INDIVIDUAL INCOME TAX REDUCTION

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTIETH CONGRESS

FIRST SESSION

ON

H. R. 1

AN ACT TO REDUCE INDIVIDUAL
INCOME TAX PAYMENTS

APRIL 22, 23, 24, 25, 28, 29, 30, MAY 1, and 2, 1947

Printed for the use of the Committee on Finance

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INDIVIDUAL INCOME TAX REDUCTION

TUESDAY, APRIL 22, 1947

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

The committee met, pursuant to call, at 10:30 a. m., in Room 312, Senate Office Building, Senator Eugene D. Millikin, chairman, presiding.

Present: Senators Milliken (chairman), Taft, Butler, Brewster, Bushfield, Hawkes, Martin, George, Byrd, Johnson of Colorado, and Lucas.

The CHAIRMAN. The committee will come to order.

We have for consideration today H. R. 1, an act to reduce individual income tax payments.

(The bill, H. R. 1, is as follows:)

[H. R. 1, 80th Cong., 1st sess.]

AN ACT To reduce individual income tax payments

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Individual Income Tax Reduction Act of 1947".

SEC. 2. REDUCTION IN NORMAL TAX AND SURTAX ON INDIVIDUALS.

(a) REDUCTION IN NORMAL TAX ON INDIVIDUALS.—Section 11 of the Internal Revenue Code (relating to the normal tax on individuals) is hereby amended by striking out "5 per centum" and inserting in lieu thereof "24 per céntum", and by adding at the end of such section a new sentence to read as follows: "If aggregate of tentative normal tax and tentative surtax is not more than $279.17, see section 12 (i), and if more than $250,000, see section 12 (g)."

(b) REDUCTION IN SURTAX ON INDIVIDUALS.—Section 12 (b) of the Internal Revenue Code (relating to the rate of surtax on individuals) is hereby amended by striking out "5 per centum" and inserting in lieu thereof "24 per centum".

(c) TENTATIVE TAX MORE THAN $250,000.—Section 12 (g) of the Internal Revenue Code (relating to tax on large incomes) is hereby amended to read as follows:

"(g) TENTATIVE TAX MORE THAN $250,000.—If the aggregate of the tentative normal tax under section 11 and the tentative surtax under subsection (b) of this section is more than $250,000, the combined normal tax and surtax shall not be less than such aggregate reduced by the sum of (1) 24 per centum of the first $250,000 thereof plus (2) 15 per centum of the amount thereof in excess of $250,000, but in no event shall the combined normal tax and surtax exceed 76½ per centum of the net income of the taxpayer for the taxable year. In the application of this subsection, the combined normal tax and surtax shall be computed without regard to the credits provided in sections 31, 32, and 35."

(d) TENTATIVE TAX NOT MORE THAN $279.17.—Section 12 of the Internal Revenue Code is hereby amended by adding at the end thereof a new subsection to read as follows:

"(i) TENTATIVE TAX NOT MORE THAN $279.17.—

"(1) If the aggregate of the tentative normal tax under section 11 and the tentative surtax under subsection (b) of this section is not more than $200, the combined normal tax and surtax shall not be greater than such aggregate reduced by 33⅓ per centum thereof.

"(2) If the aggregate of the tentative normal tax under section 11 and the tentative surtax under subsection (b) of this section is more than $200 but not more than $279.17, the combined normal tax and surtax shall not be greater than such aggregate reduced by $67.

"(3) In the application of this subsection, the combined normal tax and surtax shall be computed without regard to the credits provided in sections 31, 32, and 35."

(e) Taxable Years to Which Applicable.—The amendments made by this section shall be applicable to taxable years beginning after December 31, 1946. For treatment of taxable years beginning in 1946 and ending in 1947, see section 6.

SEC. 3. INDIVIDUALS WITH ADJUSTED GROSS INCOMES OF LESS THAN $5,000

(a) In General.—The tax table in section 400 of the Internal Revenue Code (relating to optional tax on individuals with adjusted gross incomes of less than $5,000) is hereby amended to read as follows:

"Individuals with adjusted gross income of less than $5,000—

If adjusted gross income is—		And the number of exemptions is—					If adjusted gross income is—		And the number of exemptions is—								
At least	But less than	1	2	3	4	5 or more	At least	But less than	1	2	3	4	5	6	7	8	9 or more
		The tax shall be—							The tax shall be—								
$0	$550	$0	$0	$0	$0	$0	$2,275	$2,300	$237	$145	$74	$8	$0	$0	$0	$0	$0
550	575	1	0	0	0	0	2,300	2,325	240	149	77	11	0	0	0	0	0
575	600	4	0	0	0	0	2,325	2,350	244	154	80	14	0	0	0	0	0
600	625	7	0	0	0	0	2,350	2,375	247	158	83	17	0	0	0	0	0
625	650	10	0	0	0	0	2,375	2,400	251	163	86	20	0	0	0	0	0
650	675	13	0	0	0	0	2,400	2,425	254	167	89	23	0	0	0	0	0
675	700	16	0	0	0	0	2,425	2,450	257	172	92	26	0	0	0	0	0
700	725	19	0	0	0	0	2,450	2,475	261	176	95	29	0	0	0	0	0
725	750	22	0	0	0	0	2,475	2,500	264	181	98	32	0	0	0	0	0
750	775	25	0	0	0	0	2,500	2,525	268	185	101	35	0	0	0	0	0
775	800	28	0	0	0	0	2,525	2,550	271	190	104	38	0	0	0	0	0
800	825	31	0	0	0	0	2,550	2,575	275	194	107	41	0	0	0	0	0
825	850	34	0	0	0	0	2,575	2,600	278	199	110	44	0	0	0	0	0
850	875	37	0	0	0	0	2,600	2,625	281	203	113	47	0	0	0	0	0
875	900	40	0	0	0	0	2,625	2,650	285	208	116	50	0	0	0	0	0
900	925	43	0	0	0	0	2,650	2,675	288	212	119	53	0	0	0	0	0
925	950	46	0	0	0	0	2,675	2,700	292	216	122	56	0	0	0	0	0
950	975	49	0	0	0	0	2,700	2,725	295	219	125	59	0	0	0	0	0
975	1,000	52	0	0	0	0	2,725	2,750	298	222	128	62	0	0	0	0	0
1,000	1,025	55	0	0	0	0	2,750	2,775	302	226	131	65	0	0	0	0	0
1,025	1,050	58	0	0	0	0	2,775	2,800	305	229	135	68	1	0	0	0	0
1,050	1,075	61	0	0	0	0	2,800	2,825	309	233	139	71	4	0	0	0	0
1,075	1,100	64	0	0	0	0	2,825	2,850	313	236	144	74	7	0	0	0	0
1,100	1,125	67	0	0	0	0	2,850	2,875	317	240	148	77	10	0	0	0	0
1,125	1,150	70	3	0	0	0	2,875	2,900	321	243	153	80	13	0	0	0	0
1,150	1,175	73	6	0	0	0	2,900	2,925	324	246	157	83	16	0	0	0	0
1,175	1,200	76	9	0	0	0	2,925	2,950	328	250	162	86	19	0	0	0	0
1,200	1,225	79	12	0	0	0	2,950	2,975	332	253	166	89	22	0	0	0	0
1,225	1,250	82	15	0	0	0	2,975	3,000	336	257	171	92	25	0	0	0	0
1,250	1,275	85	18	0	0	0	3,000	3,050	341	262	178	96	30	0	0	0	0
1,275	1,300	88	21	0	0	0	3,050	3,100	349	269	187	102	36	0	0	0	0
1,300	1,325	91	24	0	0	0	3,100	3,150	356	276	196	108	42	0	0	0	0
1,325	1,350	94	27	0	0	0	3,150	3,200	364	282	205	114	48	0	0	0	0
1,350	1,375	97	30	0	0	0	3,200	3,250	371	289	213	120	54	0	0	0	0
1,375	1,400	100	33	0	0	0	3,250	3,300	379	296	220	126	60	0	0	0	0
1,400	1,425	103	36	0	0	0	3,300	3,350	386	303	227	132	66	0	0	0	0
1,425	1,450	106	39	0	0	0	3,350	3,400	394	310	234	141	71	5	0	0	0
1,450	1,475	109	42	0	0	0	3,400	3,450	401	318	241	150	77	11	0	0	0
1,475	1,500	112	45	0	0	0	3,450	3,500	409	325	247	159	83	17	0	0	0
1,500	1,525	115	48	0	0	0	3,500	3,550	416	333	254	168	89	23	0	0	0
1,525	1,550	118	51	0	0	0	3,550	3,600	424	340	261	177	95	29	0	0	0
1,550	1,575	121	54	0	0	0	3,600	3,650	431	348	268	186	101	35	0	0	0
1,575	1,600	124	57	0	0	0	3,650	3,700	439	355	275	195	107	41	0	0	0
1,600	1,625	127	60	0	0	0	3,700	3,750	447	363	282	204	113	47	0	0	0
1,625	1,650	130	63	0	0	0	3,750	3,800	454	370	288	212	119	53	0	0	0
1,650	1,675	133	66	0	0	0	3,800	3,850	462	378	295	219	125	59	0	0	0
1,675	1,700	137	69	2	0	0	3,850	3,900	469	386	302	226	131	65	0	0	0
1,700	1,725	141	72	5	0	0	3,900	3,950	477	393	309	233	140	71	4	0	0
1,725	1,750	146	75	8	0	0	3,950	4,000	484	401	317	240	149	77	10	0	0
1,750	1,775	150	78	11	0	0	4,000	4,050	492	408	324	247	158	83	16	0	0
1,775	1,800	155	81	14	0	0	4,050	4,100	499	416	332	253	167	89	22	0	0
1,800	1,825	159	84	17	0	0	4,100	4,150	507	423	340	260	176	95	28	0	0
1,825	1,850	164	87	20	0	0	4,150	4,200	514	431	347	267	185	101	34	0	0
1,850	1,875	168	90	23	0	0	4,200	4,250	522	438	355	274	194	107	40	0	0
1,875	1,900	173	93	26	0	0	4,250	4,300	529	446	362	281	203	113	46	0	0
1,900	1,925	177	96	29	0	0	4,300	4,350	537	453	370	288	212	119	52	0	0
1,925	1,950	182	99	32	0	0	4,350	4,400	544	461	377	295	219	125	58	0	0
1,950	1,975	186	102	35	0	0	4,400	4,450	552	468	385	301	225	131	64	0	0
1,975	2,000	191	105	38	0	0	4,450	4,500	559	476	392	309	232	139	70	4	0
2,000	2,025	195	108	41	0	0	4,500	4,550	567	483	400	316	239	148	76	10	0
2,025	2,050	200	111	44	0	0	4,550	4,600	574	491	407	324	246	157	82	16	0
2,050	2,075	204	114	47	0	0	4,600	4,650	582	498	415	331	253	166	88	22	0
2,075	2,100	209	117	50	0	0	4,650	4,700	589	506	422	339	260	175	94	28	0
2,100	2,125	213	120	53	0	0	4,700	4,750	597	513	430	346	266	184	100	34	0
2,125	2,150	216	123	56	0	0	4,750	4,800	605	521	437	354	273	193	106	40	0
2,150	2,175	220	126	59	0	0	4,800	4,850	612	528	445	361	280	202	112	46	0
2,175	2,200	223	129	62	0	0	4,850	4,900	620	536	452	369	287	211	118	52	0
2,200	2,225	227	132	65	0	0	4,900	4,950	627	544	460	376	294	218	124	58	0
2,225	2,250	230	136	68	2	0	4,950	5,000	635	551	467	384	301	225	130	64	0"
2,250	2,275	234	140	71	5	0											

(b) Taxable Years to Which Applicable.—The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1946. For treatment of taxable years beginning in 1946 and ending in 1947, see section 6.

SEC. 4. ADDITIONAL CREDIT AGAINST NET INCOME FOR NORMAL TAX AND SURTAX

(a) EXEMPTION FOR AGE.—Section 25 (b) (1) of the Internal Revenue Code (relating to credits against net income for normal tax and surtax) is hereby amended by striking out the period at the end of subparagraph (C) and inserting in lieu thereof a semicolon and by adding after subparagraph (C) a new subparagraph to read as follows:

"(D) If the taxpayer has attained the age of 65—

"(i) an additional exemption of $500;

"(ii) in the case of a joint return by husband and wife under section 51, an exemption, in lieu of the exemption provided in clause (i) of this subparagraph, of $500 for each spouse who has attained the age of 65, and whose gross income (computed without regard to section 22 (o)) for the taxable year is $500 or more;

"(iii) for limitation on exclusion from gross income of retirement pay, etc., see section 22 (o)."

(b) DETERMINATION OF AGE.—Section 25 (b) (2) of the Internal Revenue Code is hereby amended by adding at the end thereof a new sentence to read as follows: "For the purposes of paragraph (1) (D) the determination of the age of an individual shall be made as of the last day of the taxable year."

(c) LIMITATION ON EXCLUSION FROM GROSS INCOME OF RETIREMENT PAY, ETC.—Section 22 of the Internal Revenue Code (relating to gross income) is hereby amended by adding at the end thereof a new subsection to read as follows:

(o) RETIREMENT PAY, ETC., OF INDIVIDUALS 65 OR OVER.—If an individual entitled to the exemption provided in section 25 (b) (1) (D) (relating to individuals who have attained the age of 65) receives during the taxable year any amount (other than a lump sum benefit) as pension, annuity, retirement pay, old age or survivor's benefit, or similar payment, with respect to services rendered by him or another person, and the whole of such amount would, but for this subsection, be excluded from gross income, then only the excess over $500 of the aggregate of such amounts shall be excluded from gross income, despite any provisions of this title or of any other law. This subsection shall not require the inclusion of any such amount as gross income unless the gross income, computed without regard to this subsection, is $500 or more. This subsection shall not apply—

"(1) to amounts excluded from gross income under section 22 (b) (5); except that this subsection shall apply to amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country, unless such amounts are also excluded from gross income by a provision of law other than section 22 (b) (5); or

"(2) to amounts excluded from gross income under section 3 of the Act entitled 'An Act to safeguard the estates of veterans derived from payments of pension, compensation, emergency officers' retirement pay and insurance, and for other purposes', approved August 12, 1935, as amended (U. S. C., 1940 ed., title 38, sec. 454a); or

"(3) to amounts excluded from gross income under section 3 of the Act entitled 'An Act to establish in the War Department and in the Navy Department, respectively, a roll, designated as "the Army and Navy medal of honor roll," and for other purposes', approved April 27, 1916, as amended (U. S. C., 1940 ed., title 38, sec. 393)."

(d) TECHNICAL AMENDMENT.—Section 22 (b) (5) of the Internal Revenue Code (relating to exclusion from gross income of compensation for injuries or sickness) is hereby amended by striking out "and amounts" and inserting in lieu thereof: "and (except as provided in subsection (o) in the case of individuals 65 or over) amounts."

(e) TAXABLE YEARS TO WHICH APPLICABLE.—The amendments made by this section shall be applicable to taxable years beginning after December 31, 1946. For treatment of taxable years beginning in 1946 and ending in 1947, see section 6.

SEC. 5. REDUCTION IN WITHHOLDING OF TAX AT SOURCE ON WAGES.

(a) PERCENTAGE METHOD.—Section 1622 (a) and section 1622 (b) (1) of the Internal Revenue Code (relating to percentage method of withholding) are hereby amended to read as follows:

"(a) REQUIREMENT OF WITHHOLDING.—Every employer making payment of wages shall deduct and withhold upon such wages a tax equal to the sum of the following:

"(1) 12 per centum of whichever of the following is the lesser:

"(A) the amount by which the wages exceed the number of withholding exemptions claimed, multiplied by the amount of one such exemption as shown in the table in subsection (b) (1); or

"(B) the amount shown in the second column in the table in subsection (b) (1);

"(2) 18 per centum of whichever of the following is the lesser:

"(A) the amount by which the wages exceed the sum of—

"(i) the number of withholding exemptions claimed, multiplied by the amount of one such exemption as shown in the table in subsection (b) (1); plus

"(ii) the amount shown in the second column in the table in subsection (b) (1); or

"(B) the amount shown in the third column in the table in subsection (b) (1);

"(3) 14 per centum of whichever of the following is the lesser:

"(A) the amount by which the wages exceed the sum of—

"(i) the number of withholding exemptions claimed, multiplied by the amount of one such exemption as shown in the table in subsection (b) (1); plus

"(ii) the sum of the amounts shown in the second and third columns in the table in subsection (b) (1); or

"(B) the amount shown in the last column in the table in subsection (b) (1);

"(4) 15 per centum of the amount by which the wages exceed the sum of—

"(A) the number of withholding exemptions claimed, multiplied by the amount of one such exemption as shown in the table in subsection (b) (1); plus

"(B) the sum of the amounts shown in the second, third, and last columns in the table in subsection (b) (1).

"(b) (1) The table referred to in subsection (a) is as follows:

"Percentage method withholding table

"Pay-roll period	Amount of one withholding exemption	Maximum amount subject to 12 percent rate	Maximum amount subject to 18 percent rate	Maximum amount subject to 14 percent rate
Weekly	$11.00	$21.00	$9.00	$13.00
Biweekly	22.00	43.00	17.00	25.00
Semimonthly	23.00	46.00	19.00	28.00
Monthly	46.00	93.00	38.00	56.00
Quarterly	139.00	278.00	110.00	168.00
Semiannual	278.00	556.00	219.00	336.00
Annual	556.00	1,111.00	440.00	671.00
Daily or miscellaneous (per day of such period)	1.50	3.00	1.00	2.00"

(b) WAGE BRACKET WITHHOLDING.—The tables contained in section 1622 (c) (1) of the Internal Revenue Code (relating to wage bracket withholding) are hereby amended to read as follows:

"If the pay-roll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$11	13% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$11	$12	$1.40	.10	0	0	0	0	0	0	0	0	0
$12	$13	1.50	.20	0	0	0	0	0	0	0	0	0
$13	$14	1.60	.30	0	0	0	0	0	0	0	0	0
$14	$15	1.70	.50	0	0	0	0	0	0	0	0	0
$15	$16	1.90	.60	0	0	0	0	0	0	0	0	0
$16	$17	2.00	.70	0	0	0	0	0	0	0	0	0
$17	$18	2.10	.80	0	0	0	0	0	0	0	0	0
$18	$19	2.20	.90	0	0	0	0	0	0	0	0	0
$19	$20	2.30	1.10	0	0	0	0	0	0	0	0	0
$20	$21	2.50	1.20	0	0	0	0	0	0	0	0	0
$21	$22	2.60	1.30	0	0	0	0	0	0	0	0	0
$22	$23	2.80	1.40	.10	0	0	0	0	0	0	0	0
$23	$24	2.90	1.50	.30	0	0	0	0	0	0	0	0
$24	$25	3.10	1.70	.40	0	0	0	0	0	0	0	0
$25	$26	3.30	1.80	.50	0	0	0	0	0	0	0	0
$26	$27	3.50	1.90	.60	0	0	0	0	0	0	0	0
$27	$28	3.70	2.00	.70	0	0	0	0	0	0	0	0
$28	$29	3.80	2.10	.90	0	0	0	0	0	0	0	0
$29	$30	4.00	2.30	1.00	0	0	0	0	0	0	0	0
$30	$31	4.20	2.40	1.10	0	0	0	0	0	0	0	0
$31	$32	4.30	2.50	1.20	0	0	0	0	0	0	0	0
$32	$33	4.40	2.60	1.30	.10	0	0	0	0	0	0	0
$33	$34	4.60	2.80	1.50	.20	0	0	0	0	0	0	0
$34	$35	4.70	3.00	1.60	.30	0	0	0	0	0	0	0
$35	$36	4.90	3.20	1.70	.40	0	0	0	0	0	0	0
$36	$37	5.00	3.40	1.80	.50	0	0	0	0	0	0	0
$37	$38	5.10	3.50	1.90	.70	0	0	0	0	0	0	0
$38	$39	5.30	3.70	2.10	.80	0	0	0	0	0	0	0
$39	$40	5.40	3.90	2.20	.90	0	0	0	0	0	0	0
$40	$41	5.50	4.10	2.30	1.00	0	0	0	0	0	0	0
$41	$42	5.70	4.20	2.40	1.10	0	0	0	0	0	0	0
$42	$43	5.80	4.40	2.50	1.30	0	0	0	0	0	0	0
$43	$44	6.00	4.50	2.70	1.40	.10	0	0	0	0	0	0
$44	$45	6.10	4.60	2.90	1.50	.20	0	0	0	0	0	0
$45	$46	6.30	4.80	3.10	1.60	.30	0	0	0	0	0	0
$46	$47	6.40	4.90	3.20	1.70	.50	0	0	0	0	0	0
$47	$48	6.60	5.00	3.40	1.80	.60	0	0	0	0	0	0
$48	$49	6.70	5.20	3.60	2.00	.70	0	0	0	0	0	0
$49	$50	6.90	5.30	3.80	2.10	.80	0	0	0	0	0	0
$50	$51	7.00	5.40	4.00	2.20	.90	0	0	0	0	0	0
$51	$52	7.20	5.60	4.10	2.30	1.00	0	0	0	0	0	0
$52	$53	7.30	5.70	4.30	2.40	1.20	0	0	0	0	0	0
$53	$54	7.50	5.90	4.40	2.60	1.30	0	0	0	0	0	0
$54	$55	7.60	6.00	4.50	2.80	1.40	.10	0	0	0	0	0
$55	$56	7.80	6.20	4.70	2.90	1.50	.20	0	0	0	0	0
$56	$57	7.90	6.30	4.80	3.10	1.60	.40	0	0	0	0	0
$57	$58	8.10	6.50	4.90	3.30	1.80	.50	0	0	0	0	0
$58	$59	8.20	6.60	5.10	3.50	1.90	.60	0	0	0	0	0
$59	$60	8.40	6.80	5.20	3.70	2.00	.70	0	0	0	0	0
$60	$62	8.60	7.00	5.40	3.90	2.20	.90	0	0	0	0	0
$62	$64	8.90	7.30	5.70	4.20	2.40	1.10	0	0	0	0	0
$64	$66	9.20	7.60	6.00	4.50	2.70	1.40	.10	0	0	0	0
$66	$68	9.50	7.90	6.30	4.80	3.10	1.60	.30	0	0	0	0
$68	$70	9.80	8.20	6.60	5.10	3.40	1.90	.60	0	0	0	0
$70	$72	10.10	8.50	6.90	5.30	3.80	2.10	.80	0	0	0	0
$72	$74	10.40	8.80	7.20	5.60	4.10	2.30	1.10	0	0	0	0
$74	$76	10.70	9.10	7.50	5.90	4.40	2.60	1.30	0	0	0	0
$76	$78	11.00	9.40	7.80	6.20	4.70	3.00	1.50	.30	0	0	0
$78	$80	11.30	9.70	8.10	6.50	5.00	3.30	1.80	.50	0	0	0
$80	$82	11.60	10.00	8.40	6.80	5.20	3.70	2.00	.70	0	0	0
$82	$84	11.90	10.30	8.70	7.10	5.50	4.00	2.30	1.00	0	0	0
$84	$86	12.20	10.60	9.00	7.40	5.80	4.30	2.60	1.20	0	0	0
$86	$88	12.50	10.90	9.30	7.70	6.10	4.60	2.80	1.50	.20	0	0
$88	$90	12.80	11.20	9.60	8.00	6.40	4.90	3.20	1.70	.40	0	0
$90	$92	13.10	11.50	9.90	8.30	6.70	5.10	3.60	1.90	.70	0	0
$92	$94	13.40	11.80	10.20	8.60	7.00	5.40	3.90	2.20	.90	0	0
$94	$96	13.70	12.10	10.50	8.90	7.30	5.70	4.20	2.40	1.10	0	0
$96	$98	14.00	12.40	10.80	9.20	7.60	6.00	4.50	2.70	1.40	.10	0
$98	$100	14.30	12.70	11.10	9.50	7.90	6.30	4.80	3.10	1.60	.30	0
$100	$105	14.80	13.20	11.60	10.00	8.40	6.80	5.30	3.70	2.00	.80	0
$105	$110	15.60	14.00	12.40	10.80	9.20	7.50	5.90	4.50	2.70	1.40	.10
$110	$115	16.30	14.70	13.10	11.50	9.90	8.30	6.70	5.20	3.00	2.00	.70
$115	$120	17.10	15.50	13.90	12.30	10.70	9.10	7.40	5.80	4.40	2.60	1.30
$120	$125	17.80	16.20	14.60	13.00	11.40	9.80	8.20	6.60	5.10	3.50	1.90
$125	$130	18.60	17.00	15.40	13.80	12.20	10.60	9.00	7.30	5.70	4.30	2.50

"If the pay-roll period with respect to an employee is weekly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$130	$135	$19.30	$17.70	$16.10	$14.50	$12.90	$11.30	$9.70	$8.10	$6.50	$5.00	$3.30
$135	$140	20.10	18.50	16.90	15.30	13.70	12.10	10.50	8.80	7.20	5.70	4.20
$140	$145	20.90	19.30	17.60	16.00	14.40	12.80	11.20	9.60	8.00	6.40	4.90
$145	$150	21.60	20.00	18.40	16.80	15.20	13.60	12.00	10.40	8.70	7.10	5.60
$150	$160	22.70	21.10	19.50	17.90	16.30	14.70	13.10	11.50	9.90	8.30	6.70
$160	$170	24.20	22.60	21.00	19.40	17.80	16.20	14.60	13.00	11.40	9.80	8.20
$170	$180	25.70	24.10	22.50	20.90	19.30	17.70	16.10	14.50	12.90	11.30	9.70
$180	$190	27.30	25.60	24.00	22.40	20.80	19.20	17.60	16.00	14.40	12.80	11.20
$190	$200	28.80	27.10	25.50	23.90	22.30	20.70	19.10	17.50	15.90	14.30	12.70
		15 percent of the excess over $200 plus										
$200 and over		29.50	27.90	26.30	24.70	23.10	21.50	19.90	18.30	16.60	15.00	13.40

"If the pay-roll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$20	12% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$20	$22	$2.50	0	0	0	0	0	0	0	0	0	0
$22	$24	2.80	.20	0	0	0	0	0	0	0	0	0
$24	$26	3.00	.40	0	0	0	0	0	0	0	0	0
$26	$28	3.20	.70	0	0	0	0	0	0	0	0	0
$28	$30	3.50	.90	0	0	0	0	0	0	0	0	0
$30	$32	3.70	1.20	0	0	0	0	0	0	0	0	0
$32	$34	4.00	1.40	0	0	0	0	0	0	0	0	0
$34	$36	4.20	1.60	0	0	0	0	0	0	0	0	0
$36	$38	4.40	1.90	0	0	0	0	0	0	0	0	0
$38	$40	4.70	2.10	0	0	0	0	0	0	0	0	0
$40	$42	4.90	2.40	0	0	0	0	0	0	0	0	0
$42	$44	5.20	2.60	0	0	0	0	0	0	0	0	0
$44	$46	5.50	2.80	.30	0	0	0	0	0	0	0	0
$46	$48	5.90	3.10	.50	0	0	0	0	0	0	0	0
$48	$50	6.20	3.30	.70	0	0	0	0	0	0	0	0
$50	$52	6.60	3.50	1.00	0	0	0	0	0	0	0	0
$52	$54	7.00	3.80	1.20	0	0	0	0	0	0	0	0
$54	$56	7.30	4.00	1.50	0	0	0	0	0	0	0	0
$56	$58	7.70	4.30	1.70	0	0	0	0	0	0	0	0
$58	$60	8.00	4.50	1.90	0	0	0	0	0	0	0	0
$60	$62	8.30	4.70	2.20	0	0	0	0	0	0	0	0
$62	$64	8.60	5.00	2.40	0	0	0	0	0	0	0	0
$64	$66	8.90	5.30	2.70	.10	0	0	0	0	0	0	0
$66	$68	9.20	5.60	2.90	.30	0	0	0	0	0	0	0
$68	$70	9.40	6.00	3.10	.60	0	0	0	0	0	0	0
$70	$72	9.70	6.40	3.40	.80	0	0	0	0	0	0	0
$72	$74	10.00	6.70	3.60	1.10	0	0	0	0	0	0	0
$74	$76	10.30	7.10	3.90	1.30	0	0	0	0	0	0	0
$76	$78	10.50	7.40	4.10	1.50	0	0	0	0	0	0	0
$78	$80	10.80	7.80	4.30	1.80	0	0	0	0	0	0	0
$80	$82	11.10	8.20	4.60	2.00	0	0	0	0	0	0	0
$82	$84	11.40	8.40	4.80	2.30	0	0	0	0	0	0	0
$84	$86	11.60	8.70	5.10	2.50	0	0	0	0	0	0	0
$86	$88	11.90	9.00	5.40	2.70	.20	0	0	0	0	0	0
$88	$90	12.20	9.30	5.80	3.00	.40	0	0	0	0	0	0
$90	$92	12.50	9.50	6.10	3.20	.70	0	0	0	0	0	0
$92	$94	12.80	9.80	6.50	3.50	.90	0	0	0	0	0	0
$94	$96	13.10	10.10	6.80	3.70	1.10	0	0	0	0	0	0
$96	$98	13.40	10.30	7.20	3.90	1.40	0	0	0	0	0	0
$98	$100	13.70	10.60	7.60	4.20	1.60	0	0	0	0	0	0
$100	$102	14.00	10.90	7.90	4.40	1.90	0	0	0	0	0	0
$102	$104	14.30	11.20	8.20	4.70	2.10	0	0	0	0	0	0
$104	$106	14.60	11.40	8.50	4.90	2.30	0	0	0	0	0	0
$106	$108	14.90	11.70	8.80	5.10	2.60	0	0	0	0	0	0

"If the pay-roll period with respect to an employee is biweekly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$108	$110	$15.20	$12.00	$9.10	$5.60	$2.80	$0.30	$0	$0	$0	$0	$0
$110	$112	15.50	12.30	9.30	5.90	3.10	.50	0	0	0	0	0
$112	$114	15.80	12.60	9.60	6.20	3.30	.70	0	0	0	0	0
$114	$116	16.10	12.90	9.90	6.60	3.50	1.00	0	0	0	0	0
$116	$118	16.40	13.20	10.20	6.90	3.80	1.20	0	0	0	0	0
$118	$120	16.70	13.50	10.40	7.30	4.00	1.50	0	0	0	0	0
$120	$124	17.20	14.00	10.80	7.80	4.40	1.80	0	0	0	0	0
$124	$128	17.80	14.60	11.40	8.60	4.90	2.30	0	0	0	0	0
$128	$132	18.40	15.20	12.00	9.00	5.40	2.80	.20	0	0	0	0
$132	$136	19.00	15.80	12.60	9.60	6.20	3.30	.70	0	0	0	0
$136	$140	19.60	16.40	13.20	10.10	6.90	3.70	1.20	0	0	0	0
$140	$144	20.20	17.00	13.80	10.70	7.60	4.20	1.70	0	0	0	0
$144	$148	20.80	17.60	14.40	11.20	8.30	4.70	2.10	0	0	0	0
$148	$152	21.40	18.20	15.00	11.80	8.80	5.20	2.60	.10	0	0	0
$152	$156	22.00	18.80	15.60	12.40	9.40	5.90	3.10	.60	0	0	0
$156	$160	22.60	19.40	16.20	13.00	9.90	6.60	3.60	1.00	0	0	0
$160	$164	23.20	20.00	16.80	13.60	10.50	7.40	4.00	1.50	0	0	0
$164	$168	23.80	20.60	17.40	14.20	11.00	8.10	4.60	2.00	0	0	0
$168	$172	24.40	21.20	18.00	14.80	11.60	8.60	5.00	2.40	0	0	0
$172	$176	25.00	21.80	18.60	15.40	12.20	9.20	5.70	2.90	.40	0	0
$176	$180	25.60	22.40	19.20	16.00	12.80	9.70	6.40	3.40	.80	0	0
$180	$184	26.20	23.00	19.80	16.60	13.40	10.30	7.10	3.90	1.30	0	0
$184	$188	26.80	23.60	20.40	17.20	14.00	10.80	7.80	4.40	1.80	0	0
$188	$192	27.40	24.20	21.00	17.80	14.60	11.40	8.50	4.80	2.30	0	0
$192	$196	28.00	24.80	21.60	18.40	15.20	11.90	9.00	5.40	2.80	.20	0
$196	$200	28.60	25.40	22.20	19.00	15.80	12.60	9.50	6.10	3.20	.70	0
$200	$210	29.70	26.50	23.30	20.00	16.80	13.50	10.50	7.40	4.10	1.50	0
$210	$220	31.20	28.00	24.80	21.50	18.30	15.10	11.90	9.00	5.40	2.70	.20
$220	$230	32.70	29.50	26.30	23.00	19.80	16.60	13.40	10.30	7.20	3.90	1.40
$230	$240	34.20	31.00	27.80	24.50	21.30	18.10	14.90	11.70	8.80	5.10	2.60
$240	$250	35.70	32.50	29.30	26.00	22.80	19.60	16.40	13.20	10.10	6.90	3.70
$250	$260	37.20	34.00	30.80	27.60	24.30	21.10	17.90	14.70	11.50	8.60	4.90
$260	$270	38.70	35.50	32.30	29.10	25.80	22.60	19.40	16.20	13.00	9.90	6.70
$270	$280	40.20	37.00	33.80	30.60	27.30	24.10	20.90	17.70	14.50	11.30	8.40
$280	$290	41.70	38.50	35.30	32.10	28.80	25.60	22.40	19.20	16.00	12.80	9.80
$290	$300	43.20	40.00	36.80	33.60	30.40	27.10	23.90	20.70	17.50	14.30	11.10
$300	$320	45.60	42.30	39.00	35.80	32.60	29.40	26.20	23.00	19.80	16.50	13.30
$320	$340	48.60	45.30	42.10	38.80	35.60	32.40	29.20	26.00	22.80	19.60	16.30
$340	$360	51.60	48.30	45.10	41.80	38.60	35.40	32.20	29.00	25.80	22.60	19.30
$360	$380	54.60	51.30	48.10	44.90	41.60	38.40	35.20	32.00	28.80	25.60	22.40
$380	$400	57.60	54.30	51.10	47.90	44.70	41.40	38.20	35.00	31.80	28.60	25.40
		15 percent of the excess over $400 plus										
$400 and over		59.00	55.80	52.60	49.40	46.20	42.90	39.70	36.50	33.30	30.10	26.90

"If the pay-roll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$22	13% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$22	$24	$2.80	0	0	0	0	0	0	0	0	0	0
$24	$26	3.00	.20	0	0	0	0	0	0	0	0	0
$26	$28	3.20	.60	0	0	0	0	0	0	0	0	0
$28	$30	3.50	.70	0	0	0	0	0	0	0	0	0
$30	$32	3.70	.90	0	0	0	0	0	0	0	0	0
$32	$34	4.00	1.20	0	0	0	0	0	0	0	0	0
$34	$36	4.20	1.40	0	0	0	0	0	0	0	0	0
$36	$38	4.40	1.70	0	0	0	0	0	0	0	0	0
$38	$40	4.70	1.90	0	0	0	0	0	0	0	0	0
$40	$42	4.90	2.10	0	0	0	0	0	0	0	0	0
$42	$44	5.10	2.40	0	0	0	0	0	0	0	0	0
$44	$46	5.40	2.60	0	0	0	0	0	0	0	0	0
$46	$48	5.70	2.90	.10	0	0	0	0	0	0	0	0
$48	$50	6.00	3.10	.30	0	0	0	0	0	0	0	0
$50	$52	6.40	3.30	.60	0	0	0	0	0	0	0	0
$52	$54	6.70	3.60	.80	0	0	0	0	0	0	0	0
$54	$56	7.10	3.80	1.00	0	0	0	0	0	0	0	0
$56	$58	7.50	4.10	1.30	0	0	0	0	0	0	0	0
$58	$60	7.80	4.30	1.50	0	0	0	0	0	0	0	0
$60	$62	8.20	4.50	1.80	0	0	0	0	0	0	0	0
$62	$64	8.50	4.80	2.00	0	0	0	0	0	0	0	0
$64	$66	8.90	5.00	2.20	0	0	0	0	0	0	0	0
$66	$68	9.20	5.20	2.50	0	0	0	0	0	0	0	0
$68	$70	9.40	5.50	2.70	0	0	0	0	0	0	0	0
$70	$72	9.70	5.80	3.00	.20	0	0	0	0	0	0	0
$72	$74	10.00	6.20	3.20	.40	0	0	0	0	0	0	0
$74	$76	10.30	6.50	3.40	.70	0	0	0	0	0	0	0
$76	$78	10.50	6.90	3.70	.90	0	0	0	0	0	0	0
$78	$80	10.80	7.30	3.90	1.10	0	0	0	0	0	0	0
$80	$82	11.10	7.60	4.20	1.40	0	0	0	0	0	0	0
$82	$84	11.40	8.00	4.40	1.60	0	0	0	0	0	0	0
$84	$86	11.60	8.30	4.60	1.90	0	0	0	0	0	0	0
$86	$88	11.90	8.70	4.90	2.10	0	0	0	0	0	0	0
$88	$90	12.20	9.00	5.10	2.30	0	0	0	0	0	0	0
$90	$92	12.40	9.30	5.40	2.60	0	0	0	0	0	0	0
$92	$94	12.70	9.60	5.60	2.80	0	0	0	0	0	0	0
$94	$96	13.00	9.80	6.00	3.10	.30	0	0	0	0	0	0
$96	$98	13.30	10.10	6.30	3.30	.50	0	0	0	0	0	0
$98	$100	13.60	10.40	6.70	3.50	.80	0	0	0	0	0	0
$100	$102	13.90	10.70	7.10	3.80	1.00	0	0	0	0	0	0
$102	$104	14.20	10.90	7.40	4.00	1.20	0	0	0	0	0	0
$104	$106	14.50	11.20	7.80	4.30	1.50	0	0	0	0	0	0
$106	$108	14.80	11.50	8.10	4.50	1.70	0	0	0	0	0	0
$108	$110	15.10	11.70	8.50	4.70	2.00	0	0	0	0	0	0
$110	$112	15.40	12.00	8.90	5.00	2.20	0	0	0	0	0	0
$112	$114	15.70	12.30	9.10	5.20	2.40	0	0	0	0	0	0
$114	$116	16.00	12.60	9.40	5.50	2.70	0	0	0	0	0	0
$116	$118	16.30	12.90	9.70	5.80	2.90	.20	0	0	0	0	0
$118	$120	16.60	13.20	9.90	6.10	3.20	.40	0	0	0	0	0
$120	$124	17.10	13.60	10.40	6.70	3.50	.70	0	0	0	0	0
$124	$128	17.70	14.20	10.90	7.40	4.00	1.20	0	0	0	0	0
$128	$132	18.30	14.80	11.50	8.10	4.50	1.70	0	0	0	0	0
$132	$136	18.90	15.40	12.00	8.80	5.00	2.20	0	0	0	0	0
$136	$140	19.50	16.00	12.50	9.40	5.40	2.70	0	0	0	0	0
$140	$144	20.10	16.60	13.10	9.90	6.10	3.10	.40	0	0	0	0
$144	$148	20.70	17.20	13.70	10.50	6.80	3.60	.90	0	0	0	0
$148	$152	21.30	17.80	14.30	11.00	7.50	4.10	1.30	0	0	0	0
$152	$156	21.90	18.40	14.90	11.60	8.30	4.60	1.80	0	0	0	0
$156	$160	22.50	19.00	15.50	12.10	8.90	5.10	2.30	0	0	0	0
$160	$164	23.10	19.60	16.10	12.70	9.50	5.50	2.80	0	0	0	0
$164	$168	23.70	20.20	16.70	13.30	10.00	6.30	3.20	.50	0	0	0
$168	$172	24.30	20.80	17.30	13.90	10.60	7.00	3.70	1.00	0	0	0
$172	$176	24.90	21.40	17.90	14.50	11.10	7.70	4.20	1.40	0	0	0
$176	$180	25.50	22.00	18.60	15.10	11.70	8.40	4.70	1.90	0	0	0
$180	$184	26.10	22.60	19.20	15.70	12.20	9.10	5.20	2.40	0	0	0
$184	$188	26.70	23.20	19.80	16.30	12.80	9.60	5.70	2.90	.10	0	0
$188	$192	27.30	23.80	20.40	16.90	13.40	10.20	6.40	3.30	.60	0	0
$192	$196	27.90	24.40	21.00	17.50	14.00	10.70	7.10	3.80	1.10	0	0
$196	$200	28.50	25.00	21.60	18.10	14.60	11.30	7.80	4.30	1.50	0	0
$200	$210	29.60	26.10	22.60	19.10	15.60	12.20	9.00	5.10	2.40	0	0
$210	$220	31.10	27.60	24.10	20.60	17.20	13.70	10.40	6.70	3.60	.80	0
$220	$230	32.60	29.10	25.60	22.10	18.70	15.20	11.80	8.50	4.80	2.00	0
$230	$240	34.10	30.60	27.10	23.60	20.20	16.70	13.20	10.00	6.20	3.20	0
$240	$250	35.60	32.10	28.60	25.10	21.70	18.20	14.70	11.30	8.00	4.40	1.60
$250	$260	37.10	33.60	30.10	26.70	23.20	19.70	16.20	12.70	9.60	5.60	2.80
$260	$270	38.60	35.10	31.60	28.20	24.70	21.20	17.70	14.20	10.90	7.40	4.00

"If the pay-roll period with respect to an employee is semimonthly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$270	$280	$40.10	$36.60	$33.10	$29.70	$26.20	$22.70	$19.20	$15.70	$12.30	$9.10	$5.20
$280	$200	41.60	38.10	34.60	31.20	27.70	24.20	20.70	17.20	13.70	10.50	6.80
$290	$300	43.10	39.60	36.20	32.70	29.20	25.70	22.20	18.70	15.30	11.90	8.60
$300	$320	45.40	41.90	38.40	34.90	31.40	28.00	24.50	21.00	17.50	14.00	10.70
$320	$340	48.40	44.90	41.40	37.90	34.50	31.00	27.50	24.00	20.50	17.00	13.60
$340	$360	51.40	47.90	44.40	40.90	37.50	34.00	30.50	27.00	23.50	20.00	16.60
$360	$380	54.40	50.90	47.40	44.00	40.50	37.00	33.50	30.00	26.50	23.10	19.60
$380	$400	57.40	53.90	50.40	47.00	43.50	40.00	36.50	33.00	29.50	26.10	22.60
$400	$420	60.40	56.90	53.50	50.00	46.50	43.00	39.50	36.00	32.60	29.10	25.60
$420	$440	63.40	60.00	56.50	53.00	49.50	46.00	42.50	39.10	35.60	32.10	28.60
$440	$460	66.40	63.00	59.50	56.00	52.50	49.00	45.50	42.10	38.60	35.10	31.60
$460	$480	69.50	66.00	62.50	59.00	55.50	52.00	48.60	45.10	41.60	38.10	34.60
$480	$500	72.50	69.00	65.50	62.00	58.50	55.00	51.60	48.10	44.60	41.10	37.60
		15 percent of the excess over $500 plus										
$500 and over		74.00	70.50	67.00	63.50	60.00	56.60	53.10	49.60	46.10	42.60	39.10

