated in the record of many years of continuing and increasing success. This record justifies complete confidence that what must be done, will be done—and up to the standards that are recognized as characterizing General Motors performance.

We wish to express here our deep appreciation of the distinguished service rendered the Corporation for almost twenty years by Mr. William S. Knudsen, our President who retired during the year to assume an important governmental responsibility in the program of national defense. The management is gratified at having been able to make this contribution out of its organization in the emergency that has arisen. It is hardly necessary to say that Mr. Knudsen's services will be most difficult to replace. But his duty was clear. And as he now moves on to a still greater responsibility to the common cause, he has our every wish for continued success.

On behalf of the Board of Directors and for ourselves as well, we express and record our appreciation of the efforts of the organization under the extraordinary circumstances existing during the year under review.

By order of the Board of Directors,

CHARLES E. WILSON,
President

ALFRED P. SLOAN, JR.,
Chairman

March 11, 1941.

**GENERAL MOTORS CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

SUMMARY OF CONSOLIDATED INCOME

FOR THE YEARS ENDED DECEMBER 31, 1940 AND 1939

	<u>Year 1940</u>	<u>Year 1939</u>
Net Sales	\$1,794,936,642.32	\$1,376,828,337.39
Profit from operations and income from investments (including dividends received from subsidiary companies not consolidated), after all expenses incident thereto, and after providing \$45,971,036.19 in 1940 and \$43,092,426.97 in 1939 for depreciation and amortization of real estate, plants, and equipment..	\$ 345,989,626.22	\$ 246,800,688.96
Less:		
Special contingency reserve provided in view of disturbed conditions abroad.....	\$ 15,000,000.00	\$ 10,000,000.00
Provision for possible losses under employe benefit plans.....	4,546,619.07	2,635,879.27
Total.....	\$ 19,546,619.07	\$ 12,635,879.27
Remainder.....	\$ 326,443,007.15	\$ 234,164,809.69
Add General Motors Corporation's equity in earnings (net) of subsidiary companies (not consolidated, less dividends received (for the year 1940 dividends received exceeded the Corporation's equity in earnings (net) of such companies).....	1,088,972.25	2,267,857.02
Net Profit from operations and investments	\$ 325,354,034.90	\$ 236,432,666.71
Less provision for:		
Interest on employes savings fund less investment fund reversions on account of employes savings withdrawn before class maturities.....	\$ 228,331.37	\$ 340,431.16
Employes bonus:		
Employes bonus distributable in stock on basis of average daily market price of stock.....	\$ 11,136,977.29	\$ 11,272,357.77
Amounts provided for bonus payments in cash to employes of certain foreign subsidiaries (see note).....	250,033.00	279,155.88
Total bonus fund for year (including amounts provided by subsidiaries not consolidated).....	\$ 11,387,010.29	\$ 11,551,513.65
Less excess of bonus fund over cost of acquisition of treasury stock distributable as bonus.....	7,004,057.47	3,714,867.09
Net amount of employes bonus distributable in cash and stock (based upon cost of acquisition of stock to the Corporation).....	\$ 4,382,952.82	\$ 7,836,646.56
Total.....	\$ 4,611,284.19	\$ 8,177,077.72
Net Income before Income and Excess Profits Taxes	\$ 320,742,750.71	\$ 228,255,588.99
Less provision for United States and foreign income and excess profits taxes (including provision for contingent income taxes)—includes in 1940 provision of \$40,766,505.55 for United States excess profits taxes	125,027,741.30	44,852,189.51
Net Income for the Year	\$ 195,715,009.41	\$ 183,403,399.48
General Motors Corporation's Proportion of Net Income Dividends on preferred capital stock—\$5 series (less dividends applicable to stock held in treasury).....	9,178,220.00	9,943,071.66
Amount Earned on Common Capital Stock	\$ 186,443,500.63	\$ 173,347,150.04
Average number of shares of common capital stock outstanding during the year.....	43,165,398	42,942,833
Amount Earned Per Share of Common Capital Stock	\$4.32	\$4.04

See Notes on following page.