"If the pay-roll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$0	$44	13% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$44	$48	$5.50	0	0	0	0	0	0	0	0	0	0
$48	$52	6.00	.40	0	0	0	0	0	0	0	0	0
$52	$56	6.50	.90	0	0	0	0	0	0	0	0	0
$56	$60	6.90	1.40	0	0	0	0	0	0	0	0	0
$60	$64	7.40	1.90	0	0	0	0	0	0	0	0	0
$64	$68	7.90	2.40	0	0	0	0	0	0	0	0	0
$68	$72	8.40	2.80	0	0	0	0	0	0	0	0	0
$72	$76	8.90	3.30	0	0	0	0	0	0	0	0	0
$76	$80	9.30	3.80	0	0	0	0	0	0	0	0	0
$80	$84	9.80	4.30	0	0	0	0	0	0	0	0	0
$84	$88	10.30	4.80	0	0	0	0	0	0	0	0	0
$88	$92	10.80	5.20	0	0	0	0	0	0	0	0	0
$92	$96	11.30	5.70	.20	0	0	0	0	0	0	0	0
$96	$100	12.10	6.20	.60	0	0	0	0	0	0	0	0
$100	$104	12.80	6.70	1.10	0	0	0	0	0	0	0	0
$104	$108	13.50	7.10	1.60	0	0	0	0	0	0	0	0
$108	$112	14.20	7.60	2.10	0	0	0	0	0	0	0	0
$112	$116	14.90	8.10	2.60	0	0	0	0	0	0	0	0
$116	$120	15.70	8.60	3.00	0	0	0	0	0	0	0	0
$120	$124	16.40	9.10	3.50	0	0	0	0	0	0	0	0
$124	$128	17.10	9.60	4.00	0	0	0	0	0	0	0	0
$128	$132	17.80	10.00	4.50	0	0	0	0	0	0	0	0
$132	$136	18.30	10.50	5.00	0	0	0	0	0	0	0	0
$136	$140	18.90	11.00	5.40	0	0	0	0	0	0	0	0
$140	$144	19.40	11.60	5.90	.40	0	0	0	0	0	0	0
$144	$148	20.00	12.40	6.40	.90	0	0	0	0	0	0	0
$148	$152	20.50	13.10	6.90	1.30	0	0	0	0	0	0	0
$152	$156	21.10	13.80	7.40	1.80	0	0	0	0	0	0	0
$156	$160	21.60	14.50	7.80	2.30	0	0	0	0	0	0	0
$160	$164	22.20	15.20	8.30	2.80	0	0	0	0	0	0	0
$164	$168	22.70	16.00	8.80	3.20	0	0	0	0	0	0	0
$168	$172	23.30	16.70	9.30	3.70	0	0	0	0	0	0	0
$172	$176	23.80	17.40	9.70	4.20	0	0	0	0	0	0	0
$176	$180	24.40	18.00	10.20	4.70	0	0	0	0	0	0	0
$180	$184	24.90	18.60	10.70	5.20	0	0	0	0	0	0	0
$184	$188	25.50	19.10	11.20	5.60	.10	0	0	0	0	0	0
$188	$192	26.10	19.70	12.00	6.10	.60	0	0	0	0	0	0
$192	$196	26.70	20.20	12.70	6.60	1.10	0	0	0	0	0	0
$196	$200	27.30	20.80	13.40	7.10	1.50	0	0	0	0	0	0
$200	$204	27.90	21.30	14.10	7.60	2.00	0	0	0	0	0	0
$204	$208	28.50	21.80	14.80	8.00	2.50	0	0	0	0	0	0

"If the pay-roll period with respect to an employee is monthly—Continued

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
$208	$212	$29.10	$22.40	$15.60	$8.50	$3.00	$0	$0	$0	$0	$0	$0
$212	$216	29.70	22.90	16.30	9.00	3.40	0	0	0	0	0	0
$216	$220	30.30	23.50	17.00	9.50	3.90	0	0	0	0	0	0
$220	$224	30.90	24.00	17.70	9.90	4.40	0	0	0	0	0	0
$224	$228	31.50	24.60	18.30	10.40	4.90	0	0	0	0	0	0
$228	$232	32.10	25.10	18.80	10.90	5.40	0	0	0	0	0	0
$232	$236	32.70	25.70	19.30	11.50	5.80	.30	0	0	0	0	0
$236	$240	33.30	26.30	19.90	12.30	6.30	.80	0	0	0	0	0
$240	$248	34.20	27.20	20.70	13.30	7.00	1.70	0	0	0	0	0
$248	$256	35.40	28.40	21.80	14.80	8.00	2.60	0	0	0	0	0
$256	$264	36.60	29.60	22.90	16.20	9.00	3.40	0	0	0	0	0
$264	$272	37.80	30.80	24.00	17.70	9.90	4.40	0	0	0	0	0
$272	$280	39.00	32.00	25.10	18.80	10.90	5.30	0	0	0	0	0
$280	$288	40.20	33.20	26.30	19.90	12.20	6.30	.70	0	0	0	0
$288	$296	41.40	34.40	27.50	20.90	13.60	7.20	1.70	0	0	0	0
$296	$304	42.60	35.60	28.70	22.00	15.10	8.20	2.70	0	0	0	0
$304	$312	43.80	36.80	29.90	23.10	16.50	9.20	3.60	0	0	0	0
$312	$320	45.00	38.00	31.10	24.20	17.90	10.10	4.60	0	0	0	0
$320	$328	46.20	39.30	32.30	25.30	19.00	11.10	5.50	0	0	0	0
$328	$336	47.40	40.50	33.50	26.50	20.10	12.50	6.50	.90	0	0	0
$336	$344	48.60	41.70	34.70	27.70	21.20	14.00	7.40	1.90	0	0	0
$344	$352	49.80	42.90	35.90	28.90	22.30	15.40	8.40	2.90	0	0	0
$352	$360	51.00	44.10	37.10	30.10	23.40	16.80	9.40	3.80	0	0	0
$360	$368	52.20	45.30	38.20	31.30	24.50	18.10	10.30	4.80	0	0	0
$368	$376	53.40	46.50	39.50	32.50	25.60	19.20	11.40	5.70	.20	0	0
$376	$384	54.60	47.70	40.70	33.70	26.80	20.30	12.60	6.70	1.20	0	0
$384	$392	55.90	48.90	41.90	35.00	28.00	21.40	14.30	7.70	2.10	0	0
$392	$400	57.10	50.10	43.10	36.20	29.20	22.60	15.70	8.60	3.10	0	0
$400	$420	59.20	52.20	45.20	38.30	31.30	24.40	18.10	10.30	4.70	0	0
$420	$440	62.20	55.20	48.20	41.30	34.30	27.30	20.80	13.50	7.10	1.60	0
$440	$460	65.20	58.20	51.20	44.30	37.30	30.30	23.60	17.10	9.50	4.00	0
$460	$480	68.20	61.20	54.30	47.30	40.30	33.40	26.40	20.00	12.40	6.40	.80
$480	$500	71.20	64.20	57.30	50.30	43.30	36.40	29.40	22.70	16.00	8.80	3.20
$500	$520	74.20	67.20	60.30	53.30	46.30	39.40	32.40	25.40	19.10	11.20	5.60
$520	$540	77.20	70.30	63.30	56.30	49.40	42.40	35.40	28.50	21.80	14.80	8.00
$540	$560	80.20	73.30	66.30	59.30	52.40	45.40	38.40	31.50	24.60	18.20	10.40
$560	$580	83.20	76.30	69.30	62.30	55.40	48.40	41.40	34.50	27.50	21.00	13.70
$580	$600	86.20	79.30	72.30	65.30	58.40	51.40	44.40	37.50	30.50	23.70	17.30
$600	$640	90.80	83.80	76.80	69.90	62.90	55.90	49.00	42.00	35.00	28.10	21.60
$640	$680	96.80	89.80	82.80	75.90	68.90	61.90	55.00	48.00	41.00	34.10	27.10
$680	$720	102.80	95.80	88.90	81.90	74.90	68.00	61.00	54.00	47.10	40.10	33.10
$720	$760	108.80	101.90	94.90	87.90	81.00	74.00	67.00	60.10	53.10	46.10	39.20
$760	$800	114.80	107.90	100.90	93.90	87.00	80.00	73.00	66.10	59.10	52.10	45.20
$800	$840	120.90	113.90	106.90	100.00	93.00	86.00	79.10	72.10	65.10	58.20	51.20
$840	$880	126.90	119.90	112.90	106.00	99.00	92.00	85.10	78.10	71.10	64.20	57.20
$880	$920	132.90	125.90	119.00	112.00	105.00	98.10	91.10	84.10	77.20	70.20	63.20
$920	$960	138.90	132.00	125.00	118.00	111.10	104.10	97.10	90.20	83.20	76.20	69.30
$960	$1,000	144.90	138.00	131.00	124.00	117.10	110.10	103.10	96.20	89.20	82.20	75.30
		15 percent of the excess over $1,000 plus										
$1,000 and over		147.90	141.00	134.00	127.00	120.10	113.10	106.10	99.20	92.20	85.20	78.30

"If the pay-roll period with respect to an employee is a daily pay-roll period or a miscellaneous pay-roll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least	But less than	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period										
$0	$1.50	12% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$1.50	$1.75	$0.20	0	0	0	0	0	0	0	0	0	0
$1.75	$2.00	.20	.05	0	0	0	0	0	0	0	0	0
$2.00	$2.25	.25	.05	0	0	0	0	0	0	0	0	0
$2.25	$2.50	.30	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.30	.15	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.35	.15	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.40	.20	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.40	.20	.05	0	0	0	0	0	0	0	0
$3.50	$3.75	.45	.25	.05	0	0	0	0	0	0	0	0
$3.75	$4.00	.50	.30	.10	0	0	0	0	0	0	0	0
$4.00	$4.25	.55	.30	.15	0	0	0	0	0	0	0	0
$4.25	$4.50	.60	.35	.15	0	0	0	0	0	0	0	0
$4.50	$4.75	.65	.35	.20	0	0	0	0	0	0	0	0
$4.75	$5.00	.65	.40	.20	.05	0	0	0	0	0	0	0
$5.00	$5.25	.70	.45	.25	.05	0	0	0	0	0	0	0
$5.25	$5.50	.75	.50	.30	.10	0	0	0	0	0	0	0
$5.50	$5.75	.75	.55	.30	.15	0	0	0	0	0	0	0
$5.75	$6.00	.80	.60	.35	.15	0	0	0	0	0	0	0
$6.00	$6.25	.85	.65	.35	.20	0	0	0	0	0	0	0
$6.25	$6.50	.90	.65	.40	.20	.05	0	0	0	0	0	0
$6.50	$6.75	.90	.70	.45	.25	.05	0	0	0	0	0	0
$6.75	$7.00	.95	.75	.50	.30	.10	0	0	0	0	0	0
$7.00	$7.25	1.00	.75	.55	.30	.10	0	0	0	0	0	0
$7.25	$7.50	1.05	.80	.60	.35	.15	0	0	0	0	0	0
$7.50	$7.75	1.05	.85	.65	.35	.20	0	0	0	0	0	0
$7.75	$8.00	1.10	.85	.65	.40	.20	.05	0	0	0	0	0
$8.00	$8.25	1.15	.90	.70	.45	.25	.05	0	0	0	0	0
$8.25	$8.50	1.20	.95	.75	.50	.25	.10	0	0	0	0	0
$8.50	$8.75	1.20	1.00	.75	.55	.30	.10	0	0	0	0	0
$8.75	$9.00	1.25	1.00	.80	.60	.35	.15	0	0	0	0	0
$9.00	$9.25	1.30	1.05	.85	.60	.35	.20	0	0	0	0	0
$9.25	$9.50	1.35	1.10	.85	.65	.40	.20	.05	0	0	0	0
$9.50	$9.75	1.35	1.15	.90	.70	.45	.25	.05	0	0	0	0
$9.75	$10.00	1.40	1.15	.95	.75	.50	.25	.10	0	0	0	0
$10.00	$10.50	1.45	1.25	1.00	.80	.55	.30	.15	0	0	0	0
$10.50	$11.00	1.55	1.30	1.10	.85	.65	.40	.20	0	0	0	0
$11.00	$11.50	1.60	1.40	1.15	.90	.70	.45	.25	.05	0	0	0
$11.50	$12.00	1.70	1.45	1.25	1.00	.75	.55	.30	.15	0	0	0
$12.00	$12.50	1.75	1.55	1.30	1.05	.85	.65	.40	.20	0	0	0
$12.50	$13.00	1.85	1.60	1.40	1.15	.90	.70	.45	.25	.05	0	0
$13.00	$13.50	1.90	1.70	1.45	1.20	1.00	.75	.55	.30	.15	0	0
$13.50	$14.00	2.00	1.75	1.55	1.30	1.04	.85	.65	.35	.20	0	0
$14.00	$14.50	2.05	1.85	1.60	1.35	1.15	.90	.70	.45	.25	.05	0
$14.50	$15.00	2.15	1.90	1.70	1.45	1.20	1.00	.75	.55	.30	.15	0
$15.00	$15.50	2.20	2.00	1.75	1.50	1.30	1.05	.85	.65	.35	.20	0
$15.50	$16.00	2.30	2.05	1.85	1.60	1.35	1.15	.90	.70	.45	.25	.05
$16.00	$16.50	2.35	2.15	1.90	1.65	1.45	1.20	1.00	.75	.55	.30	.10
$16.50	$17.00	2.45	2.20	2.00	1.75	1.50	1.30	1.05	.85	.65	.35	.20
$17.00	$17.50	2.50	2.30	2.05	1.80	1.60	1.35	1.15	.90	.70	.45	.25
$17.50	$18.00	2.60	2.35	2.15	1.90	1.65	1.45	1.20	1.00	.75	.55	.30
$18.00	$18.50	2.65	2.45	2.20	2.00	1.75	1.50	1.30	1.05	.85	.60	.35
$18.50	$19.00	2.75	2.50	2.30	2.05	1.80	1.60	1.35	1.15	.90	.70	.45
$19.00	$19.50	2.80	2.60	2.35	2.15	1.90	1.65	1.45	1.20	1.00	.75	.55
$19.50	$20.00	2.90	2.65	2.45	2.20	1.95	1.75	1.50	1.30	1.05	.85	.60
$20.00	$21.00	3.00	2.75	2.55	2.30	2.10	1.85	1.65	1.40	1.15	.95	.70
$21.00	$22.00	3.15	2.90	2.70	2.45	2.25	2.00	1.80	1.55	1.30	1.10	.85
$22.00	$23.00	3.30	3.05	2.85	2.60	2.40	2.15	1.95	1.70	1.45	1.25	1.00
$23.00	$24.00	3.45	3.20	3.00	2.75	2.55	2.30	2.10	1.85	1.60	1.40	1.15
$24.00	$25.00	3.60	3.35	3.15	2.90	2.70	2.45	2.25	2.00	1.75	1.55	1.30
$25.00	$26.00	3.75	3.50	3.30	3.05	2.85	2.60	2.40	2.15	1.90	1.70	1.45
$26.00	$27.00	3.90	3.70	3.45	3.20	3.00	2.75	2.55	2.30	2.05	1.85	1.60
$27.00	$28.00	4.05	3.85	3.60	3.35	3.15	2.90	2.70	2.45	2.20	2.00	1.75
$28.00	$29.00	4.20	4.00	3.75	3.50	3.30	3.05	2.85	2.60	2.35	2.15	1.90
$29.00	$30.00	4.35	4.15	3.90	3.65	3.45	3.20	3.00	2.75	2.50	2.30	2.05
		15 percent of the excess over $30 plus										
$30.00 and over		4.45	4.20	3.95	3.75	3.50	3.30	3.05	2.85	2.60	2.35	2.15"

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to wages paid on or after June 1, 1947.

SEC. 6. FISCAL YEAR TAXPAYERS.

(a) INCOME TAXES.—Section 108 of the Internal Revenue Code is hereby amended by striking out "(d)" at the beginning of subsection (d) and inserting in lieu thereof "(e)", and by inserting after subsection (c) the following:

"(d) TAXABLE YEARS OF INDIVIDUALS BEGINNING IN 1946 AND ENDING IN 1947.—In the case of a taxable year of an individual beginning in 1946 and ending in 1947, the tax imposed by sections 11, 12, and 400 shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1946, were applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1947, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed as if the law applicable to taxable years beginning on January 1, 1947, were applicable to such taxable year, which the number of days in such taxable year after December 31, 1946, bears to the total number of days in such taxable year."

Passed the House of Representatives March 27, 1947.

Attest: JOHN ANDREWS,

Clerk.

The CHAIRMAN. We are very glad to have you with us, Mr. Secretary. It is rather superfluous but will you state your name and job to the reporter?

STATEMENT OF THE HONORABLE JOHN W. SNYDER, SECRETARY OF THE TREASURY, ACCOMPANIED BY LEE WIGGINS, UNDER SECRETARY OF THE TREASURY; J. J. O'CONNELL, GENERAL COUNSEL; EDWARD BARTELT, FISCAL ASSISTANT SECRETARY OF THE TREASURY; GEORGE HAAS, DIRECTOR OF RESEARCH AND STATISTICS; LOUIS SHERE, ACTING DIRECTOR, DIVISION OF TAX RESEARCH, AND STANLEY S. SURREY, TAX LEGISLATIVE COUNSEL

Secretary SNYDER. John W. Snyder, Secretary of the Treasury.

The CHAIRMAN. Mr. Secretary, you have a statement, and I assume that you would like to go through that without interruption, or shall we interrupt you as we go along?

Secretary SNYDER. I would like to read my statement, if agreeable, and then such questions can be put as you may have.

The CHAIRMAN. Proceed, please.

Secretary SNYDER. I am glad to have this opportunity to appear before the Senate Finance Committee. You have before you H. R. 1, a bill which would make the second major postwar tax reduction. I have previously stated my views on tax reduction in my recent appearance before the House Ways and Means Committee. Today, I wish to repeat some of the reasons why I believe that no general tax reduction is advisable at this time and also to comment in more detail on certain specific aspects of H. R. 1.

I am convinced that a general tax reduction at this time is neither necessary nor appropriate. I believe that this conclusion is supported by a careful examination of both the current economic conditions and the budgetary situation. The desirability of maintaining present tax rates for this year is emphasized by the size of the public debt. Moreover, premature reduction of one tax, such as is proposed in H. R. 1, might make later achievement of a comprehensive revision of the tax system difficult or impossible. Finally, even if tax reduction were now appropriate, H. R. 1 does not make the right approach to a tax reduction program.

ECONOMIC CONDITIONS

Present economic conditions do not call for a tax reduction. The American economy has already made a remarkably rapid transition from record wartime production to record peacetime output. Employment is high, and national income continues to reach new peacetime levels. Under these favorable economic conditions present taxes do not impose an excessive hardship on the American people.

Under present conditions, I do not believe that a tax reduction would bring about any significant increase in production, nor do I believe that a tax reduction is necessary at this time to assure continued high-level production. The rapid and sustained growth of employment and output achieved in 1946 and the early months of 1947 was accomplished with present tax rates. During that period, millions of demobilized veterans found civilian jobs, and there was a rapid increase in the number of new small business firms. Business as a whole is now operating virtually at capacity. Production is now limited by shortages of materials and labor rather than by lack of venture capital or markets. All of these facts are evidence of the vigor and adaptability of our free-enterprise system. Employment and output will undoubtedly rise still higher in the future with the normal growth of the economy.

Inflationary pressures have still not subsided. Prices and production have not yet fully adjusted to one another. So long as inflationary pressures exist, there is good economic reason for maintaining high taxes. If we should cut taxes prematurely, we could easily contribute to further price rises and to economic instability. If we cut taxes too soon we shall probably find it impossible to reverse our action. On the other hand, it will be time enough to cut taxes when it becomes clear that conditions call for such action.

BUDGETARY SITUATION

The current budgetary situation also calls for the maintenance of existing taxes. I am gratified that the latest estimates indicate a budgetary surplus for the fiscal year 1947. If the taxes are not reduced we shall also be able to achieve a budgetary surplus in the fiscal year 1948. It is by no means clear, however, that the surplus in the fiscal year 1948 will exceed the amount foreseen in the President's budget, except for the effect of the subsequent adoption by the Congress of the President's recommendation for extension of the so-called war excise tax rates. Under existing law, revenues for the fiscal year 1948 are estimated at $38.8 billion. The President's budget puts expenditures for the fiscal year 1948 at $37.5 billion. A conference committee of the House and Senate is still considering various legislative budget estimates of expenditures. We still do not have any clear evidence that expenditures in the coming fiscal year can be reduced below the President's budget figures of $37.5 billion. In my opinion, it would be unwise to reduce the revenues before we have a clear picture of what expenditures will be authorized.

PUBLIC DEBT

We have emerged from the war and immediate transition period with a public debt of approximately $258,000,000,000. The size of the debt is a strong argument against a tax reduction at this time. Under present conditions, I believe it will be sound financial policy to achieve as large a budget surplus as is possible and to apply that surplus against the public debt. When national income is high, as it is now, it is prudent to reduce the public debt as rapidly as possible. The present situation gives us an opportunity to make further reduction in the debt. I believe that we should now prove our determination to retire public debt by making as big a payment on it as we can. If we do so, there will be less cause for concern if in some future years we find it desirable to postpone temporarily further debt retirement.

COMPREHENSIVE TAX REVISIONS LATER

During recent years, when attention was necessarily devoted almost exclusively to urgent matters of war finance, a great number of technical tax problems have been accumulating. Moreover, much interest has developed in a series of fundamental tax problems. The problems to which I refer are not solely, or even primarily, ones of tax rates. They relate rather to tax structure. These problems now need careful consideration, especially in view of the high level of current and prospective revenue requirements.

Although I do not believe that the time has yet come for revisions involving major tax reductions, it is not too early to begin studies of desirable tax changes to take effect at a later date. The Treasury Department has been studying a large number of important tax problems, working on many of them in close collaboration with the staff of the Joint Committee on Internal Revenue Taxation. The Treasury stands ready to assist the Congress in any way possible.

In anticipation of later tax reductions, we should review the whole tax system. We should reexamine not only the individual income tax, but also the corporation income tax, excise taxes, and estate and gift taxes. Such a comprehensive review should aim at revisions that will fit all major taxes together into a system that will produce adequate revenue, will be fair and equitable, will interfere as little as possible with incentives to work and invest, and will help maintain mass markets for mass production.

There is danger that if we act prematurely by reducing the rates of one tax, without consideration of other problems, we shall make it difficult or impossible to adopt many needed changes at a later time. Many such fundamental tax revisions will involve substantial revenue reduction. If we now make a major reduction along the lines of H. R. 1, we may later find that we are not able to adopt many of the basic revisions in the individual income tax and the other taxes that are necessary for a sound postwar tax system.

SPECIFIC DISCUSSION OF H. R. 1

I turn now to a more specific examination of H. R. 1, as passed by the House. For the use of the committee, I have appended to my statement several exhibits and an appendix. This material includes a variety of statistical data on the composition of the individual income tax base and other information that I believe will be helpful in your consideration of H. R. 1 and other proposals for tax reduction.

H. R. 1 includes a general reduction of individual income tax rates and a special additional exemption for taxpayers over 65 years of age. It would reduce the income tax by 30 percent for taxpayers whose net income in excess of exemptions is $1,000 or less, and by an amount which under the notch provision would rapidly fall to 20 percent at a net income of $1,396 after exemptions. For net income after exemptions between $1,396 and about $302,400, the reductions would be 20 percent. For higher incomes the reduction would gradually taper off to 10.5 percent above $5,000,000. The rate reductions in the amended bill are identical with those in the original bill for all taxable net incomes in excess of $1,396. Only about 1,100 taxpayers would get less than a 20 percent rate reduction. About 14.4 million taxpayers would get a 20 percent rate reduction. About 8.5 million would get between 20 and 30 percent. The remaining 24.8 million taxpayers would get a 30-percent rate reduction.

H. R. 1 grants a special additional exemption of $500 to persons over 65 years of age.

Senator HAWKES. If this will not bother you, permit me to interrupt.

Do you know how many incomes there are in the United States that are equal to $5,000,000 or more a year? Are there any any larger?

Secretary SNYDER. We can get that figure for you.

(The information requested follows:)

For 1944, there was one return in excess of $5,000,000 net income.

Senator HAWKES. I think it would be very interesting to have that figure, and I think it would also be very interesting, Mr. Secretary, to have the figure of how many incomes there are of $302,400 a year or more.

Secretary SNYDER. That is the 1,100.

Senator HAWKES. Is that stated, only 1,100? I see; that is the 20 percent reduction.

Secretary SNYDER. That is the reduction of 20–10½ percent.

Senator HAWKES. Thank you very much.

Secretary SNYDER. If you want that other figure, we can provide it.

Senator HAWKES. I think it would be interesting. I would like to know.

Secretary SNYDER. We can supply that after these hearings are over.

Senator HAWKES. Later will be all right.

Secretary SNYDER. In the case of joint returns, the special additional exemption would be $1,000 where both husband and wife are over 65, and each has $500 or more gross income.

This additional exemption is subject to the limitation that persons qualifying for it must include in their gross income for tax purposes the first $500 received from certain types of periodic pension or retirement annuity benefits that are now fully exempt from taxation. It is estimated that this additional exemption would reduce the income tax of 2.8 million persons over 65, of whom 825,000 would be made nontaxable.

It is estimated that the bill would reduce tax liabilities by $3,760 million for a full year. This is $280 million more than the original bill. Of the total reduction in liabilities $3,024 million would be attributable to rate reductions and $145 million to the increase in exemptions for taxpayers over 65. These are estimates of tax liabilities for the calendar year 1947.

Since H. R. 1 is retroactive to January 1, 1947, its enactment would reduce receipts in the fiscal year 1948 by more than the amount of one year's reduction in tax liabilities and would also necessitate a large abount of additional tax refunds. It is estimated that the House bill would reduce receipts in the fiscal year 1948 by $3,994 million. It would increase refunds by $751 million. In considering the effect of H. R. 1 on the budget for the fiscal year 1948, it is necessary to combine the decrease in receipts of $3,994 million with the increase in expenditures of $751 million for additional refunds. H. R. 1 would weaken the budget for the fiscal year 1948 by $4,745 million.

As I have already said, I do not believe that a tax reduction is now appropriate. I now wish to point to some inequities in H. R. 1 as a tax-reduction measure. Although the bill has been somewhat modified since it was originally introduced, it would still provide relatively too little tax reduction for low and middle incomes as compared with high incomes. As I said to the Ways and Means Committee, it seems to me that if a 1947 tax bill has any place at all in the management of our financial affairs, it should aim primarily at bringing relief to taxpayers who have borne extraordinarily heavy burdens during the war and postwar transition years and should give consideration to inequities. I do not believe that H. R. 1 accomplishes these objectives.

H. R. 1 would not reduce taxes in the same way that we increased them during the war. This can be clearly seen in exhibit 2, which compares taxes at different net incomes under the 1939 law, present law, and H. R. 1.

To illustrate, H. R. 1 would eliminate 22 percent of the difference between present taxes and 1939 taxes for a married person with no dependents and a net income of $5,000. But at a net income of $1,000,000, this bill would wipe out 69 percent of the tax increase since 1939. Taxes at the $5,000 level would still be eight times as high as in 1939, but at the level of $1,000,000, taxes would be only a little higher than in 1939. H. R. 1 would reduce taxes on very high incomes to a level only a little higher than that before the war. It would leave taxes on lower and middle incomes much higher than before the war.

Despite modifications at both the lower and upper extremes, H. R. 1 still provides in the main a flat percentage cut in present taxes. Of the $3,769 million reduction, $2,262 million is attributable to the 20-percent reduction, $724 million is attributable to the 30-percent reduction, $520 million to the notch area of 20–30-percent reduction, $118 million to the 10½- to 20-percent reduction, and $145 million to the exemption for persons over 65.

So far as I know, a flat percentage cut in individual income taxes has been made only twice before in the history of the Federal income tax. The first time was in the Revenue Act of 1924, applicable to 1923 incomes. That act made a flat 25-percent reduction, but exemptions were greater and rates on lower incomes were much less than under present law.

The second time a flat percentage cut in taxes was made was in the Revenue Act of 1945. But I want to emphasize the important differences between the 1945 act and the kind of reduction proposed in H. R. 1. The 5-percent cut under the Revenue Act of 1945 was only one of three important changes in the individual income tax. It accounted for less than one-fourth of the total reduction of the individual income tax. The remaining three-fourths of the 1945 reduction was made in the form of an increase in the normal-tax exemptions and a reduction of 3 percentage points in each surtax bracket.

There is a significant difference between a flat percentage cut in existing tax rates and a uniform reduction of a certain number of percentage points in each bracket. A 20-percent flat reduction would reduce rates 17 percentage points in an 85-percent rate bracket, but only 4 percentage points in a 20-percent rate bracket. In contrast, a 5-percentage-point reduction in each surtax rate, which would lose about the same amount of revenue, would give a 5.9-percent reduction in an 85-percent bracket rate, and a 25-percent reduction in a 20-percent bracket rate. An across-the-board percentage cut of the type in H. R. 1 decreases the progressivity of the income tax.

The $500 special tax exemption for persons over 65 years of age included in H. R. 1 is addressed to the special problem of one group. The bill as amended would partially offset the additional exemption by the requirement that taxpayers include in their gross income the first $500 of certain types of pension and retirement income now fully tax-exempt, such as social security old-age benefits, railroad retirement benefits and retirement pay of armed forces personnel retired for disability.

This modification is a complication of the original provision, which does not meet the fundamental objections to such a special exemption. I do not believe that exclusions of particular kinds of income from the tax base are an appropriate means of bringing relief to special groups. As I told the Ways and Means Committee, I am opposed to extension of present exclusions from the individual income tax base. I do not believe that it would be fair to increase income tax exemptions for persons over 65 years of age and not for similarly situated persons under 65.

H. R. 1 is not only deficient from the standpoint of equity. It is not the well-balanced approach to the important problem of maintaining incentives and markets, which will be essential when a tax reduction is appropriate. In a tax reduction program, the whole problem of incentives and markets merit broad and careful consideration. The problem is not merely one of individual income tax rates. It includes other phases of the tax system and many features of the individual income tax not treated in H. R. 1. Subjects that will need to be considered include the taxation of dividend income, tax treatment of different forms of business, loss carry-backs and carry-forwards, depreciation, treatment of family income, exemptions and other matters.

Enactment of H. R. 1 would complicate the individual income tax and increase administrative costs. It would cancel a part of the great progress that has been made in recent years toward simplification of tax forms. The different rates of reduction from tentative tax, the "notch" rate, and the provisions for the aged involving the partial inclusion of income now excluded would be confusing to many taxpayers. There would be an increase in refunds, particularly for low-income taxpayers.

CONCLUSION

In my opinion, H. R. 1 should not be enacted. It would make a reduction in revenues of almost $4 billion and necessitate an increase in expenditures of $751 million for tax refunds at a time when a balanced budget and substantial debt reduction should be our first objective. By concentrating a large reduction in one tax, H. R. 1 would make later well-balanced tax revision more difficult, and perhaps impossible. H. R. 1 would not be an equitable tax reduction. It would unnecessarily complicate the individual income tax.

In conclusion, I wish to repeat that in my judgment economic conditions, budgetary uncertainties, and the size of the public debt, all call for maintaining present tax rates in 1947. Under present conditions, it is sound financial policy to achieve as large a surplus as possible. The administration will continue to make every effort to hold Government expenditures for the fiscal year 1948 to the lowest level possible in view of our national obligations and public needs. I am sure, however, that any surplus that is likely to be realized in 1948 could best be applied to the reduction of the public debt.

The CHAIRMAN. The exhibits and appendix are inserted in the record at this point.

(The exhibits and appendix are as follows:)

EXHIBIT 1

TABLE 1.—*Comparison of combined normal tax and surtax rates under present law*[1] *and the House bill (H. R. 1)*

Surtax net income		Combined normal tax and surtax rates			Percentage-point decrease (−) or increase (+) in rates compared with present law
		Present law		Rates after reductions under House bill (H. R. 1)	
Exceeding—	Not exceeding—	Tentative rates	Rates after 5-percent reduction		
		Percent	*Percent*	*Percent*	*Percent*
$0	$1,000			13.30	−5.70
$1,000	$1,396 [2]	20	19.00	20.00	+1.00
$1,396	$2,000			15.20	−3.80
$2,000	$4,000	22	20.90	16.72	−4.18
$4,000	$6,000	26	24.70	19.76	−4.94
$6,000	$8,000	30	28.50	22.80	−5.70
$8,000	$10,000	34	32.30	25.84	−6.46
$10,000	$12,000	38	36.10	28.88	−7.22
$12,000	$14,000	43	40.85	32.68	−8.17
$14,000	$16,000	47	44.65	35.72	−8.93
$16,000	$18,000	50	47.50	38.00	−9.50
$18,000	$20,000	53	50.35	40.28	−10.07
$20,000	$22,000	56	53.20	42.56	−10.64
$22,000	$26,000	59	56.05	44.84	−11.21
$26,000	$32,000	62	58.90	47.12	−11.78
$32,000	$38,000	65	61.75	49.40	−12.35
$38,000	$44,000	69	65.55	52.44	−13.11
$44,000	$50,000	72	68.40	54.72	−13.68
$50,000	$60,000	75	71.25	57.00	−14.25
$60,000	$70,000	78	74.10	59.28	−14.82
$70,000	$80,000	81	76.95	61.56	−15.39
$80,000	$90,000	84	79.80	63.84	−15.96
$90,000	$100,000	87	82.65	66.12	−16.53
$100,000	$150,000	89	84.55	67.64	−16.91
$150,000	$200,000	90	85.50	68.40	−17.10
$200,000	$302,396 [3]	91	[4] 86.45	69.16	−17.20
$302,396 and over				[5] 77.35	−9.10

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Indicates area of the notch provision under the House bill. The 33.5-percent reduction of present law tentative tax ends at $1,000 of surtax net income and the 24-percent reduction of present law tentative tax takes effect at $1,396.
[3] Point at which 15-percent reduction of present law tentative tax takes effect under the House bill.
[4] Subject to a maximum effective rate limitation of 85.5 percent.
[5] Subject to a maximum effective rate limitation of 76.5 percent.

Source: Treasury Department, April 1947.

TABLE 2.—*Comparison of individual income taxes under present law* [1] *and under the House bill (H. R. 1), for specified amounts of net income*

SINGLE PERSON—NO DEPENDENTS

Net income before personal exemption	Amounts of tax		Effective rates		Decrease compared with present law		Decrease as a percentage of—	
	Present law	House bill (H. R. 1)[2]	Present law	House bill (H. R. 1)[2]	Amounts	Effective rates	Present law tax	Net income after present law tax
			Percent	*Percent*		*Percent*	*Percent*	*Percent*
$600	$19	$13	3.2	2.2	$6	1.0	30.0	1.0
$800	57	40	7.1	5.0	17	2.1	30.0	2.3
$1,000	95	67	9.5	6.7	29	2.9	30.0	3.1
$1,200	133	93	11.1	7.8	40	3.3	30.0	3.7
$1,500 [3]	190	133	12.7	8.9	57	3.8	30.0	4.4
$1,600 [3]	209	153	13.1	9.6	56	3.5	26.8	4.0
$1,700 [3]	228	173	13.4	10.2	55	3.2	24.1	3.7
$1,800 [3]	247	193	13.7	10.7	54	3.0	21.9	3.5
$1,896 [3]	265	212	14.0	11.2	53	2.8	20.0	3.3
$2,000	285	228	14.3	11.4	57	2.9	20.0	3.3
$2,500	380	304	15.2	12.2	76	3.0	20.0	3.6
$3,000	485	388	16.2	12.9	97	3.2	20.0	3.9
$4,000	694	555	17.3	13.9	139	3.5	20.0	4.2
$5,000	922	737	18.4	14.7	184	3.7	20.0	4.5
$6,000	1,169	935	19.5	15.6	234	3.9	20.0	4.8
$8,000	1,720	1,376	21.5	17.2	344	4.3	20.0	5.5
$10,000	2,347	1,877	23.5	18.8	469	4.7	20.0	6.1
$15,000	4,270	3,416	28.5	22.8	854	5.7	20.0	8.0
$20,000	6,645	5,316	33.2	26.6	1,329	6.7	20.0	10.0
$25,000	9,362	7,490	37.5	30.0	1,872	7.5	20.0	12.0
$50,000	25,137	20,110	50.3	40.2	5,027	10.1	20.0	20.2
$75,000	43,477	34,781	58.0	46.4	8,695	11.6	20.0	27.6
$100,000	63,541	50,833	63.5	50.8	12,708	12.7	20.0	34.9
$250,000	191,772	153,417	76.7	61.4	38,354	15.3	20.0	65.9
$302,896 [4]	237,500	190,000	78.4	62.7	47,500	15.7	20.0	72.6
$350,000	278,222	226,435	79.5	64.7	51,787	14.8	18.6	72.1
$500,000	407,897	342,460	81.6	68.5	65,437	13.1	16.0	71.0
$750,000	624,022	535,835	83.2	71.4	88,187	11.8	14.1	70.0
$1,000,000	840,147	729,210	84.0	72.9	110,937	11.1	13.2	69.4
$2,000,000	1,704,647	1,502,710	85.2	75.1	201,937	10.1	11.8	68.4
$3,000,000	[5] 2,565,000	2,276,210	85.5	75.9	288,790	9.6	11.3	66.4
$4,000,000	[5] 3,420,000	3,049,710	85.5	76.2	370,290	9.3	10.8	63.8
$5,000,000	[5] 4,275,000	3,823,210	85.5	76.5	451,790	9.0	10.6	62.3
$6,000,000	[5] 5,130,000	[6] 4,590,000	85.5	76.5	540,000	9.0	10.5	62.1

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Assumes taxpayer is under 65 years of age.
[3] These income levels are within the area of the notch provision under the House bill. The 33.5-percent reduction of present law tentative tax ends at $1,500 of net income before personal exemption and the 24-percent reduction of present law tentative tax takes effect at $1,896.
[4] Point at which 15-percent reduction of present law tentative tax takes effect under the House bill.
[5] Taking into account maximum effective rate limitation of 85.5 percent.
[6] Taking into account maximum effective rate limitation of 76.5 percent.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

TABLE 3.—*Comparison of individual income taxes under present law*[1] *and under the House bill (H. R. 1), for specified amounts of net income*

MARRIED PERSON[2]—NO DEPENDENTS

Net income before personal exemption	Amounts of tax		Effective rates		Decrease compared with present law		Decrease as a percentage of—	
	Present law	House bill (H. R. 1)[3]	Present law	House bill (H. R. 1)[3]	Amounts	Effective rates	Present law tax	Net income after present law tax
			Percent	Percent		Percent	Percent	Percent
$1,200	$38	$27	3.2	2.2	$11	1.0	30.0	1.0
$1,500	95	67	6.3	4.4	29	1.9	30.0	2.0
$2,000[4]	190	133	9.5	6.7	57	2.9	30.0	3.1
$2,100[4]	209	153	10.0	7.3	56	2.7	26.8	3.0
$2,200[4]	228	173	10.4	7.9	55	2.5	24.1	2.8
$2,300[4]	247	193	10.7	8.4	54	2.3	21.9	2.6
$2,396[4]	265	212	11.1	8.9	53	2.2	20.0	2.5
$2,500	285	228	11.4	9.1	57	2.3	20.0	2.6
$3,000	380	304	12.7	10.1	76	2.5	20.0	2.9
$4,000	589	471	14.7	11.8	118	2.9	20.0	3.5
$5,000	798	638	16.0	12.8	160	3.2	20.0	3.8
$6,000	1,045	836	17.4	13.9	209	3.5	20.0	4.2
$8,000	1,577	1,262	19.7	15.8	315	3.9	20.0	4.9
$10,000	2,185	1,748	21.9	17.5	437	4.4	20.0	5.6
$15,000	4,047	3,238	27.0	21.6	809	5.4	20.0	7.4
$20,000	6,394	5,115	32.0	25.6	1,279	6.4	20.0	9.4
$25,000	9,082	7,266	36.3	29.1	1,816	7.3	20.0	11.4
$50,000	24,795	19,836	49.6	39.7	4,959	9.9	20.0	19.7
$75,000	43,092	34,474	57.5	46.0	8,618	11.5	20.0	27.0
$100,000	63,128	50,502	63.1	50.5	12,626	12.6	20.0	34.2
$250,000	191,340	153,072	76.5	61.2	38,268	15.3	20.0	65.2
$303,396[5]	237,500	190,000	78.3	62.6	47,500	15.7	20.0	72.1
$350,000	277,790	226,049	79.4	64.6	51,741	14.8	18.6	71.7
$500,000	407,465	342,074	81.5	68.4	65,391	13.1	16.0	70.7
$750,000	623,590	535,449	83.2	71.4	88,141	11.8	14.1	69.7
$1,000,000	839,715	728,824	84.0	72.9	110,891	11.1	13.2	69.2
$2,000,000	1,704,215	1,502,324	85.2	75.1	201,891	10.1	11.8	68.3
$3,000,000	[6] 2,565,000	2,275,824	85.5	75.9	289,177	9.6	11.3	66.5
$4,000,000	[6] 3,420,000	3,049,324	85.5	76.2	370,677	9.3	10.8	63.9
$5,000,000	[6] 4,275,000	3,822,824	85.5	76.5	452,177	9.0	10.6	62.4
$6,000,000	[6] 5,130,000	[7] 4,590,000	85.5	76.5	540,000	9.0	10.5	62.1

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Assumes only 1 spouse has income.
[3] Assumes taxpayer is under 65 years of age.
[4] These income levels are within the area of the notch provision under the House bill. The 33.5-percent reduction of present law tentative tax ends at $2,000 of net income before personal exemption and the 24-percent reduction of present law tentative tax takes effect at $2,396.
[5] Point at which 15-percent reduction of present law tentative tax takes effect under the House bill.
[6] Taking into account maximum effective rate limitation of 85.5 percent.
[7] Taking into account maximum effective rate limitation of 76.5 percent.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

TABLE 4.—*Comparison of individual income taxes under present law*[1] *and under the House bill (H. R. 1), for specified amounts of net income*

MARRIED PERSON[2]—2 DEPENDENTS

Net income before personal exemption	Amounts of tax		Effective rates		Decrease compared with present law		Decrease as a percentage of—	
	Present law	House bill (H. R. 1)[3]	Present law	House bill (H. R. 1)[3]	Amounts	Effective rates	Present law tax	Net income after present law tax
			Percent	Percent		Percent	Percent	Percent
$2,500	$95	$67	3.8	2.7	$29	1.1	30.0	1.2
$3,000[4]	190	133	6.3	4.4	57	1.9	30.0	2.0
$3,100[4]	209	153	6.7	4.9	56	1.8	26.8	1.9
$3,200[4]	228	173	7.1	5.4	55	1.7	24.1	1.9
$3,300[4]	247	193	7.5	5.8	54	1.6	21.9	1.8
$3,396[4]	265	212	7.8	6.2	53	1.6	20.0	1.7
$4,000	380	304	9.5	7.6	76	1.9	20.0	2.1
$5,000	589	471	11.8	9.4	118	2.4	20.0	2.7
$6,000	798	638	13.3	10.6	160	2.7	20.0	3.1
$8,000	1,292	1,034	16.2	12.9	258	3.2	20.0	3.9
$10,000	1,862	1,490	18.6	14.9	372	3.7	20.0	4.6
$15,000	3,639	2,911	24.3	19.4	728	4.9	20.0	6.4
$20,000	5,890	4,712	29.5	23.6	1,178	5.9	20.0	8.3
$25,000	8,522	6,817	34.1	27.3	1,704	6.8	20.0	10.3
$50,000	24,111	19,289	48.2	38.6	4,822	9.6	20.0	18.6
$75,000	42,323	33,858	56.4	45.1	8,465	11.3	20.0	25.9
$100,000	62,301	49,841	62.3	49.8	12,460	12.5	20.0	33.1
$250,000	190,475	152,380	76.2	61.0	38,095	15.2	20.0	64.0
$304,396[5]	237,500	190,000	78.0	62.4	47,500	15.6	20.0	71.0
$350,000	276,925	225,275	79.1	64.4	51,650	14.8	18.7	70.7
$500,000	406,600	341,300	81.3	68.3	65,300	13.1	16.1	69.9
$750,000	622,725	534,675	83.0	71.3	88,050	11.7	14.1	69.2
$1,000,000	838,850	728,050	83.9	72.8	110,800	11.1	13.2	68.8
$2,000,000	1,703,350	1,501,550	85.2	75.1	201,800	10.1	11.8	68.0
$3,000,000	[6] 2,565,000	2,275,050	85.5	75.8	289,950	9.7	11.3	66.7
$4,000,000	[6] 3,420,000	3,048,550	85.5	76.2	371,450	9.3	10.9	64.0
$5,000,000	[6] 4,275,000	3,822,050	85.5	76.4	452,950	9.1	10.6	62.5
$6,000,000	[6] 5,130,000	[7] 4,590,000	85.5	76.5	540,000	9.0	10.5	62.1

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Assumes only 1 spouse has income.
[3] Assumes taxpayer is under 65 years of age.
[4] These income levels are within the area of the notch provision under the House bill. The 33.5-percent reduction of present law tentative tax ends at $3,000 of net income before personal exemption and the 24-percent reduction of present law tentative tax takes effect at $3,396.
[5] Point at which 15-percent reduction of present law tentative tax takes effect under the House bill.
[6] Taking into account maximum effective rate limitation of 85.5 percent.
[7] Taking into account maximum effective rate limitation of 76.5 percent.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

Exhibit 2

Comparison of amounts and effective rates of individual income tax in 1939 with present law [1] and the House bill (H. R. 1), for specified amounts of net income

MARRIED PERSON [2]—NO DEPENDENTS

Net income before personal exemption	Amounts of tax			Effective rates			Percent of the increase in tax under present law over 1939 removed by House bill
	1939 [3]	Present law	House bill (H. R. 1) [4]	1939 [3]	Present law	House bill (H. R. 1) [4]	
				Percent	Percent	Percent	Percent
$1,200		$38	$27		3.2	2.2	30.0
$1,500		95	67		6.3	4.4	30.0
$2,000 [5]		190	133		9.5	6.7	30.0
$2,100 [5]		209	153		10.0	7.3	26.8
$2,200 [5]		228	173		10.4	7.9	24.1
$2,300 [5]		247	193		10.7	8.4	21.9
$2,396 [5]		265	212		11.1	8.9	20.0
$2,500		285	228		11.4	9.1	20.0
$3,000	$8	380	304	0.3	12.7	10.1	20.4
$4,000	44	589	471	1.1	14.7	11.8	21.6
$5,000	80	798	638	1.6	16.0	12.8	22.2
$6,000	116	1,045	836	1.9	17.4	13.9	22.5
$8,000	248	1,577	1,262	3.1	19.7	15.8	23.7
$10,000	415	2,185	1,748	4.2	21.9	17.5	24.7
$15,000	924	4,047	3,238	6.2	27.0	21.6	25.9
$20,000	1,589	6,394	5,115	7.9	32.0	25.6	26.6
$25,000	2,489	9,082	7,266	10.0	36.3	29.1	27.6
$50,000	8,869	24,795	19,836	17.7	49.6	39.7	31.1
$75,000	18,779	43,092	34,474	25.0	57.5	46.0	35.4
$100,000	32,469	63,128	50,502	32.5	63.1	50.5	41.2
$250,000	128,294	191,340	153,072	51.3	76.5	61.2	60.7
$303,396 [6]	164,571	237,500	190,000	54.2	78.3	62.6	65.1
$350,000	197,194	277,790	226,049	56.3	79.4	64.6	64.2
$500,000	304,144	407,465	342,074	60.8	81.5	68.4	63.3
$750,000	489,094	623,590	535,449	65.2	83.1	71.4	65.5
$1,000,000	679,044	839,715	728,824	67.9	84.0	72.9	69.0
$2,000,000	1,449,019	1,704,215	1,502,324	72.5	85.2	75.1	79.1
$3,000,000	2,228,994	[7] 2,565,000	2,275,824	74.3	85.5	75.9	86.1
$4,000,000	3,008,994	[7] 3,420,000	3,049,324	75.2	85.5	76.2	90.2
$5,000,000	3,788,994	[7] 4,275,000	3,822,824	75.8	85.5	76.5	93.0
$6,000,000	4,578,969	[7] 5,130,000	[8] 4,590,000	76.3	85.5	76.5	98.0

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Assumes only 1 spouse has income.
[3] Assumes maximum earned net income.
[4] Assumes taxpayer is under 65 years of age.
[5] These income levels are within the area of the notch provision under the House bill. The 33.5-percent reduction of present law tentative tax ends at $2,000 of net income before personal exemption and the 24-percent reduction of present law tentative tax takes effect at $2,396.
[6] Point at which 15-percent reduction of present law tentative tax takes effect under the House bill.
[7] Taking into account maximum effective rate limitation of 85.5 percent.
[8] Taking into account maximum effective rate limitation of 76.5 percent.