**GENERAL MOTORS CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

**SUMMARY OF CONSOLIDATED SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 1940 AND 1939**

	Year 1940	Year 1939
Earned Surplus at beginning of year.....	\$446,442,575.81	\$423,415,108.07
General Motors Corporation's Proportion of Net Income, per Summary of Consolidated Income.....	195,621,720.63	183,290,221.70
Earned Surplus before dividends.....	\$642,064,296.44	\$606,705,329.77
Less cash dividends paid or accrued:		
Preferred capital stock—\$5 series.....	\$ 9,376,830.00	\$ 10,158,232.50
Common capital stock:		
Mar. 12 (\$0.75 on 43,500,000 shares in 1940)....	\$ 32,625,000.08	\$ 32,625,000.08
June 12 (\$1.00 on 43,500,000 shares in 1940)....	43,500,000.00	32,625,000.08
Sept. 12 (\$1.00 on 43,500,000 shares in 1940)....	43,500,000.00	32,625,000.08
Dec. 12 (\$1.00 on 43,500,000 shares in 1940)....	43,500,000.00	54,374,999.97
Total.....	\$163,125,000.08	\$152,250,000.21
Total cash dividends paid or accrued...	\$172,501,830.08	\$162,408,232.71
Less amount received or accrued by General Motors Corporation on capital stock held in treasury:		
Preferred capital stock—\$5 series.....	\$ 198,610.00	\$ 215,160.84
Common capital stock.....	1,260,076.59	1,930,317.91
Total.....	\$ 1,458,686.59	\$ 2,145,478.75
Net cash dividends paid or accrued....	\$171,043,143.49	\$160,262,753.96
Earned Surplus at end of year.....	\$471,021,152.95	\$446,442,575.81

Notes to Summaries of Consolidated Income and Surplus

Since December 31, 1933 there has been excluded from earnings such portion of the earnings of foreign subsidiaries as could not be remitted because of foreign exchange restrictions. The amount so excluded from earnings for the year 1940 was \$3,930,633.80, based upon current or last quoted exchange rates. For further information regarding income from foreign sources, see page 60.

In addition to the total amount of bonus provided out of consolidated income, there was awarded as bonus in 1940 the equivalent of \$110,000.00 payable in foreign currencies, which amount was applicable to unremitted earnings of foreign subsidiaries. Such bonus awards will be charged to the Corporation's bonus fund when unremitted earnings are realized and included in the Corporation's consolidated income.

Dividends paid or accrued in 1939 on the outstanding preferred capital stock—\$5 series—include \$764,851.66 for an additional month's accrual to provide for the full amount of the dividend payable February 1, 1940.

Earned surplus includes \$24,773,179.99 at December 31, 1940 and \$25,862,152.24 at December 31, 1939 for net earned surplus of subsidiaries not consolidated; also \$1,679,466.70 at December 31, 1940 and \$1,717,538.97 at December 31, 1939 for earned surplus of companies in which a substantial but not more than 50% interest is held.

GENERAL MOTORS CORPORATION
AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1940 AND 1939

ASSETS	Dec. 31, 1940	Dec. 31, 1939
Current Assets:		
Cash.....	\$ 282,924,743.20	\$ 154,919,033.77
United States Government securities—short term —at cost (market: 1940, \$148,979,423.68; 1939, \$131,999,268.21).....	148,982,806.36	132,002,116.17
Other marketable securities—short term—at cost (market: 1940, \$1,300,260.00; 1939, \$3,000,234.37).....	1,300,172.01	3,000,532.81
Sight drafts and C.O.D. items.....	8,522,686.99	10,625,184.00
Notes receivable.....	1,521,475.68	1,501,493.90
Accounts receivable and trade acceptances (less reserve for doubtful accounts: 1940, \$1,630,939.79; 1939, \$1,850,074.95).....	116,093,800.33	81,654,875.28
Inventories—at cost or less, not in excess of market	265,000,682.12	233,764,788.73
Total Current Assets.....	\$ 824,346,366.69	\$ 617,468,024.66
Investments and Miscellaneous Assets: (Schedule 1)		
Investments in subsidiary companies not consoli- dated.....	\$ 188,732,828.30	\$ 191,291,822.68
Other investments.....	42,376,574.81	40,163,946.84
Miscellaneous assets.....	11,090,652.71	14,978,351.60
Total Investments and Miscellaneous Assets... 	\$ 242,200,055.82	\$ 246,434,121.12
Capital Stock in Treasury:		
Held for corporate purposes (1940, 349,271 shares common, \$5,274,596.75; 39,722 shares \$5 se- ries no par preferred, \$3,267,219.38).....	\$ 8,541,816.13	\$ 15,419,632.23
Real Estate, Plants, and Equipment.....	\$ 814,219,268.42	\$ 769,417,417.87
Less reserve for depreciation.....	411,600,780.39	383,557,808.88
Net Real Estate, Plants, and Equipment.....	\$ 402,618,488.03	\$ 385,859,608.99
Prepaid Expenses and Deferred Charges.....	\$ 7,887,118.05	\$ 7,878,315.06
Goodwill, Patents, Etc.	\$ 50,322,686.38	\$ 50,322,686.38
TOTAL ASSETS.....	\$1,535,916,531.10	\$1,323,382,388.44