Note.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.
Source: Treasury Department, April 1947.

Exhibit 3

Comparison of net income after individual income tax in 1939 with present law [1] and the House bill (H. R. 1), for specified amounts of net income

MARRIED PERSON [2]—NO DEPENDENTS

Net income before personal exemption	Net income after tax			Net income before personal exemption	Net income after tax		
	1939 [3]	Present law	House bill (H. R. 1) [4]		1939 [3]	Present law	House bill (H. R. 1) [4]
$1,200	$1,200	$1,162	$1,178	$25,000	$22,511	$15,918	$17,734
$1,500	1,500	1,406	1,434	$50,000	41,131	25,205	30,164
$2,000	2,000	1,810	1,867	$75,000	56,221	31,908	40,526
$2,100 [5]	2,100	1,891	1,947	$100,000	67,531	36,873	49,498
$2,200 [5]	2,200	1,972	2,027	$250,000	121,706	58,641	96,928
$2,300 [5]	2,300	2,053	2,107	$303,396	138,825	65,896	113,396
$2,396 [6]	2,396	2,131	2,184	$350,000	152,806	72,211	123,952
$2,500	2,500	2,215	2,272	$500,000	195,856	92,536	157,927
$3,000	2,992	2,620	2,696	$750,000	260,906	126,411	214,552
$4,000	3,956	3,411	3,529	$1,000,000	320,956	160,286	271,177
$5,000	4,920	4,202	4,362	$2,000,000	550,981	295,786	497,677
$6,000	5,884	4,955	5,164	$3,000,000	771,006	[7] 435,000	724,177
$8,000	7,752	6,423	6,738	$4,000,000	991,006	[7] 580,000	950,677
$10,000	9,585	7,815	8,252	$5,000,000	1,211,006	[7] 725,000	1,177,177
$15,000	14,076	10,953	11,702	$6,000,000	1,421,031	[7] 870,000	[8] 1,410,000
$20,000	18,411	13,607	14,885				

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Assumes only one spouse has income.
[3] Assumes maximum earned net income.
[4] Assumes taxpayer is under 65 years of age.
[5] These income levels are within the area of the notch provision under the House bill. The 35.5-percent reduction of present law tentative tax ends at $2,000 of net income before personal exemption and the 24-percent reduction of present law tentative tax takes effect at $2,396.
[6] Point at which 15-percent reduction of present law tentative tax takes effect under House bill (H. R. 1).
[7] Taking into account maximum effective rate limitation of 85.5 percent.
[8] Taking into account maximum effective rate limitation of 76.5 percent.

Source: Treasury Department, April 1947.

Exhibit 4

Estimated revenue loss from each provision of the House bill (H. R. 1), distributed by net income classes, in calendar year 1947

(Assuming income payments of $166 billion)

[In millions]

Net income classes (in thousands)	Total tax liability under—		Total decrease in tax liability from present law	Decrease in total tax liability from present law resulting from each provision of the House bill (H. R. 1)				
				Reduction of tentative normal tax and surtax by—				Additional exemption for persons over 65 years of age [6]
	Present law [1]	House bill (H. R. 1)		33.5 percent [2]	$67 [3]	24 percent [4]	15 percent [5]	
$0-$1	$299.5	$206.4	$93.1	$89.9	....	....	....	$3.2
$1-$2	2,839.6	2,033.9	805.7	490.3	$273.4	$9.4	....	32.6
$2-$3	3,692.3	2,846.9	845.4	120.5	210.9	475.9	....	38.1
$3-$4	1,827.7	1,411.8	415.9	13.5	33.3	328.0	....	41.1
$4-$5	775.9	609.0	166.9	.9	2.1	152.8	....	11.1
Under 5	9,435.0	7,108.0	2,327.0	724.1	519.7	957.1	....	126.1
$5-$10	1,318.0	1,042.1	275.9	....	....	263.6	....	12.3
$10-$25	1,874.4	1,495.3	379.1	....	....	374.4	....	4.7
$25-$50	1,435.5	1,157.6	277.9	....	....	276.6	....	1.3
$50-$100	1,183.6	959.5	224.1	....	....	223.5	....	.6
$100-$250	915.2	747.9	167.3	....	....	167.1	....	.2
$250-$500	328.9	274.1	54.8	....	....	51.2	$3.6	(7)
$500-$1,000	234.5	202.3	32.2	....	....	20.8	11.4	(7)
$1,000 and over	276.2	245.5	30.7	....	....	8.5	22.2	(7)
$5 and over	7,566.3	6,124.3	1,442.0	....	....	1,385.7	37.2	19.1
Total	17,001.3	13,232.3	3,769.0	724.1	519.7	2,342.8	37.2	145.2

Source: Treasury Department, April 1947.

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Applicable to tentative tax of $200 or less.
[3] Applicable to tentative tax of more than $200 but not more than $279.17.
[4] Applicable to tentative tax of more than $279.17 but not more than $250,000.
[5] Applicable to amounts of tentative tax exceeding $250,000.
[6] Under the House bill, exemptions of taxpayers who have attained the age of 65 are raised by $500. In the case of joint returns, exemptions are raised by $1,000 where both husband and wife have attained the age of 65 and each has $500 or more gross income. Taxpayers with gross income of $500 or more who qualify for the special exemption of $500 must include in their gross income any amounts up to $500 received during the taxable year as railroad retirement or social security benefits (other than lump-sum payments), and certain other pension, annuity or retirement payments which are wholly tax exempt under present law.
[7] Less than $50,000.

EXHIBIT 5

Estimated number of taxable income recipients distributed by the various rate reductions provided under the House bill (H. R. 1), in calendar year 1947

(Assuming income payments of $166 billion)

[In thousands]

Reduction of tentative normal tax and surtax by—	Surtax net income classes	Number of taxable income recipients		
		Total	Persons over 65 years of age receiving additional exemption [1]	Other taxable income recipients
33.5 percent [2]	$0 to $1,000	24,847.2	1,098.8	23,748.4
$67 [3]	$1,000 to $1,395.83	8,511.1	601.2	7,909.9
24 percent [4]	$1,395.83 to $302,395.60	14,360.2	309.6	14,050.6
15 percent [5]	$302,395.60 and over	1.1	(6)	1.1
Total		47,719.6	2,009.6	45,710.0

[1] Under the House bill, exemptions of taxpayers who have attained the age of 65 are raised by $500. In the case of joint returns, exemptions are raised by $1,000 where both husband and wife have attained the age of 65 and each has $500 or more gross income. Taxpayers with gross income of $500 or more who qualify for the special exemption of $500 must include in their gross income any amounts up to $500 received during the taxable year as railroad retirement or social security benefits (other than lump-sum payments), and certain other pension, annuity or retirement payments which are wholly tax exempt under present law.
[2] Applicable to tentative tax of $200 or less.
[3] Applicable to tentative tax of more than $200 but not more than $279.17.
[4] Applicable to tentative tax of more than $279.17 but not more than $250,000.
[5] Applicable to amounts of tentative tax exceeding $250,000.
[6] Less than 50.

Source: Treasury Department, April 1947.

TABLE A.—*Estimated income payments, adjusted gross income, net income before exemptions, and net income subject to surtax and to normal tax under present law,*[1] *in calendar year 1947*

[Billions of dollars]

Total income payments		166
Subtract: Portion of income payments not included in adjusted gross income [2]	25	
Add: Portion of adjusted gross income not included in income payments [3]	3	
Subtract: Net adjustment		22
Total adjusted gross income		144
Subtract: Deductions		17
Net income before exemptions		127
Subtract:		
Exemptions	58	
Income subject to alternative tax but not to surtax (applicable to net long-term capital gains)	1	
Subtract: Portion of net income before exemptions not subject to surtax		58
Net income subject to surtax		69
Subtract: Partially tax-exempt interest subject to surtax but not to normal tax		(4)
Net income subject to normal tax		69

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Includes Government transfer payments, nontaxable pay of armed forces, interest and dividend payments not currently taxable, and other exclusions.
[3] Includes net capital gains and employees' contributions to Government retirement and Social Security funds.
[4] Less than $50 million.

NOTE.—Figures are rounded to the nearest billion dollars and will not necessarily add to totals.

Source: Treasury Department, April 1947.

Chart I

EFFECTIVE RATES OF INDIVIDUAL INCOME TAX

Present Law, and House Bill (H. R. 1)
Married Person, No Dependents

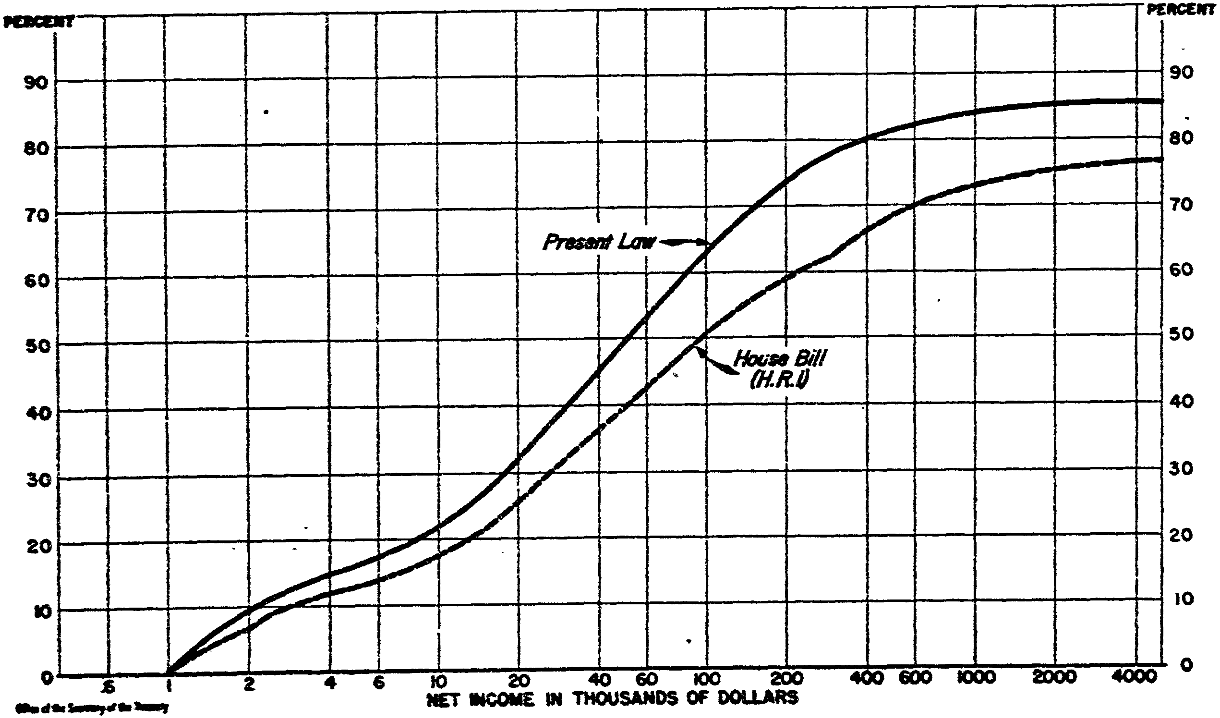

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TABLE B.—*Estimated number of taxable and nontaxable income recipients, their income and individual income-tax liabilities under present law,*[1] *in calendar year 1947*

[Assuming income payments of $166 billion]

	Number of income recipients (thousands)	Amount of income (millions of dollars)	Tax liability (millions of dollars)
Total, all income recipients	65,300	[2] 127,300	17,001
Nontaxable income recipients	16,755	[2] 13,267	....
Taxable income recipients	48,545	[2] 114,033	17,001
Subject to surtax	48,545	[4] 69,114	14,723
Subject to normal tax	[3] 48,545	[5] 69,087	1,969
Subject to alternative tax	37	[6] 619	309

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Net income before exemptions.
[3] The number of persons paying normal tax is estimated to be less than 500 smaller than the number paying surtax.
[4] Surtax net income.
[5] Normal tax net income.
[6] Net long-term capital gains subject to alternative tax.

Source: Treasury Department, April 1947.

TABLE C.—*Estimated number of taxable income recipients under present law,*[1] *their surtax net income and combined normal tax and surtax, distributed by surtax net income brackets, in calendar year 1947*

(Assuming income payments of $166 billion)

[Number of income recipients in thousands; money amounts in millions]

Surtax net income brackets (in thousands)	Taxable income recipients cumulated from highest bracket		Surtax net income in bracket		Combined normal tax and surtax in bracket[2]	
	Number	Percent	Amount	Percent	Amount	Percent
$0-$0.5	$48,544.6	100.0	$21,019.5	30.41	$3,993.6	23.93
$0.5-$1.0	35,707.7	73.56	14,557.6	21.06	2,765.8	16.57
$1.0-$1.5	22,871.4	47.11	8,937.1	12.93	1,697.9	10.17
$1.5-$2.0	13,357.9	27.52	5,089.7	7.36	967.0	5.79
$2-$4	7,317.9	15.07	6,562.1	9.49	1,371.4	8.22
$4-$6	1,688.9	3.48	2,508.1	3.63	619.5	3.71
$6-$8	1,042.1	2.15	1,650.3	2.39	470.3	2.82
$8-$10	723.1	1.49	1,199.7	1.74	387.5	2.32
$10-$12	537.7	1.11	907.6	1.31	327.6	1.96
$12-$14	412.8	.85	714.9	1.03	292.0	1.75
$14-$16	329.5	.68	580.4	.84	259.2	1.55
$16-$18	269.9	.56	480.4	.70	228.2	1.37
$18-$20	224.9	.46	404.0	.58	203.4	1.22
$20-$22	190.2	.39	342.6	.50	182.2	1.09
$22-$26	160.6	.33	539.4	.78	302.3	1.81
$26-$32	117.6	.24	612.8	.89	360.9	2.16
$32-$38	87.1	.18	435.6	.63	269.0	1.61
$38-$44	61.4	.13	332.4	.48	217.8	1.30
$44-$50	48.7	.10	258.9	.37	177.1	1.06
$50-$60	39.5	.08	321.8	.46	229.0	1.37
$60-$70	27.4	.06	231.2	.33	171.3	1.03
$70-$80	19.5	.04	169.0	.24	130.0	.78
$80-$90	15.3	.03	135.2	.20	107.9	.65
$90-$100	11.9	.02	101.9	.15	84.8	.51
$100-$150	9.5	.02	313.9	.45	265.4	1.59
$150-$200	4.0	.01	139.1	.20	119.0	.71
Over $200	2.2	(3)	560.8	.82	492.6	2.95
Total	....	....	69,114.8	100.00	16,692.0	100.00

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Normal tax and surtax were obtained separately by applying the appropriate rates to normal tax and surtax net income. Since normal tax net income is somewhat less than surtax net income, these amounts will differ slightly from the result obtained by applying the combined rates to surtax net income.
[3] Less than .005 percent.

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: Treasury Department.

TABLE D.—*Estimated number of taxable income recipients under present law,*[1] *their net income before exemptions, surtax net income and total tax liability, distributed by net income classes, in calendar year 1947*

(Assuming income payments of $166 billion)

[Number of income recipients in thousands; money amounts in millions]

Net income classes (in thousands)	Taxable income recipients		Net income before exemptions		Surtax net income		Total tax liability [2]	
	Number	Percent	Amount	Percent	Amount	Percent	Amount	Percent
$0-$1	6,352.3	13.1	$4,738.6	4.2	$1,576.8	2.3	$299.5	1.8
$1-$2	20,138.9	41.5	29,590.1	25.9	14,946.5	21.6	2,839.6	16.7
$2-$3	14,322.0	29.5	35,257.9	30.9	19,394.8	28.1	3,692.3	21.7
$3-$4	4,655.5	9.6	15,903.5	13.9	9,472.6	13.7	1,827.7	10.8
$4-$5	1,333.2	2.7	5,892.7	5.2	3,944.0	5.7	775.9	4.6
Under $5	46,801.8	96.4	91,382.8	80.1	49,334.7	71.4	9,435.0	55.5
$5-$10	1,126.9	2.3	7,628.2	6.7	6,107.0	8.8	1,318.0	7.8
$10-$25	470.2	1.0	6,920.4	6.1	6,328.3	9.2	1,874.4	11.0
$25-$50	101.2	.2	3,420.1	3.0	3,174.3	4.6	1,435.5	8.4
$50-$100	32.7	.1	2,185.6	1.9	2,018.9	2.9	1,183.6	7.0
$100-$250	9.8	(3)	1,392.7	1.2	1,222.7	1.8	915.2	5.4
$250-$500	1.3	(3)	451.1	.4	372.9	.5	328.9	1.9
$500-$1,000	.4	(3)	302.4	.3	258.0	.4	234.5	1.4
$1,000 and over	.2	(3)	344.0	.3	297.6	.4	276.2	1.6
Over $5	1,742.8	3.6	22,650.5	19.9	19,779.6	28.6	7,566.3	44.5
Grand total	48,544.6	100.0	114,033.3	100.0	69,114.3	100.0	17,001.3	100.0

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Includes normal tax, surtax, and alternative tax on net long-term capital gains.
[3] Less than .05 percent.

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: Treasury Department, April 1947.

Table E.—*Estimated number of taxable income recipients and their total tax liability under present law,[1] the House bill (H. R. 1), and the House bill (H. R. 1) without the special provision for the aged,[2] distributed by net income classes, in calendar year 1947*

(Assuming Income Payments of $166 Billion)

[Number of income recipients in thousands; money amounts in millions]

Net income classes (in thousands)	Number of taxable income recipients: Present law	Number of taxable income recipients: House bill (H. R. 1)[4]	Total tax liability[3]: Under present law	Under House bill (H. R. 1): Amount	Under House bill (H. R. 1): Decrease from present law: Amount	Under House bill (H. R. 1): Decrease from present law: Percent distribution	Under House bill (H. R. 1) without the special provision for the aged: Amount	Without the special provision: Decrease from present law: Amount	Without the special provision: Decrease from present law: Percent distribution
$0-$1	6,352.3	5,992.3	$299.5	$206.4	$93.1	2.5	$209.6	$89.9	2.5
$1-$2	20,138.9	19,768.9	2,839.6	2,033.9	805.7	21.4	2,066.5	773.1	21.3
$2-$3	14,322.0	14,227.0	3,692.3	2,846.9	845.4	22.4	2,885.0	807.3	22.3
$3-$4	4,655.5	4,655.5	1,827.7	1,411.8	41..9	11.0	1,452.9	374.8	10.3
$4-$5	1,333.2	1,333.2	775.9	609.0	166.9	4.4	620.1	155.8	4.3
Under $5	46,801.8	45,976.8	9,435.0	7,108.0	2,327.0	61.7	7,234.1	2,200.9	60.7
$5-$10	1,126.9	1,126.9	1,318.0	1,042.1	275.9	7.3	1,054.4	263.6	7.3
$10-$25	470.2	470.2	1,874.4	1,495.3	379.1	10.1	1,500.0	374.4	10.4
$25-$50	101.2	101.2	1,435.5	1,157.6	277.9	7.4	1,158.9	276.6	7.6
$50-$100	32.7	32.7	1,183.6	959.5	224.1	5.9	960.1	223.5	6.2
$100-$250	9.8	9.8	915.2	747.9	167.3	4.4	748.1	167.1	4.6
$250-$500	1.3	1.3	328.9	274.1	54.8	1.5	274.1	54.8	1.5
$500-$1,000	.4	.4	234.5	202.3	32.2	.9	202.3	32.2	.9
$1,000 and over	.2	.2	276.2	245.5	30.7	.8	245.5	30.7	.8
Over $5	1,742.8	1,742.8	7,566.3	6,124.3	1,442.0	38.3	6,143.4	1,422.9	39.3
Grand total	48,544.6	47,719.6	17,001.3	13,232.3	3,769.0	100.0	13,377.5	3,623.8	100.0

Source: Treasury Department, April 1947.

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Under the House bill, exemptions of taxpayers who have attained the age of 65 are raised by $500. In the case of joint returns, exemptions are raised by $1,000 where both husband and wife have attained the age of 65 and each has $500 or more gross income. Taxpayers with gross income of $500 or more who qualify for the special exemption of $500 must include in their gross income any amounts up to $500 received during the taxable year as railroad retirement or social security benefits (other than lump sum payments), and certain other pension, annuity or retirement payments which are wholly tax exempt under present law.
[3] Includes normal tax, surtax and alternative tax on net long-term capital gains.
[4] The number of taxable income recipients under H. R. 1 without the speial provision for the aged would be the same as under present law.

Note.—Figures are rounded and will not necessarily add to totals.

Table F.—*Estimated number of taxable income recipients, their surtax net income, and combined normal tax and surtax under various exemptions, in calendar year 1947*

(Assuming income payments of $166,000,000,000)

[Number of income recipients in thousands; money amounts in millions]

Exemptions: Single person	Exemptions: Married couple	Exemptions: Dependents	Taxable income recipients: Number	Taxable income recipients: Decrease from present law: Number	Taxable income recipients: Decrease from present law: Percent	Surtax net income: Amount	Surtax net income: Decrease from present law: Amount	Surtax net income: Decrease from present law: Percent	Combined normal tax and surtax: Amount	Combined normal tax and surtax: Decrease from present law: Amount	Combined normal tax and surtax: Decrease from present law: Percent
$500[1]	$1,000[1]	$500[1]	48,544.6			$69,114.3			$16,692.0		
$600	$1,200	$600	43,816.7	4,727.9	9.7	60,820.9	$8,293.4	12.0	15,046.1	$1,645.9	9.9
$700	$1,400	$700	38,017.0	10,527.6	21.7	53,851.7	15,262.6	22.1	13,658.3	3,033.7	18.2
$800	$1,600	$400[2]	39,491.6	9,053.0	18.6	52,329.1	16,785.2	24.3	13,383.2	3,308.8	19.8
$1,000	$2,000	$500[2]	29,803.2	18,741.4	38.6	41,771.8	27,342.5	39.6	11,280.6	5,411.4	32.4

[1] Present law: Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Assuming the first dependent of a single person would qualify the single person as a head of family, entitled to a married couple's exemption.

Source: Treasury Department, April 1947.

TABLE G.—*Estimated number of taxable income recipients and their combined normal tax and surtax under various exemptions, distributed by net income classes, in calendar year 1947*

(Assuming income payments of $166 billion)

[Number of income recipients in thousands; money amounts in millions]

Net income classes (in thousands)	Exemptions for single persons, married couples, and dependents, respectively									
	$500, $1,000, $500 (Present law [1])		$600, $1,200, $600		$700, $1,400, $700		$800, $1,600, $400 [2]		$1,000, $2,000, $500 [2]	
	Number of taxable income recipients	Combined normal tax and surtax	Number of taxable income recipients	Combined normal tax and surtax	Number of taxable income recipients	Combined normal tax and surtax	Number of taxable income recipients	Combined normal tax and surtax	Number of taxable income recipients	Combined normal tax and surtax
$0-$1	6,352.3	$299.5	5,752.3	$179.5	3,234.8	$105.2	3,146.0	$46.4	47.2	$2.2
$1-$2	20,138.9	2,839.6	17,549.8	2,332.5	15,170.0	1,923.8	15,459.5	1,615.6	12,534.5	1,048.8
$2-$3	14,322.0	3,692.3	12,930.2	3,134.1	12,343.9	2,659.6	13,175.8	2,578.7	9,817.1	1,805.1
$3-$4	4,655.5	1,827.7	4,520.3	1,585.8	4,240.2	1,368.8	4,604.2	1,446.2	4,249.2	1,076.2
$4-$5	1,333.2	775.9	1,321.3	696.5	1,285.4	621.2	1,333.2	660.4	1,312.5	536.3
Under $5	46,801.8	9,435.0	42,074.0	7,928.4	36,274.2	6,678.6	37,748.8	6,347.3	28,060.4	4,468.5
$5-$10	1,126.9	1,318.0	1,126.9	1,244.3	1,126.9	1,171.6	1,126.9	1,199.1	1,126.9	1,081.5
$10-$25	470.2	1,864.5	470.2	1,819.4	470.2	1,774.8	470.2	1,790.7	470.2	1,717.2
$25-$50	101.2	1,365.7	101.2	1,352.3	101.2	1,338.9	101.2	1,346.9	101.2	1,325.5
$50-$100	32.7	1,117.7	32.7	1,112.6	32.7	1,107.3	32.7	1,110.7	32.7	1,102.6
$100-$250	9.8	835.1	9.8	833.4	9.8	831.8	9.8	832.8	9.8	830.2
$250-$500	1.3	290.5	1.3	290.3	1.3	290.0	1.3	290.2	1.3	289.8
$500-$1,000	.4	212.5	.4	212.5	.4	212.4	.4	212.5	.4	212.3
$1,000 and over	.2	253.0	.2	253.0	.2	253.0	.2	253.0	.2	253.0
Over $5	1,742.8	7,257.0	1,742.8	7,117.7	1,742.8	6,979.8	1,742.8	7,035.9	1,742.8	6,812.1
Grand total	48,544.6	16,692.0	43,816.7	15,046.1	38,017.0	13,658.3	39,491.6	13,383.2	29,803.2	11,280.6

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Assuming the first dependent of a single person would qualify the single person as a head of family, entitled to a married couple's exemption.

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: Treasury Department, April 1947.

TABLE H.—*Number of taxable individual and fiduciary returns, tax and net income, 1913–45 and estimated for 1946–47*

[In thousands of dollars]

Year	Number of returns	Tax	Net income	Year	Number of returns	Tax	Net income
1913	([1])	[2] $28,254	([3])	1931	1,525,546	$246,127	$9,297,018
1914	([1])	[2] 41,046	([3])	1932	1,936,095	329,962	7,919,588
1915	([1])	[2] 67,944	([3])	1933	1,747,740	374,120	7,372,660
1916	362,970	173,387	$6,037,233	1934	1,795,920	511,400	8,343,558
1917	2,707,234	[4] 795,381	[5] 10,592,987	1935	2,110,890	657,439	10,034,106
1918	3,392,863	1,127,722	13,892,776	1936	2,861,108	1,214,017	14,218,854
1919	4,231,181	1,269,630	17,691,620	1937	3,371,443	1,141,569	15,261,162
1920	5,518,310	1,075,054	20,228,959	1938	3,048,545	765,833	12,671,537
1921	3,589,985	719,387	13,409,685	1939	3,959,297	928,694	15,803,915
1922	3,681,249	861,057	15,043,514	1940	7,504,649	1,496,403	23,558,030
1923	4,270,121	[6] 661,666	17,497,383	1941	17,587,471	3,907,951	45,902,881
1924	4,489,698	704,265	19,468,724	1942	27,718,534	8,926,712	67,060,862
1925	2,501,166	734,555	17,471,219	1943	40,337,203	[7] 14,590,018	98,150,189
1926	2,470,990	732,475	17,422,633	1944 preliminary	42,446,538	16,346,508	([3])
1927	2,440,941	830,639	18,090,065	1945	[8] 42,890,679	[8] 18,265,000	([3])
1928	3,523,063	1,164,254	21,031,634	1946 [9]	39,500,000	16,391,000	([3])
1929	2,458,019	1,001,938	20,493,491	1947 [9]	43,500,000	17,001,260	114,033,302
1930	2,037,645	476,715	13,692,584				

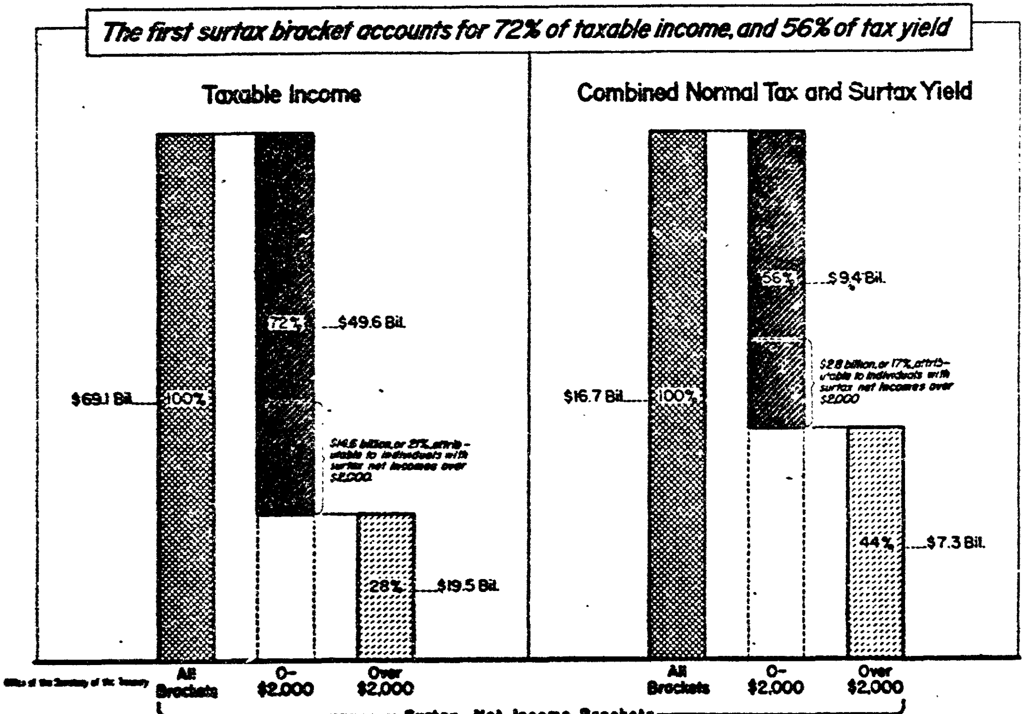
[1] Not available. The total number of taxable and nontaxable returns filed were as follows: 1913, 357,598; 1914, 357,515; and 1915, 336,652.
[2] Receipts (including fines, penalties, additional assessments, etc.) for the fiscal year ended June 30 immediately following, as shown in annual reports of the Commissioner of Internal Revenue.
[3] Not available.
[4] Includes war excess-profits taxes of $101,249,781 on individuals and $103,887,984 on partnerships.
[5] Tax base for taxable returns with net incomes of $2,000 and over. There were 1,591,518 taxable returns with net incomes of $2,000 and over, for which the tax amounted to $675,249,450.
[6] Amount after the 25-percent reduction provided by section 1200 (a), Revenue Act of 1924.
[7] Excludes additions to liability under the Current Tax Payment Act of 1943 amounting to $2,555,894,000.
[8] Obtained from Collectors' Monthly Report to Commissioner of Returns Filed.
[9] Estimated.

Treasury Department, April 1947. Data for 1916–42 from "Statistics of Income"; data for 1943 and 1944 compiled by the Bureau of Internal Revenue.

Chart A

INDIVIDUAL INCOME TAX ESTIMATES FOR 1947

At $166 Billion Income Payments; Under Present Law



The CHAIRMAN. Mr. Secretary, let me invite your attention to a statement which you made in the second paragraph on page 1 of your statement. I quote:

The desirability of maintaining present tax rates for this year is emphasized by the size of the public debt.

What, please, is the present size of the public debt?

Secretary SNYDER. The present size of the public debt is a little less than $258 billion. I think it is 257.6 this morning.

The CHAIRMAN. What, please, was the estimated size of the public debt for the end of the current fiscal year?

Secretary SNYDER. $260.4.

The CHAIRMAN. What is the surplus which you expect to have at the end of this fiscal year?

Secretary SNYDER. The surplus?

The CHAIRMAN. Yes.

Secretary SNYDER. At this time it is $1.25 billion.

The CHAIRMAN. What do you expect to have at the end of the fiscal year, the current fiscal year.

Secretary SNYDER. That is it, $1.25 billion.

The CHAIRMAN. $1.25 billion; and do you know what it is as of this time?

Secretary SNYDER. $2.485 billion. That is as of April 18.

The CHAIRMAN. You will succeed, then, by the end of this fiscal year, in reducing the national debt beyond your earlier expectations?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. That will result in an interest saving.

Secretary SNYDER. In the reduction of our debt by our using the cash balances, the anticipated interest saving has already been realized.

The CHAIRMAN. Yes, but to the extent that you reduce the national debt, you reduce the annual interest.

Secretary SNYDER. That is correct. We have already taken advantage of that by applying those cash balances to the debt.

The CHAIRMAN. How much savings in interest have you made beyond the amounts you estimated, by these unexpected reductions of the national debt?

Mr. BARTELT. I do not have that exact figure, Mr. Secretary, but the interest savings usually follow quite a considerable time after the reduction in debt is made. It usually is reflected in the year following, rather than in the current year.

The CHAIRMAN. That is precisely what I am getting at. So you have an interest savings item that will reflect into fiscal 1948, which is not included in your expenditure estimate for fiscal '48, is that not correct?

Mr. BARTELT. That is reflected in the expenditures for '48, sir.

The CHAIRMAN. How do you bring into consistency the fact that you have reduced the national debt beyond your expectations, and at the same time were smart enough to reflect the interest savings in the estimated expenditures for fiscal '48?

Mr. BARTELT. The interest estimate for the fiscal year 1948 was originally estimated at about $5,041,000,000 and we trimmed off the $41 million.

The CHAIRMAN. On the basis of how much national debt?

Mr. BARTELT. On the basis of the national debt as presented in the President's budget message.

The CHAIRMAN. Which was 260.4?

Mr. BARTELT. Yes, sir; as of June 30, 1947.

The CHAIRMAN. You have reduced the debt below that. You have made an interest saving, and therefore would that not reflect in your estimate of interest for fiscal '48?

Mr. BARTELT. We have made some interest saving. It would amount to roughly about $18 million, since most of the debt retirements have been in the short term area. But offset against that saving is the fact that our 1948 estimate was made on a conservative basis and rounded slightly downward to $5,000,000,000.

The CHAIRMAN. But is it not a fact that if you reduce your public debt from 260.4 as estimated for the current fiscal year to 258, that you have reduced your public debt roughly 2 billion dollars, you have saved that interest which will reflect in the coming fiscal year?

Mr. BARTELT. That is a correct statement, but in effect that saving was antiicpated in the 1948 estimate.

The CHAIRMAN. It will reflect either in '48 or '49.

Mr. BARTELT. Most of it in '48.

The CHAIRMAN. '48?

Mr. BARTELT. The savings will be carried forward into '49.

The CHAIRMAN. You are not prepared to give us a break-down to that?

Mr. BARTELT. Not for '49.

Senator BREWSTER. Why is it that if the public debt is 2½ billion less on July 1 than expected that you do not get the benefit of it in '48?

Mr. BARTELT. The total debt as estimated by the President in the Budget was only $200 million less at the end of '48. The reduction in the market debt will be offset by an increase in the special issues to trust funds, which carry usually a higher rate of interest.

Senator BYRD. What is the average rate of interest?

Mr. BARTELT. It is about 2 percent.

Senator BREWSTER. They have not given us the estimated debt as of July 1. Would the reduction of the debt now be in order?

Secretary SNYDER. What is that?

Senator BREWSTER. What you estimate as the public debt on July 1, in the light of your current estimate, you have not given us that figure.

Secretary SNYDER. What was that revised figure for the budget?

Mr. BARTELT. We did not revise the public debt figure in connection with the most recent Presidential revision.

Senator BREWSTER. How difficult is that?

Secretary SNYDER. It is a question of whether we have the cash to make a further reduction over what we estimated, Senator. All of the cash balances over the operating balances necessary to run the Government were used in reducing the debt.

Senator BREWSTER. What was the estimated deficit in the last time you revised your figure?

Secretary SNYDER. About 2.3 billion.

Senator BREWSTER. Estimating that, did you anticipate that would be applied to an increase of the national debt?

Secretary SNYDER. If we had run that much deficit the reduction in debt would have been that much smaller.

Senator BREWSTER. Therefore, the $260.4 billion estimated at the end of '47, that included the $2 billion deficit in the current budget, did it not?

Secretary SNYDER. That is correct, Senator.

Senator BREWSTER. Taking that out, that leaves you 258 estimate. Now, you in addition show a billion and a quarter estimated balance; that would reduce it by approximately something over $3 billion.

Secretary SNYDER. That is correct.

Senator BREWSTER. Is that correct?

Secretary SNYDER. Yes, sir.

Senator BREWSTER. Would that mean that you would estimate the national debt around $257 billion at July 1?

Mr. BARTELT. That is about right.

Secretary SNYDER. I think that is about the figure that we had in it.

Senator BREWSTER. You think your interest will be not reduced proportionately because of the change in interest bearing items?

Secretary SNYDER. That is right.

Senator BREWSTER. But you have not any figures as to that?

Secretary SNYDER. Not exact figures.

Mr. BARTELT. As explained before it does not have an important effect on the 1948 estimate.

Secretary SNYDER. The effective time for this interest reduction would be carried into '49. We have not projected that.

Senator BREWSTER. It would seem as though if we do not owe $3 billion on July 1 that we would save some interest in the next 12 months. Would that not appeal to you, Mr. Secretary?

Secretary SNYDER. The adjustment there on the face of it, it would. I will be glad to have our technical staff prepare an explanation to you as to how it is done, how they arrive at it.

Mr. BARTELT. Even with the indicated surplus, as indicated by the President, the interest on the debt will be very roughly $5 billion as estimated for 1948.

The CHAIRMAN. It has seemed to me, Mr. Secretary, that you were making quite an argument that the reduction in the debt resulted in a reduction of the interest charge, and so far as we have gone, the reduction of the debt means an increase in the interest charge.

Secretary SNYDER. The argument that we are making is that as we move on toward stabilization of our debt we will probably have to move out of the short-term bank-held maturities into the long-term maturities, which bear a higher rate of interest, so by reducing the amount of the debt as we make that switch, we will still hold the interest charge down. That is our purpose there.

The CHAIRMAN. Generally speaking, if you reduce your national debt, you are going to reduce your interest charge, are you not?

Secretary SNYDER. We are if we do not move into longer maturities and build it back up again. We will reduce it on the one hand and may have to increase it on the other hand.

Senator HAWKES. May I ask a question right there? I think the question you have asked is very important.

In the over-all picture, Mr. Secretary, you must figure that some time, some place, you will have made this conversion into long-time bonds or securities, and that there will be a substantial reduction. When do you think that point is going to be reached? Have you got any idea when you are going to get over that hurdle of converting from short-time securities to long time and really accomplish reduction in the expenditures on interest?

Secretary SNYDER. That is difficult with our changing economy. We have something like $90 billion or a little less than that at this time in short terms. We have about $17 billion in bills, about $26 billion in certificates, and the balance in less than 5-year maturities.

Short securities bear a lower rate of interest than our average; our top long maturities bear about 2½ percent rate. The bills and certificates particularly, bear a lower rate of interest than the average. But as we move along and from day to day observe the available money for investment, we have to determine whether or not we should move out of the short terms into the long terms to further increase nonbank ownership of the debt.

Senator BUSHFIELD. When you have the longer terms, you have to increase the interest, is that right?

Secretary SNYDER. That is right; yes, sir. When you go into the longer terms, why, the market demands a higher rate of interest than for the shorter terms.

The CHAIRMAN. Mr. Secretary, what do you anticipate will be the expenditures for fiscal '47?

Secretary SNYDER. That is $41.25 billion. It is agreeable to refer to the staff on that?

The CHAIRMAN. Yes.

Secretary SNYDER. On these technical questions.

The CHAIRMAN. For fiscal '47.

Mr. BARTELT. $41.25 billion.

The CHAIRMAN. Is that a billion and a quarter lower than the estimate of January?

Secretary SNYDER. The estimate; yes, sir; that has been reduced by that amount.

The CHAIRMAN. Can you furnish the committee with a break-down of the individual expenditure items showing in each case where they exceed the estimate of January and where they are less than the estimate of January?

Secretary SNYDER. That figure would come from the Budget Bureau. The expenditures are controlled by the Budget Bureau. We could see if we could obtain them for you.

The CHAIRMAN. What do you estimate to be the receipts for fiscal '47?

Senator BYRD. Could I ask a question in regard to expenditures?

The CHAIRMAN. Yes, sir.

Senator BYRD. There have been so many conflicting statements made about the expenditures and receipts, I want to ask you if these figures are correct.

The actual expenditures for the fiscal 1947, the first quarter, are 9.3. I would like the experts to check that.

The estimate of the expenditures for the first quarter of fiscal 1947 is $9.3 billion. The second quarter is $9.2 billion. The third quarter is 10.6 billion, which includes $950 million to the International Monetary Fund, which is nonrecurring.

In order for your expenditure to be realized, you have got to spend $12.1 billion in the last quarter, which is nearly 2 billion more than you have spent in any previous quarter of this year.

Why is that?

Secretary SNYDER. We will have to refer to the Budget Bureau for that, Senator, because they prepare those.

Senator BYRD. It seems to me that is a difference that is very great. It is $3 billion more than in the second quarter, and the third quarter has this nonrecurring expenditure. So if your estimate of $41.2 billion is to be realized, you have got to spend $12.1 in this quarter.

Secretary SNYDER. Here are some of the figures that go to make it up. Of course, the information must come from the Budget Bureau on the question that you ask in detail.

According to our checking here the interest on the public debt for the fourth quarter over the third quarter increased $525 million. That was due to those changes that we have just mentioned.

Senator BYRD. Bear in mind the third quarter had a nonrecurring item of $950 million to the International Monetary Fund. Are there any nonrecurring items in the fourth quarter?

Secretary SNYDER. We have some other itens here.

Senator BYRD. Interest is $525 million.

Secretary SNYDER. National defense and seasonal construction programs are also up.

Senator BYRD. Construction program for what?

Secretary SNYDER. That was in the veterans' construction; that sort of thing.

Senator BYRD. You mean that was that much more than the other quarters?

Secretary SNYDER. That was the increase over the third quarter.

Senator BYRD. $800 million?

Secretary SNYDER. Now, these are just figures that we took. The accurate detailed figures must come from the Budget.

Senator BYRD. I think a just comparison would be with the second quarter, and not included this nonrecurring item of $950 million. In the second quarter you spent $2 billion. I wonder if you have not over estimated the expenditures.

Secretary SNYDER. That would, as I say, have to come from the Budget, because we have urged them to recheck their figures before we came out with this last estimate.

Senator BYRD. There have been so many mistakes made in this estimating, it seems to me that now we are getting to the end of the fiscal year, we ought to be able to have pretty accurate information.

Secretary SNYDER. I do not know whether you call them mistakes or change in the condition. The President started out with a very drastic program of reducing the debt. That can be checked very easily with the departments and they will assure you that he cut them much against their protest. He actually accomplished——

Senator BREWSTER. You said reducing the debt.

Secretary SNYDER. I mean reducing the budget, the estimated budget for 1947. He started out last fall through the Budget Bureau insisting that each department review their budget requirements for the fiscal year 1947, and cut them back and he accomplished a little over a billion and a quarter in that fashion up through the third quarter of fiscal 1947.

It was those revised figures that were released the other day.

Senator BYRD. The present budget is four times as much as for the year before the war. The budget that the President has recommended is four times as much.

Secretary SNYDER. That might well be, sir, because we did not have these two armies of occupation in foreign countries. We did not have this interest on the debt the size it is now, and we were not still winding up many of the obligations that we incurred during the war, and we did not have the veterans' problem to be considered.

Senator BYRD. We had $9 billion of expense before the war, the year before the war, and now we have budget expense of $37.5 billion.

Could you furnish the committee a statement through the Budget, an itemized statement of what you think the expenditures would be in the fourth quarter?

Secretary SNYDER. We can ask them for it.

The CHAIRMAN. I have asked the Director of the Budget to appear to testify on that point, Senator Byrd.

Senator BYRD. I have a list of questions that I assume the Secretary will have the answers to furnish later.

First, I want to know the number of individual taxpayers entitled to refund of excess tax withheld for 1946 from salaries and wages, and so forth. I will pass this on.

Secretary SNYDER. Are you going to furnish me that, and give me some time to prepare that?

Senator BYRD. Will you prepare that for the committee?

Secretary SNYDER. Do you want to read that into the record?

The CHAIRMAN. Yes.

Senator BYRD. The reporter will put them in the record.

(The questions are as follows:)

1. Number of individual taxpayers entitled to refund of excess tax withheld for 1946 from salaries and wages as shown on Form W-2. Also same information for 1945.

2. Number of refunds and total dollar amount of refunds to this group during quarter ending March 31, 1947.

Also same information for quarter ending March 31, 1946.

3. Number of individual taxpayers entitled to refund of excess estimated 1946 tax paid as shown on final return Form 1040.

Same information for 1945.

4. Number of refunds and total dollar amount of refunds made to this group during quarter ending March 31, 1947.

Same information for last quarter ending March 31, 1946.

5. Estimated total of interest payments to be made on Government indebtedness during April, May, and June 1947.

6. Estimated total of payments to the National Service Life Insurance Fund to be made during fourth quarter fiscal year ending June 30, 1947.

When will the proceeds of the sale of the Big Inch and Little Inch pipe lines appear in the Treasury statements as Treasury receipts?

(The information requested is as follows:)

ANSWERS TO QUESTIONS 1 AND 3

The number of individuals entitled to prepayment refunds for the tax year 1946 is approximately 31,000,000 as compared with 30,490,425 for the tax year 1945.

Prepayment refunds means refunds due to excessive withholding and excessive tax paid on declarations. These amounts cannot be distinguished as the overpayment equals the difference between the liability and the sum of the tax withheld and the tax paid on declarations. The actual refunds disbursed during quarter, on a checks-issued basis, do not distinguish between Form W-2 and Form 1040. For this reason these figures cannot be shown separately. This information is compiled separately for refunds scheduled by the Bureau of Internal Revenue to the Disbursing Office of the Treasury, but the amounts scheduled during a given quarter do not coincide precisely with the checks certified for payment during such quarter. Therefore, these figures are not being supplied as they do not reflect the actual amounts disbursed within a given quarter.

ANSWERS TO QUESTIONS 2 AND 4

The number of prepayment refunds made during the quarter ending March 31, 1947, was 11,932,798 as compared with 12,581,139 for the quarter ending March 31, 1946.

The total amount of the prepayment refunds made during the quarter ending March 31, 1947, was $513,345,254 as compared with $399,816,600 for the quarter ending March 31, 1946.

ANSWER TO QUESTION 5

Total estimated interest payments for April, May, June, 1947, $1,621,000,000.

ANSWER TO QUESTION 6

Total payments from general fund of Treasury to national service life-insurance fund for period April to June 1947 are estimated at $543,000,000 but are dependent upon enactment of the First Deficiency Appropriation Act, 1947 (H. R. 2849, passed the House of Representatives, April 1, 1947).

Senator BREWSTER. Supplementing the question of Senator Byrd, I would like also to know whether the Budget or the Treasury take any special steps to see as to any undue expenditure of public funds in the last month or two of the year.

In a slight experience that I had as chief executive of an estate, that was very frequent practice that the bureaus felt if they did not use their funds up, they might have a little trouble the next year, so that in May and June you often found an undue expenditure of balances which had perhaps accumulated.

Secretary SNYDER. The Treasury did inquire into a number of those expenditures that we were thinking were larger than we expected them to be, and we made a very definite inquiry. They came up with their expenditure plans. Of course, we checked it back through the Budget which is the controlling department on this.

Senator BREWSTER. In connection with your answer to Senator Byrd's question, of course that has a bearing on this apparent 25-percent increase in the last quarter, over the previous normal expenditures, and whether or not that factor entered at all. I think it would be very helpful if we could know.

Secretary SNYDER. I am sure that the Budget can offer more detailed information on that when they come in, sir.

The CHAIRMAN. We plan to have the Budget Director appear as the next witness.

Is that correct, that to the extent which expenditures are met in this fiscal year, which otherwise might carry over into the next fiscal year, where there is discretion for such carry-over, that would of course reduce the expenditures of the next fiscal year?

Secretary SNYDER. That is correct, where it is a continuing appropriation.

The CHAIRMAN. Yes. Is it not usual when there is a surplus at the end of the fiscal year to apply it to the reduction of the national debt?

Secretary SNYDER. We will keep our operating balance as low as possible. Our operating cash balance is kept as low as possible consistent with requirements for governmental operation.

The CHAIRMAN. What is your estimate of the national debt as of the end of this fiscal year? Is that the $258 billion figure, or will that further be reduced?

Secretary Snyder. It will be just about that amount.

The CHAIRMAN. $258 billion?

Secretary SNYDER. Yes, sir.

Senator BREWSTER. He just testified a little while ago it would be $257 billion.

Secretary SNYDER. I think you are right. It is $257,837,000,000.

The CHAIRMAN. How much have you reduced the national debt within the fiscal year 1947, altogether?

Secretary SNYDER. About $22 billion, I think, since the debt reduction program began. Just let me check that.

Senator BYRD. That reduction was all out of surplus?

Secretary SNYDER. Out of cash balances.

Senator BYRD. Out of cash balances?

Secretary SNYDER. Yes. Just a moment. I want to get that correct. I want to recheck that. The amount that had been reduced since February 28 was $22 billion, but during the fiscal 1947 it is $11,766,000,000.

The CHAIRMAN. Over the entire fiscal year, so far?

Secretary SNYDER. That is correct.

The CHAIRMAN. And therefore, under the other estimates that you have given us, that will probably run to 12 or 13 billion by the end of the fiscal year?

Secretary SNYDER. I think so, yes.

The CHAIRMAN. Right?

Secretary SNYDER. Yes.

The CHAIRMAN. What do you estimate as the revenue for fiscal 1947?

The CHAIRMAN. How much does that exceed your January estimate?

Secretary SNYDER. 2.3 billion.

The CHAIRMAN. 2.3 billion?

Secretary SNYDER. Yes.

The CHAIRMAN. On what income level did you make your January estimate?

Secretary SNYDER. $615 billion for calendar 1947.

The CHAIRMAN. $165 billion?

Secretary SNYDER. Yes.

The CHAIRMAN. What is the level which produces the unexpected surplus?

Secretary SNYDER. About $176 billion was the latest estimate available, sir.

The CHAIRMAN. What is your estimated revenue for 1948?

Secretary SNYDER. $38.8 billion.

The CHAIRMAN. $38.8?

Secretary SNYDER. Yes.

The CHAIRMAN. Was that on the estimate of $165 billion income?

Mr. HAAS. That is based on the fiscal year 1948 of 168.

The CHAIRMAN. Of 168 billion of income payments. You are now running at 176.

Mr. HAAS. That is the February rate.

Secretary SNYDER. This is Dr. Haas.

The CHAIRMAN. Assume that there is a continuance of your present rate of income; how much would your revenues be increased for fiscal 1948?

Mr. HAAS. To go right on through?

The CHAIRMAN. At the present rate.

Mr. HAAS. I can give you a rough, very rough idea. I would like to check this. Probably it would raise it about 3 or 4 billion.

For each $10 billion increase in income payments, you would roughly get receipts of about $2.8 billion. So it is somewhere around $3 billion.

The CHAIRMAN. You have a $11 billion increase, and if each 10 represents 2.8, you would have about $3 billion, would you not?

Mr. HAAS. That is right.

The CHAIRMAN. So that your revised estimate, assuming the continuance of the present volume of national income, would be roughly 41.8 billion for fiscal '48?

Mr. HAAS. That is right—a rough estimate.

The CHAIRMAN. Right?

Mr. HAAS. Yes.

The CHAIRMAN. Will the economies to which you referred in the latter part of '47 continue, Mr. Secretary, to prevail in '48? By the economies that you have mentioned, you have lessened your expenditure estimate for '47. Have you made a revised estimate as to '48?

Secretary SNYDER. Those were given consideration in the '48 budget; yes, sir.

The CHAIRMAN. You mean that the economies that you have achieved in '47 already reflect themselves in '48?

Secretary SNYDER. Those cut-backs were made in arriving at the '48 budget. The departments requested much more money than was finally allotted to them, and some drastic cuts were made in the budget that was requested by each department.

The CHAIRMAN. Let me put it again to you. I gather from the President's statement, and I think from you own, that you have achieved a greater reduction in expenditures in '47 than you anticipated.

Secretary SNYDER. That is correct.

The CHAIRMAN. That is correct?

Secretary SNYDER. Yes.

The CHAIRMAN. And that you made that achievement at a time subsequent to the time that you made your '48 predictions?

Secretary SNYDER. No, sir.

We started to work on them, but those savings have not been assured until within recent weeks.

The CHAIRMAN. So you stand pat on your 37.5 expenditure estimate for '48?

Secretary SNYDER. At this time, yes, sir. Well, that is not the Treasury. That is the Budget again. Expenditures are a function of the Budget Bureau.

Senator GEORGE. On that point, Mr. Secretary, it is wholly aside from this present inquiry, but the Budget is entirely separate from the Treasury?

Secretary SNYDER. Yes, sir, the Budget is a bureau under the Executive Office of the President, and they are the agency that determines these expenditure limits. We have to take their figures, although we are constantly working with that department. But the Treasury has no hand, other than in checking back, and asking for explanations, and things of that sort and urging economics.

Senator GEORGE. It looks like that is a little awkward arrangement.

Secretary SNYDER. That formerly was in the Treasury, as you know, but it is not now, and that is why I have to constantly refer, Senator, to the fact that these expenditures are not controllable by the Treasury, but by the Budget Bureau, which approves these budgets.

Senator LUCAS. When was that change made, Mr. Secretary?

Secretary SNYDER. It was in 1937.

Senator GEORGE. In '37?

Secretary SNYDER. Yes.

The CHAIRMAN. Mr. Secretary, going back to the point of projecting the present level of national income of 176 billion through the year '48, let me ask again, when you made your estimate for '48, of expenditures and receipts, you used the figure 165 or 166, did you not?

Mr. HAAS. 168 billion for fiscal 1948.

Secretary SNYDER. 168.

The CHAIRMAN. Do you put any discounts on the continuance of the present rate of 176 billions?

Secretary SNYDER. Well, we are not positive that that rate will hold. We are looking for some price adjustments which will of course probably adjust it.

Senator BREWSTER. What is the current rate?

Secretary SNYDER. Around 176 now.

Senator BREWSTER. Approaching 180, is it not?

Secretary SNYDER. Well, the last official, estimate we have is around 176.

Senator BYRD. How long has that continued, that rate?

Secretary SNYDER. Mr. Haas?

Mr. HAAS. It was 177 in January, and the last figure which has been released by the Department of Commerce, 176.5.

Senator BREWSTER. What was the date of that?

Mr. HAAS. That was the February rate.

Senator BREWSTER. You have had no figures since February?

Mr. HAAS. That is the last figure that has been released. There should be another one out very shortly. February are the last figures.

Senator LUCAS. Do I understand you to say that it was reduced?

Secretary SNYDER. February was less than January.

Mr. HAAS. By about $500 million less—in annual rate.

Senator HAWKES. May I ask for clarification, the gentleman says that is the last figure that was released. Are there any figures available that have not been released?

Secretary SNYDER. We only use the official figures.

Senator HAWKES. I mean for a later month than the one we are talking about.

Secretary SNYDER. February is the last official release.

Senator HAWKES. What I am asking is, are there any figures available to give us an inkling of whether or not we are going up or down?

Secretary SNYDER. They are not available until released by the Department of Commerce.

Senator BREWSTER. There are a lot of unofficial releases we get. You do not have the benefit of those?

Secretary SNYDER. We do not take advantage of rumors. We like to see the official figure. We do not want to be optimiste nor pessimistic. We want to stick to the facts as we can get them.

The CHAIRMAN. I would like to come back, now, Mr. Secretary, to the projection of the present rate of national income over the year, the fiscal year 1948.

I asked you whether you discounted that projection—176—in any way, and you started to give me an answer. I did not get what you said.

Secretary SNYDER. We are not sure of the price structure of course; if the price structure drops, why, that brings down that level of income, and so until we see how this balances out we have no real basis at this time to project through '48.

The CHAIRMAN. A reduction in unit price might result in increased volume, might it not?

Secretary SNYDER. Not right at the present time. We are short of so many materials and we have a labor shortage. At the present time I just do not see any great production increase when we are running at a pretty high capacity right now, Senator.

The CHAIRMAN. The President is urging a reduction in prices. I put it to you again, if there is a reduction in prices, may not that have the effect of itself stimulating sales?

Secretary SNYDER. In the long run it would; yes, sir. But where we are still short of supply, and we are manufacturing at near capacity, I do not know how the stimulation of sales would greatly increase in the present—we are talking about the 1947 tax bill.

The CHAIRMAN. The $176 billion is not a static figure, is it?

Secretary SNYDER. No, sir.

The CHAIRMAN. It was the point reached by a constantly upward rising level of income during the last few months?

Secretary SNYDER. Yes, sir. In January after this estimate came out for the budget, many economists and other people outside of Government claimed that we were overoptimistic in our estimate of the figures at that time. An outstanding financial service forecast that we would have a national income of somewhere around $155,000,000,000. At the time we were estimating around 165.

I just bring that out to point out how difficult it is in this transition period to adjust for all of the various elements of the economy. An estimate such as we have made was not very far off the mark when you consider that it was about 5 percent off the mark. In fact, it was the increased prices that accounted for the difference.

The CHAIRMAN. Of course, our basic blunder was in estimating a depression immediately after VJ-day, is that not correct?

Secretary SNYDER. Well, it was certainly something to work against it, but it seemed to be the general trend of all of the estimators that we were going to have one. I am not talking about Government estimators, but I am talking about those who have guided the affairs of business at all times, that we had to have one, that we could not make the adjustment of a transition from war to peace with the facility which we actually made it.

The CHAIRMAN. The estimates of the last few years on all of these important matters have been somewhat undependable, have they not?

Secretary SNYDER. They have certainly had a difficult time hitting it on the button; yes, sir.

Senator BREWSTER. Did your figure of 165 take into account the possibility of some recession?

Secretary SNYDER. I beg your pardon?

Senator BREWSTER. Did your figure of 165, the national income, take into account the possibility of some recession during 1947?

Secretary SNYDER. That was about the figure. It was a continuing figure. That was about the figure at that time.

Senator BREWSTER. You mean it was simply based on the current income?

Secretary SNYDER. At the time that estimate was made, the national income was about 165 billion.

Senator BREWSTER. You estimated that.

Secretary SNYDER. That it would continue through.

Senator BREWSTER. That it would continue through.

Secretary SNYDER. Instead of that, it has increased.

Senator BREWSTER. Neither up nor down.

Secretary SNYDER. That is right.

Senator BREWSTER. You feel there is less or more prospect of a material change now than you did then? What is your present estimate?

Secretary SNYDER. There is no reason for us to have a recession or depression. We have all of the elements of a continued level of national income of certainly around 165 that we used in January, if we bring all of these other elements into balance. The recent development in the labor situation is most encouraging from my point of view, because I think we will level that off, and the likelihood of strikes will be lessened because of agreements that management and labor are now reaching, and with the demand that is still behind the market for continuation of the level of income which we had in January, and with the price reduction downward, will possibly decrease it from today, but will not be indicative of a recession or depression.

Senator BREWSTER. What would be the effect of a tax reduction of the character here? Would that tend to increase or decrease?

Secretary SNYDER. At this time, I think it would add more money to be bidding against shortage of materials, and would therefore be inflationary to that extent.

Senator BREWSTER. So that it would tend to increase the national income on paper.

Secretary SNYDER. It might. The inflationary trends, if it did not start it downward, I do not——

Senator HAWKES. May I pursue a question that you asked the Secretary, Mr. Chairman.

The CHAIRMAN. Yes, sir.

Senator HAWKES. I think I understood, and I am quite sure we will agree on this, that if there were the price reduction where it is possible to make a price reduction, while that in itself would seem to take something off the national income, you will agree that it would stimulate trade and the use of things to the point where the stimulation through the reduction in price would certainly offset the reduction that would come from the lower price, would it not?

Secretary SNYDER. In the long run, it would certainly level it off, and help maintain a high national income; yes, sir.

Senator HAWKES. You do know that there are substantial volumes of goods in certain lines today that have not been moving.

Secretary SNYDER. That is correct.

Senator HAWKES. That may be where you and I differ a little bit. because I think that it will stimulate the thing not over the long run but over the immediate future.

Secretary SNYDER. We do not have any estimate at this time. I asked that very question of Commerce. We do not have an estimate right now of these inventories that you are speaking of.

Senator HAWKES. Neither do I.

Secretary SNYDER. But I just say I am interested in the same thing that you are, Senator, as to how much pent-up inventory there was that would be released, held up because of a price situation.

Senator HAWKES. Yes.

Secretary SNYDER. We do not have the accurate figures on that right now, but there is an interesting point to know that.

Senator HAWKES. Is Commerce doing anything to find out how much those pent-up inventories are?

Secretary SNYDER. They are working on that, I understand. We have not been able to get the figures yet.

Senator HAWKES. I think that is an important factor in this whole picture.

Secretary SNYDER. It is an important point, and we raised it last week, to know how much pent-up inventories were held up by price, but we have not any figures as yet.

The CHAIRMAN. I understood you to say the 176 billion of national income is what might be called the climax of the rise in national income over the last few months.

How much higher may we consider that that income will go under the present tendencies?

Secretary SNYDER. That would be hard to estimate.

The CHAIRMAN. Is there any reason to believe that it will go lower than 176?

Secretary SNYDER. I must see the developments for the next few weeks. That will have a bearing on it, Senator.

The CHAIRMAN. Tell me that again.

Secretary SNYDER. We will have to see the effect of the adjustments that are being made now; the labor adjustments and the price adjustments.

The CHAIRMAN. It might go higher?

Secretary SNYDER. It could go either way; yes, sir.

The CHAIRMAN. If you had your estimate to make over again, for fiscal '48, you would not base it on a national income of 165, would you?

Secretary SNYDER. I do not see any change yet for the fiscal '48, which does not begin until July 1 of this year, and ends 12 months later.

The CHAIRMAN. If your income is running above 165, running at 176, is not that a basis for change in your figures?

Secretary SNYDER. It might or might not be.

The CHAIRMAN. Well, under what circumstances would it not be?

Secretary SNYDER. If prices continue to climb, there will undoubtedly be a resistance to prices, and if that happens, then of course that figure would drop.

The CHAIRMAN. But when you made your estimate for '48, you did not figure that the national income would run up to 176.

Secretary SNYDER. Not for this period; no, sir.

The CHAIRMAN. And so you are confronted——

Secretary SNYDER. But we are still not in the fiscal year 1948, sir.

The CHAIRMAN. Of course not. When you made your estimate for '48, you were not in the fiscal year '48, either.

Secretary SNYDER. No, sir.

The CHAIRMAN. You had to use the factors that were at hand at that time.

Secretary SNYDER. We had to take into consideration the capacity of production at the price level that was existent at that time.

The CHAIRMAN. And you figured it at 165.

Secretary SNYDER. That is correct.

The CHAIRMAN. Now, you have a new set of facts which indicates at the moment at least 176.

Secretary SNYDER. Yes.

The CHAIRMAN. So I repeat if you were making your estimate now for '48, you would not hold it at 165, would you?

Secretary SNYDER. We did allow for an increase to $168 billion for fiscal 1948.

Senator BUSHFIELD. Is not that only an estimated figure?

Secretary SNYDER. Purely an estimate.

The CHAIRMAN. It is an estimate.

Secretary SNYDER. But it was moved up to $168 billion for the fiscal year.

The CHAIRMAN. Yes.

Secretary SNYDER. So we have taken into consideration just what you are speaking of.

Senator HAWKES. I think you will find in the record back 15 or 20 minutes ago that either the Secretary of someone here said that they did not look for a recession in business at the present time.

Secretary SNYDER. Yes.

Senator HAWKES. If they do not look for a recession in business at the present time, or in the immediate future and we are running at 176 to 179, I am told, but there are no official figures, if we are running at that rate, then it seems to me the answer is already in the record that we ought to, if we are going to make the calculation over again, we ought to calculate it on 176.

The CHAIRMAN. It seems to me that we have to calculate on 176, unless we have to put discount on it, and that is why I was probing you, to see what the discounts might be.

Secretary SNYDER. I made the statement that there was no need for a recession, but there could be an adjustment of prices downward, without bringing about a recession or a depression, and that would reduce the national income.

Senator HAWKES. Then you and I had our little colloquy.

Secretary SNYDER. What I said is not inconsistent with the record.

Senator HAWKES. I am not saying that. I am just saying that I think you have about all you can get, so far as I am concerned.

Regardless of what anybody else would do, if I were making a calculation at the present time on the budget, I would figure it was running somewhere around 176, and I had as good a reason to believe it would continue at that rate as anybody else had to think it might have a recession.

Senator BREWSTER. Mr. Secretary, in February, with the national income of 165, you estimated a continuance of that through 1948. In April with a national income running to 176, you are not prepared to follow through.

Secretary SNYDER. We moved it up to 168 billion for the fiscal year.

Senator BREWSTER. What is the reason for your change of viewpoint from February?

Secretary SNYDER. We have not made any change in our reasoning base.

Senator BREWSTER. You have in your premise.

Secretary SNYDER. Sir?

Senator BREWSTER. In February you premised that the current national income would continue. In April you premise that your national income will decline by approximately 5 percent.

Secretary SNYDER. The price element has moved in there.

Senator BREWSTER. The price element was in the structure in February.

Secretary SNYDER. Not to the extent that it is now. We made that estimate last December.

Senator BREWSTER. All right, in December.

Secretary SNYDER. It is a long period of time that we have had a continuing rising price structure, which has to be given some consideration, and in consideration of that, we moved it up $3 billion for the fiscal year.

Senator BREWSTER. But you are still discounting it $8 billion, which you did not do in either December or February.

Secretary SNYDER. We had every reason to believe that with demand as it was, with the price structure as it was, and with the assurance that there would not be any price increases beyond reasonable rates, we could continue along at that basis, because we saw full production ahead.

Senator BREWSTER. Is it fair to say, in other words, that you are less optimistic then in April than you were in December?

Secretary SNYDER. We try not to be optimistic nor pessimistic. We try to estimate these on a sound figure.

Senator BREWSTER. You are certainly making a difference in your approach to these figures of $8 billion in the 4 months.

Secretary SNYDER. I do not think so, sir.

Senator BREWSTER. Obviously you are. You took 165.

Secretary SNYDER. We did not have this inflated price picture at the time in December when we made those estimates that we have now.

We have to give consideration to the fact that we know that we have in some areas, this is not true in all by any means, but in some areas we have an overpriced market.

Senator BREWSTER. To what extent does the total represent inflationary as distinct from productive figures?

Secretary SNYDER. Will you repeat that question?

Senator BREWSTER. To what extent does the increase from 165 to 176 represent price changes as distinct from production changes?

Mr. HAAS. That would be difficult to determine. I can give you some idea.

Senator BREWSTER. You are saying that this is a result of inflation. You must have something to base it on.

Mr. HAAS. I will give you a figure. But to precisely measure it is rather difficult. Since June 1946 wholesale prices have gone up 31 percent. In our estimate we projected a rather gradual price rise. Instead of that we have a rise of 31 percent which is one of the sharpest price rises we ever had in the history of this country, and we did not project that in the estimate because it is an inflationary rise. It would be imprudent to forecast such a rise.

Senator BREWSTER. What about the difference between December and April? What are the figures there on the price rise? Have you those?

Mr. HAAS. I do not have them right here on hand at the moment. The prices have been going up. I do not have the percentage from December in mind. I can give you the increase from October.

Senator BREWSTER. All right.

Mr. HAAS. That 31-percent figure, about half of that was from the middle of October on, about 15 percent.

Senator BREWSTER. Then does that 15 percent in wholesale prices, would that reflect itself in the whole national income or only in a portion of it?

Mr. HAAS. It works through. It depends on just how you are defining national income.

Senator BREWSTER. I am accepting your definition.

Mr. HAAS. Value of all goods and services, that is the aggregate income—the gross national product.

Senator BREWSTER. What is the figure?

Mr. HAAS. We use different ones, depending upon the tax we are estimating.

Senator BREWSTER. I am asking on the figures that you used.

Mr. HAAS. It would be reflected.

Senator BREWSTER. To what extent? There has not been a 16-percent rise in the national income in that period, obviously. You say 16 percent.

Mr. HAAS. No.

Senator BREWSTER. You have to have a weighted average. What is the weighted proportion of this wholesale price as against the total national income?

Mr. HASS. I am not trying to dodge the question, but there is not any adequate index that you can use for that purpose. The Department of Commerce has an index which they use to get it back to a physical volume, but it is not entirely adequate to answer your question. I do not have it with me here. I think I can make an estimate of what you are asking.

Senator BREWSTER. What is your estimate?

Mr. HAAS. I think I could make one. I cannot make it off the cuff.

Senator BREWSTER. I think it is extremely important. Your testimony here is based on these figures. I think that the committee is entitled to have the composition of the figures, and you replied that the 176 billion represented inflation.

Well, that means that goods have risen in price rather than in volume.

Mr. HAAS. That is right.

Senator BREWSTER. Do you have a basis for that statement?

Mr. HAAS. Yes, sir.

Senator BREWSTER. Well, let us have the figures on which that is based.

Secretary SNYDER. Can he furnish you those? He does not carry them with him.

Senator BREWSTER. That is quite all right.

Secretary SNYDER. Let us try to furnish them.

(The information requested is as follows:)

As mentioned in the testimony, there is no entirely adequate index for adjusting national income figures for the effect of price rises. The table below shows the income payment rate by months beginning with October 1946, and the same figures adjusted after October 1946 for the effect of the increase in prices, using three available price indexes. All three series suggest that the increase in income payments since last October is accounted for almost entirely by price rises.

Income payments adjusted for effect of price changes

	October 1946	November 1946	December 1946	January 1947	February 1947
PRICES					
1. Retail price index, Department of Commerce (1935-39=100)	167.2	171.5	172.7	172.7	172.7
2. Same index on October 1946 base	100.0	102.6	103.3	103.3	103.3
3. Consumers' price index, Department of Labor (1935-39=100)	148.6	152.2	153.3	153.1	152.8
4. Same index on October 1946 base	100.0	102.4	103.2	103.0	102.8
5. Wholesale prices, Department of Labor (1926=100)	134.1	139.7	140.9	141.5	144.6
6. Same index on October 1946 base	100.0	104.2	105.1	105.5	107.8
NATIONAL INCOME PAYMENTS, ANNUAL RATE					
7. Actual (billions of dollars)	170.9	174.1	175.7	177.1	176.6
Adjusted for price changes by dividing by the following indexes on the base October 1946=100:					
8. Retail price index, (7)÷(2)	170.9	169.7	170.1	171.4	171.0
9. Consumers' price index, (7)÷(4)	170.9	170.1	170.3	171.9	171.8
10. Wholesale price index, (7)÷(6)	170.9	167.1	167.2	167.8	163.8

Senator BREWSTER. To what extent are increases in wages reflected in the national income?

Mr. HAAS. Increases in wages?

Senator BREWSTER. Yes.

Mr. HAAS. They are part of income payments—the total for which is currently running at the rate of about 176 billion. The wage element probably would be 110 billion, wages and salaries.

Senator BREWSTER. So if you had a 10-percent increase in wages generally, you would have a 10-percent increase in that item of your national income?

Mr. HAAS. Yes, sir.

Senator BREWSTER. And just to the extent that there were wage increases, that would increase the amount of your national income?

Mr. HAAS. Yes, sir.

Senator BREWSTER. Have those factors been taken into account in connection with current developments in projecting our national income for this next year?

Mr. HAAS. Yes, sir; we considered all of the components of national income.

Senator BREWSTER. You knew there were going to be 10- and 15-percent increases in steel.

Mr. HAAS. No, we have not got any better crystal ball than most people have. We have been doing this work for years, but we would have to make an estimate of that. We had to make an estimate of wages and salaries as far out as June 1948.

Senator BREWSTER. Have you those figures that you could supply us with?

Mr. HAAS. Yes, sir; we can give you those.

Senator BREWSTER. I think it would be helpful if we could have those to see to what extent they were related to the developing problem.

Secretary SNYDER. We will try to provide those.

(The information requested is as follows:)

In projecting our national income figures for the 1948 fiscal year we assumed that salaries and wages would reach a level of $111 billions (annual rate) in June 1948, with total income payments at a rate of $169 billions in that month.

Senator HAWKES. I should like to say a word in there.

It has been stated that wages, of the 176 billion, are about 110 billion, wages and salaries.

In the last war, I made a computation on 30 of the more important necessary items, and it was proved that wages were 85 percent of the total cost of those 30 most important things.

I am only citing that to show that increases in wages are very important, and when you take 110 billion, the pattern that has just been set of 15 percent to put on top of that, you have $16 billion right there, have you not, an increase of 15 percent of 110?

Secretary SNYDER. If that went all the way across.

Senator HAWKES. Now, the point I want to make, Mr. Secretary, I am sure you will agree with me, is that if those who are trying to cooperate with the Government and industry succeed in doing anything like holding the line on prices, they have today, and pay these increased wages, then that is very substantially, it is practically similar to a decrease in prices of 15 percent of 12 percent, is it not?

Secretary SNYDER. From their point of view; yes.

Senator HAWKES. In other words, if the thing goes through all. But if it goes through the Nation, then it is practically the equivalant if they hold.

Secretary SNYDER. The percentage of cost of labor in different industries varies. In some industries the labor cost may be low and therefore the effect of price reduction would not be the same.

Senator HAWKES. That is very true. But your Department has stated here that the over-all picture of labor and wages is 110 billion as related to 176 billion. I would think that was quite an accurate statement, myself, but I did want to bring out that point, that if industry can cooperate in certain places—and I think they should where they can—in holding the line on this thing, why, then in holding the line and paying higher wages, they are practically doing the equivalent of making a reduction in price.

Secretary SNYDER. I agree with you. I think industry is going to try to cooperate.

But that increase will not go across the entire 110-billion structure, as you know. There will be many fields in which that will not be affected, and there have to be some other adjustments made as you know in the pricing. The price that would be agreeable for the man that is getting the 15-percent increase would be hard on the man that is in another field that does not get the increase.

Senator HAWKES. Very definitely, and that is the reason I say that we have to do everything we can possibly to hold prices. I think it is one of the most important things at the moment.

Secretary SNYDER. And along with their other adjustments they should try to adjust prices downward.

Senator BREWSTER. In connection with your figures which you are going to supply us with, I have here the reports from the Bureau of Labor Statistics, I believe these are, Survey of Current Business.

Mr. HAAS. That is a Department of Commerce publication.

Senator BREWSTER. Very well. That shows at the end of 1946, in December, running wholesale prices, around 139, and in March 29, 149. That is an increase of 10 points in wholesale prices.

On the other hand, in the cost of living. I find in December, 153; in January, 153.1; in February, 152.8. In other words, there does not seem to be any reflection in the cost of living comparable with the increase in the wholesale prices.

Mr. HAAS. A major reason for that is that one of the large items in the cost of living is rents, and those are under control. Another reason is that the cost of living is retail and the other indexes are wholesale prices—and there is generally a lag between the two.

Senator BREWSTER. I am using wholesale prices because those are the figures on which you based your statement. It seemed to me that it is not reflected in the other portions of this here. In other words, I am questioning the fairness of your reply as to the explanation that wholesale prices account for this situation, and I will be glad to have you furnish us with a letter, let us say, of an over-all composite picture that will relate itself to the difference in the national income.

(The information requested is given in a table inserted on page 50.)

Senator GEORGE. As I understand it, the position of the Treasury is substantially this: That the dependable basis upon which you can reduce taxes is a reduction in your expenditure budget, rather than the more hazardous basis of possible rises in your national income.

Secretary SNYDER. I quite agree with you. I think we have to know, first——

Senator GEORGE. What is that?

Secretary SNYDER. I think we have to know exactly what our expenditures are before we can start anything else. I think we have to be conservative in our estimate of our revenues.

If we overestimate, we are going to get into more serious trouble than we will if we underestimate them.

Senator GEORGE. Unless you have a reduction in the expenditure budget of Government, you have not any very trustworthy basis on which you can proceed to reduce taxes have you?

Secretary SNYDER. That is correct, sir. I am for every possible reduction in the expenditures of the Government.

Senator LUCAS. May I ask one question, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Senator LUCAS. Am I correct in my understanding that the $176 billion national income at the present time is at an all-time high?

Secretary SNYDER. The January was the all-time high, was it not?

Mr. HAAS. That is correct.

Secretary SNYDER. Which was about 500 million above the February estimate. The January estimate of 177.1 was the high.

Senator LUCAS. That is the all-time high in this Nation so far as national income is concerned.

Mr. HAAS. That is correct.

Senator LUCAS. Your estimate for '48, Government receipts, is based upon $168 billion?

Secretary SNYDER. This revised estimate.

Senator LUCAS. $168 billion.

Secretary SNYDER. That is correct.

Senator LUCAS. You stated that the economists of the country suggested that you base that '48 income on a national income of $155 billion.

Secretary SNYDER. No, sir. I said, Senator, that when the President came out with his budget message in January, the comments on that budget message were that he was overoptimistic in using $165 billion for the calendar year 1947. One private forecast was that it would be nearer 155 billion, and might drop as low as 145 billion. I took that from Standard and Poor's, who are supposed to be reliable, and I think business considers them a reliable source of their information on estimates of that sort.

Senator LUCAS. It only proves one thing that we all know, and that is how unreliable any estimate is over a period of time. Is that not correct?

Secretary SNYDER. There is no way of guessing or estimating or computing or whatever term you want to use, right on the dot in times like these, when we are dealing with the volume of figures we are, the complex economy that we are operating in, and our labor-management problem, our supply of materials, and the international situation, it is a pretty difficult thing to estimate within a greater degree of accuracy then we did, and only underestimated by 5 percent.

Senator LUCAS. I agree with that observation that you made and there seems to be stress laid on the fact that your estimates should be based upon the fact that your last appraisal of this situation shows a national income of $176 billion.

In view of the many mistakes that have been made by everybody in this country upon these estimates it is a little safer to be on the conservative side, is it not, in making these estimates?

Secretary SNYDER. I feel that I want to be neither optimistic nor pessimistic. I want to use the most sound figures that we can obtain.

Senator LUCAS. I want to say that I am tremendously encouraged by the optimism of our friends here on the committee so far as our national income is concerned the next year. It is really a revelation to find that so many feel that we are going to have 180 billion or 190 billion, under the present Democrat administration.

I definitely feel that the basis of the national income on $168 billion is a safer prediction at this time in view of the uncertainties in this country, and the world, than to take the highest peak at this particular moment, and make your estimate on that basis.

Senator BREWSTER. It is very encouraging also to find that the administration is inclining toward conservatism after 12 long years.

Senator LUCAS. I accept the amendment.

The CHAIRMAN. Have you finished?

Senator LUCAS. Yes.

The CHAIRMAN. Mr. Secretary, this committee has the responsibility of setting up its own budgetary estimates, and the Secretary is here to help us on that job. From the beginning of this Government we have made our tax legislation on estimates. There is nothing new about it, is there?

Secretary SNYDER. No.

The CHAIRMAN. We have no alternative, have we?

Secretary SNYDER. We have no other way.

The CHAIRMAN. We have no alternative except to proceed on estimates. Our own job, therefore, is to try to find a sound basis.

Secretary SNYDER. To arrive at the best estimate we can.

The CHAIRMAN. From the standpoint of this committee, we have got to decide whether a national income of 165 or 168 billion or 176 or some larger or lesser figure is the budgetary figure for our purposes.

To recapitulate the hearings so far, will you please tell us what are the reasons why this committee would not be warranted in accepting a national income figure for the fiscal year 1948 of, let us say, $176 billion?

Secretary SNYDER. From all of the estimates that we have made, and the investigation of the prospects of production and the general economic condition of the country, the Treasury feels that $168,000,000,000 that it is using, should be adhered to for the time being. We try to keep the Nation and certainly the administration as informed currently as we can on any change of estimates. When I approached the Ways and Means Committee in March, at that time we saw the trend, and I told them in my testimony that we were looking forward to a surplus. We were not trying to adjust figures to suit occasions. If we were, we could have possibly delayed this budget revision until after your hearings were finished, but we try to keep the Congress and the administration and the public as currently informed on those estimates as we can.

It is not feasible to adjust them for periods shorter than one quarter. A great volume of work is entailed in arriving at those estimates, and a great deal of research is required. With all of the elements that we have considered in arriving at the present estimate revision, we feel that $168 billion proper is a conservative figure.

It is neither optimistic nor pessimistic, in the light of the price situation, and in the light of our market conditions, and in the light of the labor situation. We still think that is a conservative proper figure for the Treasury to use for estimating revenues, estimates which will be used widely.

The CHAIRMAN. The current situation indicates a national income of $176 billion. You depreciate that to 168 on a sort of composite-judgment theory, is that right?

Secretary SNYDER. That is correct, sir.

The CHAIRMAN. In depreciating that figure, you are not making allowance for a serious recession?

Secretary SNYDER. I do not think we should, Senator. There is no occasion for us to have a serious recession.

The CHAIRMAN. You do not believe there will be a serious recession?

Secretary SNYDER. We will not have a recession, figuring our national income at $168 billion.

The CHAIRMAN. So that this committee, if it follows your advice, will eliminate from its judgment the possibility of a serious recession.

Secretary SNYDER. That is our feeling, that there is no occasion for one.

The CHAIRMAN. So that the problem of the committee will be, so far as receipts are concerned, to find a figure which seems to be a dependable forecast for '48?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. And as to the figure, we will say, of 176 billion, so far you have not stated any specific objection to it.

Secretary SNYDER. To the $176 billion?

The CHAIRMAN. Yes.

Secretary SNYDER. We will have to see how that figure is going to hold up.

The CHAIRMAN. Of course that is true as to any figure.

Secretary SNYDER. That is correct. but we do not want to jump to the other end of the bracket in our estimate.

The CHAIRMAN. And the figure of 176 as we developed a while ago does not represent a static level.

Secretary SNYDER. That is correct.

The CHAIRMAN. It is a way station, so far as we can see now, along the road to still further rises.

Secretary SNYDER. It could go either way.

The CHAIRMAN. So far as we can see now.

Secretary SNYDER. It could go either way.

The CHAIRMAN. It could go either way, and the figure of 168 could go either way, or the original figure of 165 could go either way.

Secretary SNYDER. That is correct; that is always true.

The CHAIRMAN. As developed a while ago, we always proceed on estimate, and we have to do the best we can and take a chance on making a bad mistake.

Secretary SNYDER. Yes.

Senator BREWSTER. And the tax reduction would tend to make that rise, you think.

Secretary SNYDER. I beg your pardon?

Senator BREWSTER. The tax reduction would tend to make that rise.

Secretary SNYDER. To make that $176 billion rise?

Senator BREWSTER. Yes.

Secretary SNYDER. I did not say that.

Senator BREWSTER. You did a while ago.

Secretary SNYDER. I said it was inflationary. It might bring about a price rise.

Senator LUCAS. Would it not put a permanent prop under these high prices?

Secretary SNYDER. It would put an inflationary prop under it right at this present time.

Senator BREWSTER. Is not that the whole weight of your testimony that you are opposed to tax reduction for one reason, because it would tend to be inflationary?

Secretary SNYDER. That is correct. We do not want to force higher prices on the existing goods that are available for sale.

Senator BREWSTER. That is right.

Secretary SNYDER. Which by putting more money——

Senator BREWSTER. Into the taxpayer's pockets——

Secretary SNYDER. Would make him bid those prices up.

Senator BREWSTER. So that tax reduction would tend to maintain if not increase, the current national income.

Secretary SNYDER. On that strict basis. But if it, in turn, by forcing the prices up, would bring about a price resistance, why, then it might come back down again.

Senator BREWSTER. Of course, you cannot have your cake and eat it. It has to be one thing or the other.

Secretary SNYDER. That is exactly what I want you to know.

Senator LUCAS. Mr. Secretary, you said in your answer to a direct question from the chairman that in your opinion there was no occasion for a recession or depression in the fiscal year of 1948.

Immediately following the war, everyone predicted there would be a recession, or a depression, and everybody was wrong at that time.

So even though that is your belief, that there be no recession or no slight depression, it is again only an estimate, and could be wrong.

Secretary SNYDER. That is certainly true.

Senator LUCAS. I base that upon what I have heard before as a member of the Finance Committee on what would or would not happen in the future. I distinctly recall when we considered the unemployment-compensation bill in September of 1945, I think it was, there was not anyone who came before this committee, including economists of all kinds, that did not predict that there would be a recession following the war, and I think Dr. Emerson Smith of the Chamber of Commerce went so far as to predict that there would be at least 25,000,000 people out of employment the following year.

So he was wrong. I only refresh your recollection on this, and the recollection of the committee, to show that while we all hope that there will be no recession and no depression, no one can tell what is in the making during the next 12 months to come, the fiscal year of 1948, in view of labor conditions of the country, and in view of high prices, and in view of the world situation.

Do you agree with me on that?

Secretary SNYDER. I certainly do.

The CHAIRMAN. Mr. Secretary, on the theory that there might be a recession, is there anything better that the Government could do than to provide a hedge against it, by an income-tax reduction?

Secretary SNYDER. Well, we cannot go on the basis, Senator, of saying we are going to continue $176,000,000,000 income, and then at the same time say we are going to have a recession and then, having assumed $176 billion, continued to take action that would look after the recession, and put buying power in there which is not actually needed at this present level.