NOTES: Current receivables include: \$38,476,521.41 at December 31, 1940 and \$37,752,719.15 at December 31, 1939 of receivables from General Motors Acceptance Corporation representing principally in-transit items in connection with current financing of sales of the Corporation's products; \$6,158,485.92 at December 31, 1940 and \$1,962,474.26 at December 31, 1939 of current receivables from other subsidiary companies not consolidated; and \$45,811.93 at December 31, 1940 and \$151,441.64 at December 31, 1939 of receivables from officers and employees.

For information regarding foreign investments see page 63.

LIABILITIES, RESERVES, AND CAPITAL	Dec. 31, 1940	Dec. 31, 1939
Current Liabilities:		
Accounts payable.....	\$ 107,710,639.88	\$ 79,226,059.40
Taxes, payrolls, warranties, and sundry accrued items.....	66,419,578.63	46,464,600.79
Special deposits on government contracts.....	38,500,350.75	300,000.00
United States and foreign income and excess profits taxes.....	126,621,182.71	46,939,329.36
Employes savings funds, payable within one year.	4,859,946.51	8,070,648.88
Dividends payable on preferred capital stock...	2,294,555.00	2,294,555.00
Total Current Liabilities.....	\$ 346,406,253.48	\$ 183,295,193.43
Other Liabilities:		
Employes bonus (based upon cost of acquisition of stock distributable as bonus).....	\$ 4,132,919.82	\$ 7,557,490.68
Taxes, warranties, and miscellaneous.....	18,253,700.07	18,857,431.24
Total Other Liabilities.....	\$ 22,386,619.89	\$ 26,414,921.92
Reserves:		
Employe benefit plans.....	\$ 6,930,665.04	\$ 2,578,656.27
Deferred income.....	3,340,471.70	3,057,984.63
Contingencies and miscellaneous: Allocable to foreign subsidiaries.....	24,418,769.21	21,400,200.65
General (including special reserve: 1940, \$25,000,000.00; 1939, \$10,000,000.00).....	36,987,385.63	15,767,642.53
Total Reserves.....	\$ 71,677,291.58	\$ 42,804,484.08
Capital Stock and Surplus:		
Capital stock of General Motors Corporation: Preferred, no par value, stated value \$100 per share (authorized, 6,000,000 shares; issued, 1,875,366 shares of \$5 series).....	\$ 187,536,600.00	\$ 187,536,600.00
Common, \$10 par value (authorized, 75,000,000 shares; issued, 43,500,000 shares).....	435,000,000.00	435,000,000.00
Total Capital Stock.....	\$ 622,536,600.00	\$ 622,536,600.00
Minority interest in preference stock of subsidiary company.....	1,888,613.20	1,888,613.20
Earned surplus.....	471,021,152.95	446,442,575.81
Total Capital Stock and Surplus.....	\$1,095,446,366.15	\$1,070,867,789.01
TOTAL LIABILITIES, RESERVES, AND CAPITAL.....	\$1,535,916,531.10	\$1,323,382,388.44

CONTINGENT LIABILITIES: Claims in respect of back taxes, patent infringements and other matters incident to the ordinary course of business, together with other contingencies, involve amounts totaling approximately \$10,500,000. There is no way of determining the amount for which these claims may eventually be settled but, in the opinion of management and counsel, amounts included in other liabilities and reserves on the books of the Corporation and its consolidated subsidiaries are adequate to cover all settlements that may be made.