The CHAIRMAN. I am not committing myself to either alternative.

Secretary SNYDER. I was just explaining, in answer to your question.

The CHAIRMAN. Is the answer not in the affirmative, that if we anticipate a recession, an income-tax reduction would be a highly useful thing to bring about?

Secretary SNYDER. If we are sure.

The CHAIRMAN. Yes, exactly.

Secretary SNYDER. If all of the indications were that we were definitely headed toward a depression, certainly that would be a consideration that ought to be carefully covered.

M AN. So we have two alternatives; one to assume a continuance of the present rate of income, which does not envisage recession, which produces a certain amount of revenue, or to figure on a certain amount of recession, and figure on the effect of what might be done in the way of tax reduction to prevent the operation of the bad effects of it.

Secretary SNYDER. In principle, yes.

The CHAIRMAN. That is correct, is it not?

Senator HAWKES. May I ask a question? I may have missed a point. I know we talked about it a little time ago.

But did you make any adjustment in your income based on it, from that 41 million, was it not $41,400,000 that you estimated for fiscal '48?

Secretary SNYDER. 41 billion, very roughly.

Senator HAWKES. I mean billion. In that 41,400,000,000 did you include any figures based upon your changing from the 165 billion national income to 168 billion?

Mr. HAAS. There are two figures; one, 165, is the estimate for the calendar '47. The 168 is for fiscal '48. Those are two figures. One is for the calendar year and the other is fiscal year.

Senator HAWKES. You took into account your receipts for fiscal '47 on your adjustment from 165 to 168?

Mr. HAAS. At the time we make an estimate, we take into account all of the current information up to that particular point.

The CHAIRMAN. Have you finished?

Senator HAWKES. I find in the Secretary's statement that for fiscal '47, the calendar year he based it on 166 billion in the statement that I have before me, table A. The total income payments are based on 166 billion, for the calendar year, so that makes in half of the fiscal year of '48. That is the point that I am asking.

Did you make any adjustment on the receipts when you went to 168 billion from 166 billion?

Mr. HAAS. We got 165 and a fraction, which is rounded to 166. That is for calendar '47, the average assumed for that year. The 168 is for the fiscal year which starts in July, coming up, and goes around through June 1948. The reason that it is 168, somewhat higher than the average for the calendar year, the only way it could get there, could get that increase, is to assume that the first 6 months of calendar '48 are higher than the average for calendar '47.

Senator HAWKES. That is the very point that I want to bring out, Mr. Chairman. In other words they took in their own minds and perfectly properly, if they want to do it, but I want to bring that point out. In their own minds they took 166 for calendar '47. Half of that is fiscal '48. Then they had to juggle the thing up higher for the last 6 months of fiscal '48 to bring the average of 166 for calendar '47. Is that not correct?

Mr. HAAS. Essentially but it was not juggling.

Senator HAWKES. I withdraw the word "juggling". They had to handle the thing that way. I did not mean to insinuate with juggling. What I meant was that you had to figure a higher income than 166.

Secretary SNYDER. We apparently separately and individually and on our own course arrived finally at an income figure that the congressional staff used, whatever they used. We arrived at just $200 million difference in our estimates of revenues. So apparently it must be some sort of a pattern that the economists follow in arriving at that, because there was only that much difference between our two figures.

Senator HAWKES. My point there is this: In your treating the national income of about 168 billion for the first half of calendar '48, or the last half of fiscal '48, how high did you figure your national income to get that figure that you have used? That is what I want to know.

Mr. HAAS. I would have to check that and look at our pattern.

Senator HAWKES. You had to figure it up to 170 billion or something of that kind?

Mr. HAAS. To get that average it had to be higher than 168.

Senator HAWKES. You would have to figure it above 170. I do not see how you could make it if you did not.

Mr. HAAS. It is available. I will furnish it to you.

Senator HAWKES. Will you let us know what figure you used in arriving at that point?

Mr. HAAS. You want to right at the end of the fiscal year.

(The information requested is as follows:)

The income level in June 1948 was assumed to reach an annual rate of $169 billions, rising gradually through the fiscal year.

Senator GEORGE. Let me ask you one question, Mr. Secretary. Are not high tax rates a factor in pushing up prices?

Secretary SNYDER. Not in this present situation.

Senator GEORGE. Is there not a disposition on the part of any producer, even under present conditions, to get all he can get if he has to meet a very high tax bill?

Secretary SNYDER. Of course, his increased earnings there would increase his taxes. I do not know whether that would have the effect.

Senator HAWKES. May I say a word there, Senator George? May I say a word from my practical experience?

Senator GEORGE. Yes.

Senator HAWKES. I think you are touching a very important point.

Senator GEORGE. It seems to me it has some bearing here on our whole problem before us. Yes, Senator Hawkes, I will be glad to hear you.

Senator HAWKES. My experience has taught me, and I think it is the same as any normal human experience, that everybody in the United States figures what they make net. I do not know a workman that does not. I do not know anybody on a salary basis who does not figure what he is making net. Therefore, when you tell him how much he gets, why, he says, "But I only keep so much," so that the principle that Senator George is bringing in, I think is in all of our American life. I think it will always be there so long as we are a free people and have free enterprise. I think the higher the tax, the harder people drive to make what they think is a fair profit, and they always estimate what a fair profit is as related to what they used to make before the tax was there.

Secretary SNYDER. That would encourage more production, then, if everybody would work harder.

Senator HAWKES. Surely it encourages more production to a certain extent. It does that thing that you are talking about so much, and that I think it is important to talk about; it adds to increasing prices and increased costs of living.

Senator GEORGE. I think, Mr. Secretary, that when we were dealing with war taxes, you remember we ran up very high on excess profits tax, and then we came on with renegotiation of contracts, because we had the pretty strong conviction that somehow or another, although every wise businessman of course knows what he is actually getting net finally is the thing that counts, human nature has the disposition to grab off all that it can, and if it has a high tax bill ahead of it, why, that is a factor, it seems to me, that you always have to keep in mind.

I think that is one of the main reasons we imposed on top of the high excess tax renegotiation of contracts, because we said these boys are making these things for the Government, and we are just going to charge it back to the Government, all they can.

Secretary SNYDER. I agree with you. I am not opposed to the principle of tax reduction.

Senator GEORGE. I understand that.

Secretary SNYDER. I am just trying to approach it in the manner in which we should go about a sound tax program, and study all of the inequities. We have built those through necessity. We need revenue and we put taxes on wherever that source was possible.

In unwinding that, we ought to sit down and study it very carefully.

Senator GEORGE. I see a great deal of force in your position. The thing that troubles me most about tax reduction at this time is that we are rather inclined to base our tax program on an estimated high national income, and therefore, high incomes of the Government, rather than on a reduction of your expenditure budget, and as long and until we can reduce the expenditure of the budget, of course we have to figure that notwithstanding that, you may have to reduce taxes.

Of course, under certain conditions it makes it more hazardous to reduce your tax rates with a high expenditure budget staring you in the face.

The CHAIRMAN. Mr. Secretary, what was your estimate of expenditures for fiscal '47?

Secretary SNYDER. You mean the original one?

The CHAIRMAN. The original estimate.

Secretary SNYDER. $42,523,000,000.

The CHAIRMAN. What is your present estimate for fiscal 1947?

Secretary SNYDER. $41,261,000,000.

The CHAIRMAN. That represents a cut of a billion and a quarter.

Secretary SNYDER. That is right.

The CHAIRMAN. Roughly speaking more than originally estimated.

Secretary SNYDER. Yes.

The CHAIRMAN. Do you still adhere to your position that the figure of $37,500,000,000 estimated expenditures for '48 will not undergo similar reduction?

Secretary SNYDER. That is the best information we have from the budget, sir, that it will not be materially changed from that, but, of course, I do not know what the Congress will do to that budget.

The CHAIRMAN. Independent of what Congress may do, why would this process of reduction which took you from that estimate 42.5 down to 41.2 not continue during '48?

Secretary SNYDER. The effort will certainly continue; as to the result I could not estimate on that. But the effort to reduce it would certainly continue.

The CHAIRMAN. Would it be unreasonable to assume that the results will stop short on June 30, 1947?

Secretary SNYDER. As the budget dropped from its peak of about $100 billion, each step that it drops lower makes it more difficult to bring about further reductions, because the major part is fixed and is not adjustable.

If we take the budget and analyze it, there is only a small area compared with the whole that we can make adjustments in, so that area reduces in proportion to the time away from the peak.

The CHAIRMAN. But I ask you again, is it reasonable to assume that that progress in debt reduction which you achieved over your own estimates in fiscal '47 will halt completely on June 30, 1947?

Secretary SNYDER. I can only speak for the effort and not for the end result. I know that the effort to reduce will continue. The Budget Bureau would have to give you a better estimate on what would be accomplished.

The CHAIRMAN. So that independently of congressional action, it would not be unreasonable to assume that by the end of the fiscal '48, you will have gotten below 37.5 billion as you got below 42.5 in fiscal '47?

Secretary SNYDER. Well, I call your attention to the fact that between the '47 budget and the '48 budget, there is practically $5 billion reduction already.

The CHAIRMAN. Yes.

Secretary SNYDER. The President has brought about that much reduction in his figures.

The CHAIRMAN. Yes.

Secretary SNYDER. And of course there is a material reduction already, and that is already given consideration, but he will continue that effort, I am quite sure. What he will accomplish, I am not able to predict here.

The CHAIRMAN. Let me ask you to accept an assumption for the purpose of discussion, without committing yourself to it. Assuming that we do succeed in lessening the expenditure budget of 1948 from 37.5 billion down to let us say 33 billion, that would leave a difference between expenditures and revenues, assuming the continuance of the present rate of revenues, of 9 or 10 billion dollars.

If this committee were to conclude that there would be that difference of 9 or 10 billion dollars between receipts and expenditures in fiscal '48, would you say that it would not be warranted in making an income-tax reduction?

Secretary SNYDER. We are talking about two different periods. We are talking about a tax reduction in calendar year 1947.

The CHAIRMAN. Yes.

Secretary SNYDER. Then we are talking about budget figures which start at the last half of that calendar year and project into the first half of the succeeding year.

The CHAIRMAN. That is right. Your point would argue against making the tax retroactive.

Secretary SNYDER. It would not only argue that, but also the fact that any surplus that we have has a good place to apply against the reduction of the debt at that time.

The CHAIRMAN. All right. You are now talking to the point of applying your surplus at the end of 1947 to the debt.

Secretary SNYDER. That is right. Without the tax reduction, we have a good place to apply anything that we can save.

The CHAIRMAN. And as to the plan of H. R. 1, you are making the point that because it goes back to January 1 of this year, it would be necessary to apply revenues in fiscal '48 for the purpose of making refunds which became liabilities in '47, is that correct?

Secretary SNYDER. That is part of the picture.

The CHAIRMAN. Taking my assumption again that this committee should decide that there is a reasonably dependable prospect of an annual income of 175 billion for fiscal '48, or to put it another way, that there is a reasonably dependable prospect of receipts of 42 billion for 1948, that there is a reasonably good prospect of reducing expenditures to 33 billion, we would then have 9 billion for application to the debt or reduction of taxes.

Assuming that we should reach that conclusion, would you then say that we should not set aside any part of that 9 or 10 billion dollars for reduction of income taxes?

Secretary SNYDER. We are taking a broad assumption on one side against an actuality on the other. I think that we ought to do it the other way.

Let us be sure that we have reduced the budget in the amount we are talking about, and that we have that income, and then talk about reducing that. I do not like to distribute dividends until we have them.

The CHAIRMAN. A quick answer to that, Mr. Snyder, is that every year you have come up here and asked us to make revenue legislation on the basis of forecasting rather than hindsight.

Secretary SNYDER. We have to do that.

The CHAIRMAN. You have turned around and said we should not do anything here except on the basis of hindsight.

Secretary SNYDER. No; for this particular period.

The CHAIRMAN. May I suggest you are arguing the merits of your case. For the purpose of this assumption that I am asking you to indulge in, I am not asking that you argue the merits of your case, or that I shall argue the merits of what I put to you. I am simply putting to you the proposition that if we should assume in this committee that we can with reasonable safety count on receipts of 42 billion in fiscal '48, and expenditures of say 33 billion in fiscal '48, would you say that no part of that difference should be applied to income-tax reduction?

Secretary SNYDER. Well, Senator, I think we could just as well make the assumption in the opposite direction.

The CHAIRMAN. All right.

Secretary SNYDER. And accept that, that we should not have any.

The CHAIRMAN. You are not accepting my assumption. I am not asking you to accept it as your own doctrine, but I am putting to you what might be the conclusion of this committee.

Secretary SNYDER. But we are considering a positive action against a pretty broad assumption.

The CHAIRMAN. Let us assume that it is a broad assumption.

Secretary SNYDER. I do not want to do that.

The CHAIRMAN. Let us assume that it is a fallacious assumption, but if we at that moment said to you we have concluded for our budgetary purposes that we are going to have receipts of 42 billion in fiscal '48 and we are going to have expenditures of about 33 billion in fiscal '48, and asked you, "Mr. Secretary, shall we put this all on debt reduction or shall we put a part of it on debt reduction and part on income-tax reduction or all on income-tax reduction," what would be your advice to us?

Secretary SNYDER. Well, without giving offense, I would not like to make such an assumption at this time.

The CHAIRMAN. Well, I do not ask you to make it.

Secretary SNYDER. Then you make your assumption and your conclusions. I would rather not do it.

The CHAIRMAN. I am suggesting again, Mr. Secretary, the Treasury has a definite advising responsibility to this committee and to the Congress. It may be a little farfetched; on the other hand it might not be, that this committee would conclude that we can safely predict on $42 billion of revenue during the fiscal year '48, and that we can reduce expenditures to $33 billion, let us say.

Now, in that event we certainly would be entitled to your advice as to whether it all ought to go on the national debt, or whether it all ought to go on reduction of taxes, or whether part one way and part the other.

I am asking you for that advice on an assumption which I do not ask you to accept.

Secretary SNYDER. Well, my belief is that for the calendar year 1947, whatever surplus we do accumulate, the reduction of the national debt is a very good place for it, in order to maintain the stability of our currency and our obligations.

The CHAIRMAN. That is for fiscal '47.

Secretary SNYDER. That is for the calendar year '47; we are talking about two different periods.

The CHAIRMAN. I understand that.

Secretary SNYDER. We then are talking about reducing taxes in '47, and then we get over on the budget of '48.

The CHAIRMAN. Yes, I understand that.

Secretary SNYDER. I firmly believe that we can well reduce our public debt by whatever surplus we turn out with at the end of '47. But if we reduce taxes, that are effective in '47 we are reducing the amount that we could reduce our debt.

The CHAIRMAN. I think I am safe in assuming that you will reduce the public debt to the extent of the surplus at the end of '47. I think I am safe in assuming that, am I not?

Secretary SNYDER. Of fiscal '47.

The CHAIRMAN. That is what I am talking about.

Secretary SNYDER. Now we are talking about the calendar year with your tax reduction.

The CHAIRMAN. That is right. Our fiscal year starts on July 1, does it not?

Secretary SNYDER. That is correct.

The CHAIRMAN. If we made an income-tax-reduction bill effective July 1, the benefits or disadvantages of that bill would pace themselves through the fiscal year for the rest of this year, would they not, whereas if we made the bill retroactive to January 1, 1947, we would then have to take something out of fiscal '48 to make the refunds necessary for the first 6 months of '47; is that not correct?

Secretary SNYDER. That is correct.

The CHAIRMAN. Now, let us assume that we are going to make it effective as of July 1; again just an assumption. What is the conflict between fiscal '48 and making the tax effective on July 1?

Secretary SNYDER. Let us assume then that we are going to make a tax reduction. I certainly believe we ought to make it on the basis of a study that will properly distribute the effects of it and eliminate the inequities that are existent.

The CHAIRMAN. Now, then, is your answer that on the assumption which I put to you, that you believe that a part of that difference between estimated revenue and estimated expenditures could be put on tax reduction? I am not specifying the kind, now.

Secretary SNYDER. Again, it is pretty hard to assume something that you just cannot picture happening—that is to me it is, Senator—and I just cannot make an assumption as to that much of a surplus in the budget for 1948.

The CHAIRMAN. Mr. Secretary, I am not asking you to accept its validity.

Secretary SNYDER. I do not want to go on record as picturing a case which will bring about a positive action against an assumption.

The CHAIRMAN. Let me take the opprobrium for picturing the case. Let me suggest that having pictured the case, and having pictured a case which is not entirely out of the range of possibility, let me suggest now that you state what your advice would be to this committee as to whether all of it should be put on reduction of debt or whether a part of it should be used for the reduction of taxes. I am not specifying the kind.

Secretary SNYDER. Well, Senator, we have testified as to what our best estimates are for covering that situation, and I would like to just stand on those estimates.

The CHAIRMAN. Well, then, Mr. Secretary, you would not give us your advice on that point?

Secretary SNYDER. I would, as I say, without giving offense, I would not like to make that assumption, please.

The CHAIRMAN. If your own figures were to produce, or your own estimates were to produce a difference between the revenue and expenditures of the order which I have asked you to assume, what would your advice be then?

Secretary SNYDER. Senator, when they do, I will try to give you the best advice that I have.

The CHAIRMAN. In other words, you are limiting your advice to backsight, rather than to the customary method of making an estimate in advance?

Secretary SNYDER. No. We are strictly talking about this present situation, sir, where we are not going to harm anybody by applying the full amount of taxes that we collect in creating a surplus that can be applied against the reduction of our debt.

If I had any qualms or consideration that we might be harming the integrity of our obligations, then I would certainly exert every effort to assume some of your suggestions, sir, but I am quite positive we can well apply any realizable surplus to our debt, to the benefit of our whole structure.

The CHAIRMAN. I of course am not impugning the Secretary's integrity. I notice in his statement he says, "under these favorable economic conditions, present taxes do not impose an excessive hardship on the American people."

Let us get into that a little bit.

Senator HAWKES. Might I say a word right in there?

The CHAIRMAN. Yes, sir.

Senator HAWKES. I do not want to interrupt you if you are not through with your original train of thought. I would like to see what the Secretary thinks.

The CHAIRMAN. The Secretary has made a statement, Senator Hawkes, to the effect that the maintenance of the present system of taxes does not injure the American people. I think it is very important to develop whether or not there is an injury to the American people in the maintenance of the present scale of taxes.

If you are talking to that point, I would want to be interrupted. If not, I would like to pursue it just a little further.

Senator HAWKES. I am talking to that point to this extent, and I think my statement is on that point: I do not believe you are going to solve the problems of the debt and the economy and the price situation which you are talking about this morning unless you consider the tax reduction as part of the payment of the debt.

In other words, if you start a payment of the debt because you have so many billions of dollars that came to you under a given situation which may not continue, then you may have to stop payments on the debt, or do so very substantially.

I would like to then have the Secretary of the Treasury feel on this thing that you have to consider the reduction of taxes in connection with this whole program, because taxes do stop under ordinary conditions the initiative; excessive taxes do stop the initiative of the human family to a certain extent. The more you keep it up and cause them to seek to make the one thing that makes American life a little different than the rest of the world, you are liable to have your national income go down. If your national income goes down, and you cannot get your Government expenses inside of it to a point that leaves an excess, then you cannot continue payments on the debt.

That is the only thought I want to leave with you. My mind continually works on that.

Secretary SNYDER. I absolutely agree with you. And, from the long-range view, I know that must be given consideration. We are talking about this year, when this tax reduction will have its effects. I certainly will agree that we cannot for a long time allocate all of the potential surplus to the reduction of the debt. Those things have to be given consideration. An equitable tax program will need to be worked out, with proper adjustments from year to year and proper payment on the debt.

But for the present, in this transition period, with as many unknowns as we have, by maintaining this present tax rate throughout the rest of 1947, we are not crippling our economy in any sense, and that is the sole subject to which I am addressing myself at this time, and not the long-range one. I quite agree with you that, for the long-run program, we should sit down and work out a tax and budgetary program that will provide payments on the debt and certain adjustments in taxes as we go along.

Senator HAWKES. I would like to make one remark then, Mr. Chairman, because the Secretary and I seem to be in agreement on the basic principle of how the thing functions.

Secretary SNYDER. The long-range view of it.

Senator HAWKES. That leaves only one difference of opinion as to when you should start tax reduction in the program.

Secretary SNYDER. That is correct.

Senator HAWKES. That is the only question, is whether it should be started as of July 1, or whether it should be retroactive to January 1, or whether it should not be started at all until next January 1.

Secretary SNYDER. That is correct, sir. It is a matter of timing. I am not saying any one of those dates is the date.

Senator HAWKES. I realize that.

Secretary SNYDER. The time to start the tax reduction is when we know that we have a balanced budget, and that the inflationary pressures have subsided.

The CHAIRMAN. Mr. Secretary, coming back to your statement, that, "Under these favorable economic conditions, present taxes do not impose an excessive hardship on the American people,"—I am reading from page 19 of the House report on the bill before us, which sets out a table showing the amounts of tax under the present law—do you believe that a tax of $1,045 on a $7,000 net income before personal exemptions is free of hardship to that taxpayer?

Secretary SNYDER. Any tax is considered a hardship. Anyone who has ever paid a tax probably thinks it is a hardship. But in this period right now, when we have the highest employment that we have ever had in history—and we do not see anybody in bread lines, and we do not see anybody going without good clothes—I do not think that they are having any undue hardship when we are trying to swing this program of ours around to a sound basis, and get our national debt reduced.

The CHAIRMAN. Would you say that $7,000 man paying $1,045 income tax is not laboring under an excessive hardship?

Secretary SNYDER. Under these conditions, it is not a hardship.

The CHAIRMAN. In other words, he is working 1 day out of 6 for the Federal Government. You do not regard that as an excessive hardship?

Secretary SNYDER. Under this——

The CHAIRMAN. Under these conditions.

Secretary SNYDER. The long-range advantage to him of getting the economy working on a sound basis is much more advantageous than a monetary improvement in his taxes.

The CHAIRMAN. Let us take the $12,000 man. He pays $2,508. You do not consider that to be an excessive hardship under present conditions?

Secretary SNYDER. I believe that none of these are excessive hardships in the light of our continued effort to stabilize our economy.

The CHAIRMAN. That man works more than 1 day in a week; he works probably a day and a half for the Government.

Secretary SNYDER. Is not our country worth that much to work for?

The CHAIRMAN. It is if it is necessary to collect that much taxes. That involves the whole basic issue.

Secretary SNYDER. It might be in the long range, sir, The CHAIRMAN. Here is a fellow with $20,000. He pays $5,890, which is practically $6,000. He spends a third of his time working for the Federal Government. Would that be considered an excessive hardship under present conditions?

Secretary SNYDER. To the man it probably would.

The CHAIRMAN. You were referring to the hardship on the American people.

Secretary SNYDER. That is right.

The CHAIRMAN. And I am talking now about hardship or absence of it on the American people. That is exactly what I am talking about.

Secretary SNYDER. I am one of those individuals. I know just how it feels.

The CHAIRMAN. Now you get up into the $80,000 income bracket, and so far I am glad to notice from your statement that a man with that much income is not in a sinful position; he has to pay $46,170 taxes. In other words, he works more than half of his time for Uncle Sam. Would that not be excessive?

Secretary SNYDER. Again, I have to give the same answer to each one of those, Senator.

The CHAIRMAN. The long and short of it is, and you know these tables as well or better than I do, that under existing circumstances these taxes which take from 1 day to 5 or 6 days of a man's work for the Federal Government are not excessive under present conditions.

Secretary SNYDER. He is doing that for the United States, not for the Federal Government.

The CHAIRMAN. Yes, sir.

Secretary SNYDER. In the light of the goal, I would say certainly it is not excessive under present circumstances.

The CHAIRMAN. Certainly it would be a legitimate goal to take a part of that burden off him at the earliest possible moment.

Secretary SNYDER. I certainly agree with you and want to do that.

The CHAIRMAN. We have not even commenced to analyze your statement, Mr. Secretary, and we have a vote this afternoon at 4 o'clock. That makes an afternoon session a little bit impracticable. Could we have you back in the morning?

Secretary SNYDER. I think it is all right. May I check and see if I can adjust any scheduled appointments? I think I can work it out all right.

The CHAIRMAN. I think it would be advisable to have continuity in your testimony, so we will count on you at 10:30 in the morning.

Secretary SNYDER. All right. Thank you, sir.

The CHAIRMAN. We will recess at this time.

(Thereupon at 12:50 p. m., the committee recessed to reconvene Wednesday, April 23, 1947, at 10:30 a. m.)

INDIVIDUAL INCOME TAX REDUCTION

WEDNESDAY, APRIL 23, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin (chairman) presiding.

Present: Senators Millikin (chairman), Taft, Butler, Brewster, Bushfield, Hawkes, Martin, George, Connally, Byrd, Johnson of Colorado, and Lucas.

Also present: Senator O'Mahoney.

The CHAIRMAN. The hearing will come to order, please.

STATEMENT OF THE HONORABLE JOHN W. SNYDER, SECRETARY OF THE TREASURY; ACCOMPANIED BY LEE WIGGINS, UNDER SECRETARY OF THE TREASURY; J. J. O'CONNELL, GENERAL COUNSEL; EDWARD BARTELT, FISCAL ASSISTANT SECRETARY OF THE TREASURY; GEORGE HAAS, DIRECTOR OF RESEARCH AND STATISTICS; LOUIS SHERE, ACTING DIRECTOR, DIVISION OF TAX RESEARCH; STANLEY S. SURREY, TAX LEGISLATIVE COUNSEL; WILLIAM T. HEFFELFINGER, ASSISTANT TO THE FISCAL ASSISTANT SECRETARY; AND AL. F. O'DONNELL, ASSISTANT DIRECTOR OF RESEARCH, TREASURY DEPARTMENT—Resumed

The CHAIRMAN. Mr. Secretary, with reference to your statement yesterday on page 1, you said, "Moreover, premature reduction of one tax, such as is proposed in H. R. 1, might make later achievement of a comprehensive revision of the tax system difficult, or impossible."

Does that not assume that further tax reduction would be impossible?

Secretary SNYDER. Oh, no. I just think that we would want to give broad treatment to the whole tax program, and take all of the various elements of the tax program, some 20 different items that we have under study, and consider them together. If we give too much reduction to one side of the picture, we may not have enough to go all the way through the program, even if further tax reductions are possible.

The CHAIRMAN. But if we made the tax reduction required by this bill, we would still have an expenditure budget in excess of $30 billion; is that not correct?

Secretary SNYDER. That is true.

The CHAIRMAN. And I venture to say that in the opinion of most students of the subject, there will be a lot of room for further expenditure reduction, and consequently for further tax reduction to take care of the purposes that you mentioned.

Secretary SNYDER. Well, that is what I am puzzled about, how quickly will we have the additional funds available, and if in sufficient amounts to give the broad treatment that we feel is important.

The CHAIRMAN. How long does the Secretary believe that the taxpayers will be content to support an expenditure budget in peacetimes in excess of $30 billion?

Secretary SNYDER. I am not advocating a high-expenditure account, certainly not beyond the actual needs of properly running the Government and meeting its obligation. I have no intention of trying to say to you that I want a high governmental spending program to remain, other than the necessities for running the Government properly and meeting its proper obligations.

But I see the necessity for bringing about the adjustments of the important inequities. That, I feel, should be the first step toward stabilizing our tax program.

The CHAIRMAN. Now, Mr. Secretary, how long have we been studying those inequities? How long has your Department been studying them?

Secretary SNYDER. Some of them have been studied for quite a little while; others are beginning to be studied. We have quite a program here that we have been working on.

Many of them are being worked on along with the joint committee from the Congress.

The CHAIRMAN. I think you listed about 15 or 20 subjects that were up for study when you testified before the House Ways and Means Committee.

Secretary SNYDER. That is correct.

The CHAIRMAN. Would you mind giving those to us?

Secretary SNYDER. I will be glad to. We can submit them for the record, or do you want me to read them now?

The CHAIRMAN. Would you mind?

Secretary SNYDER. The level and structure of individual income tax exemptions.

The treatment of family income under the individual income tax.

The treatment of pensions and annuities under the individual income tax.

Special allowances for the aged under the individual income tax.

The averaging of incomes over a period of years for purposes of individual income taxes.

The credit of earned income under the individual income tax.

An allowance of life-insurance premiums and other forms of savings under the individual income tax.

Taxation of capital gains and treatment of capital losses.

Revision of the structure of some 50 excise taxes.

Elimination of excise-tax discrimination between imported and domestic goods.

Extension of social-security coverage to self-employed and farm and domestic workers.

Taxation of small business.

Double taxation of dividends.

The revision of net loss carry-back and carry-forward provisions and other incentive tax proposals for encouraging investment and employment.

Depreciation, possibilities of acceleration or additional flexibility.

Taxation of American corporations doing business abroad.

Elimination of discriminations between various forms of doing business, proprietorships, partnerships, and corporations.

Treatment of cooperatives and other tax-exempt organizations.

Income problems, such as the 2 percent additional tax on consolidated returns and the 85 percent credit for intercorporate dividends received.

Consideration of estate and gift taxes and correlation of these taxes with the income tax.

Now, that does not necessarily mean that we are for or against any of those items, but they are the items that we deemed that it was proper to have under study in order to work out a balanced tax program, and work out the inequities and the study of incentives.

The CHAIRMAN. They are under study right now?

Secretary SNYDER. Many of them are approaching completion.

The CHAIRMAN. Many of them have been under study for a long time.

Secretary SNYDER. That is correct.

The CHAIRMAN. As to how many has the Treasury reached an opinion as to what its policy will be?

Secretary SNYDER. We could give you a calendar or schedule as to how near each one is completed.

The CHAIRMAN. Has the Treasury established a decision as to all of those matters, and, if not all of them, as to how many matters has it established its policy?

Secretary SNYDER. My intent was, when I started urging this, after going in as Secretary of the Treasury, to sit down with the congressional group and work out a tax program. I did not deem it appropriate for the Treasury to come up with a tax program and hand it to the Congress.

The CHAIRMAN. I am not suggesting that. I am trying to find out what the progress of the work is on that. Has the Treasury, so far as the Treasury is concerned, arrived at policy decisions as to all of those subjects, and, if not all of them, as to how many?

Secretary SNYDER. We will have to work out a program for you.

The CHAIRMAN. Mr. Secretary, is it your theory that we should hold up any kind of tax reduction until we can go to heaven in one jump with a perfect solution of all of those matters?

Secretary SNYDER. By no means, sir.

The CHAIRMAN. By no means?

Secretary SNYDER. No.

The CHAIRMAN. So we are entitled to use our judgment as to giving tax relief if we consider that the budget warrants it, without having to wait until we reach this ideal general tax revision to which we are referring; is that not correct?

Secretary SNYDER. That part is certainly correct, but there are certain inequities and incentives that ought to be given consideration at this time that I think we can sit down and study with you—certainly certain items that we have had under joint study with the congressional groups.

Senator BUSHFIELD. Is it not a fact that the Congress must finally exercise its own judgment upon this matter?

Secretary SNYDER. There is no doubt in the world about that. That is why I said I did not want to presume to present a tax bill to Congress, because it is the congressional prerogative to create the tax bill. We want to help in any way we can.

The CHAIRMAN. In your statement yesterday on page 1, you said, "Nor do I believe that a tax reduction is necessary at this time to assure continued high level of production."

We had quite a few questions and answers yesterday with the objective of probing your opinion as to whether we were in for a recession, and as I got the burden of your remarks, you are not predicting a recession for fiscal 1948; am I correct in that?

Secretary SNYDER. That is correct.

The CHAIRMAN. Your correlative argument is that since there will be no recession in 1948, there is no point in an income-tax reduction for the purpose of giving the added incentive to investment or for increasing mass consumption. Is that correct?

Secretary SNYDER. In calendar 1947.

The CHAIRMAN. That is what I am talking about.

Secretary SNYDER. Yes.

The CHAIRMAN. In order to maintain $180 billion income economy, is it not necessary to plow back large sums of investment?

Secretary SNYDER. We are contemplating $168 billion.

The CHAIRMAN. Make it 168 billion. Is it not necessary to plow back large sums of investment money just to keep a machine of that size going without increasing it? Is it not necessary to plow back enormous sums of investments?

Secretary SNYDER. In the long range; yes, sir.

The CHAIRMAN. Well, even in the short range, would you not say?

Secretary SNYDER. Not with what we have already in sight, sir.

The CHAIRMAN. I mean, is it sound fiscal policy to allow that machine to lag at any point at any time if it can be prevented?

Secretary SNYDER. Well, there is no apparent lagging at this time. As a matter of fact, you folks saw or thought yesterday that it was going up to 180 or 185, so you feel like I do; there is no lagging at this time.

The CHAIRMAN. Every time you drive your automobile, there is some obsolescence. You have to keep it in repair if you want to keep a good car; do you not?

Secretary SNYDER. That is certainly true.

The CHAIRMAN. Even if you do not want it to go faster, you have to keep it in good repair if you want to keep going. That requires current attention to your car; does it not?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. You said yesterday the rapid and sustained growth of employment, and output achieved in 1946, in the early months of 1947, was accomplished with present tax rates.

What would you say was the influence of the 1945 tax cuts on present volume of business?

Secretary SNYDER. Well, those tax cuts were recommended, as I recall, because of the general feeling at that time that there was going to be a marked recession, and they felt like those incentives should be put in there at that time. Of course, as we know, that did not develop.

The CHAIRMAN. And what would you say was the investment in business within the last, say, 12 months?

Mr. HAAS. I think I can probably put some kind of an estimate on the record. The point is that corporate profits are now running at a very high level, and these are net profits. Before that, allowances have been made for depreciation and wear and tear on the equipment, and so on.

The CHAIRMAN. I was not probing the question of corporate profits. I was probing the reason for corporate profits, and I am suggesting that perhaps the reason for corporate profits, and for the maintenance of full production, is in part the tax reductions which were made in 1945.

What is the Secretary's reaction to that?

Secretary SNYDER. That might have had some influence on it; yes, sir; but it was an inflationary one, as it turned out.

The CHAIRMAN. Mr. Secretary, I noticed in the President's address to the Associated Press reported in the Herald Tribune of April 22, he said:

> Credit control cannot be relaxed so long as prices are so high that many consumers must go into debt to make both ends meet. Making more money available on easier credit terms would only enable people to go into debt at a faster rate. Overextension of credit to support overextension of prices is fuel on the inflationary fires. It would help no one in the long run. It is in the tradition of boom and bust. The Government should retain and use its measures for wise credit control.

Have you any statistics on the amount of borrowing that is being done to sustain low-bracket consumption?

Mr. HAAS. I am not sure I have them right here, but we have them.

The CHAIRMAN. I suggest, Mr. Secretary, that it is obvious from the President's remarks that he thinks that there is an unhealthy amount of borrowing going on in order for people to buy what they want to buy.

Mr. HAAS. I do not have the figures here.

The CHAIRMAN. What is your general impression on that?

Mr. HAAS. The general situation on consumer credit is that it has dropped from about 10 billion to a low point, as I recall, of somewhat around 4 or 5, in that neighborhood, and it is now up again to about 9 or 10. That is my general impression.

The CHAIRMAN. And expanding rapidly.

Mr. HAAS. And expanding. I think the point probably that the President had in mind was a large part of this is on automobiles and durable equipment, and the problem there is to get the equipment, not the money. The people have large liquid funds, and if they are provided with more credit it will put pressure on the prices of short supplies of goods.

The CHAIRMAN. Is there not a large expansion of installment credit going on?

Mr. HAAS. That is consumer credit. That is what I had in mind.

The CHAIRMAN. That is what I am talking about.

Mr. HAAS. Yes.

The CHAIRMAN. The reason for that is that the surplus stock of savings is running down; is it not?

Mr. HAAS. The annual rate of additions is less than it was a year ago, but the total amount of accumulated is still increasing, because last year the annual increment added to liquid savings amounted to about $10 billion. That was at a lower addition than the previous year, which ran at the rate of about $33 billion.

The CHAIRMAN. Does an expansion in installment buying necessarily carry with it the thought that there is not as much cash available?

Mr. HAAS. Well, that would seem apparent, but that does not necessarily follow. It depends upon the distribution. The people borrowing are not the ones that have the liquid savings, or they would not borrow.

The CHAIRMAN. Exactly. Would those people be helped with an income-tax reduction?

Secretary SNYDER. But that increase in consumer buying is not brought about by that, solely, but by the fact that people are beginning to establish themselves, and as they are stretching out and buying on credit items that they have not been buying for a good while. They have always in the past—as you remember, before the war they mortgaged their future income extensively under installment buying. Now they are trying to move back into that area too rapidly before goods become available.

The CHAIRMAN. So the alarm is over the rapidity with which that is going on; is that right?

Secretary SNYDER. It is as long as it has an inflationary trend.

Senator HAWKES. Might I ask a question right there?

When was that high of 10 billion that you are talking about?

Mr. HAAS. Just before the war; before Pearl Harbor.

Senator HAWKES. What was the highest point before that in a 10-year period? Do you know that?

Mr. HAAS. I think that was about in the neighborhood of a high point.

Senator HAWKES. It ran along fairly evenly—9 or 10 billion?

Mr. HAAS. It grew rapidly during the thirties. More than half of it was automobile purchases and other installments; and then it was reduced by the Federal Reserve in their control of consumer credit under regulation W.

Senator BUSHFIELD. Were there not any automobile purchases for several years?

Mr. HAAS. That was one of the reasons that it was easy to control automobile credit—because there were none.

Senator HAWKES. The point I have in mind was this: That we have gone back from 4,000,000,000, working up again to 10,000,000,000 again. What I have in mind is, Have you any reason to believe that this thing is going away beyond 10,000,000,000, or it is just coming back to the thing that you have just stated to me—of fair average over a period of 8 or 10 years before the war?

Mr. HAAS. Nobody can tell that. The point with regard to that is there is short supply of durable goods, and when you add more money to the situation—credit is money—you tend to increase the inflationary pressures.

Senator HAWKES. You agree, I assume, that we are working our way back up to 10,000,000,000. You agree that we do not go beyond that—if we do not, we will not be in any different position; in fact, we will be in a better position.

Mr. HAAS. Assuming that we have the equipment to purchase. The point is that we are short of equipment.

Senator HAWKES. I understand that, and there is a point in that. I understand that perfectly.

Senator BREWSTER. How long do you anticipate this shortage of durable goods is going to continue?

Mr. HAAS. My crystal ball would be a little clouded on that. That is a very difficult question.

Senator BREWSTER. Are there any of the shortages that are beginning to be ameliorated right now?

Mr. HAAS. The situation is rapidly being improved.

Senator BREWSTER. You speak now in terms of months or years?

Mr. HAAS. Well, it varies with the commodity. I would not want to say that by the end of the year we would have full supplies of everything. I do not believe that. There are some things of which the supply is now adequate.

Senator BREWSTER. Is it not true that as each item becomes available, it reduces somewhat this pressure in other directions?

Mr. HAAS. I think everybody would agree with you, Mr. Senator, on that. One way to reduce inflationary pressure is to increase production.

Senator HAWKES. May I say this, Mr. Chairman: I have learned—in other words, I have been informed—not officially—but I have been informed that what I said yesterday is probably correct. That is, the economy is running at the rate of about $180,000,000,000 now.

What I would like to ask the Secretary of the Treasury or his group, Is there any way for us to get the figures on what we are doing now a little more up to date than we have them, quickly, so that we can have those figures in mind, to help us in reaching our conclusion regarding whether we are justified in tax reduction at the present time?

Secretary SNYDER. The only way I could suggest is to ask the people to appear here who prepare those estimates and figures.

Senator HAWKES. That would be the Department of Commerce.

Secretary SNYDER. That is the Department of Commerce; yes, sir.

Senator HAWKES. That is the only way we can get them?

Secretary SNYDER. That is where we can get them.

Senator HAWKES. I make the suggestion that we should ask the Department of Commerce for the figures that were given me unofficially to see whether they are correct.

The CHAIRMAN. It will be done.

Senator LUCAS. I would like to have these facts. I agree with Senator Hawkes. I too, would like to have some facts about these appropriation bills that we are going to consider. I think that is probably more important, determining the tax bill, than a revenue estimate of 175 billion or 180 billion.

The CHAIRMAN. Let me bring you back to the President's exact language. He said:

> Credit control cannot be relaxed so long as prices are so high that many consumers must go into debt to make both ends meet.

Let me ask you again, Would not a reduction in income taxes be helpful to those consumers?

Secretary SNYDER. Not if it drove the prices higher.

The CHAIRMAN. Unless you exhaust completely the purchasing value of what they get, they would have an additional buying power over what they have at the present time; would they not?

Secretary SNYDER. For a period they might, but by the time this savings became available to them, why, it might drive the prices higher.

The CHAIRMAN. Do you see an inflationary element in increases in wages at the present time?

Secretary SNYDER. It could be.

The CHAIRMAN. Could you go stronger than "could be"?

Secretary SNYDER. No, sir. I would have to see what the productivity would be, and all of those elements would have to be taken into consideration. I would say that was a possibility.

The CHAIRMAN. I notice you state:

> Employment and output will undoubtedly rise still higher in the future with the normal growth of the economy.

Am I correct in the assumption that this is premised on a good wage, good profit, high velocity, constantly reducing unit cost economy?

Secretary SNYDER. Yes, sir; I think that is the sound basis for your economy.

The CHAIRMAN. You stated, Mr. Secretary, so long as inflationary pressures exist, there is good economic reason for maintaining high taxes.

> If we should cut taxes prematurely we could easily contribute to further price rises and to economic instability. If we cut taxes too soon, we shall probably find it impossible to reverse our action. On the other hand, it will be time enough to cut taxes when it becomes clear that conditions call for such action.

Does the Secretary believe we are warranted in maintaining the present levels of income taxes in order to prevent inflation?

Secretary SNYDER. I think that under the present circumstances for 1947, we are, sir.

The CHAIRMAN. Is not the theory of that that if the taxpayer has larger control over his own income, he will spend his money in a way that will add sharply to consumptive demand?

Secretary SNYDER. He might add those dollars in bidding against items that are here in short supply; yes, sir.

The CHAIRMAN. The correlative of that is that the Government can take his money and spend it in less dynamic fashion, and thus decrease the fear of inflation; is that correct?

Secretary SNYDER. I do not advocate that, Senator. I said that we had a good place to put that surplus in reduction of the debt. We want to apply that against the bank-held assets, which would bring us into better control of the money supply, which has been urged as one of the important stabilizing factors that we must develop.

The CHAIRMAN. Let me remind you, Mr. Secretary, of exactly what you did advocate. I quote:

> So long as inflationary pressures exist, there is good economic reason for maintaining high taxes.

That is exactly what the Secretary said. We are not making forced loans in order to handle inflation. Under the Secretary's theory we are taking money out of the taxpayer's pocketbook for the accomplishment of that purpose, and I should like to suggest that perhaps the Government does not have a moral right to seize any part of the taxpayer's money on the theory that the Government knows how to spend it better than he does.

Does the Secretary abandon his theory?

Secretary SNYDER. I have made no assertion that the Government is the better judge.

The CHAIRMAN. What is to be implied from the Secretary's statement:

> So long as inflationary pressures exist there is good economic reason for maintaining high taxes.

Secretary SNYDER. For the reason that I stated that we could apply whatever surplus we gain in reduction of the debt. At no place have I urged additional governmental spending.

The CHAIRMAN. Then you take the position that the maintenance of the present tax structure has no relation to inflation.

Secretary SNYDER. We are talking about the calendar year 1947. I do feel that maintaining this tax structure would be anti-inflationary for that calendar year; yes, sir.

The CHAIRMAN. And you feel we have a right to maintain an income tax level as we are now maintaining it in order not to increase the dangers of inflation.

Secretary SNYDER. One of the elements, yes; one of the elements.

Senator CONNALLY. May I ask a question?

You do not contend, of course, that the application of revenues on public debt is Government spending. We are simply paying a little installment on that. As to installment buying, I think it is about time we started installment paying on the public debt. That is not Government spending; is it?

Secretary SNYDER. I made the statement yesterday that I think we ought to make a material payment to assure our intention to maintain the integrity of our obligation.

Senator CONNALLY. Is not the public debt a mortgage on every income-tax payer in the United States? Some time he is going to have to meet it, and is not the best time to start meeting it when everybody is prosperous and the incomes are higher; corporate profits you say are at a very high standard—very high level. Is that not a pretty good time to start paying on the debt?

Secretary SNYDER. I have maintained that position, sir.

Senator CONNALLY. Is not that paying on the debt—does that not contribute to the stability and the soundness of our whole fiscal policy, incomes and everything else?

Secretary SNYDER. I have thought so; yes, sir.

Senator CONNALLY. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, just for the purpose of the record again, I would like to put in what you said on this subject of maintaining taxes and resisting tax cuts to prevent inflation:

> So long as inflationary pressures exist, there is good economic reason for maintaining high taxes. If we should cut taxes prematurely, we could easily contribute to further price rises and to economic instability.

In the latter part of that paragraph you say:

> On the other hand, it will be time enough to cut taxes when it becomes clear that conditions call for such action.

What will be the tests of that clarity so far as the Secretary is concerned?

Secretary SNYDER. When we know what the expenditures this year are going to be, as approved by Congress, and know exactly what our budget for the year would be, for the fiscal year 1948.

The CHAIRMAN. You have never taken that caution before, in making your estimates.

Secretary SNYDER. We have never faced this exact situation before, Senator.

The CHAIRMAN. You are willing to accept the judgment of Congress on what it can do.

Secretary SNYDER. We will have to accept it.

The CHAIRMAN. And assuming that it should decide to cut taxes, or the expenditures, say, 4½ billion, how much would that alter the viewpoints which you have expressed here?

Secretary SNYDER. If you will let me stand on my position of yesterday——

The CHAIRMAN. You are still adamant on that. You will not assume beyond the Treasury's own assumptions; is that correct?

Secretary SNYDER. I just saw today where Dr. Rogers up in the New York University estimates the national income for calendar 1947 at 165 billion. Well, if that is true, then he must think that the last half of the calendar year 1947 or the first half of the fiscal year 1948 is going to be below 160 billion. So when we have such divergence of views, if we stick to a middle course, why, I think we are on safer ground, and I would prefer to do so.

The CHAIRMAN. I invite the Secretary's attention again that never before has he waited until Congress took definite action before he made his own estimate. This is the first time in history.

Secretary SNYDER. This is my first time to appear before you, sir.

The CHAIRMAN. I hope, sir, this is not the last.

Secretary SNYDER. I appreciate that. I do not know whether I want to endorse it or not.

Senator BREWSTER. Do you feel any justification for feeling that the administration is now somewhat advertising the possibility of a recession, if not a depression?

Secretary SNYDER. Well, I certainly am not, sir. I see no cause for us to have a recession if we proceed on the right basis.

Senator BREWSTER. You would not prefer——

Secretary SNYDER. We have every element to insure continued prosperity if we meet all of these various points.

Senator BREWSTER. You would see no advantage in having a recession this year instead of next?

Secretary SNYDER. I would see no advantage in having a recession at any time, Senator.

The CHAIRMAN. Mr. Secretary, you stated, "If the taxes are not reduced, we shall also be able to achieve a budgetary surplus in the fiscal year 1948."

How much of a budgetary surplus?

Secretary SNYDER. Our estimate for '48 is 1.3 billion.

The CHAIRMAN. That is on the estimate of how much additional income for '48—168?

Secretary SNYDER. 168 billion for fiscal 1948; yes.

The CHAIRMAN. I believe it would be useful for the purpose of the record to give us a little information on how our budget estimates are made in point of timing.

Senator GEORGE. Is that fiscal '48 or calendar?

Secretary SNYDER. That is fiscal '48, sir, beginning July 1, 1947.

Senator GEORGE. I just wanted to get it clear.

The CHAIRMAN. Take the 1948 executive budget, when were the figures represented by that budget finally decided upon as a matter of executive policy?

Secretary SNYDER. This revision?

The CHAIRMAN. No, no. You came in in January with the executive budget.

Secretary SNYDER. Yes.

The CHAIRMAN. Now, how much time preceding that?

Secretary SNYDER. Those were prepared in December.

The CHAIRMAN. In December?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. You reached your final decisions on the content of the budget in December?

Secretary SNYDER. That is correct.

Senator BUSHFIELD. That was on the basis of $165,000,000,000.

The CHAIRMAN. That is what I am going to ask now.

What was the basis of national income when you fixed those figures? For which fiscal year?

Secretary SNYDER. '48, $168,000,000,000.

The CHAIRMAN. When you put in your budget for fiscal '47, what income did you predict?

Mr. HAAS. I would have to put that in the record. I do not recall.

Senator BYRD. What date? The message to Congress in January 1946 receipts were $31,500,000,000, expenditures $35,800,000,000, a deficit of $4,300,000,000. Then when the message to Congress was sent in in January of 1947, the receipts were $40,200,000,000, expenditures $42,500,000,000, deficit $2,300,000,000.

The statement a day or so ago was receipts $41,250,000,000, expenditures $41,250,000,000, with surplus of $1,250,000,000.

Senator TAFT. For fiscal '47.

Senator BYRD. Yes. That was the question, as I understood, that the chairman asked.

Secretary SNYDER. You want to know what the national income was that was used in December 1946 in arriving at the fiscal budget for the fiscal year 1947.

The CHAIRMAN. Yes. Let us get that figure.

Secretary SNYDER. We will have to get that for you.

The CHAIRMAN. Will you get that?

Secretary SNYDER. We will get that.

(The information requested is as follows:)

In his budget message, the President stated, "in this Budget, it has been assumed that, with minor fluctuations, business activity will average slightly higher than in the calendar year 1946." The income payment basis we used averaged $166 billion in the fiscal year 1947. This compares with an actual level of $165 billion in the calendar year 1946.

The CHAIRMAN. Give us again the estimate of national income for fiscal '48, which you used in making your executive budget for fiscal '48.

Secretary SNYDER. They have just said that was 168.

Senator TAFT. May I ask if that has been corrected by actual returns already received for the first half of this calendar year that will reflect the last half of the calendar year?

Secretary SNYDER. There has been no revision for fiscal '48 yet. Does that answer your question?

Senator TAFT. You have had actual income tax returns, personal and corporate, for the payments to be made in the first half of the fiscal year '48, entirely apart from national income. You know what you are going to get from last year's corporation taxes. You know what you are going to get from personal taxes.

Secretary SNYDER. There has been no revised estimate for fiscal '48 yet. Was not that the question you asked?

Senator TAFT. Have you used those figures in correcting the estimate based in January on national income of 168 or 165, or something of that kind?

Secretary SNYDER. There has been no revision.

Senator TAFT. Were not those taxes much larger than you expected, and paid now during the first 3 months of this year?

Secretary SNYDER. They were certainly much larger for the last quarter of '46 than we expected.

Senator TAFT. The taxes paid on March 15 by corporations and individuals, were not those much larger than anything you had anticipated?

Secretary SNYDER. They were larger; yes.

Senator BREWSTER. Did you project that into the last half of this calendar year?

Secretary SNYDER. We have not made a revision yet for the fiscal year '48.

Senator BREWSTER. Would that not be very interesting and significant in connection with our problem here?

Secretary SNYDER. Well, that would be a matter for the President, if he wants to revise his budget.

Senator BREWSTER. We are asking you. Are you not the one that would be familiar with that?

Secretary SNYDER. On revenue.

Senator BREWSTER. This committee has to make a decision independently of the President.

Secretary SNYDER. We will try to assist in every way we can.

Senator BREWSTER. Would it not be highly significant if the March 15 returns indicated that you could expect to have much larger revenues in July 1 to December 31, 1947?

Secretary SNYDER. We will see what can be done on that, Senator.

Senator BREWSTER. You have not thought about it before?

Secretary SNYDER. Oh, yes; we are thinking about it all of the time. You do not seem to agree with what we think; do you not see?

Senator BREWSTER. I am not questioning your thinking; I am questioning the facts. You are the one who possesses all of these facts.

Secretary SNYDER. That is correct.

Senator BREWSTER. And if that should indicate 10 or 20 or 30 percent greater, you said it was substantially greater than you expected, did you not?

Secretary SNYDER. That is correct.

Senator BREWSTER. So that we might infer that there would be a very material——

Secretary SNYDER. But we are talking about fiscal '48, which runs for 12 months after July 1 of this year, not for this first quarter.

Senator BREWSTER. Well, I know 6 months of it, one-half of it is in there.

Secretary SNYDER. No, it is not, sir, not for fiscal '48. You are talking about the revision of 1948; that starts on July 1 of 1947 and extends for 12 months beyond that.

Senator BREWSTER. Do I understand that——

Secretary SNYDER. We have given you a revision for the first 6 months of calendar 1947, just this past week.

Senator BREWSTER. Let us not be under any confusion.

Secretary SNYDER. I do not want to be.

Senator BREWSTER. I am thinking of the period from July 1 to December 31, 1947.

Secretary SNYDER. That is correct.

Senator BREWSTER. Which is 6 months in the fiscal year 1948; is that correct?

Secretary SNYDER. That is the first half of fiscal '48.

Senator BREWSTER. That is right.

Secretary SNYDER. Yes, sir.

Senator BREWSTER. Does the return on March 15, 1947, give you any better basis by which to estimate the Treasury receipts during that 6-month period of fiscal '48?

Secretary SNYDER. It would be certainly a little closer to that period, and that is always better as a basis on which to make your estimates.

Senator TAFT. So far as corporation returns, it is an absolute determination of what the corporations are going to pay in September and December, because they are paying on the income of '46, and as far as individuals are concerned, it is a pretty good indication, because they are guessing as to what income they personally will have.

Secretary SNYDER. So far as their earnings for 1946 are concerned, we have reflected those in our revised budgets, because——

Senator TAFT. That is what I asked. You said you had not.

Secretary SNYDER. No, no.

Senator TAFT. You said you had not changed your estimate at all.

Secretary SNYDER. For fiscal '48; I was very specific.

Senator TAFT. My question was this: The corporation returns in taxes shown by their returns on March 15 appeared to have been much larger than you anticipated. Have you taken that into account in your estimate for the first 6 months of fiscal '48? Have you increased the payments that you expected to get from corporations in September and December, by reason of what has appeared in March?

Secretary SNYDER. We have not yet made a revised estimate for 1948.

Senator BREWSTER. Unless I entirely misunderstand it, it would seem to me that was an item that might be of considerable importance then in the problem with which we are faced, and which you are to help us out with. Would I be correct in that?

Secretary SNYDER. We will be glad to try to help you in every way we can. I do not have those figures here. We will try to get them. That is what I offered to do awhile ago.[1]

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[1] (Supplied subsequently.)

In our recent revision of expected revenues for fiscal 1947 we increased the estimate of corporate income and excess profits taxes by about $500 million. This revision was indicated by the experience in the first quarter of calendar 1947 when tax collections in this category exceeded the earlier estimates. Presumably, some similar improvement in corporate tax collections may be expected in the latter part of calendar 1947, which is the first part of fiscal 1948. On the other hand, corporate tax collections in the last half of fiscal 1948 will be based on profits in calendar 1947. These profits were apparently very high in the first part of the year but will decline sharply as a result of the price readjustments now under way. Accordingly, it does not seem prudent to expect much net gain in corporate taxes in fiscal 1948 over the estimates in the President's Budget document of last January. On net balance it still seems to be the wisest course to "stand" on the revenue estimates for fiscal 1948 as given in the Budget document.

Senator BREWSTER. Am I in error that it might have some significance? You know more about this than I do.

Secretary SNYDER. I am not questioning your judgment, Senator. It is very clear. I am certainly wanting to try to help in any way I can.

The CHAIRMAN. At the time you made your estimates for fiscal '48, in December of '46, what was the current national income at that time?

Secretary SNYDER. In order that I will not misunderstand, will you repeat that question, please?

The CHAIRMAN. When you were making your budget for fiscal '48, and were reaching your final decision on that budget, in December of 1946, what was the then current national income?

Secretary SNYDER. For that month?

The CHAIRMAN. For that month.

Secretary SNYDER. The latest month available at that time was October—with 170.9 billion annual rate. The November figure came out in January at 174.1.

The CHAIRMAN. 174.1?

Secretary SNYDER. Billion.

The CHAIRMAN. And in making your estimate of income, let us get into the record again, of income for '48, what figure did you adopt?

Secretary SNYDER. 168 billion.

The CHAIRMAN. 168 billion; you adopted that in December of 1946?

Secretary SNYDER. That is correct.

The CHAIRMAN. On page 3 of your statement, Mr. Secretary, you stated:

> I believe we should now approve our determination to retire public debt by making as big a payment on it as we can. If we do so, there will be less cause for concern if in some future years we find it desirable to postpone temporarily further debt retirement.

Tell us again, please, how much debt retirement has been made within the last 12 months?

Secretary SNYDER. Out of budget surplus by June 30 of this fiscal year it will be $1.2 billion.

The CHAIRMAN. $1.2 billion?

Secretary SNYDER. That is the actual reduction out of budget surplus. But out of cash and surplus combined for the fiscal year '47, we will have made around $11 billion or $12 billion, I believe it is, close to $12 billion.

The CHAIRMAN. Under your theory then we will have a surplus at the end of fiscal '48 of how much?

Secretary SNYDER. $1.3 billion.

The CHAIRMAN. $1.3 billion. Your proof then of your determination to retire the public debt would consist of 1.2 billion surplus at the end of '47, and what?

Secretary SNYDER. 1.3 billion surplus for 1948.

The CHAIRMAN. At the end of '48, that is going to be your proof of your intent to make enormous reductions in the public debt under your theory, is that right?

Secretary SNYDER. We can only furnish figures on the revenue end of it. The expenditure end of course will have to be testified to by——

The CHAIRMAN. The revenue end and the expenditure end combined in their operation to produce the two surpluses which you describe.

Secretary SNYDER. That is correct.

The CHAIRMAN. Amounting to roughly $2.5 billion over two fiscal years, and that is the Treasury's proof of enormous reduction of the public debt.

Secretary SNYDER. I beg pardon, sir.

Senator LUCAS. He never said anything about enormous.

Secretary SNYDER. I do not know where the enormous part came in.

The CHAIRMAN. It is quite apparent that it is not enormous. It is minuscular.

Secretary SNYDER. Who is claiming the enormous reduction?

Senator LUCAS. Muscular.

The CHAIRMAN. Nor is it muscular.

Secretary SNYDER. Who claimed that?

The CHAIRMAN. I am glad to see that you do not claim it.

Secretary SNYDER. I never have.

The CHAIRMAN. I thought you were talkng here about making proof of our determination.

Secretary Snyder. By paying everything that we could.

The CHAIRMAN. And this proof of determination comes down to $2.5 billion over two fisçal years.

Secretary SNYDER. If we are doing the best we can, we are showing our good faith.

The CHAIRMAN. No one can complain about that.

Secretary SNYDER. I have never made any suggestion about any enormous payment.

The CHAIRMAN. I believe it has been said that angels can do no more.

Secretary SNYDER. Well, I have no claim for that, either.

Senator JOHNSON of Colorado. How does that enormous or minuscular, whatever the term is, reduction, compare with the 12-year experience since 1929, the more than 12 years since 1929? How does the reduction compare with that period?

Senator BREWSTER. That is out of his jurisdiction.

Senator JOHNSON of Colorado. The facts are, of course——

Secretary SNYDER. If you take the algebraic equation, why, it would be enormous compared with that period.

Senator JOHNSON of Colorado. We have had enormous deficit spending since 1929.

Secretary SNYDER. That is correct. We are certainly turning the thing around and trying to go back the other way.

Senator JOHNSON of Colorado. Personally I am very happy that you have made as much of a reduction in the debt as you can. It seems to me that that is the real test of whether we are stabilizing our economy in this country or not. As long as the deficit spending continues printing-press money must flow out and of course we are headed for bankruptcy. When the trend is changed, when we begin to apply something on the debt, the reverse is true, and we are heading for stability. So it is an important signpost on the road.

The point is that we ought to go beyond what we have done, and the only people who can cause us to go beyond what we have done is not the Treasurer of the United States; it is the Congress of the United States. You have no control over expenditures. You have no control over tax levies. We are the people who perform those functions. As we perform, you will be able to reflect in your reports what we have accomplished, is that not true?

Secretary SNYDER. That is certainly true.

Senator BREWSTER. I would like to pursue this debt business a little further in a way that may seem more flattering to the Secretary.

Senator CONNALLY. May I interrupt?

Senator BREWSTER. Does it deal with the debt matter?

Senator CONNALLY. Yes.

They talked about your supposed statement that two billion and a half was an enormous reduction of the public debt. Well, two billion and a half is just two billion and a half more than nothing, is it not? That is all.

Secretary SNYDER. That is correct.

Senator BREWSTER. I do not think the Secretary has stuck his chest out far enough, as far as he could probably, and I would like to have these figures confirmed.

The gross public debt, according to the figures I have, reached a postwar peak of $279.2 billion on February 28, 1946. Will you confirm that?

Secretary SNYDER. That is correct.

Senator BREWSTER. And that between that date and April 15, 1947, that is a 14-months period, it has declined to the point of 257.6 billion.

Secretary SNYDER. That is about right.

Senator BREWSTER. Is that correct?

Secretary SNYDER. That is correct.

Senator BREWSTER. So that is a reduction during that 14 months period of 21.4 billion, is that correct?

Secretary SNYDER. That is correct.

Senator BREWSTER. There has been a reduction of $21 billion in the public debt in that 14 months period, which is certainly most substantial.

Secretary SNYDER. Yes. But I want to make very clear that was paid out of the cash balances in the banks.

Senator BREWSTER. You are not bragging about this.

Secretary SNYDER. I am certainly not bragging about it. I am only showing the manner in which we reduced it without throwing the whole economy out of gear, and that we got that paid back to the lenders as early as possible, in order to reduce the interest-carrying charges, and at the same time not throw our whole financial structure out of gear.

Senator BREWSTER. Would it be that approximately seven-eighths of that reduction occurred in reducing holdings of commercial banks? Would that be approximately correct?

Mr. HAAS. Almost the entire amount.

Secretary SNYDER. A very, very small part of that was not taken right out of the bank balances.

Senator BREWSTER. That would have substantially reduced the monetary supply, and the potential source of inflation.

Secretary SNYDER. That is exactly our intent; yes, sir.

Senator BREWSTER. So that you have made a long move in that direction by these reductions. Besides this $21 billion of reduction in the gross public debt, was there not also a shifting of a large amount of debt from marketable obligations, which might have an inflationary effect, to special issues held within the Treasury which would be less a source of inflationary danger? Is that correct?

Secretary SNYDER. Well, that——

Senator BREWSTER. By the operation of trust funds, net sale of savings bonds, and issuance of terminal leave bonds?

Mr. BARTELT. On February 28, 1946, the marketable debt was $199,810,000,000; as of March 31, 1947, that had been reduced to $172,462,000,000.

Senator BREWSTER. That is a reduction of $27 billion in the marketable obligations.

Mr. BARTELT. Yes, sir; the special issues on February 28, 1946, were $20,897,000,000.

Senator BREWSTER. Yes.

Mr. BARTELT. On March 31, 1947, they were $25,183,000,000.

Senator BREWSTER. In other words, you took $27 billion out of the marketable and put $5 billion more into the specials, which are not marketable?

Mr. BARTELT. That is correct.

Then there is another item. The nonmarketable, which would include the savings bonds, that was $57,206,000,000 on February 28, 1946, and on March 31, 1947, $58,156,000,000.

Senator BREWSTER. There was another billion there.

Mr. BARTELT. Yes; the nonmarketable increased.

Senator BREWSTER. All of those were in the direction of releasing inflationary or relaxing inflationary pressures.

Secretary SNYDER. Yes.

Senator BREWSTER. Were they not?

Secretary SNYDER. That was the intent; yes, sir.

Senator BREWSTER. While the budget is in balance, as long as it may continue in that happy state, it is not true that this shifting from marketable to nonmarketable obligations will go on at the rate of approximately $5 billion annually.

Secretary SNYDER. Well, it will be determined by the maturities, and the balances that we have. We have estimated for '48 that we will shift around 3½ billion dollars through trust fund operations.

Senator BREWSTER. $3.5 billion?

Secretary SNYDER. Yes, sir.

Senator BREWSTER. In the light of all of that, taking into account what I think you will agree are fairly heavy taxes now, we tend to reduce purchasing power, if you have agreed, and discourage investment. Do you still feel that the entire amount of any surplus we may be able to accumulate, irrespective of how much it is, should be turned entirely toward debt reduction?

Secretary SNYDER. I think in this calendar year; yes.

Senator BREWSTER. All of these factors do not still affect your conclusion?

Secretary SNYDER. There is a great deal to be done in that field, Senator, of stabilization there, and in these good times, prosperous times, we want to do as much of it as we can.

Senator BREWSTER. Now, if there is any possibility of a recession or a depression, and we were seeking to avoid that, which would have the greater effect in avoiding that, a debt reduction or tax reduction?

Secretary SNYDER. From the testimony of the Senators yesterday, everybody felt like that we were moving ahead and that there is no recession in sight, and I joined them in that belief. They were more optimistic than I was as to the assurance of no recession, and so I do not think that that would enter into our picture right now.

Senator BREWSTER. You do not think it is necessary to take into any account any insurance against a recession during the next 18 months?

Secretary SNYDER. Not in 1947; no, sir.

Senator BREWSTER. Well, you are cutting that down quite a little. I said 18 months, and you said——

Secretary SNYDER. I know, but Congress comes——

Senator BREWSTER. You say 8 months.

Secretary SNYDER. You folks come back much sooner than that.

Senator BREWSTER. And you consider we are the chief threat.

Secretary SNYDER. You are the hope of the people.

Senator BREWSTER. Do you feel there is any limitation upon the amount by which you would wish to see the public debt reduced during the next 18 months? Or say fiscal 1948; I will limit it to that.

Secretary SNYDER. I think we have got to see how much we can reduce the debt before we start talking for the long-range view. I certainly agree with you that we have to have a balanced program, that is of progressive debt reduction and reduction of taxes. There is no question about that. But right now in this turn-around period, and right now with all of the uncertainties, which we all agree that we have, we are not going to hurt our economy any by applying as much surplus as we actually come out with in reduction of the debt.

Senator BREWSTER. I think this question is somewhat repetitious, but I will ask it again in the light of all that has gone before, which I think was an assumption that the chairman sought to question you about yesterday.

Assuming that we were certain to have a substantial surplus as a result of the wise policies of the Republican Congress for the fiscal year 1948 of $9 billion, would you as Secretary of the Treasury wish to retire the public debt by that amount?

Secretary SNYDER. May I take the same position of not making that assumption, Senator?

Senator TAFT. I do not know; I think you have to make that assumption. That is a possible assumption. Congress has declared, the Senate has voted for a $4.5 billion decrease. We cannot assume that they will not do it. Maybe they will not. I think we have a right to ask you to proceed on that assumption.

Secretary SNYDER. I would like, as I said yesterday, without any intent of offense at all, I would not like to make that assumption, sir.

Senator TAFT. The question is if it occurs would you apply it on the public debt.

Secretary SNYDER. I would rather not "if" it, sir.

Senator LUCAS. You have made the statement time and again that you want to see all of the surplus applied on the national debt, whatever it was.

Secretary SNYDER. That is in the record.

Senator LUCAS. That is the record.

Senator BREWSTER. Assuming then that you would answer yes, if you permitted yourself to answer, I want to ask you another question.

Is that position the opinion of the entire administration, including the Federal Reserve Board?

Secretary SNYDER. I can only speak for myself, sir.

Senator BREWSTER. You do not have any knowledge of the opinion of the Federal Reserve Board on that particular matter?

Secretary SNYDER. The Federal Reserve Board, as I understand it, is in accord with the position that I have taken, of no tax reduction in 1947, and that whatever we have, any surplus we have, being applied to the debt. I think that they are in accord, but I would certainly not like to go on record as stating their position. I would rather they would do that themselves.

Senator TAFT. Mr. SNYDER, in the first place I want to get the facts clear. The Budget that I remember showed receipts of $38,750,000,000, or something of that sort. The Budget showed a surplus of about $1.3 billion, with expenditures of $37.5 billion.

Secretary SNYDER. For '48.

Senator TAFT. Fiscal '48.

Secretary SNYDER. Yes.

Senator TAFT. You have not revised that at all.

Secretary SNYDER. We have made no revision in fiscal '48.

Senator TAFT. No allowance for more taxes or anything, is that correct?

Secretary SNYDER. Yes.

Senator TAFT. Assuming that you have that $1.3 billion and assuming that there is some further increase, $4.5 billion, whatever it is, that means of course, that we are taking away from the people a certain amount of purchasing power in excess of what we are giving them back by the expenditure of Government money, is that not true?

Secretary SNYDER. By the tax you are always taking it away.

Senator TAFT. If there is a surplus you are taking away a certain amount of purchasing power from the people and not giving it back to them, is that correct?

Secretary SNYDER. Yes.

Senator TAFT. Are we not also taking away something between 2 and 3 billion dollars in taxes which does not go back to the people, because it goes into these various trust funds, old-age pension, and so forth? In addition to the surplus figure, is that not correct?

Secretary SNYDER. That is provided for in the budget, yes, sir.

Senator TAFT. Can you tell us what that amounts to? Is it about $2.7 billion?

Secretary SNYDER. A little over $2 billion.

Senator TAFT. About $2 billion.

Mr. HAAS. It is nearer two than anything.

Senator TAFT. That is $2 billion that we are taking away from the people in taxes that we are not giving them back anything in return. So if we add that to the surplus we are taking about $3 billion.

Secretary SNYDER. Pardon me just a minute.

Senator TAFT. That is a net figure.

Secretary SNYDER. That is right.

Senator TAFT. So we are taking away from the people even on your assumption of $3.3 billion of purchasing power, and not giving it back. We would have to add to that anything that there is in greater taxes or in reduction of Government expenses. So that the net process, if we did have $4.5 billion, we would be taking away from the people $7.8 billion more than we are giving them back, is that not correct?

Secretary SNYDER. According to those figures, yes.

Senator TAFT. And that would be a reduction in mass purchasing power.

Secretary SNYDER. That is correct.

Senator TAFT. Now, the President has shown great concern about the maintenance of mass purchasing power. In his message in the economic report message, he says this:

> A rise in prices that occurred in the latter half of 1946 greatly reduced the purchasing power of the current income received by the large majority of the people. It is true that some groups in the population received increases in income, but for them balanced or more than balanced the rise in prices. But the large mass of consumers did not enjoy such offsets. How to effect a mutual adjustment of incomes and prices which will provide purchasing power adequate to sustain maximum production in the years ahead, thus becomes a central problem for private enterprise and government.

It is fair to say the President is concerned about maintaining mass purchasing power; is that not a fair statement?

Secretary SNYDER. The long range, I would say yes.

Senator TAFT. The other day also in his speech to the editors, he said—

> Some moderate wage adjustments have already been made this year peacefully. Some others may be expected. Price adjustments and wage adjustments have been the traditional method of sustaining mass buying power and sharing the benefits of our increasing wealth.

So that he is still concerned about maintaining mass buying power, is that not correct?

Secretary SNYDER. For the long range, you must maintain——

Senator TAFT. How is that consistent with taking away from the people anywhere from \$3.5 to \$7 or \$8 billion in purchasing power than you give them back; if the maintenance of mass purchasing power is the central problem, why do we not do it by reducing taxes? Does not that increase mass purchasing power?

Secretary SNYDER. It certainly does increase mass purchasing power but while we have this surplus, I mean this surplus while we have these shortages, and the demand we have right now——

Senator TAFT. You think then that there is no immediate problem of maintaining mass purchasing power?

Secretary SNYDER. For the long range, it certainly is, yes, sir.

Senator TAFT. But you think it is all right for this next fiscal year to take away \$8 billion from the people and not give them back anything in return, is that correct?

Secretary SNYDER. We are looking at the long-range view there. It will certainly stabilize their whole economy, and will help carry this debt in the future by applying as much now in the reduction of the debt, so that when we have to increase the maturities, which brings about an increase in the average interest rate we can help maintain the present cost of servicing the debt.

Senator TAFT. Now, the President has indicated that these wage adjustments are necessary. I have said that some moderate wage increases were justified by economic or equitable considerations. Why? I suppose in order to increase purchasing power. Why is not a tax reduction a much better method of increasing purchasing power than wage increases?

Secretary SNYDER. As I understood you to say, some moderate wage increases in certain areas, was that not it?

Senator TAFT. So the recent wage increase of about \$1 a day, which is something like 10 percent increase in wages, that is now being granted under the encouragement of the President, is that correct?

Secretary SNYDER. I do not know what the incentive was.

Senator TAFT. As a matter of fact, is not tax reduction a much better and fairer method of increasing mass purchasing power than increased wage payments to those who are able to get them?

Secretary SNYDER. In appropriate fashion, of course. I do not want to leave the impression that I am opposed to tax reductions as a principle. I have said very clearly that I am not. I am not trying to maintain unending high taxes. I have no such intention and I have never evidenced that by any statement, intentionally.

We are talking about a tax bill for 1947, and I have felt like that right at this time for the first time we are getting the turn-around here with a balanced budget, we ought to apply as much of this as we can in reduction of the debt.

Senator TAFT. Is not the wage increase method, so to speak, just going to a few favored people, while a lot of people, white-collar workers and others, get no benefit, whereas the tax reduction goes to 46,000,000 taxpayers equitably distributed among them? Is it not a much fairer method of increasing your mass purchasing power?

Secretary SNYDER. I am not attempting to measure whether it is better or not, because I had nothing to do with increasing the wages, because I am not in industry, and so therefore I cannot measure what that would do against what the tax would do. But the question that is before us here that I am testifying on as I understand it is this tax-reduction bill. I am not measuring one method against another.

Senator TAFT. But the President does. His message advocates wage increases and it opposes tax reductions. I am suggesting that as a method of meeting his problem, tax reduction is better than wage increases.

I admit that if we can get prices down, that is always a very valuable method. We should do all we can to accomplish it. But is it not also true that wage increases make permanently higher costs, whereas tax decreases make lower costs, and tend to stabilize the economy, therefore, more effectively than this increase in wages to meet the price-increase problem?

Senator BUTLER. I understood the Secretary to say that he was opposed to any tax decrease, is that correct?

Secretary SNYDER. In 1947.

Senator BUTLER. Yes.

Secretary SNYDER. Yes. That is what we have under review right now.

Senator BUTLER. That is what I understood.

Senator CONNALLY. May I ask a question?

Senator Taft says we are taking away $7,000,000,000 from the people and giving nothing back. Is it not true that payments on the debt will go back to the people and increase their purchasing power?

Secretary SNYDER. Certainly it goes back to building up the stability of our financial situation.

Senator CONNALLY. Somebody in the United States has these securities, and if they are paid on the debt, that much more money goes back into the channels of trade and commerce, and would in a way increase the purchasing power of the people to the extent of the public debt reduction, would it not?

Secretary SNYDER. Yes.

Senator CONNALLY. You do not throw that money in the well.

Senator TAFT. I thought you testified that debt reduction was noninflationary. If you admit that it goes back and is spent, it would be just as inflationary as tax reduction on the theory of the Senator, is that not correct?

Secretary SNYDER. What we are applying this on.

Senator TAFT. Then you should not say yes to his question.

Secretary SNYDER. I did not even answer it.

Senator TAFT. You did not, of course not. Because the answer is no, is it not?

Secretary SNYDER. The Senator made a statement that I did not think required an answer.

The CHAIRMAN. Mr. Secretary, under your estimate that we will have $2.5 billion surplus over the two fiscal years '47 and '48, that would preclude any tax reduction prior to July of 1948, would it not?

Secretary SNYDER. Senator, I am sorry. There was so much noise I did not hear you.

The CHAIRMAN. Under your theory that we will accumulate surplus available for debt reduction, in the amount of $2.5 billion over the two fiscal years '48 and '47, does it not necessarily follow under your theory and under the estimates on which you are standing at the present time, there will not be any opportunity to make a tax reduction prior to July of 1948?

Secretary SNYDER. Well, I do not know about that, sir. I certainly know it will not be for '47.

The CHAIRMAN. Does that not necessarily follow from your whole theory?

Secretary SNYDER. We are perfectly willing to adjust our views if conditions change to justify it.

The CHAIRMAN. I remind you that you have stood very tenaciously on your estimate of 168 billion dollars of income for '48, despite the fact that it is now running 170 or 180 billion dollars. I am perfectly willing then for the purpose of this question to accept your theory, but I am trying to find the implications of it.

If you stand steady on the estimates which you have made for '47 and '48, and so far you have, I am willing that you depart from them if you wish to, but you have stood steady so far, that necessarily means that you will have $2.5 billion surplus for '48 and '47, which under your theory you will apply on the debt from which it necessarily follows that you could not have a tax reduction effective prior to July of '48; is that not correct?

Secretary SNYDER. If a tax reduction would bring about deficit financing, I would be opposed to it; yes, sir.

The CHAIRMAN. Well, does your theory include deficit financing?

Secretary SNYDER. It does not; that is why I say, you said again accepting my figures of it that we have offered you here.

The CHAIRMAN. I am operating entirely now on your theory and your estimates.

Secretary SNYDER. Yes.

The CHAIRMAN. Under your theory and your estimates you will have $2.5 billion to apply to debt retirement over the 2 years fiscal period of '47 and '48, and that necessarily precludes any effective tax reduction prior to the end of the fiscal year '48 or July '48; is that not correct?

Secretary SNYDER. There would be no justification if those figures hold.

The CHAIRMAN. I notice in your statement in connection with proving our determination to retire the public debt, you say:

If we do so, (that is, if we show our intention to retire the public debt) there will be less cause for concern if in some future years we find it desirable to postpone, temporarily, further debt retirement.

Is it in the contemplation of the Treasury that under any plan that we adopt for debt retirement that there will be any single year in which there would not be some debt retirement?

Secretary SNYDER. There could be such a year in the future sometime. We cannot look too far ahead. There could come such a time when we would get into difficulties and to carry out your very program of a tax reduction being an incentive to buying power, additional buying power, then it might become well to consider reducing taxes as low as possible which might make a difficult problem in balancing the budget. In such periods when we fail to pay on the debt, our obligations would have better stability because we paid the debt when we were able.

The CHAIRMAN. I had assumed that the Treasury was working—I am not debating this at all—I had assumed that the Treasury was working on a theory that there would always be a minimum amount of annual reduction, and that there would be amounts of annual reduction above that, according to the state of our economy.

Secretary SNYDER. Well, that is certainly our desire.

The CHAIRMAN. I am suggesting that it might not be a sound scheme ever to have a year in which there would not be some debt reduction. You as an old banker know that it is very bad policy to allow a debt or to get into the habit of not making some sort of payment on his debt; is that not correct?

Secretary SNYDER. That is why I want that payment made this year.

The CHAIRMAN. Well, you are going to make $2.5 billion over two fiscal years, Mr. Secretary.

Senator LUCAS. At least.

The CHAIRMAN. At least.

Senator BREWSTER. May I inquire about the June payment? The President in his statement spoke of the heaviest payments of interest on the public debt being made in the month of June. That was not of course, unanticipated, was it? I mean you knew, you have known for a long time that that would actually happen; have you not?

Mr. BARTELT. Yes, indeed.

Senator BREWSTER. That was included in the budget so it was not an unanticipated development.

Secretary SNYDER. No.

Senator BREWSTER. What was the total amount of the large payment to the national life insurance fund which is referred to by the President in his statement? Have you that figure here?

Secretary SNYDER. The Budget is going to testify on all of those items. I understand the Senator has invited the Budget up here to talk on those expenditures.

Senator BREWSTER. Have you the item here?

Secretary SNYDER. We just have a generalization. He will give the details.

Senator BREWSTER. I would like the generalization.

Secretary SNYDER. I said the generalization of the whole budget is expenditure. I do not know whether we have that broken down; it is about $500 million.

Senator BREWSTER. $500 million?

Secretary SNYDER. Yes.

Senator BREWSTER. What is the position? Do you keep track of the Government's accounting with the insurance companies? Do you have some of this placed with the insurance companies?

Secretary SNYDER. We do not have that accounting. The Veterans' Administration has it.

Senator BREWSTER. You have general charge of the accounting of that, do you?

Secretary SNYDER. We have the fund, the over-all and investments.

Senator BREWSTER. Is it anticipated that there will be any repayments in any form that will be credits to the Government in that connection, as the result of lapses or dividends or from other sources?

Secretary SNYDER. We do not have that. That would be in the Veterans' Administration. They would have to furnish those estimates.

Senator BREWSTER. Have you any reason to anticipate any substantial amounts from that source?

Secretary SNYDER. Mr. Bartelt, our fiscal secretary, says we have not had any material.

Mr. BARTELT. The Treasury works on a net basis so far as that item is concerned, and we would have to get our figures from the Veterans' Administration. We have only the over-all.

Senator BREWSTER. Would the Budget have that?

Mr. BARTELT. The Budget probably would have that in its calculations, probably would have the information which it gets from the Veterans' Administration.

Senator BREWSTER. One other question in the returns for March 15, the income-tax returns; was there any reason to consider that taxpayers had made a reduction in their estimates as the result of the anticipation of tax reduction?

Mr. O'DONNELL. The declarations were just about in line with our estimates, and so far as we can tell; they did not.

Senator BREWSTER. You say no?

Mr. O'DONNELL. That is correct, and in the revised budget, for the fiscal year 1947 which you have before you, no allowance has been made, for any change that might be made in the June declarations because of prospective tax reduction. There is considerable inertia on the part of people to make changes in their declarations.

Senator BREWSTER. So that any individual instances of that you do not think would be at all typical of any general movement by the taxpayers in that direction?

Mr. O'DONNELL. The figures so indicate.

Senator BREWSTER. Have you the figures here representing the receipts for the first quarter of the calendar year from taxpayers filing Form 1040?

Secretary SNYDER. Mr. Sherwood is going to follow me on the stand from the Internal Revenue Bureau.

Senator BREWSTER. You have that figure so that you will be able to give that to us?

Mr. O'CONNELL. I am not sure of it.

Senator BREWSTER. Could you secure that?

Mr. O'CONNELL. We will try to.

Senator BREWSTER. On the matter of tax refunds, it shows a very considerable increase, the last report which we have here shows $335 million for the month of April, which was considerably in excess of what it had been for the previous rate.

Do you know whether there has been any special instruction to the collection districts by the Treasury of the Internal Revenue to speed up refunds to the maximum amount in order to have these figures available by the middle of this month or April 18?

Secretary SNYDER. There has been no undue acceleration. We started a program some year and a half or two years ago, to refund as rapidly as possible, in order to save interest and to get the refunds back into the hands of the taxpayer who overpaid his taxes. But there has been no extra acceleration within the past months.

Senator BREWSTER. There has been no instruction of any kind dealing with the possible accomplishment of as much as possible before April 18?

Secretary SNYDER. Not to my knowledge.

Senator BREWSTER. Has anyone else here any knowledge about that?

Mr. O'CONNELL. Mr. Sherwood; he will follow us.

Mr. SHERWOOD. There has been no such instruction.

Senator BREWSTER. But it is true that the refunds have been accelerated.

Secretary SNYDER. There might be this, Senator; those refunds that have not been refunded by March 15 start drawing interest. There might be a natural urge to get as many of them refunded prior to that time to save interest.

Senator BREWSTER. At any rate, the figures do indicate that there has been an acceleration in the refunds, which as I understand was the objective you had in view.

Secretary SNYDER. We have had that. That is a long-range objective to make these refunds as rapidly as possible.

Senator BREWSTER. Will that not be reflected in a possible reduction in your estimates in view of the success that you are achieving in your estimates for the ensuing year?

Secretary SNYDER. We took that into consideration.

Senator BREWSTER. Yes.

Secretary SNYDER. That has been a steadily declining figure in our budget, the amount provided for refunds.

Senator BREWSTER. So you took into consideration ——

Secretary SNYDER. Percentagewise.

Senator BREWSTER. In '48, the fact that you had accelerated the refunds.

Secretary SNYDER. That was definitely in.

Senator BREWSTER. If there should be retroactive tax reduction, you are ready to make that assumption; the refunds would apply to the income for the first half of the present calendar year. That is the proposal, as I understand it, of House bill No. 1; is it not?

Secretary SNYDER. That is correct.

Senator BREWSTER. And would it not be proper for such a refund, I think you have estimated that at $751 million,——

Secretary SNYDER. That is correct.

Senator BREWSTER. To be charged against the surplus for the current fiscal year, since that represents income for that year? Would that not be proper?

Secretary SNYDER. We have to provide the money for it. We have not got it.

Senator BREWSTER. This is a hypothesis that you have got it.

Mr. BARTELT. I did not get the question.

Senator BREWSTER. Under a retroactive tax bill, it was estimated that $751 million of refunds would be required to take care of these payments for the first 6 months of calendar '47. Is that right? Under the proposed retroactive feature?

Mr. BARTELT. Yes, sir.

Senator BREWSTER. Whether or not that should not appropriately be charged against the anticipated surplus of $1.25 billion for the current year, since it is the revenues that have accrued during that year.

Mr. BARTELT. Well, as it was pointed out, the Government's books are kept on a cash basis. They are not kept on the accrual basis. The revenue represents the receipts coming into the Treasury and the expenditures on the basis of the withdrawals from the Treasury, the cash withdrawals, so it would not affect it. We are not on the accrual basis.

Senator BREWSTER. So that it would not affect it.

Mr. O'CONNELL. It would be charged against '48 because that is when it would be paid out.

Mr. BARTELT. Yes, sir; it affects the budget in the year in which it is paid out of the Treasury.

Senator BREWSTER. You mean to say that no appropriations are carried over that are made for this year and paid out next year?

Mr. BARTELT. The unexpended balances of all appropriations are kept on the books of the Treasury 3 years; 2 years in addition to the year in which the appropriation was available for obligation, and all of the figures we are talking about this morning are based upon the cash payments from the Treasury, including payments which are made from the unexpended balances carried over during those 2 years.

Senator BREWSTER. So that the billion and a quarter surplus is that cash?

Mr. BARTELT. That is a cash surplus; yes, sir.

Senator BREWSTER. As the books of the Treasury are carried.

Mr. BARTELT. Based upon the daily Treasury Statement which comes out for every working day of the year.

Senator BREWSTER. Therefore, any further savings which were made in appropriations for this year, which are not paid out this year, but would come in next year, would contribute further to our surplus for the coming year.

Mr. BARTELT. Yes, sir. The important things, so far as surplus or deficit is concerned, are the actual payments from the appropriations, and not the appropriations themselves.

Senator BREWSTER. That is all.

The CHAIRMAN. Mr. Secretary, in your specific discussion of H. R. 1, you state, "Only about 1,100 taxpayers would get less than a 20-

percent rate reduction." Those are the taxpayers in the very high brackets, are they not?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. About 14.4 million taxpayers would get a 20-percent rate reduction; about 8.5 million would get between 20 and 30 percent. The remaining 24.8 million taxpayers would get a 30-percent rate reduction.

In terms of widespread benefit, that totals 47,700,000 taxpayers according to my figures, is that right?

Secretary SNYDER. That is right, sir.

The CHAIRMAN. And the chief benefits are in the lower brackets, is that not correct?

Secretary SNYDER. Well, in the numbers that will be benefited.

The CHAIRMAN. Let us take the amounts; let us turn to page 5 of your statement. At the bottom of the page you stated, "of the $3,769,000,000, $2,262,000,000 is attributable to the 20-percent reduction; $724 million is attributable to the 30-percent reduction; $520 million to the notch area; $118 million to the 10½- to 20-percent reduction, and $145 million to the exemption for persons over 65." As to benefiting the high-bracket people, you ascribe $118 million to them. The rest goes to the rest of the taxpayers, and does not the bulk of the reduction go to the middle brackets and down?

Senator LUCAS. His statement does not say that. I do not know whether he wants to change his mind or not. It does not draw that conclusion.

The CHAIRMAN. That is what I am questioning.

Senator LUCAS. The manuscript is entirely different.

Secretary SNYDER. Are you talking about the $118,000,000 here?

The CHAIRMAN. I questioned you first as to the number of taxpayers benefited. Then I said do not the benefits fall in the main in terms of numbers on the other than highest bracket people?

Secretary SNYDER. In numbers.

The CHAIRMAN. And then you said in numbers, but I believe you said not in amount. Then I turned over to your statement as to amount, and read that to you, and repeated the question whether as to amounts the principal benefits did not go from the middle on down.