**GENERAL MOTORS CORPORATION
AND CONSOLIDATED SUBSIDIARIES
INVESTMENTS AND MISCELLANEOUS ASSETS
DECEMBER 31, 1940 AND 1939**

	<u>Dec. 31, 1940</u>	<u>Dec. 31, 1939</u>
Investments in Subsidiary Companies Not Consolidated:		
Wholly owned companies carried at net worth as shown by the books of the subsidiary companies:		
General Motors Acceptance Corporation.....	\$ 85,898,077.80	\$ 85,717,083.46
General Exchange Insurance Corporation.....	12,310,204.65	13,461,129.24
Subsidiary companies carried at cost adjusted to include the Corporation's proportion of undivided profits or losses since acquisition:		
Yellow Truck & Coach Manufacturing Company (includes \$9,575,265.01 representing 7% preferred stock).....	28,715,553.37	28,803,251.60
Vauxhall Motors Limited (see note).....	19,037,397.86	19,717,202.75
Adam Opel A. G. (see note).....	34,890,024.38	34,890,024.38
Automobile dealerships held by Motors Holding Division.....	7,592,870.24	8,399,131.25
Other (excluding investments in two foreign subsidiaries not consolidated amounting to \$292,053.20 in 1940 and \$831,064.10 in 1939, which are offset by reserves).....	288,700.00	304,000.00
Total Investments in Subsidiary Companies Not Consolidated.....	\$188,732,828.30	\$191,291,822.68

Other Investments:

Companies which are carried at cost adjusted to include the Corporation's proportion of undivided profits or losses at December 31, 1935, and net decreases in its equities since that date or net recoveries of losses absorbed to that date:

Ethyl Gasoline Corporation.....	\$ 14,956,053.82	\$ 11,456,654.35
Bendix Aviation Corporation.....	12,273,020.99	14,605,260.11
North American Aviation, Inc.....	4,510,611.12	4,510,611.12
Kinetic Chemicals, Inc.....	652,617.87	652,617.87
National Bank of Detroit common stock (at cost)....	6,433,250.76	6,522,675.00
GM Shares, Inc. common stock.....	394,407.91	394,407.91
Other.....	3,156,612.34	2,021,720.48
Total Other Investments.....	\$ 42,376,574.81	\$ 40,163,946.84

Miscellaneous Assets:

Properties, land contracts and mortgages held by housing divisions (less reserves: 1940, \$2,686,470.69; 1939, \$2,378,900.59).....	\$ 7,153,264.98	\$ 9,188,740.69
Cash and securities in excess of operating needs subject to exchange restrictions in foreign countries (less reserves: 1940, \$6,861,477.74; 1939, \$6,104,253.68)....	2,913,103.86	3,899,358.32
Balances in closed banks (less reserves: 1940, \$500,000.00; 1939, \$1,881,160.64).....	306,980.65	1,255,367.25
Other.....	717,303.22	634,885.34
Total Miscellaneous Assets.....	\$ 11,090,652.71	\$ 14,978,351.60

**TOTAL INVESTMENTS AND
MISCELLANEOUS ASSETS.....**

\$242,200,055.82 **\$246,434,121.12**

NOTE: In recognition of foreign exchange restrictions, no effect has been given to the undistributed earnings of Vauxhall Motors Limited since December 31, 1939 or of Adam Opel A.G. since December 31, 1933.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK

February 28, 1941.

General Motors Corporation,
1775 Broadway,
New York.

Dear Sirs:

We have made an examination of the Condensed Consolidated Balance Sheet of General Motors Corporation and consolidated subsidiaries as of December 31, 1940 and 1939, and of the related Summaries of Consolidated Income and Surplus for the years ended those dates. For the year ended December 31, 1940 and for the twenty-two preceding years, we have examined or tested the accounting records of the companies and other supporting evidence, have made general reviews of their accounting methods and operating accounts, and have reviewed the methods of internal control and audit procedure, which appear to be effective, but have not made detailed audits of the transactions.

In our opinion, based upon such examination, the accompanying Condensed Consolidated Balance Sheet and related Summaries of Consolidated Income and Surplus fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their consolidated financial condition at December 31, 1940 and 1939, and the results of their operations for the years ended those dates.