Mr. O'DONNELL. It depends on how you define what is the middle.

The CHAIRMAN. Let us have one of your tables.

Mr. SHERE. Table E has the break-down.

The CHAIRMAN. What is the table?

Mr. SHERE. Table E.

The CHAIRMAN. What page is that?

Mr. SHERE. On page 20.

The CHAIRMAN. Under your table E, what does it indicate as to tax benefits to taxpayers having a net income of $5,000 and under?

Secretary SNYDER. I get your point now. I was thinking of something else when I answered your question. That is under $5,000, it is $2,327,000,000. That is correct.

The CHAIRMAN. So is it correct to say that the bulk of the benefits flow to taxpayers with net income of $5,000 and under?

Secretary SNYDER. That is correct. Sixty-two percent of it; but the reduction in taxes is not in the same ratio and proportion as it was put on.

The CHAIRMAN. We will come to that next.

Secretary SNYDER. Yes, sir.

Senator LUCAS. May I ask a question?

The CHAIRMAN. Go ahead.

Senator LUCAS. Does your manuscript show how many taxpayers contribute that $2,327,000,000?

Secretary Snyder. 46,000,000.

Mr. O'CONNELL. The table shows it.

Secretary SNYDER. The manuscript does not show it. It is on Table E, on page 29.

Mr. SHERE. 46,802,000. It is in the first column of table E.

Senator LUCAS. Yes, sir; 46,802,000. That is taxpayers that are affected. Is that correct?

Secretary SNYDER. The number under five is 46,802,000 people.

Senator LUCAS. I merely point out the facts show that the bulk of the national income, from individual taxpayers, is coming from people under $5,000. In other words, you have 46,806,000 taxpayers that are involved in the $2,327,000,000, and you have only 47 million taxpayers, a little over 47 million, according to some figures you gave awhile ago.

Mr. SHERE. 48½ million.

Senator LUCAS. On the tax rolls, 48½ million. Out of 48½ million on the tax rolls, 46,801,000 are making less than $5,000, and they are the fellows who are really paying the taxes which run the Government. Those are interesting figures.

The CHAIRMAN. I heartily concur in what the Senator from Illinois has said. It is an interesting figure, and just a little later on, I will raise the question as to how the situation can be changed very much.

I notice in your statement you say that, on page 5:

> Although the bill has been somewhat modified since it was originally introduced, it would still provide relatively too little tax reduction for low and middle incomes, as compared with high incomes.

Then, up ahead of that you say:

> H. R. 1 would weaken the budget for the fiscal year 1948 by $4,745,000,000.

Does the word "weaken" to your mind have any particular implications other than that there would then be that much less on to which to operate?

Secretary SNYDER. There would be that much less, if you reduce the revenue, of course, you do that.

The CHAIRMAN. To the extent that you weaken the budget, you would strengthen the taxpayer, would you not?

Secretary SNYDER. That is in the long range.

The CHAIRMAN. I come back to what you said there.

Senator Lucas, did you want to ask a question?

Senator LUCAS. I just wanted to make an observation which I think is appropriate at this time, in view of the previous remark that I made.

Under H. R. 1, known as the Knutson bill, not a single one of these taxpayers comes off of the tax rolls. In other words, if the man is paying $1 income tax, under the Knutson bill he would be compelled to file an income-tax return and pay 70 cents. That is the point that I wanted to make there, in view of the fact that I did point out that the great number who are paying taxes at the present time are the little fellows. As far as I am concerned, I want to see the great number of those people taken completely off the tax rolls, those little fellows who are compelled to file such insignificant tax schedules. I want to see them get off the rolls as fast as we can. The Knutson bill does not do that.

The CHAIRMAN. Mr. Secretary, coming back to your statement [reading]:

> Although the bill has been somewhat modified since it was originally introduced, it would still provide relatively too little tax reduction for low and middle incomes as compared with high incomes.

The Treasury has no present alternative suggestion for tax reduction that would improve the situation, has it?

Secretary SNYDER. No, sir; we have not prepared any.

The CHAIRMAN. Now, I think it would be appropriate to get into the statistics that bear on Senator Lucas' point. To what table do you refer?

Secretary SNYDER. Page 29, table E.

The CHAIRMAN. That table indicates, Mr. Secretary, that under present law people having net income of under $5,000 a year are carrying $9,435,000,000 of the income-tax revenues of the Government, does it not?

Secretary SNYDER. That is correct.

The CHAIRMAN. And that people above that are carrying $7,566,000,000, and that people having an income, a net income, of over $100,000 are contributing about a billion and a half. What do you figure that, say, about $3.75 billion?

Secretary SNYDER. Something like that.

The CHAIRMAN. Out of the total of $17 billion plus, correct?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. Now, then, as a matter of practical fact, until we can reduce our budget expenditures, where can we go to get these taxes except in the brackets as they are shown here?

Secretary SNYDER. That is why I do not want any tax reduction at all right now, Senator, for the calendar year 1947.

The CHAIRMAN. So long as we maintain our present expenditure budget, we have no place to go except to keep the taxes where they are, except as we might be able to reduce them in part, if we are, is that not correct?

Secretary SNYDER. With the situation as it is this year, yes, sir.

The CHAIRMAN. Take it at any time, assuming the maintenance of the present expenditure budget, are we able to allow any large amount of these people, of $5,000 or less of net income per year, to escape taxes in the order, roughly, on which they are assessed at the present time?

Secretary SNYDER. I did not know that we were advocating maintaining the expenditure at where it is. I understood that each year we were going to try to reduce it.

The CHAIRMAN. I am not arguing that now. I am simply driving to the point where you can get your income tax, if you do not get it from where you are now getting it.

Secretary SNYDER. That is why I do not think we ought to make any reduction.

The CHAIRMAN. Is not the answer to that, there is not any other place at the present time, if you maintain your present expenditure budget?

Secretary SNYDER. That is right.

The CHAIRMAN. And the only relief that will come, that can come, is from reduction of expenditure or increase in national income or both, is that not correct?

Secretary SNYDER. That is correct.

The CHAIRMAN. Does not it come down to this at the present time, under your own budget expenditure estimates? To use somewhat strong language, it is sheer demagoguery to say that we can take the burden off of these people of $5,000 and under, and put it somewhere else?

Secretary SNYDER. I am not advocating any such thing, sir.

Senator GEORGE. You mean you have to get your money where it is?

The CHAIRMAN. Exactly, sir.

You could make the taxes 100 percent.

Secretary SNYDER. We are not talking about increasing anybody at all. We are talking about taking it off.

The CHAIRMAN. You hear a lot of talk about taking off taxes under the present expenditure budget out of these low-income groups, and I am just trying under my lights to be honest with the situation. I do not have to ask the distinguished Secretary to be honest with the situation. Is there any other place where those taxes can be gotten, to sustain our present expenditure budget?

Secretary SNYDER. Well, I think that the tax situation is such that we certainly cannot add in any areas. Therefore, we ought to maintain what we have got.

The CHAIRMAN. You could confiscate completely these revenues from $100,000 up a year, and it would not materially alter your problem, would it?

Secretary SNYDER. Well, I do not know about confiscation.

The CHAIRMAN. The figures speak for themselves. We have already referred to them.

Secretary SNYDER. I imagine that the small man would feel there is just as much confiscation going on as anyone else, if there was such.

The CHAIRMAN. Why certainly. There is a loose theory floating around that you can take the taxes off of this low-income group and further sock the rich. I am developing, now, if you confiscated completely the income of the rich, it would not meet your problem. Is that not correct?

Senator LUCAS. I thought we were reducing taxes and not trying to increase them. I do not know of anybody that is going to be soaked here in this bill. Everybody is going to get relief.

The CHAIRMAN. I did not ascribe my theory to the Senator from Illinois. I am simply pointing out that you could confiscate these higher-bracket incomes entirely and under the present expenditure budget, you would have no alternative but to continue to levy taxes on these low-income groups.

Secretary SNYDER. I am not stating any such thing.

The CHAIRMAN. You are not advocating any such thing, but I am asking you if it were done, over your protest, it would still make it necessary to get your income, to get your taxes, from these low-income groups, would it not?

Senator LUCAS. If the distinguished Senator will pardon an observation, I do not know whether he is talking about another distinguished Republican that made a speech out in Kansas yesterday, the Honorable Al Landon. Landon was talking about this tax-reduction program of 1945, and he favors, among other things, as part of the sound economic program, the use of congressional authority to lower tariff rates and put taxes on excess profits rather than taking anything off. It may be that you are referring to him.

The CHAIRMAN. I did not read the distinguished gentleman's speech, and I am not referring to him. I am not referring to the Senator from Illinois. I am simply asking the Secretary whether under the present expenditure budget, we have any alternative but to get the taxes necessary to support it from these so-called low-income people?

Secretary SNYDER. Congress must decide where they can get the tax.

The CHAIRMAN. That is the place to get it, is it not?

Secretary SNYDER. We want to study all of those sources of revenue and adjust them equitably across the board.

The CHAIRMAN. Is not that the only place to get it at the present time?

Secretary SNYDER. We are not talking about getting any more, are we? We are trying to reduce it.

The CHAIRMAN. Mr. Secretary, let me say this.

Secretary SNYDER. We are talking about removing 60 percent of the difference between 1939 and present taxes at the top brackets.

The CHAIRMAN. Assume a reduction, if you wish to take it that way. I am glad to see you coming on our side. Assume the reduction. Assuming that it is in effect, what is left would have to continue to be gotten out of those groups, would it not? Could you then pass the residuum of what would be left in the lower brackets up to the higher brackets?

Secretary SNYDER. My advocacy is that we ought to start unwinding the taxes as we wound them up, exactly. There are many people on the tax rolls now that, prior to the war, were not even on there.

The CHAIRMAN. All right.

Secretary SNYDER. Therefore, reducing them 30 percent——

The CHAIRMAN. All right.

Secretary SNYDER. Is not putting them back anywhere near a comparable position.

The CHAIRMAN. Let us come to the 1939 table now. What table is that?

Senator LUCAS. Before you get on that '39 table, if I may, I would like to interject another observation. Under the theory of the able Senator from Colorado, if we reverted back to a budget of $5 billion, we would still have these 47,000,000 people on the tax rolls.

The CHAIRMAN. That does not follow at all, Senator. That does not follow at all. I have no theory at all except the theory that is set forth in the Treasury's own tables here, which is that you are getting the bulk of your revenue to maintain the present expenditure budget out of the low income groups; and that under the figures which they show here, you could not possibly shift it to the higher income tax groups.

Senator LUCAS. I agree that you cannot, and nobody wants to do that. The only thing I am saying is that if we are going to give a $4 billion cut to the taxpayers, that we should not do it the way the Knutson bill is going it. That is the only argument I am making, and I still maintain, and I will submit at the proper time, facts to show that some 3,000,000 to 4,000,000 people can be taken off the tax rolls at the present time and still reduce the $4 billion without hurting those fellows in the higher brackets.

Secretary SNYDER. On page 33, I think, is the table.

The CHAIRMAN. Is that exhibit 2?

Secretary SNYDER. That is table II.

The CHAIRMAN. What I want is the revenue that we got in 1939 out of the law that was then effective.

Secretary SNYDER. Table II gives the individual income tax for 1939, but not the yield of all taxes.

The CHAIRMAN. You got $4,578,000,000, did you not? Therefore, if you restored your income tax system to what it was in 1939, you would be getting $4,578,000,000 to meet an expenditure budget of $37,500,000,000. I would like to see something made out of the 1939 law.

The 1939 law, I remind the Secretary, gave exemptions of $2,500 for married people. It gave $1,000 for single people and $400 for each child. I would like to see it go back to that. I am talking to the cold reality that you cannot go back to a $5 billion budget to sustain a $37.5 billion expenditure budget. Of course, we cannot. I will not ask you to answer, Mr. Secretary.

Senator LUCAS. I do not know who is advocating that.

Secretary SNYDER. We do not advocate that.

The CHAIRMAN. The Secretary brought up the 1939 method of apportioning taxes, and that is why I brought up the 1939 method of apportioning taxes and development of the results.

Secretary SNYDER. No. No. My purpose was to show the increase of taxes on those people who were brought in under the war time tax bills. When we start unwinding the wartime system and come down the ladder we ought to take into general consideration the way we went up the ladder.

The CHAIRMAN. Would you say that we can sustain a 37.5 billion dollars expenditure budget and allow the exemptions that we allowed in the 1939 act?

Secretary SNYDER. I made no such statement.

The CHAIRMAN. Of course not.

Senator LUCAS. I am glad you fellows are getting along so well.

Secretary SNYDER. We get along all right.

The CHAIRMAN. We are in the state of perfect agreement.

Secretary SNYDER. We are getting along all right.

The CHAIRMAN. I even got the Secretary to accept one of my assumptions a while ago.

Mr. Secretary, on page 6, you said:

> So far as I know, a flat percentage cut in individual income taxes has been made only twice before in the history of the Federal income tax. The first time was in the Revenue Act of 1924, applicable to 1923 income. That act made a flat 25-percent reduction, but exemptions were greater and rates on lower incomes were much less than under the present law.

What is the operative force of your statement that the "exemptions were greater and the rates on lower incomes were much less than under present law?"

Secretary SNYDER. This was a matter of the historical background on across-the-board tax cuts.

The CHAIRMAN. That language does not, under your viewpoint, add to or detract from the merits or lack of merits of a flat percentage decrease in taxes, does it?

Secretary SNYDER. The purpose of that was to point out that at that time we did not have as broad a base and there were not as many people affected by it.

The CHAIRMAN. I see.

The first Revenue Act of 1940 increased everybody's tax by a flat 10 percent. I invite your attention to that.

Secretary Snyder. Yes.

The CHAIRMAN. That is additional precedent for going up as well as down. Does not a flat 20 percent, or any other flat percent, of reduction in taxes preserve the existing rate of progress shown, regardless of whether we approve of that rate of progress shown?

Secretary SNYDER. Our tax people say not.

The CHAIRMAN. It does not?

Secretary SNYDER. Is not that the contention?

Mr. SHERE. Senator, that is explained in the second paragraph on page 6.

The CHAIRMAN. You are talking there about increases in margins of spendability, are you not?

Mr. SHERE. A flat 20 percent cut of a 20 percent rate would mean a reduction of 4 percentage points.

The CHAIRMAN. I am not talking about rates. I am talking about taxes. Does not a flat percent, whatever it may be, cut in taxes preserve the prior rate of progressiveness

Mr. SHERE. I do not think so, Senator. That is what I was trying to explain, that if you have a flat percentage cut in the case of a man subject to a 20-percent rate, he gets a 4-point reduction.

The CHAIRMAN. You are talking about rate, not taxes.

Mr. SHERE. That affects the progression. I want to indicate that a flat 20-percent cut, takes off 16 points from an 80-percent rate and only 4 points from a 20-percent rate; and that means that the progression is reduced. The slope of the curve is flattened out by such a reduction.

The CHAIRMAN. You say that the rate of progress shown does not remain the same if you take off a flat percentage cut in taxes?

Mr. SHERE. That is right.

The CHAIRMAN. That is your theory?

Mr. SHERE. That is right. That is explained on page 6, Senator.

The CHAIRMAN. The second and third paragraphs?

Mr. SHERE. The second paragraph.

The CHAIRMAN (reading):

> There is a significant difference between a flat percentage cut in existing tax rates and a uniform reduction of a certain number of percentage points in each bracket.

Is that your point?

Mr. SHERE. If we were to draw a chart of a flat percentage cut, you would find that the lines would diverge as you go up the scale of income, but if you take off an equal number of percentage points up and down the rate scale, with some adjustment in exemptions at the bottom, you will find that the lines will run parallel. Keeping the lines parallel means preserving the progression. A flat percentage cut across the board does not preserve the progression. The point is best illustrated by the following chart. (See p. 101.)

The CHAIRMAN. All I am asking you, again, is, I think you are operating on a different theory from the point I put to you. You say here:

> There is a significant difference between a flat percentage cut in existing tax rates and a uniform reduction of a certain number of percentage points in each bracket.

Let us assume that is correct. However, does not a flat percentage, whatever it may be, reduction in taxes preserve the rate of progression?

Mr. SHERE. You get the same result, Senator, whether you cut the taxes or cut the rates.

The CHAIRMAN. It might well be.

Mr. SHERE. Yes, sir.

The CHAIRMAN. It might well be that you got the same result. It might well be. Let me ask you, again, if you cut taxes by a flat percentage, does not that preserve your rate of progression?

Mr. SHERE. It is my opinion that it does not, Senator.

The CHAIRMAN. Let me read you a statement that was made in the House on this subject, from page 2723 of the Record of March 26, 1947:

> However, if the gentleman from Tennessee (who, I understand, was making your point) is of the opinion that the present progressive system is a fair measure of one's ability to pay, then a uniform percentage reduction will keep the share of the total burden levied on a particular taxpayer the same as at present.
>
> Thus, if A pays under existing law 10 times as much tax as B, he continues to pay 10 times as much as B after the uniform percentage reduction. On the other hand, if we raise exemptions or reduce rates for one group in preference to another, the effect is to disturb the existing ratio.
>
> For instance, under present law, an individual receiving an income of $50,000 pays a tax which is 27 times as high as that paid on an income of $5,000. Under a flat 20-percent tax reduction, the $50,000 man still pays 27 times as much as the $5,000 man. If, instead, exemptions are raised to $600, he will pay 28 times as much, and if exemptions are raised to $1,000, he will pay 31 times the tax paid by the $5,000 individual.

Passing the exemption part, do you agree with what was said?

Senator LUCAS. Whose statement is that?

The CHAIRMAN. Mr. Knutson, Chairman of the House Ways and Means Committee.

Mr. SHERE. Yes, that statement of fact one cannot deny.

The CHAIRMAN. That is all I was asking.

Mr. SHERE. What is generally viewed as progression?

The CHAIRMAN. You were throwing something else in the conversation. I will be with you on that in just a minute. Did I make a correct statement?

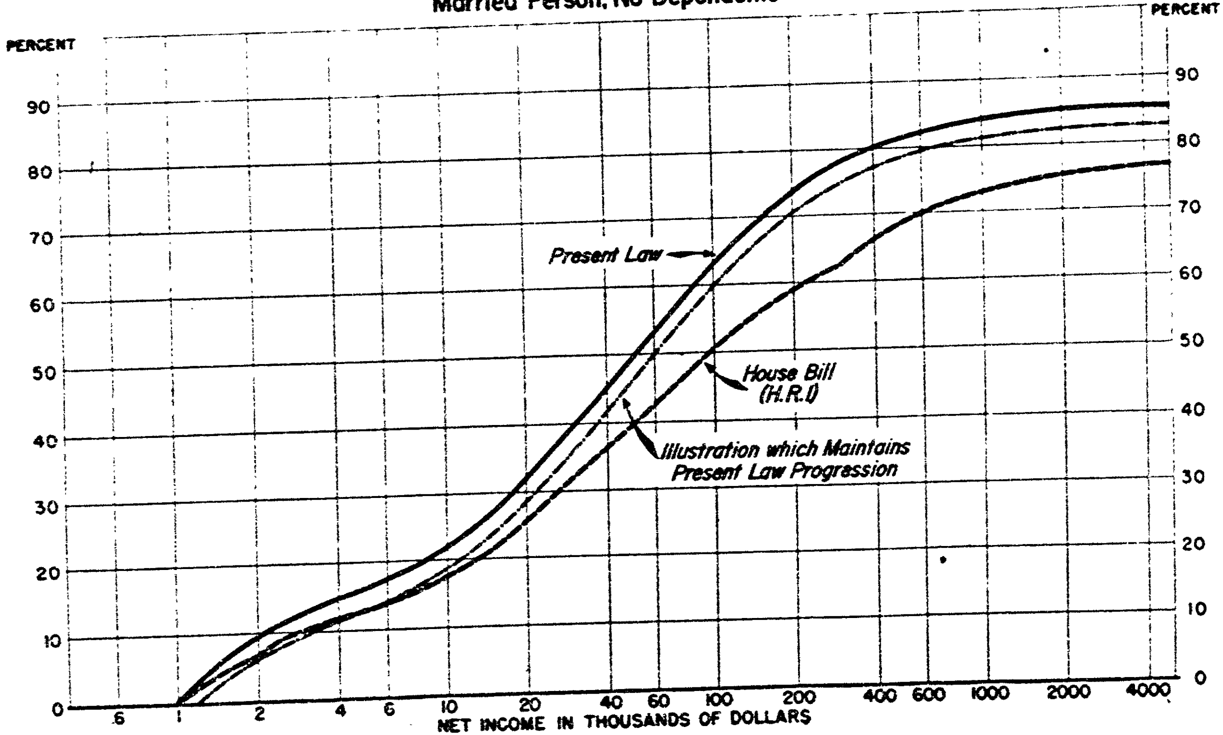
Mr. SHERE. That is a correct statement.

I mean just that part of the statement which says that the relationship between the taxes on different sizes of income will remain the same. That part of the statement is correct, but that is not my idea of what constitutes progression.

The CHAIRMAN. And the illustration which I read you here illustrates what I said to you, does it not?

EFFECTIVE RATES OF INDIVIDUAL INCOME TAX

Present Law, House Bill (H.R. 1), and Illustration which Maintains Present Law Progression
Married Person, No Dependents



Mr. SHERE. The figures are right.

The CHAIRMAN. Your answer is yes?

Mr. SHERE. Yes.

The CHAIRMAN. Does anyone wish to get into your theory?

Mr. SHERE. Senator, if you repeated a flat percentage cut several times, you would find the line which draws the picture of how the taxes fall on different size of income flattens out. This is what happens under H. R. 1 as shown in the chart above. Now, if we repeated that process of a flat percentage cut the line would get flatter and flatter.

The CHAIRMAN. Would the relationships stay the same? Would the $50,000 man continue to pay 27 times as much as the $5,000 man?

Mr. SHERE. Yes.

The CHAIRMAN. The relationship would stay the same?

Mr. SHERE. It would mean that the taxes stand in the same relationship as described in this table, but I do not think that we would draw from that the conclusion that there has been no change in the progression of she taxes, because the line would obviously flatten out very greatly, and it is the steepness of the line that really measures the rate of progression of the taxes.

The CHAIRMAN. If the relationship is a fair one, and that has never been determined, we are all dreaming about having some progression that is fair to everybody on an ability-to-pay basis, and all of the factors that you have to consider; but if it is a fair one or if it is a practical one, the flat percentage reduction in taxes preserves the relative relationships of the taxpaying parties, does it not, just as illustrated?

Mr. SHERE. Well, I would not agree, Senator, that it preserves the equities in the situation. It does not preserve the same degree of progression.

The CHAIRMAN. Is it fair that a $50,000 man shall pay 27 times as much tax? If that is fair, and if that relationship continues, then fairness continues, does it not, if he pays that much more than the $5,000 man?

Secretary SNYDER. We cannot maintain that all the way down; when you take this lower man out entirely, and he is not paying anything, the man with the $50,000 cannot pay 27 times that and keep us with revenue.

The CHAIRMAN. Under the theory that you have advanced, Mr Secretary, under your own method of applying a reduction, does not the rate of progression constantly alter as between the parties?

Secretary SNYDER. I leave that to the technical staff.

The CHAIRMAN. I think the curves show that, do they not?

Mr. SHERE. I am not sure that I understand your question, Senator.

The CHAIRMAN. So that we can get it absolutely clear, give me your theory of the way to apply a reduction.

Mr. SHERE. I was just addressing myself to the general point of what constitutes maintaining about the same kind of progression as under present law. To me, progression means increasing the rate as the size of income increases. Progression is more when the line relating the rates to the income is steeper, and the progression is less when the line is less steep. If the lines relating tax rates to income stay parallel all the way up and down the scale the progression is unchanged. If the lines diverge the progression is changed. The steeper line indicates the greater progression.

Senator LUCAS. It may be.

Mr. SHERE. If those lines diverge, if the line under the proposal flattens out and you have a wider difference at the top of the scale than you have at the bottom of the scale, then I maintain that you have changed the present progression.

The CHAIRMAN. It may be that we have fallen into a quagmire of definition of the word "progression," and I think there is some difference of opinion on what is progression; so I will simply ask you again, Does a flat percentage decrease in taxes preserve a relationship such as the one I illustrated to you, no matter what the percentage may be?

Mr. SHERE. Yes; but I do not relate that to our discussion on progression.

Secretary SNYDER. No question about that.

The CHAIRMAN. How many people would the $500 special exemption for people over 65 take off the roll?

Secretary SNYDER. 825,000.

The CHAIRMAN. I bring that out because Senator Lucas, I believe, was under the impression that no one was taken off the rolls under this bill.

Senator LUCAS. I understood that.

The CHAIRMAN. I notice in your statement the following:

> I do not believe that it would be fair to increase income-tax exemptions for persons over 65 years of age and not for similarly situated persons under 65 years.

I suggest, Mr. Secretary, that puts you into complete opposition to the theory of our social-security system.

Secretary SNYDER. Oh, no; that is the place to take care of it.

The CHAIRMAN. I suggest that it puts you into opposition to your solicitude for all of those 20 special cases involving special groups which you mentioned a while ago.

Secretary SNYDER. Oh, no, sir. The place for this old-age group to be taken care of is in the Social Security Act. That is the very place it ought to be considered, and not in the general tax bill. We are in complete agreement on that.

The CHAIRMAN. You put it on the basis of discrimination. You say:

> I do not believe that it would be fair to increase income-tax exemptions for persons over 65 years of age and not for similarly situated persons under 65.

Secretary SNYDER. In the general tax bill.

The CHAIRMAN. In other words, you do not oppose the proposition of giving this special type of relief to people 65 or over?

Secretary SNYDER. Under the appropriate form.

The CHAIRMAN. You are in favor of it in appropriate form, but not here?

Secretary SNYDER. We just do not feel it ought to be in the general tax bill, but it ought to be covered in the Social Security Act.

The CHAIRMAN. I think it is perfectly apparent that there is no other proposal before us at the time to give that kind of relief.

Senator LUCAS. If I understand you correctly, if they do place this clause in the tax bill, then there should be no discrimination in respect to the age there. Those who are under 65 should be treated the same.

Secretary SNYDER. Someone 64 years of age may be in just as bad shape as the one 66 years of age, and a man 66 may have a good healthy income, whereas the one 63 may not.

Senator LUCAS. You are objecting to the principle?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. I suggest that we are talking about tax reduction.

Secretary SNYDER. That is correct.

The CHAIRMAN. There is no place to accomplish tax reduction except in a tax reduction bill.

Secretary SNYDER. There is a place to talk about relief. That is what we are talking about, too. I am talking about this. As I said, the relief should come to those people under social security, if they are entitled to it, but not under a tax bill.

The Chairman. Why that punctility as to one way or another of doing it? The point is to get relief to those people. Why not by taxes?

Secretary SNYDER. Because I do not think we ought to start giving special group consideration in any tax bill.

The CHAIRMAN. Let me invite your attention then to the next page of your statement:

> Subjects that will need to be considered include the taxation of dividend income.

Are not the people who received or receive dividend income a class?

Secretary SNYDER. Well, that is a matter of incentives.

The CHAIRMAN. I do not care whether or not you call them incentives. The benefit would go to a class, and that is what you just opposed a moment ago. You go on to say that subjects that will need to be considered include tax treatment of different forms of business. Does not that include consideration of classes?

You go on and mention consideration of loss carry-backs and carry-forwards and depreciation, family income and exemptions and other matters; and every one of the things that you mention here involves a class.

Secretary SNYDER. That is right.

The CHAIRMAN. On page 7 of your statement, Mr. Secretary, there is this.

Secretary SNYDER. But, Senator, there is one thing about that, about those things. Anybody can qualify for the things we have got under consideration.

The CHAIRMAN. If he comes within the class, and anyone who is 65 or more will come under this one.

Secretary SNYDER. Yes; but I cannot decide today I want to be 65 and be 65, but I can become an owner of a security or I can get into business or do anything by my own election.

The CHAIRMAN. If you meet the standards and the classifications, and there are lots of people who are 65 today who will automatically come under this.

Secretary SNYDER. We have laws that relate to them, under which that should be given consideration.

The CHAIRMAN. I think you have fallen into a grave inconsistency when you do not want to treat this on a classification, a class basis, when within another paragraph or two you are treating half a dozen things on a class basis.

Secretary SNYDER. I do not agree that it is an inconsistency, Senator.

The CHAIRMAN. I do not want you to agree with an inconsistency.

Secretary SNYDER. All right.

The CHAIRMAN. Are there any further questions?

Senator LUCAS. I have a lot of questions.

Mr. Secretary, on Monday of this week, I introduced into the Senate a bill as a substitute for H. R. 1, known as the Knutson bill, and I presume, technically speaking, that bill is now before this committee, although we have said very little about it.

May I inquire whether you have had an opportunity to make an examination of that measure that was introduced on Monday of last week?

Secretary SNYDER. I have not. My time has been so limited, I have just not had a chance.

Senator LUCAS. I presumed that would be the answer, because the bill was not introduced until 1 day before we started the hearings.

You have made a very careful analysis of H. R. 1 and have given your reasons why you think it should not be passed, and you have gone into the various phases of it. I wonder if you are in a position to furnish a report, an opinion, with respect to the amendment that I have offered, sooner or later, either through yourself or some member of the Treasury? I know you are a busy man. If you could have one of your subordinates analyze it and bring it before us, I would like that.

Secretary SNYDER. We try to make the Treasury staff and myself available to this committee or to the Senate or Congress on any matters that they refer to us for analysis.

Senator LUCAS. The bill is not involved in any way, as I see it. It simply has three parts. It increases personal exemptions from $500 to $600, married person from $1,000 to $1,200; and it deals with family income splitting, placing all States on a similar basis with the nine States that now enjoy the privilege of dividing income between husband and wife; and the third provision of the bill is reduction by two points of the surtax rate in each surtax net income bracket, which means saving taxpayers about $3,800,000,000. This bill would not go into effect until January 1 of 1948.

With that brief statement, let me ask you just a question or two, if I may, about H. R. 1, which is the bill that was passed by the House of Representatives.

Do you agree with me that any retroactive tax legislation at this time would create a considerable amount of extra administrative work in the Treasury Department?

Secretary SNYDER. We have testified to that effect in this hearing.

Senator LUCAS. If I remember your manuscript, you estimated that it would take something over $700 million in tax refunds alone if that bill was passed.

Secretary SNYDER. $751 million is the estimate that was made.

Senator LUCAS. $751 million in tax refunds? Is it a fact that if this bill would pass, it would put what I would call a mortgage on the surplus being built up this fiscal year; would you agree with that?

Secretary SNYDER. Well, it would be on 1948.

Senator LUCAS. That is what I am talking about, 1948; there is no doubt about that?

Secretary SNYDER. That is what our fiscal secretary says.

Senator LUCAS. Is not it possible if this bill was passed, not any of us being able to see what the future might bring, that you might have to borrow money in the fiscal year of 1948 to rebate the taxes that you are going to take under this bill this year?

Secretary SNYDER. Unless it is provided for in the budget; yes; it could be.

Senator LUCAS. Now, most of the taxpayers are paying on a calendar-year basis; am I right on that?

Secretary SNYDER. Nearly all of them. Some corporations are on a fiscal-year basis, but the majority are on a calendar year.

Senator LUCAS. They are paying as they go, and any tax bill that is passed at the present time, whether it is retroactive or whether it becomes effective on July 1 of this year, would create somewhat of a serious muddle in the administration of the Treasury Department?

Secretary SNYDER. Mr. Sherwood can testify on that. I have been told that it would, but he is going to follow me from the Internal Revenue, and he could tell you more about that.

Senator LUCAS. Referring to your statement, on page 2, you say this.

Secretary SNYDER. He could tell you about that more accurately.

Senator LUCAS. On page 2, you state:

> In my opinion, it would be unwise to reduce the revenues before we have a clear picture of expenditures that will be authorized.

And you are pretty firm in that opinion; are you not?

Secretary SNYDER. We certainly feel that we want to be assured of a balanced budget; yes.

Senator LUCAS. Do you agree with me that no sound tax bill can be written in this Congress until we absolutely know what the expenditures of Government are going to be?

Secretary SNYDER. I felt like we should definitely know what the expenditures is going to be.

Senator LUCAS. Up to this time, there has not been a single major appropriation bill passed by the Congress of the United States. I am testifying myself, if you do not want to agree with me on that. So, we are starting out, Mr. Secretary, to write a tax bill whereby we are going to reduce taxes $4.5 billion, with not a single appropriation bill passed on by the Congress of the United States. Senator Hawkes was anxious to have the facts this morning about what the revenues are going to be for the coming year. He said that we have to have that in order to form an intelligent opinion here as to what should be done. I counter by saying that the only way this Congress can inform the American people about a sound tax program is to find out, first, what those expenditures are. I heartily concur in your statement made here on page 2.

Another statement that you made in reference to H. R. 1:

> Although the bill has been somewhat modified since it was originally introduced, it would still provide relatively too little tax reduction for low and middle incomes as compared with high incomes.

Do you agree that the increase in the exemption from $500 to $600 and the increase from $1,000 to $1,200 for married families would have tendency to meet the objection that you raise here to H. R. 1?

Secretary SNYDER. Well, as I said, we have not gone into that. have not had an opportunity to go into your bill.

Senator LUCAS. I would like to have the Treasury experts, if they will, draw up for me a graph or chart that the gentleman was talking about but a moment ago. I would like to see how the curve of H. R. 1

compares with the curve of the bill that I have introduced, because I am definitely of the opinion that you would see the curve flatten out and give to the taxpayers as a whole, a fairer and more equitable reduction from top to bottom, and that is what I want.

Mr. SHERE. We are preparing the suggested chart.

Senator LUCAS. Thank you.

I think that is all I have to ask at this time. I will have some more questions when you gentlemen come up with that information we have requested. Mr. Shere is smiling. I know he knows all about splitting family incomes and so forth and so on. I will interrogate him later.

The CHAIRMAN. Senator Byrd.

Senator BYRD. No questions.

The CHAIRMAN. Senator Connally.

Senator CONNALLY. I have no questions.

The CHAIRMAN. Senator George.

Senator GEORGE. No questions.

The CHAIRMAN. Mr. Secretary, there is the question of whether to maintain a Treasury decision that seems to make it impossible to grant stock options to young executives. What is the status of that?

Secretary SNYDER. That is under very intensive study right now. We have given it very serious study.

Mr. O'CONNELL. We are pretty near to the end of that study. We are writing a report on it and can make it available to the Senator.

Secretary SNYDER. We will have a report within a relatively short time, a week probably.

The CHAIRMAN. Would you be available to Senator George and me for a discussion of that?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. I believe I am correct in saying that we think that there is something within the power of the Treasury to do, that does not require law, that if the present situation were remedied, it would increase the incentive of young fellows to get in and take over the load of the older fellows who are wearing themselves out on the job of running this economy.

Secretary SNYDER. We are studying that.

Senator LUCAS. I would like to place into the record at this time, an editorial that was in the Washington News of last night, entitled, "Think About Next Year's Taxes." It deals with the bill that I introduced.

The CHAIRMAN. That will be included at this point.

(The following article was submitted for the record.)

THINK ABOUT NEXT YEAR'S TAXES

One thing in the tax bill proposed by Senator Lucas of Illinois we like better than the Knutson bill passed by the House.

It would make tax reductions effective January 1 next, rather than January 1 last. Tax cuts would be wholly anticipatory. If the Knutson bill became law, tax cuts in substantial amounts would be retroactive. It would put a mortgage on the surplus that is being built up this fiscal year. It might even force the Government next year to borrow additional money to rebate taxes paid this year.

Even the suggested compromise, to make the new tax rates effective July 1, would mess up the books. Most taxpayers pay taxes on a calendar-year basis, and already are paying 1947 taxes at present rates. That is money the Government should continue to collect, and should keep, applying any surplus to reduction of the public debt.

By making the tax cuts wholly anticipatory, it is entirely possible that revenues may be increased rather than diminished. The definite promise of lower taxes next year should effectively encourage the starting of new enterprises, the expansion of old ones, greater production, more jobs, more wealth—and from the expanding business activity produce larger revenues to be skimmed at the lower rates.

But no such benefit would flow from a retroactive tax cut, at a time when the Government is heavily in debt and prices are inflated because production of many goods lags behind demand.

The CHAIRMAN. Mr. Secretary, thank you very much for your statement.

We will meet again at 2:30 this afternoon. At this time we will adjourn until then.

(Whereupon, at 12:50 p. m., the committee adjourned to reconvene at 2:30 p. m., the same day.)

AFTERNOON SESSION

(Pursuant to the expiration of the noon recess, the committee reconvened at 2 p. m.)

The CHAIRMAN. The hearing will come to order, please.

Mr. Sherwood, will you state your full name for the record and your present occupation?

STATEMENT OF W. T. SHERWOOD, ASSISTANT COMMISSIONER OF INTERNAL REVENUE, ACCOMPANIED BY THOMAS C. ATKESON, ASSISTANT TO THE COMMISSIONER OF INTERNAL REVENUE, TREASURY DEPARTMENT, WASHINGTON, D. C.

Mr. SHERWOOD. William T. Sherwood, Assistant Commissioner of Internal Revenue.

The CHAIRMAN. As I understand it, Mr. Nunan could not be here, and you are pinch-hitting for him.

Mr. SHERWOOD. That is correct.

The CHAIRMAN. Do you have a prepared statement?

Mr. SHERWOOD. I do, sir.

The CHAIRMAN. Proceed, please.

Mr. SHERWOOD. Mr. Chairman and members of the Finance Committee, I am appearing on behalf of Commissioner of Internal Revenue Joseph D. Nunan, Jr. The Commissioner appreciates very much your invitation to comment on H. R. 1, and has asked me to express to you his sincere regrets that he is unable to appear personally because of unavoidable absence from the city.

Our comments will not be directed to the question of whether individual income taxes should be reduced, nor at the type of tax reduction provided by H. R. 1. These are matters of tax policy and are not for determination by the Bureau. We are, however, vitally concerned with the administrative aspects and management mechanics as affected by the proposed tax reduction.

On March 13 the Commissioner appeared before the House Ways and Means Committee. He stated his views respecting the administrative aspects of H. R. 1 as then proposed. The bill as passed by the House differed in several important respects from the proposed measure upon which the Commissioner commented. There were fewer taxpayer compliance problems and less administrative and enforcement difficulties in the earlier draft. The administrative feature of the earlier draft appearing most difficult related to the limitations imposed upon the additional exemptions to be provided for presons over 65 years of age. The objectionable limitation was that provision which, in the case of joint returns, denies the additional exemption to wives (or husbands) receiving less than $500 of income. The problems involved in the application of this limitation were described to the committee's technicians, but were not solved. There are even further complications posed by provisions of the bill now before you.

The Bureau must in justice to the Congress identify for you provisions which will tend to complicate the tax forms. It will try to point out how you can get substantially the same result without many of the complications occasioned by provisions of H. R. 1. We ought to avoid, if we can, a repetition of the experience following the release of the 1943 income tax return forms and instructions. As you know, public criticism was widespread and persistent. This criticism was leveled at all of us—the Congress, the Treasury Department in general, but particularly the Bureau of Internal Revenue.

Following that experience, the staffs of the Joint Committee on Internal Revenue Taxation and of the Treasury Department, in conjunction with Bureau representatives, proposed a program of sweeping simplification changes. These recommendations were adopted and made effective by the Individual Income Tax Act of 1944. Our present income tax return forms and instructions require fewer computations and create less misunderstandings by taxpayers than any forms in the history of the Federal income tax. Of course, we are not wholly satisfied with the return forms as they stand. It is only common sense to continue efforts to simplify them. We should be constantly alert to avoid statutory requirements which tend in the opposite direction.

All the reasons that were compelling in 1944 for simplifying the individual income-tax system are equally valid today.

Under H. R. 1 it is estimated that 47.7 million persons will incur income tax liability for 1947. They should be provided with forms which will permit every taxpayer to ascertain his tax with the least possible effort and uncertainty. There should be no obscurities that might cause him to pay more or less than his lawful tax liability. The task of administering a broad-base income tax can be greatly simplified and facilitated if tax forms are provided which will enable the least-informed taxpayer to understand the basis of his tax computations.

In order to visualize the significance of H. R. 1 in terms of how it will affect the taxpayers, the tax forms have been redrafted to conform with the provisions of the bill. Copies of these forms are included as appendix A.

(Appendix A is as follows:)

APPENDIX A

TAX FORMS TENTATIVELY REVISED TO REFLECT THE PROVISIONS OF H. R. 1

File this return with Collector of Internal Revenue on or before March 15, 1948. Any balance of tax due (item 9, below) must be paid in full with return. See separate instructions for filling out return.

Page 1

FORM 1040
Treasury Department
Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN
FOR CALENDAR YEAR 1947

1947

or fiscal year beginning ...., 1947 and ending ...., 1948

EMPLOYEES.—Instead of this form, you may use your Withholding Statement, Form W-2, as your return, if your total income was less than $5,000, consisting wholly of wages shown on Withholding Statements or of such wages and not more than $100 of other wages, dividends, and interest.

Do not write in these spaces
File Code
Serial No.
District
(Cashier's Stamp)

Name ....
(PLEASE PRINT. If this return is for a husband and wife, use both first names)

ADDRESS ....
(PLEASE PRINT. Street and number or rural route)

....
(City or town, postal zone number) (County) (State)

Occupation .... Social Security No. ....

List your own name.
If married and your wife (or husband) had no income, or if this is a joint return of husband and wife, list name of your wife (or husband).

List names of other close relatives (as defined in instruction 1) with 1947 income of less than $500 who received more than one-half of their support from you. If this is a joint return of husband and wife list dependent relatives of both.

[illegible]

Your Exemptions

1. Name (please print)	Relationship	Name (please print)	Relationship
Your name	xxxxxxxxxx		

Your Income

Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1947 BEFORE PAY-ROLL DEDUCTIONS for taxes, dues, insurance, bonds, etc. Members of armed forces and persons claiming traveling or reimbursed expenses, see instruction 2.

2. Print Employer's Name	Where Employed (City and State)	Amount
		$

Enter total here → $

3. Enter here the total amount of your dividends........
4. Enter here the total amount of your interest (including interest from Government obligations unless wholly exempt from taxation)........
5. If you received any other income, give details on page 2 and enter the total here........
6. Add amounts in items 2, 3, 4, and 5, and enter the total here........ $

How to Figure Your Tax

IF YOUR INCOME WAS LESS THAN $5,000.—You may find your tax in the tax table on page 4. This table, which is provided by law, automatically allows about 10 percent of your total income for charitable contributions, interest, taxes, casualty losses, medical expenses, and miscellaneous expenses. If your expenditures and losses of these classes amount to more than 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.

IF YOUR INCOME WAS $5,000 OR MORE.—Disregard the tax table and compute your tax on page 3. You may either take a standard deduction of $500 or itemize your deductions, whichever is to your advantage.

HUSBAND AND WIFE.—If husband and wife file separate returns, and one itemizes deductions, the other must also itemize deductions.

Tax Due or Refund

7. Enter your tax from table on page 4, or from line 12, page 3........ $
8. How much have you paid on your 1947 income tax?
   (A) By withholding from your wages........ $
   (B) By payments on 1947 Declaration of Estimated Tax........
   Enter total here →
9. If your tax (item 7) is larger than payments (item 8), enter BALANCE OF TAX DUE here........ $
10. If your payments (item 8) are larger than your tax (item 7), enter the OVERPAYMENT here........ $
   Check (✓) whether you want this overpayment: Refunded to you ☐; or Credited on your 1948 estimated tax ☐

If you filed a return for a prior year, what was the latest year? ....
Collector's office to which sent ....

To which Collector's office was it sent? ....
To which Collector's office did you pay amount claimed in item 8 (B), above? ....

Is your wife (or husband) making a separate return for 1947? .... ("Yes" or "No")
If "Yes," write below:
Name of wife (or husband) ....

If this is a joint return, and you or your wife (or husband) is over 65, list the income (exclusive of amount of annuities, etc., included in Schedule A for purposes of an "over 65" exemption) of:
(a) Yourself $........ (b) wife (or husband) $........