Yours truly,

HASKINS & SELLS

GENERAL MOTORS ACCEPTANCE CORPORATION
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1940

	ASSETS	
Current Assets:		
Cash: United States	\$ 45,082,108.88	
Canada	676,231.67	
Other Countries (Note A)	287,952.18	\$ 46,046,292.73
Notes and Bills Receivable (including instalments of \$78,983,000 maturing in 1942 and \$3,852,000 thereafter):		
United States (Note B)	\$521,596,237.02	
Canada (Note B)	18,300,810.21	
Other Countries (Note A)	13,842,327.67	
Total	<u>\$553,739,374.90</u>	
Deductions:		
Unearned Income	\$ 25,547,576.87	
Reserve for Losses on Notes and Bills Receivable	6,076,683.44	
Total Deductions	<u>\$ 31,624,260.31</u>	
Notes and Bills Receivable, Less Deductions		522,115,114.59
Accounts Receivable (including affiliated companies, \$75,973.50)		627,717.64
Total Current Assets		<u>\$568,789,124.96</u>
Investments:		
Wholly Owned Subsidiaries not Consolidated:		
Carried at net worth as shown by books of the subsidiaries:		
Motors Insurance Corporation	\$ 3,342,721.16	
General Exchange Corporation	7,702.50	
Allgemeine Finanzierungs-Gesellschaft m.b.H. (Note C)	318,053.98	
United States Treasury Notes due 1943 at amortized cost (less than market) (Note A)	607,834.76	
Other	96,454.54	4,372,766.94
Company Automobiles and Office Equipment, Less Depreciation		1,037,261.01
Deposits to Redeem Called Securities, and Dealers' Special Deposits (see contra)		631,173.38
Deferred Charges:		
Prepaid Discount (Notes Payable)	\$ 695,712.49	
Other	191,112.14	886,824.63
Total		<u>\$875,717,150.92</u>

LIABILITIES, CAPITAL STOCK AND SURPLUS

Current Liabilities:		
Notes and Loans Payable:		
United States:		
Short Term Notes Discounted (including \$200,000.00 due in 1942)	\$279,332,500.00	
1½% Serial Debentures due May 1, 1941	1,000,000.00	
Canada:		
Short Term Notes Discounted	3,558,558.56	
Bank Loans and Overdrafts	3,293,693.69	
Other Countries (Note A)	9,600,742.72	\$296,785,494.97
Accounts Payable:		
Due to General Motors Corporation and Other Affiliated Companies (for wholesale paper purchased, insurance premiums, etc.)	\$ 40,102,310.47	
Due Motors Insurance Corporation (for insurance premiums)	675,034.58	
Other	2,710,923.22	43,488,268.27
Accrued Liabilities:		
Interest	\$ 550,563.05	
Federal Income and Other Taxes	5,328,412.38	5,878,975.43
Dealers' Repossession Loss Reserves		20,614,183.27
Total Current Liabilities		<u>\$366,766,921.94</u>
Long-Term Debt:		
Five-Year 1½% Notes, due August 1, 1944	\$ 50,000,000.00	
Nine-Year 2% Notes, due May 1, 1949	50,000,000.00	
1½% Serial Debentures, due May 1, 1942 to 1950	9,000,000.00	
Canadian Three-Year 2½% Notes, due April 1, 1943	6,756,756.76	115,756,756.76
Securities Called for Redemption, and Dealers' Special Deposits (see contra)		631,173.38
Reserves: For Contingencies	\$ 5,000,000.00	
Other	1,664,221.04	6,664,221.04
Capital Stock and Surplus:		
Capital Stock—\$100 par, authorized and outstanding, 500,000 shares	\$ 50,000,000.00	
Paid-In Surplus	11,250,000.00	
Earned Surplus	8,750,000.00	
Undivided Profits	15,898,077.80	85,898,077.80
Total		<u>\$875,717,150.92</u>

Notes:

- (A) Cash of \$86,850.00, Notes and Bills Receivable of \$5,543,709.47, and Investment in United States Treasury Notes due 1943 carried at \$607,834.76, were pledged as collateral against bank borrowings amounting to \$5,262,450.65 in countries other than the United States and Canada.
- (B) Included in the wholesale notes and bills receivable are amounts—United States, \$7,356,148.82 and Canada, \$571,972.20—representing notes of General Motors Corporation affiliated dealership companies.
- (C) The net worth as reported by this subsidiary (converted at \$2.381 per Reichsmark) has been reduced by the application of reserves amounting to \$104,861.53. The liabilities of this subsidiary include \$205,386.09 U. S. dollar loans guaranteed by the Corporation.

GENERAL MOTORS CORPORATION

AND CONSOLIDATED SUBSIDIARIES

RECORD OF SALES, EARNINGS AND DIVIDENDS

Net sales, net income, amount paid in dividends and the amount reinvested in the business since the beginning of the present General Motors Corporation of Delaware are shown in the following table. Net income and amount reinvested in the business beginning with 1922 include General Motors Corporation's equity in earnings (net) of subsidiary companies not consolidated.

Year Ended Dec. 31	Net Sales	Net Income Available for Dividends	Preferred Dividends	Balance Available for Common Stock	Cash Dividends Paid on Common Stock	% Income Disbursed in Cash Dividends on Preferred and Common Stocks	Income Reinvested in the Business
1917§	\$ 96,295,741	\$ 14,294,482	\$ 491,890	\$ 13,802,592	\$ 2,294,199	19.5%	\$ 11,508,393
1918	269,796,829	14,825,530	1,920,467	12,905,063	11,237,310	88.8	1,667,753
1919	509,676,694	60,005,484	4,212,513	55,792,971	17,324,541	35.9	38,468,430
1920	567,320,603	37,750,375	5,620,426	32,129,949	17,893,289	62.3	14,236,660
1921	304,487,243	<i>*88,680,770</i>	6,310,010	<i>*44,980,780</i>	20,468,276	—	† 66,459,066
1922	463,706,733	54,474,493	6,429,228	48,045,265	10,177,117	30.5	37,868,148
1923	698,038,947	72,008,955	6,887,371	65,121,584	24,772,026	44.0	40,349,558
1924	568,007,459	51,623,490	7,272,637	44,350,853	25,030,632	62.6	19,320,221
1925	734,592,592	116,016,277	7,639,991	108,376,286	61,935,221	60.0	46,441,065
1926	1,058,153,338	186,231,182	7,645,287	178,585,895	103,930,993	59.9	74,654,902
1927	1,269,519,673	235,104,826	9,109,330	225,995,496	134,836,081	61.2	91,159,415
1928	1,459,762,906	276,468,108	9,404,756	267,063,352	165,300,002	63.2	101,763,350
1929	1,504,404,472	248,282,268	9,478,681	238,803,587	156,600,007	66.9	82,203,580
1930	983,375,137	151,098,992	9,538,660	141,560,332	130,500,002	92.7	11,060,330
1931	808,840,723	96,877,107	9,375,899	87,501,208	130,500,001	144.4	† 42,998,798
1932	432,311,868	164,979	9,206,387	<i>*9,041,408</i>	53,993,330	—	† 68,034,738
1933	569,010,542	83,213,676	9,178,845	74,034,831	53,826,355	75.7	20,208,476
1934	862,672,670	94,769,131	9,178,220	85,590,911	64,443,490	77.7	21,147,421
1935	1,155,641,511	167,226,510	9,178,220	158,048,290	96,476,748	63.2	61,571,542
1936	1,439,289,940	238,482,425	9,178,220	229,304,205	192,903,299	84.7	36,400,906
1937	1,606,789,841	196,436,598	9,178,220	187,258,378	160,549,861	86.4	26,708,517
1938	1,066,973,000	102,190,007	9,178,220	93,011,787	64,386,421	72.0	28,625,366
1939	1,376,828,337	183,290,222	†9,943,072	173,347,150	150,319,682	87.0	23,027,468
1940	1,794,936,642	195,621,721	9,178,220	186,443,501	161,864,924	87.4	24,578,577

The earnings and dividends paid per share of present \$10 par value common stock (outstanding since 1929) for 1929 and subsequent years have been as follows:

Year	Earnings Per Share	Dividends Paid	Year	Earnings Per Share	Dividends Paid
1929	\$5.49	\$3.60	1935	\$3.69	\$2.25
1930	3.25	3.00	1936	5.35	4.50
1931	2.01	3.00	1937	4.38	3.75
1932	*.21	1.25	1938	2.17	1.50
1933	1.72	1.25	1939	4.04	3.50
1934	1.99	1.50	1940	4.32	3.75

NOTE: General Motors Corporation of Delaware was incorporated October 13, 1916, succeeding General Motors Company of New Jersey, organized September 16, 1908.

§ 5 months ended December 31, 1917.

* Deficit.

† Decrease in surplus.

Preferred dividend in 1939 includes \$764,852 for an additional month's accrual to provide for the full amount of the dividend payable February 1, 1940.

PAYROLLS AND NUMBER OF EMPLOYEES

The combined annual payrolls, including salaries and wages, and number of employees for 1940 and prior years for General Motors Corporation, General Motors Acceptance Corporation, General Exchange Insurance Corporation and other wholly owned subsidiaries, but excluding Adam Opel A.G., Vauxhall Motors Ltd., Yellow Truck & Coach Manufacturing Company, and Fisher Body Corporation prior to the acquisition of the minority interest as of June 30, 1926, have been as follows:

Payrolls

1921 \$ 66,020,481	1928 \$365,352,304	1935 \$327,677,624
1922 95,128,435	1929 389,517,783	1936 384,153,022
1923 138,290,734	1930 279,410,144	1937 460,451,744
1924 110,478,000	1931 236,520,474	1938 300,825,930
1925 136,747,178	1932 143,255,070	1939 386,292,203
1926 220,918,568	1933 171,184,315	1940 492,246,017
1927 302,904,988	1934 263,204,225	

Number of Employees

1909 14,250	1915 21,599	1921 45,965
1910 10,000	1916 25,666	1922 65,345
1911 11,474	1917 25,427	1923 91,265
1912 16,584	1918 49,118	1924 73,642
1913 20,042	1919 85,980	1925 83,278
1914 14,141	*1920 80,612	**1926 129,538
1927 175,666	1934 191,157	
1928 208,981	1935 211,712	
1929 233,286	1936 230,572	
1930 172,938	1937 261,977	
1931 157,586	1938 189,039	
1932 116,152	1939 220,434	
1933 137,764	1940 249,386	

*Beginning with the year 1920 figures shown in this table are averages for the year.

**Average for 1926 does not include Fisher Body prior to June 30.

BONUS AWARDS

The General Motors Bonus Plan, established in 1918, provides that there may be set aside each year as a bonus fund 10% of the Corporation's net earnings after deducting 7% on the net capital employed in the business. The bonus fund is distributed in the form of General Motors common stock, except in the case of certain foreign subsidiaries which have separate bonus plans. The total amount provided under the bonus plans of these foreign subsidiaries is deducted from the 10% bonus fund and is distributed directly in foreign currency. For the period 1923 through 1936, only one-half the total fund, or 5% of net earnings, was set aside for distribution as bonus. The other 5% of net earnings was paid to Managers Securities Company from 1923 through 1929, and to General Motors Management Corporation from 1930 through 1936. Beginning with the year 1937, the total 10% fund has been distributed in the form of bonus awards under the Bonus Plan. When there is sufficient stock held in the Corporation's treasury to meet the annual bonus requirements, so that the stock does not have to be purchased in the open market during the year, the number of shares to be distributed is limited to the number computed by dividing the bonus fund by the average daily market price of General Motors common stock during the year. Stock awarded to employes in the bonus group composed of those receiving salaries at an annual rate of from \$2,400 to \$4,200 a year is delivered immediately, while stock awarded to employes receiving salaries of \$4,200 or more is delivered one-fourth at the time of the award and the balance in three equal annual instalments. A record of the awards follows:

Year	Number of Bonus Awards	Number of Shares of Common Stock Awarded (a)	Year	Number of Bonus Awards	Number of Shares of Common Stock Awarded (a)
1918	2,279	26,146	1930	1,933	117,624 (d)
1919	6,453	214,659 (b)	1931	1,377	65,897 (d)
1920	6,578	84,966 (b)	1932	(c)	(c)
1921	(c)	(c)	1933	1,234	51,440
1922	550	95,857	1934	1,484	71,664
1923	647	120,681	1935	2,312	189,010
1924	676	15,370	1936	9,483	212,388 (e)
1925	947	46,043	1937	10,026	252,086 (e)
1926	1,514	84,869	1938	4,211	77,930 (e)
1927	2,007	110,689	1939	9,845	232,468 (e)
1928	2,504	78,188	1940	10,400 (f)	226,190 (f)
1929	2,839	167,378			

Note: The number of shares of common stock awarded shown above excludes bonus payments in cash to employes of certain foreign subsidiaries.

- (a) Common stock awarded: In year 1918—\$100 par value; 1919 through 1923—no par value (old); 1924 through 1926—no par value (new); 1927 and 1928—\$25 par value; and thereafter in present \$10 par value.
- (b) In addition to the common stock awarded in 1919 and 1920, 18,934 shares of 7% debenture stock were awarded, of which 14,191 shares applied to the 1919 awards and 4,743 shares to the 1920 awards.
- (c) No bonus was available for the years 1921 and 1932.
- (d) Bonus awards in 1930 and 1931 were in Class A stock of the General Motors Management Corporation, which was equivalent, share for share, to General Motors common stock.
- (e) Includes share equivalents of certain cash awards to employes receiving salaries at an annual rate of from \$2,400 to \$4,200.
- (f) Although 226,190 shares of common stock have been set aside for bonus purposes in 1940, the awards have not yet been made and the figures are preliminary.

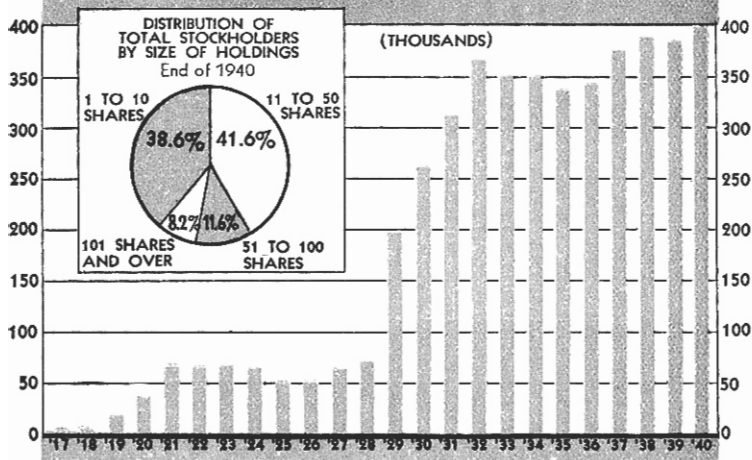
UNIT SALES OF CARS AND TRUCKS

The following table shows unit sales of General Motors passenger cars and trucks to dealers in the United States and Canada, including overseas shipments to assembly plants and warehouses; sales by foreign manufacturing subsidiaries; and total unit sales from all sources for 1919 and subsequent years:

Year	Unit Sales to Dealers in the United States and Canada, including Overseas Shipments			Unit Sales of Foreign Manufac- turing Subsidiaries*		Total Unit Sales from All Sources
	Passenger Cars	Trucks	Total	Passenger Cars	Trucks	
1919	368,338	23,400	391,738	—	—	391,738
1920	353,033	40,042	393,075	—	—	393,075
1921	208,443	6,356	214,799	—	—	214,799
1922	443,625	13,138	456,763	—	—	456,763
1923	774,617	23,938	798,555	—	—	798,555
1924	562,553	24,788	587,341	—	—	587,341
1925	787,148	48,754	835,902	—	—	835,902
1926	1,121,771	113,079	1,234,850	—	—	1,234,850
1927	1,348,307	214,441	1,562,748	—	—	1,562,748
1928	1,552,617	258,189	1,810,806	—	—	1,810,806
1929	1,554,304	344,963	1,899,267	—	—	1,899,267
1930	997,937	160,356	1,158,293	7,682	8,140	1,174,115
1931	896,271	137,247	1,033,518	25,588	15,603	1,074,709
1932	448,193	77,534	525,727	21,429	15,814	562,970
1933	671,880	130,224	802,104	46,918	20,013	869,035
1934	902,324	226,002	1,128,326	81,885	30,236	1,240,447
1935	1,324,858	239,394	1,564,252	116,166	35,270	1,715,688
1936	1,599,777	266,812	1,866,589	120,020	51,081	2,037,690
1937	1,646,308	282,473	1,928,781	132,207	55,909	2,116,897
1938	930,301	177,706	1,108,007	149,244	50,498	1,307,749
1939	1,284,895	257,881	1,542,776	126,893	57,417	1,727,086
1940	1,748,210	277,133	2,025,343			

*There are included above passenger cars and trucks manufactured by Opel since July 1, 1930 and by Vauxhall since April 1, 1930. Data for 1940 are not available.

NUMBER OF GENERAL MOTORS STOCKHOLDERS



NUMBER OF STOCKHOLDERS—FOURTH QUARTER OF EACH YEAR

1917..... 2,920	1925..... 50,917	1933..... 351,761
1918..... 4,739	1926..... 50,369	1934..... 350,164
1919..... 18,214	1927..... 66,209	1935..... 337,218
1920..... 36,894	1928..... 71,185	1936..... 342,384
1921..... 66,837	1929..... 198,600	1937..... 375,755
1922..... 65,665	1930..... 263,528	1938..... 389,509
1923..... 68,063	1931..... 313,117	1939..... 386,100
1924..... 66,097	1932..... 365,985	1940..... 397,928

TOTAL NUMBER OF CARS & TRUCKS OF ALL MAKES REGISTERED IN THE UNITED STATES