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

.... (Signature of person (other than taxpayer or agent) preparing return) .... (Date)

.... (Signature of taxpayer) .... (Date)

.... (Name of firm or employer, if any)

.... (If this is a joint return of husband and wife, it must be signed by both)

Page 2

Do not use this page if your income is wholly from salaries, wages, dividends, and interest

Schedule A.—INCOME FROM ANNUITIES OR PENSIONS

1. Cost of annuity (total amount you paid in) $..........
2. Amount received tax free in prior years ..
3. Remainder of your cost (line 1 less line 2) .... $..........
4. Total amount received this year ...... $..........
5. Excess, if any, of line 4 over line 3......
6. Enter line 5, or 3 percent of line 1, whichever is greater.. $..........
(Attach separate schedule for each additional annuity or pension)
7. If over 65, enter here amount of pensions, annuities, etc; includible because of additional exemptions ....

Schedule B.—INCOME FROM RENTS AND ROYALTIES

1. Kind of property	2. Amount of rent or royalty	3. Depreciation or depletion (explain in Schedule F)	4. Repairs (explain in Schedule G)	5. Other expenses (itemize in Schedule G)
....	$..........	$..........	$..........	$..........
....	....	....	....	....
....				
Net profit (or loss) (col. 2 less sum of cols. 3, 4, and 5)	$..........	$..........	$..........	$..........

Schedule C.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION. (Farmers should obtain Form 1040F)

(State (1) nature of business ....; (2) business name ....)

1. Total receipts .... $..........

COST OF GOODS SOLD		OTHER BUSINESS DEDUCTIONS	
(To be used where inventories are an income determining factor) (Enter the letters "C" or "C or M" on lines 2 and 8 if inventories are valued at either cost, or cost or market, whichever is lower)		11. Salaries and wages not in line 4..........	$..........
		12. Interest on business indebtedness..........	
		13. Taxes on business and business property	
2. Inventory at beginning of year..........	$..........	14. Losses (explain in Schedule G)..........	
3. Merchandise bought for sale..........		15. Bad debts arising from sales or services..	
4. Labor..........		16. Depreciation, obsolescence and depletion (explain in Schedule F)..........	
5 Material and supplies..........		17. Rent, repairs, and other expenses (explain in Schedule G)..........	
6. Other costs (explain in Schedule G)..........		18. Amortization of emergency facilities (attach statement)..........	
7. Total of lines 2 to 6..........	$..........	19. Net operating loss deduction (attach statement)..........	
8. Less inventory at end of year....		20. Total of lines 11 to 19..........	$..........
9. Net cost of goods sold (line 7 less line 8)..........	$..........	21. Total of lines 9 and 20..........	$..........
10. Gross profit (line 1 less line 9)..	$..........	22. Net profit (or loss) (line 1 less line 21)	

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1. Net gain (or loss) from sale or exchange of capital assets (from separate Schedule D)..........
2. Net gain (or loss) from sale or exchange of property other than capital assets (from separate Schedule D) ....

Schedule E.—INCOME FROM PARTNERSHIPS, ESTATES AND TRUSTS, AND OTHER SOURCES

1. Name and address of partnership, syndicate, etc..........Amount, $..........
2. Name and address of estate or trust..........Amount,
3. Other sources (state nature)..........Amount,
4. Total ....

Total income from above sources (Enter as item 5, page 1) .... $

Schedule F.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULES B AND C

1. Kind of property (If buildings, state material of which constructed)	2. Date acquired	3. Cost or other basis (do not include land or other nondepreciable property)	4. Assets fully depreciated in use at end of year	5. Depreciation allowed (or allowable) in prior years	6. Remaining cost or other basis to be recovered	7. Estimated life used in accumulating depreciation	8. Estimated remaining life from beginning of year	9. Depreciation allowable this year
....	....	$..........	$..........	$..........	$..........	....	....	$..........
....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....

Schedule G.—EXPLANATION OF COLUMNS 4 AND 5 OF SCHEDULE B, AND LINES 6, 14, AND 17 OF SCHEDULE C

1. Column or Line No.	2. Explanation	3. Amount	1. Column or Line No.	2. Explanation	3. Amount
....	....	$..........	....	....	$..........
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

Page 2

Do not itemize deductions if—(1) You determine your tax from the tax table on page 4, or
(2) Your total income is $5,000 or more and you claim the $500 standard deduction.
If husband and wife living together at end of year file separate returns and one itemizes deductions, the other must file his or her return on Form 1040, and must also itemize deductions.

DEDUCTIONS

Describe deductions and state to whom paid. If more space is needed, list deductions on separate sheet of paper and attach to this return.

Contributions		Interest	
	$		$
Allowable Contributions (not in excess of 15 percent of item 6, page 1)	$	Total Interest	$
Taxes		**Losses from fire, storm, shipwreck, or other casualty, or theft.**	
	$		$
Total Taxes	$	Total Allowable Losses (not compensated by insurance or otherwise)	$
Medical and dental expenses		**Miscellaneous (See Instructions)**	
	$		$
Net Expenses (not compensated by insurance or otherwise)	$		
Enter 5 percent of item 6, page 1, and subtract from Net Expenses.			
Allowable Medical and Dental Expenses. See Instruction for limitation	$	Total Miscellaneous Deductions	$

TOTAL DEDUCTIONS .... $

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

1. Enter amount shown in item 6, page 1. This is your Adjusted Gross Income	$
2. Enter DEDUCTIONS (If deductions are itemized above, enter the total of such deductions; if adjusted gross income (line 1, above) is $5,000 or more and deductions are not itemized, enter the standard deduction of $500)	
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income	$
4. Enter your exemptions ($500 for each person whose name is listed in item 1, page 1, plus $500 for each "over 65" exemption listed in item 1, page 1)	
5. Subtract line 4 from line 3. Enter the difference here	$
6. Use the tax rates in instruction sheet to figure your combined tentative normal tax and surtax on amount entered on line 5. Enter the tentative tax here. (If line 3 above includes partially tax-exempt interest, see Tax Computation Instructions)	$
7. (a) If amount entered on line 6 is not in excess of $200, enter 33 1/3% of that amount here	
(b) If amount entered on line 6 is in excess of $200 but not in excess of $279.17, enter $67 here	
(c) If amount entered in line 6 is in excess of $279.17 but not in excess of $250,000, enter 24% of that amount here	
(d) If amount entered on line 6 is in excess of $250,000, enter $60,000 plus 15% of the excess over $250,000 here	
8. Subtract line 7 from line 6. Enter the difference here. This is your combined normal tax and surtax. (If alternative tax computation is made on separate Schedule D, enter here tax from line 12 of Schedule D)	$

IF YOU USED THE $500 STANDARD DEDUCTION IN LINE 2, DISREGARD LINES 9, 10, AND 11, AND COPY ON LINE 12 THE SAME FIGURE YOU ENTERED ON LINE 8.

9. Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116)	$	
10. Enter here any income tax paid at source on tax-free covenant bond interest		
11. Add the figures on lines 9 and 10 and enter the total here		
12. Subtract line 11 from line 8. Enter the difference here and in item 7, page 1. This is your tax		$

Page 4

If you use this table, tear off this page and file only pages 1 and 2

TAX TABLE

FOR PERSONS WITH INCOMES UNDER $5,000 NOT COMPUTING TAX ON PAGE 3

Read down the shaded columns below until you find the line covering the total income you entered in item 6, page 1. Then read across to the the column headed by the number of exemptions listed in item 1 page 1. (Each "over 65" exemption listed in item 1, page 1, is counted as one.) Enter the tax you find there in item 7, page 1.

If total income in item 6, page 1, is—		And the number of persons listed in item 1, page 1, is—				If total income in item 6, page 1, is—		And the number of persons listed in item 1, page 1, is—								
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8	9 or more
		Your tax is—						Your tax is—								
$0	$550					$2,225	$2,250									
550	575					2,250	2,275									
575	600					2,275	2,300									
600	625					2,300	2,325									
625	650					2,325	2,350									
650	675					2,350	2,375									
675	700					2,375	2,400									
700	725					2,400	2,425									
725	750					2,425	2,450									
750	775					2,450	2,475									
775	800					2,475	2,500									
800	825					2,500	2,525									
825	850					2,525	2,550									
850	875					2,550	2,575									
875	900					2,575	2,600									
900	925					2,600	2,625									
925	950					2,625	2,650									
950	975					2,650	2,675									
975	1,000					2,675	2,700									
1,000	1,025					2,700	2,725									
1,025	1,050					2,725	2,750									
1,050	1,075					2,750	2,775									
1,075	1,100					2,775	2,800									
1,100	1,125					2,800	2,825									
1,125	1,150					2,825	2,850									
1,150	1,175					2,850	2,875									
1,175	1,200					2,875	2,900									
1,200	1,225					2,900	2,925									
1,225	1,250					2,925	2,950									
1,250	1,275					2,950	2,975									
1,275	1,300					2,975	3,000									
1,300	1,325					3,000	3,050									
1,325	1,350					3,050	3,100									
1,350	1,375					3,100	3,150									
1,375	1,400					3,150	3,200									
1,400	1,425					3,200	3,250									
1,425	1,450					3,250	3,300									
1,450	1,475					3,300	3,350									
1,475	1,500					3,350	3,400									
1,500	1,525					3,400	3,450									
1,525	1,550					3,450	3,500									
1,550	1,575					3,500	3,550									
1,575	1,600					3,550	3,600									
1,600	1,625					3,600	3,650									
1,625	1,650					3,650	3,700									
1,650	1,675					3,700	3,750									
1,675	1,700					3,750	3,800									
1,700	1,725					3,800	3,850									
1,725	1,750					3,850	3,900									
1,750	1,775					3,900	3,950									
1,775	1,800					3,950	4,000									
1,800	1,825					4,000	4,050									
1,825	1,850					4,050	4,100									
1,850	1,875					4,100	4,150									
1,875	1,900					4,150	4,200									
1,900	1,925					4,200	4,250									
1,925	1,950					4,250	4,300									
1,950	1,975					4,300	4,350									
1,975	2,000					4,350	4,400									
2,000	2,025					4,400	4,450									
2,025	2,050					4,450	4,500									
2,050	2,075					4,500	4,550									
2,075	2,100					4,550	4,600									
2,100	2,125					4,600	4,650									
2,125	2,150					4,650	4,700									
2,150	2,175					4,700	4,750									
2,175	2,200					4,750	4,800									
2,200	2,225					4,800	4,850									
[illegible]	[illegible]					4,850	4,900									
[illegible]	[illegible]					4,900	4,950									
[illegible]	[illegible]					4,950	5,000									

1947 INSTRUCTIONS FOR FORM 1040, U. S. INDIVIDUAL INCOME TAX RETURN 1947

GENERAL INSTRUCTIONS

These instructions will help you to understand and fill out Form 1040, the U. S. Individual Income Tax Return, for 1946. They give the information most commonly needed by taxpayers. You may obtain additional information from the collector of internal revenue for your district or from any of his branch offices.

Purpose of Return

Under the pay-as-you-go system of income tax collection, most individuals pay all or a substantial part of their income tax during the year in which they receive their income. The tax is withheld from their wages or paid in quarterly installments as estimated tax, or both. However, these payments do not exactly equal the actual tax liability. It is necessary for each taxpayer to file a return at the end of the year showing his actual tax liability, so that any additional amount due may be collected or any overpayment may be refunded.

Form of Return

There are three methods of making your return.

1. *Withholding Statement.*—You may use your Withholding Statement (Form W-2), as your return, if your total income was less than $5,000, consisting wholly of wages shown on Withholding Statements or of such wages and not more than $100 of other wages, dividends, and interest.

2. *Short-form Return.*—You may make a *Short-form Return* on Form 1040 if your income was less than $5,000, by using the tax table on the form and tearing off pages 3 and 4. If your income was wholly from salaries, wages, dividends, and interest, you need fill out only page 1. If you had other income, you must also use page 2.

3. *Long-form Return.*—You must make a *Long-form Return* on Form 1040 if your income was $5,000 or more or if you claim deductions amounting to more than 10 percent of your income. In either of these cases you must use page 3 instead of the tax table on page 4.

If you use a Withholding Statement as your return, or make a Short-form Return on Form 1040, your tax is figured from a tax table provided by law which automatically allows about 10 percent of your total income for charitable contributions, interest, taxes, casualty losses, medical expenses, and miscellaneous expenses. Therefore, if you use either of those methods of making a return, you should not deduct any such expenses on your return. If you make a Long-form Return on Form 1040 and your income is $5,000 or more, you may either take a standard deduction of $500 for such expenses or claim them in detail, whichever is to your advantage.

Other Forms.—Forms 1040B and 1040NB are for use by nonresident aliens and Form 1041 by fiduciaries of estates or trusts.

Who Must File

A return must be filed by every citizen or resident of the United States (including a minor) who had $500 or more gross income in 1946.

In deciding whether you must file a return, you should exclude from your income any items which are wholly exempt from tax. The principal wholly exempt items are listed on this page under the heading "Exclusions From Gross Income." For instance, the active-service pay received by the enlisted personnel of the armed forces is exempt from tax. Consequently, most members of the armed forces are not required to file returns.

Joint Return.—A husband and wife may make a joint return even though one has no income. In a joint return the aggregate income, deductions, and credits are treated as though husband and wife were one person. Exemptions are allowed for both. A joint return must be signed by both husband and wife.

Income under $500.—A single person with less than $500 income should file a return to get a refund of tax withheld. A married person with less than $500 income should always file a *joint* return with husband or wife to get the lesser tax or larger refund for the couple.

When to File

You must file your return on or before March 15, 1947, unless you have established a fiscal year which is different from the calendar year. If you have such a fiscal year, you must file by the fifteenth day of the third month after the close of your year.

Members of the Armed Forces.—If you are in the armed forces and, on the filing date, are on sea duty or outside the continental United States, you may postpone filing your return until the fifteenth day of the sixth month after you come back to the United States, but not beyond the fifteenth day of the third month after the end of the war as proclaimed by the President.

Civilians Outside the United States.—If you are a civilian and are outside the Americas for more than 90 days, you may postpone filing your return until 90 days after you come back to the Americas but not beyond the fifteenth day of the third month after the end of the war as proclaimed by the President. If you are outside the United States but *within* the Americas, you may *defer* filing your return for 3 months after the regular filing date, but will have to pay interest on your unpaid tax at the rate of 6 percent per year.

Where to File Your Return and Pay Your Tax

You should take or mail your return to the collector of internal revenue for the district in which you live or have your place of business. If you have no legal residence or place of business in the United States, file with the Collector of Internal Revenue, Baltimore 2, Maryland.

If your return on Form 1040 shows a *balance of tax due*, you should pay it in full with your return. Checks or money orders should be made payable to "Collector of Internal Revenue."

Penalties

Severe penalties are provided by law for failure to file a required return, for filing late, and for filing a false or fraudulent return.

Income Tax Rates and Exemptions

The income tax includes a "normal tax" and a "surtax." Both are figured as percentages of your income, but with different rates.

In reducing taxes for 1946, the Revenue Act of 1945 provided for a tentative normal tax of 3 percent and a tentative surtax of 17 to 88 percent, and for further reducing these taxes by 5 percent to determine the final tax.

For normal tax and surtax, you are allowed (subject to the restrictions stated under the heading "Your Exemptions" on page 2 of these instructions) an exemption of $500 for yourself, $500 for your wife, and $500 for each dependent relative.

Exclusions From Gross Income

Income from any source whatsoever is subject to income tax unless excluded by some specific provision of law. The exclusions are described in sections 22 (b) and 116 of the Internal Revenue Code. The principal exclusions are:

1. *Armed Forces, Etc.*—Members and veterans of the armed forces and their families should exclude from their income.

(*a*) All pay for active service as a member below the grade of commissioned officer, and the first $1,500 of annual pay for active service as a commissioned officer.

(*b*) Mustering-out pay

(*c*) Contributions by the Government to monthly family allowances

(*d*) Pensions and disability compensation to war veterans and their families.

(e) Disability retirement pay (but other retirement pay is taxable). Exception: Officers, noncommissioned officers and enlisted personnel of the Regular Army and Navy who have been retired because of medical survey and who are 65 years of age or over and who are entitled to an additional exemption, must include retirement pay as income in an amount up to but not in excess of $500. See "Your Exemptions", page 2.

(*f*) Interest on adjusted-service bonds

2. Social Security Benefits - Exclude benefit payments received from the Federal Government or from a State under the Federal Social Security. Exception: Persons who are 65 years of age or over and who are entitled to an additional exemption, must include as income amounts received up to but not in excess of $500 as benefits under the old age and survivor's insurance provision of the Social Security Act. See "Your Exemptions," page 2.

3. *Sickness and Injury Benefits.*—Exclude amounts received as compensation for bodily injury or sickness, whether in the form of health and accident insurance, workmen's compensation, or damages. However, reimbursements on account of medical and dental expenses which were claimed as a deduction in a prior year should be reported as income up to the amount of such deduction.

4. *Tax-exempt Interest.*—Exclude interest on obligations of a State or political subdivision, interest on obligations of the United States issued prior to March 1, 1941, if made wholly exempt from taxation by the Act authorizing their issuance, and interest on not exceeding $5,000 of United States savings bonds (at cost) and Treasury bonds (at face value) which were issued before March 1, 1941.

5. *Gifts.*—All bona fide gifts should be excluded, but so-called "gifts" received as compensation for personal services rendered are taxable.

6. *Bequests, Inheritances, Etc.*—Property acquired by bequest, devise, or inheritance should be excluded, but any income earned by the property is taxable.

7. *Life Insurance.*—Proceeds payable on account of death of the insured should be excluded, but if the proceeds are held by the insurer under an agreement to pay interest, the interest is taxable. Payments on a life or endowment policy (other than annuity payments) during the lifetime of the insured should be excluded until they equal the amount paid for the policy, the remaining payments are taxable.

8. *Recoveries of Bad Debts, Etc.*—Recoveries of bad debts, of prior-year taxes, or of payments on account of tax delinquencies, should be excluded if deductions for these items did not reduce the income tax liability of the taxpayer for any prior year.

Cash or Accrual Basis of Reporting Income

Your return must be on the "cash basis"—which means on the basis of cash receipts and payments—unless you keep accounts on the "accrual basis." However, cash receipts include the full amount of your wages or salary even though a part was deducted for taxes, war bonds, union dues, etc. They also include uncashed salary or dividend checks, bank interest credited to your account, matured bond coupons, and similar items which you can immediately turn into cash. If you keep accounts on the accrual basis, your return must be made accordingly.

Farmers

Farming is regarded as a business and the instructions applicable to returns of farmers may be found on page 3 under "Schedule C.—Business or Profession."

Information at Source

Every person who made payments of salary, wages, interest, rents, commissions, or other fixed or determinable income of $500 or more during the calendar year 1946 to an individual, partnership, or fiduciary, must make a return on Forms 1096 and 1099. If a portion of such salary or wage payments was reported on a Withholding Statement (Form W-2), only the remainder must be reported on Form 1099.

HOW TO FILL OUT FORM 1040

In preparing Form 1040, you are required to fill out only those lines and pages which apply to your particular circumstances. Thus, if your income is all from wages or salary, you should disregard items 3, 4, and 5 on page 1 and the whole of page 2. Likewise, if you use the tax table on page 4, you should disregard all of page 3.

Specific instructions for filling out particular lines and schedules on the form are given in the following pages. The specific instructions have been so arranged that they may be placed alongside the corresponding items on the form, for easy reference.

INSTRUCTIONS FOR PAGE 1 OF FORM 1040

Place alongside page 1 of Form 1040 for easy reference

Your Exemptions

1. List the names called for in item 1, in order to get credit for your exemptions.

If you were married at the end of the year and you and your wife make a joint return, you may list your wife's name. In case you make a separate return, you may list your wife's name only if she had no income and did not receive her chief support from another person closely related to her. If your wife died during the year, you may list her name if she had no income and did not receive her chief support from another person closely related to her. If you were divorced at the end of the year, do not include your former wife.

List the names of other close relatives with 1946 incomes of less than $500 who received more than one half of their support from you.

"Close relative" means: Your son, daughter, or a descendant of either, your stepson, stepdaughter, son-in-law, daughter-in-law; your father, mother, or ancestor of either, your stepfather, stepmother, father-in-law, or mother-in-law, your brother, sister, stepbrother, stepsister, half brother, half sister, brother-in-law, or sister-in-law, your uncle, aunt, nephew, or niece. Do not include an uncle, aunt, nephew, or niece if related to you only by marriage.

The above relationships apply to a legally adopted child the same as though he or she were a child by blood. Do not claim a citizen of a foreign country as a dependent unless he or she was a resident of the United States, Canada, or Mexico. Do not claim an exemption for any relative who files a joint return with another person.

Persons 65 years of age or over – If you were 65 years of age or over on the last day of your taxable year you are entitled to an additional exemption of $500. However, if you received an annuity under the provisions of the Railroad Retirement Act, or benefits under the old age and survivor's insurance provision of the Social Security Act, or retirement pay in consequence of retirement from the Regular Army or Navy because of medical survey, or any amounts as pension, annuity, retirement pay or allowances, other than a lump sum benefit or payment, because of services rendered by you or by some other persons, and which amounts are not otherwise includible in gross income, for the purpose of this additional exemption the total amount of such receipts must be included in your income if the amount received is $500 or less. If you received more than $500, you must include $500.

If you are married and this is a joint return of husband and wife and your wife (or husband) was 65 years of age or over on the last day of your taxable year and she (or he) had gross income of $500 or more you are entitled to an additional exemption of $500 for her (or him). However, if she (or he) received an annuity or pension of the type mentioned above you must include the total amount of such receipts in joint income if the total amount was $500 or less; if it was more than $500, you must include $500. If she (or he) did not have income of $500 or more (other than the receipts which you are required to include in income because of this additional exemption) you are not entitled to an additional exemption for her (or him), and you are required to include in income only the amount of her (or his) income that is otherwise includible.

The amount of annuity or pension income which is required to be included in income because of this additional exemption should be shown in line 7, Schedule A of Form 1040.

Your Income

2. Wages and Salaries.—If this return includes wages of both husband and wife, list wages and employers of each. Do not include earnings of anyone else.

Members of the armed forces should exclude mustering-out payments, the active-service pay of a member below the grade of commissioned officer, and the first $1,500 of active-service pay of a commissioned officer.

If, in connection with your employment, you claim deductions for traveling or reimbursed expenses, itemize actual expenses on a separate sheet of paper, subtract them from your total compensation and allowances, and enter the balance in item 2. Attach the itemized list securely to your return.

You must also include all "tips," and any "gift" which is really compensation for services.

If you receive payment in any form other than money, such as merchandise, room, or board, you must include the fair market value in item 2. However, if it is necessary for you to live on your employer's premises in order to fulfill your duties, do not include the value of the board and room furnished you. A minister of the gospel should not include the rental value of a dwelling furnished him as a part of his compensation.

3. Dividends.—Enter the total amount of all dividends.

4. Interest.—Enter the *total* of any interest unless wholly exempt from tax. See General Instructions under "Exclusions From Gross Income." Allowance for any partial exemption or amortizable bond premium is made in the tax table and in the standard deduction of $500. If you do not use the tax table or the standard deduction, these items may be deducted in the tax computation on page 3 (line 6). The increase in value of a War Bond (Series E or F) or United States savings bond (Series A, B, C, or D) need not be reported until the bond is cashed. However, you may at any time adopt the practice of reporting each year the annual increase in value, but if you do so, you must report in the first year the entire increase to date and must continue to report the annual increase each year thereafter.

5. Other Income.—If you had any income from annuities, rents, royalties, a business or profession, farming, transactions in securities or other property, partnerships, estates and trusts, or other sources, explain on page 2 and enter the total in item 5, page 1.

Tax Due or Refund

7. Your Tax.—This is your total tax liability before taking credit for tax withheld from your wages and payments on your 1946 Declaration of Estimated Tax.

8. Payments.—(A) Enter the amount of income tax withheld from your wages by your employer as shown on your Withholding Statement (Form W-2). Keep all your Withholding Statements. Your employer will furnish the collector with copies.

(B) If you filed a 1946 Declaration of Estimated Tax (Form 1040 ES), enter the total amount of estimated tax paid, including any prior year's credit which you applied against your estimated tax. You can determine the amount paid or credited from the retained copy of your declaration, your canceled checks, or other personal records.

If husband and wife filed a joint declaration but are now filing separate returns, they may divide the payments of estimated tax between them in any proportion they desire.

9. Balance of Tax Due.—Any tax owed in excess of payments must be shown in item 9. *This amount must be paid in full at the time your return is filed.* If payments exceed tax, leave item 9 blank.

10. Refund or Credit.—If you have overpaid your tax and ask for a refund in item 10, any refund found due will be made as promptly as possible without any further action on your part. Refunds will bear interest at 6 percent from March 15, 1947.

Do not ask that any overpayment on this return be credited on your 1947 estimated tax unless you expect to file a Declaration of Estimated Tax (Form 1040-ES) showing an estimated tax against which the overpayment can be applied.

Signature

You must sign your return. If husband and wife are filing a joint return, both must sign. If you cannot sign because you are ill or out of the United States, an authorized agent may sign for you, but the agent must attach a power of attorney on Form 935 to show that he is empowered to sign for you.

INSTRUCTIONS FOR TAX TABLE ON PAGE 4 OF FORM 1040

Purpose of Table.—The table is a short-cut method of finding your income tax. It is provided by law and saves you the trouble of itemizing deductions and computing your tax on page 3 of the return. The table allows for: (a) Your exemptions—$500 for each person listed in item 1, page 1; (b) charitable contributions, interest, taxes, etc., approximating 10 percent of your income; and (c) the additional 5 percent reduction in both the tentative normal tax and surtax, as provided by the Revenue Act of 1945.

Arrangement of Table.—The table contains income columns and exemption columns. The income columns are headed by the words "At least—But less than." The exemption columns are headed by the numbers 1, 2, 3, 4, etc.

How to Find Your Tax.—Read down the income columns until you find the line that fits the income you reported in item 6 on page 1. Then read across that line until you come to the exemption column which is headed by a number corresponding to the number of persons you listed in item 1 on page 1. The figure you find there is your tax. EXAMPLE.—If your income was $2,245 and you were entitled to three exemptions, you would find your tax opposite the income line "At least $2,225 but less than $2,250." You would read over to the column headed by the figure "3" and thus find your tax was $98.

INSTRUCTIONS FOR PAGE 2 OF FORM 1040

Place alongside page 2 of Form 1040 for easy reference

Since these instructions relate to special types of income, they may be disregarded by persons whose income is all from salaries, wages, dividends, and interest

Schedule A.—Annuities and Pensions

If you received a pension or annuity which you bought or to which you contributed, you are entitled to recover your cost tax-free. However, an amount equal to 3 percent of your total cost must be reported as income each year until you have recovered your total cost tax-free. Thereafter, the entire amount received each year must be reported as income.

If you have not recovered your total cost tax-free in prior years, fill in all the lines of Schedule A to determine how much of the amount you received in 1947 is taxable.

On line 1, enter the total amount you paid for the annuity or the total amount of your contributions to the pension or retirement fund. If you received the annuity by gift, or as the survivor of a deceased annuitant, enter the cost to the donor or deceased annuitant. However, an employer's contribution to an employee's pension is not a gift and should not be included in line 1.

If you are 65 years of age or over enter on line 7 the total amount of annuities or pensions which you are required to include in income because of the allowance of an additional exemption. See instructions regarding "Your Exemptions," page 2.

On line 2, enter the total of the amounts received in all prior years, less 3 percent of line 1 for each year during which the annuity has been received since 1933.

If the payments received in 1947 were for less than 12 months, compute $\frac{1}{12}$ of 3 percent of the amount on line 1 and multiply by the number of months for which payments were received, then enter on line 6 either the amount so computed or the amount on line 5, whichever is greater.

If you have recovered your cost tax-free in prior years, or if the entire cost of your pension or annuity is borne by a former employer, you may omit lines 1 to 5, inclusive, and enter directly on line 6 the total amount received in 1947.

Schedule B.—Rents and Royalties

Fill in all applicable columns of Schedule B whether the transactions resulted in a profit or a loss. If rent was received in property or crops instead of money, except under a crop-sharing arrangement, enter the fair market value of the property or crops received. In the case of crops received as rent under a crop-sharing arrangement by a taxpayer who reports his income on the cash basis, the value of the crop rent should be reported in the year in which the commodities received as rent are disposed of. Include in "Other expenses" taxes and interest chargeable against rental or royalty income. List as repairs, expenditures for the upkeep of rental or royalty property, but do not include expenditures which materially prolong the life of the property and therefore should be added to its cost and recovered by annual depreciation allowances. Do not include taxes levied for paving, sewers, or other local improvements which tend to increase the value of the property. Deductions for depreciation, repairs, and other expenses should be entered as totals in Schedule B and explained in detail in Schedules F and G. If more space is needed, use separate sheet and attach securely to your return.

Schedule C.—Business or Profession

Profit or loss from a business or profession must be explained in Schedule C, except that farmers who keep no books or who keep books on the cash basis must obtain Form 1040F and fill it in instead of Schedule C. Farmers who keep books on the accrual basis may also substitute Form 1040F for Schedule C if they so desire. If you include in your income loans received from the Commodity Credit Corporation, attach a statement explaining the details.

If you sell merchandise on the installment plan and your return is made on that basis, attach a schedule showing separately for the years 1943, 1944, 1945, and 1946 the following: (*a*) Gross sales; (*b*) cost of goods sold; (*c*) gross profit; (*d*) percentage of gross profit to gross sales; (*e*) amount collected; (*f*) gross profit on amount collected.

If you make your return on the accrual basis, you may deduct either (*a*) the amount of accounts receivable arising from sales or services, which became wholly worthless within the taxable year, or (*b*) a reasonable addition to a duly established reserve for bad debts. On either the cash or the accrual basis you may deduct the amount of any business loans which became wholly worthless during the taxable year. A debt which became partially worthless may be deducted to the extent charged off during the year.

List as repairs, expenditures for the upkeep of business property, but do not include expenditures which materially prolong the life of the property and therefore should be added to its cost and recovered by annual depreciation allowances.

Do not include taxes levied for paving, sewers, or other local improvements which tend to increase the value of the property.

Do not include in your costs or other business deductions any salary or other compensation for yourself. Do not deduct any wage or salary determined to be in contravention of the Wage and Salary Stabilization Act of October 2, 1942, or of the rules, regulations, or orders issued under the Act.

Do not include losses from worthless bonds and similar obligations or nonbusiness bad debts, which should be entered in separate Schedule D.

For computation of net operating loss deduction, including net operating loss carry-back and carry-over, see section 122 of the Internal Revenue Code.

Schedule D.—Gains and Losses from Sales or Exchanges of Capital Assets, Etc.

If you sold or exchanged any capital assets or other property during the year, fill in the separate sheet entitled Schedule D (Form 1040). Profit from the sale of property held for personal use, including your personal residence, is taxable, but loss from such sale is not recognized. The totals from the separate sheet should be entered on lines 1 and 2 of Schedule D, page 2, of your return. Be sure to attach the separate sheet to your return.

Schedule E.—Income from Partnerships, Estates and Trusts, and Other Sources

Partnerships.—Include in your return your share of the net profit (whether received by you or not) or loss of a partnership, pool, syndicate or the like, whose taxable year ends within the year covered by your return. However, you should enter in Schedule E only your share of the "ordinary" net income or loss, excluding the following items:

1. Capital gains and losses, which should be entered in separate Schedule D.
2. Partially tax-exempt interest on obligations of the United States or its instrumentalities, which should be included in item 4, page 1.
3. Contributions, income taxes paid to a foreign government, and income taxes paid at source on tax-free covenant bond interest—all of which should be omitted if you use the tax table on page 4 or take the standard deduction, but should be entered in the proper spaces on page 3 if you itemize your deductions.

Estates and Trusts.—Include in your return your share of the distributable income (whether received by you or not) of an estate or trust whose taxable year ends within the year covered by your return. However, you should enter in Schedule E only your share of the income of the estate or trust after the exclusion of the following items:

1. Partially tax-exempt interest on obligations of the United States or its instrumentalities, which should be included in item 4, page 1.
2. Income taxes paid to a foreign government and income taxes paid at source on tax-free covenant bond interest—which taxes should be omitted if you use the tax table on page 4 or take the standard deduction, but should be entered in the proper spaces on page 3 if you itemize your deductions.

Other Sources.—List and explain other income, such as amounts received from alimony or separate maintenance, rewards or prizes, recoveries of bad debts for which a deduction was taken in a prior year, and health and accident insurance benefits received as reimbursement for medical expenses for which a deduction was taken in a prior year.

Schedule F.—Explanation of Deduction for Depreciation Claimed in Schedules B and C

Depreciation.—In determining net rents (Schedule B) or business profits or losses (Schedule C), you may deduct each year as depreciation a reasonable allowance for exhaustion, wear and tear, and obsolescence of property used in a trade or business or held for the production of income. The depreciation must be based on the useful life of the property and on its cost if purchased after February 28, 1913. For further information regarding depreciation, see Bulletin "F" of the Bureau of Internal Revenue and section 114 of the Internal Revenue Code.

Depletion.—For information about depletion allowances in connection with oil and gas wells, mines, timber, and other natural resources, see sections 23 (m) and 114 of the Internal Revenue Code.

INSTRUCTIONS FOR PAGE 3 OF FORM 1040

Page 4

Place alongside page 3 of Form 1040 for easy reference

DEDUCTIONS. The following instructions describe the classes of expenditures and losses which you may itemize and claim as deductions if you neither use the tax table on page 4 nor take the standard deduction of $500 on line 2 of the Tax Computation on page 3 of Form 1040. If your expenditures and losses of these classes amounted to more than 10 percent of your total income, or more than $500 if your total income was over $5,000, it will ordinarily be to your advantage to itemize them on page 3 of Form 1040. If you do so, you must compute your tax as indicated at the bottom of that page.

Contributions

The deduction for contributions cannot exceed 15 percent of the income you reported in item 6, page 1. Deduct any contributions of money or property (not services) to organizations operated exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals; veterans' organizations; or governmental organizations for use exclusively for public purposes.

Do not deduct gifts to relatives or other individuals, or to organizations any part of whose earnings is for the use or benefit of private individuals, or to organizations which devote a substantial part of their activities to carrying on propaganda or otherwise attempting to influence legislation.

Interest

Itemize interest paid on personal debts, such as bank loans or home mortgages. Do not deduct in this schedule interest paid on business debts; such interest should be reported in Schedule B or C. Do not deduct interest on loans obtained to buy tax-exempt securities or a single-premium life insurance or endowment contract. Do not deduct interest paid on behalf of another person unless you were legally liable to make the payment. In figuring the interest paid on a mortgage or installment contract, be careful to distinguish between interest and other charges such as financing fees, taxes, or insurance.

Taxes

Only certain taxes may be deducted. You may deduct State income taxes, personal property taxes, and real estate taxes except those levied for paving, sewers, or other improvements which tend to increase the value of your property. You may deduct State or local retail sales taxes (including gasoline taxes) if under the laws of your State or locality they are imposed directly upon the consumer or if they are imposed directly upon the retailer and the amount of the tax is separately stated by the retailer to the consumer.

Do not deduct Federal income tax, or any estate, inheritance, legacy, succession, or gift taxes, or taxes on your shares in a corporation which are paid for you by the corporation. Do not deduct in this schedule taxes on business or rental property, but report such taxes in Schedule B or C. Do not deduct in this schedule Federal import duties or Federal excise or stamp taxes, but any such taxes attributable to your business activities may be deducted in Schedule B or C. Federal social security taxes are not deductible by employees.

Losses From Fire, Storm, Shipwreck, or Other Casualty, or Theft

You may deduct the net amount of actual property losses resulting from war, accident, fire, storm, shipwreck, or other casualty, or from theft. Do not deduct here any losses claimed elsewhere in your return. Compute loss by determining value of the property just before the loss (ordinarily, cost less depreciation sustained) and subtracting both (*a*) salvage value, and (*b*) any insurance or other reimbursement received. Attach a statement fully explaining the nature of the loss, describing the property, and showing date acquired, cost, subsequent improvements, depreciation, insurance, and salvage value.

Medical and Dental Expenses

You may deduct the net amount of any medical, hospital, or dental expenses paid by you during the year for yourself, your wife (or husband), or a dependent, over and above 5 percent of the total income you reported in item 6, page 1. However, this deduction is limited to $1,250 if you claimed only one exemption in item 1, page 1, or $2,500 if you claimed more than one. Expenses for eyeglasses, artificial limbs, hearing aids, etc., may be included. Also include any amounts paid for health, accident, or hospitalization insurance.

List names of those to whom payments were made and state amounts and dates of payment. Find your "Net expenses" by subtracting the total of all insurance and other amounts received as reimbursement for the expenses itemized. From the net expenses subtract 5 percent of the total income you reported in item 6, page 1, since only the excess is deductible.

Miscellaneous

Itemize **all allowable** deductions not claimed elsewhere on your return, including: (*a*) Expenses incurred in the production or collection of taxable income or in the management of property held for the production of taxable income; (*b*) expenses incurred in connection with your employment, such as union dues; (*c*) alimony and separate maintenance payments which are taxable to the wife, (*d*) gambling losses not exceeding gambling gains reported for the same year, (*e*) amortizable bond premium for the taxable year (see section 125 of the Internal Revenue Code), (*f*) your share of the interest and real estate taxes paid by a cooperative apartment corporation in which you are a tenant-stockholder; and (*g*) the $500 special deduction for the blind.

TAX COMPUTATION INSTRUCTIONS FOR TAXPAYERS NOT USING THE TAX TABLE ON PAGE 4 OF FORM 1040

1947 TAX RATES (COMBINED NORMAL TAX AND SURTAX BEFORE REDUCTION)

From the following table figure your tax on the income on line 5, page 3, of the return:

If the amount on line 5 is:	Enter on line 6:
Not over $2,000	20% of the amount on line 5.
Over $2,000 but not over $4,000	$400, plus 22% of excess over $2,000.
Over $4,000 but not over $6,000	$840, plus 26% of excess over $4,000.
Over $6,000 but not over $8,000	$1,360, plus 30% of excess over $6,000.
Over $8,000 but not over $10,000	$1,960, plus 34% of excess over $8,000.
Over $10,000 but not over $12,000	$2,640, plus 38% of excess over $10,000.
Over $12,000 but not over $14,000	$3,400, plus 43% of excess over $12,000.
Over $14,000 but not over $16,000	$4,260, plus 47% of excess over $14,000.
Over $16,000 but not over $18,000	$5,200, plus 50% of excess over $16,000.
Over $18,000 but not over $20,000	$6,200, plus 53% of excess over $18,000.
Over $20,000 but not over $22,000	$7,260, plus 56% of excess over $20,000.
Over $22,000 but not over $26,000	$8,380, plus 59% of excess over $22,000.
Over $26,000 but not over $32,000	$10,740, plus 62% of excess over $26,000.
Over $32,000 but not over $38,000	$14,460, plus 65% of excess over $32,000.
Over $38,000 but not over $44,000	$18,360, plus 69% of excess over $38,000.
Over $44,000 but not over $50,000	$22,500, plus 72% of excess over $44,000.
Over $50,000 but not over $60,000	$26,820, plus 75% of excess over $50,000.
Over $60,000 but not over $70,000	$34,320, plus 78% of excess over $60,000.
Over $70,000 but not over $80,000	$42,120, plus 81% of excess over $70,000.
Over $80,000 but not over $90,000	$50,220, plus 84% of excess over $80,000.
Over $90,000 but not over $100,000	$58,620, plus 87% of excess over $90,000.
Over $100,000 but not over $150,000	$67,320, plus 89% of excess over $100,000.
Over $150,000 but not over $200,000	$111,820, plus 90% of excess over $150,000.
Over $200,000	$156,820, plus 91% of excess over $200,000.

Adjustment on Line 6, Page 3, for Partially Tax-Exempt Interest

If you itemize your deductions, the combined tax to be entered on line 6 should be reduced by 3 percent of any partially tax-exempt interest included in line 3, or 3 percent of line 5, whichever amount is the lesser. If you so reduce your tax, attach an explanatory statement.

Items to be considered in the adjustment on line 6 are (*a*) interest on the excess over $5,000 of United States savings bonds (at cost) and Treasury bonds (at face value) issued prior to March 1, 1941; (*b*) interest on obligations of instrumentalities of the United States issued prior to March 1, 1941 (other than Federal land banks, Federal intermediate credit banks, and joint-stock land banks); and (*c*) dividends on share accounts in Federal savings and loan associations if the shares were issued prior to March 28, 1942.

1947 DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS 1947

FORM 1040-ES AND INSTRUCTIONS

1. PURPOSE OF DECLARATION.—The purpose of the declaration is to provide a basis for paying currently any income taxes due in excess of the tax withheld from wages. Therefore, declarations are required only from individuals whose wages or other income exceed the amounts specified in Instruction 2.

Every taxpayer must file an annual income tax return after the close of the taxable year. At that time he must pay any balance of tax due on the year's income over and above the total of (*a*) the amount withheld from his wages and (*b*) the amount paid in installments as estimated tax. If he has overpaid his tax, he will be entitled to a refund upon filing his annual return.

2. WHO MUST MAKE A DECLARATION.—A declaration must be made on or before March 15, 1947, by every citizen or resident of the United States who expects to receive in 1947—

(*a*) Wages subject to withholding in excess of $5,000 plus $500 for each exemption except his own—for example, $5,500 in case of a married couple with no dependents or a single person with one dependent; OR

(*b*) Income from all other sources in excess of $100, provided his total income is expected to amount to $500 or more.

Thus, if your 1947 income from wages subject to withholding is expected to exceed the amounts specified in paragraph (*a*), you are required to file a declaration. If you expect to receive in 1947 any wages not subject to withholding—for example, pay for agricultural labor or domestic service—or any income from dividends, interest, rents, or gains from property transactions or from a business or profession, you must file a declaration if your 1947 income is expected to exceed the amounts specified in paragraph (*b*).

In deciding whether you must file a declaration, you should exclude from your income any items which are wholly exempt from tax, such as mustering-out pay, military pay of enlisted personnel, the first $1,500 of military pay of commissioned officers, Government contributions to monthly family allowances, and social security benefits.

These rules apply also to aliens who are residents of Canada or Mexico and whose wages are subject to withholding in this country. Other nonresident aliens are not required to file declarations.

IF 65 YEARS OF AGE OR OVER, SEE INSTRUCTIONS UNDER HEADING "PERSONS OVER 65 YEARS OF AGE".

3. HOW TO ESTIMATE YOUR TAX FOR 1947.—No special work sheets for estimating your tax are necessary this year. If you made a 1946 return on Form 1040 and expect your income, exemptions, and deductions in 1947 to be the same as they were in 1946, you may copy, on line 1 of your 1947 declaration, the tax shown in item 7 of your 1946 return, without making any separate computation.

If you expect your income, exemptions, or deductions to be different for 1947, you should use the 1946 Form 1040 as a guide in figuring your "Estimated Income Tax for 1947."

The amount to be withheld from your wages in 1947 may be estimated by multiplying the amount withheld in your usual pay-roll period by the number of pay-roll periods you expect to work during the year.

→ *SEE OTHER SIDE FOR FURTHER INSTRUCTIONS*

YOUR COPY OF DECLARATION OF ESTIMATED TAX (Form 1040-ES) 1947

NAME ....

If this declaration is not for calendar year 1947, show here ending date of your fiscal year .... 194..

1. Estimated Income Tax for 1947		$..........	COPY THESE FIGURES ON THE DECLARATION WHICH YOU WILL FILE WITH THE COLLECTOR.
2. Estimated Income Tax withheld and to be withheld during entire year 1947			
3. ESTIMATED TAX after deducting estimated tax withheld (item 1 less item 2)		$..........	
4. Less: Credit for overpayment shown on 1946 return (allowable only if credit was elected in item 10, page 1, Form 1040, for 1946)	$..........		KEEP THIS COPY FOR USE IN MAKING YOUR ANNUAL RETURN.
5. If this is an amended declaration, enter payments made on account of prior declarations for this year			
6. Unpaid balance of ESTIMATED TAX (item 3 less the sum of items 4 and 5)		$..........	
7. Amount paid with this declaration. (Read carefully Instruction 5 on other side)		$..........	

DETACH AT THIS LINE & AND FILE FORM BELOW WITH THE COLLECTOR

Form 1040-ES
U. S. Treasury Department
Internal Revenue Service

DECLARATION OF ESTIMATED TAX 1947

NAME .... Social Security No., if any ....
(Please print. If this declaration is for a husband and wife, use both first names)

ADDRESS ....
(Please print) (Street and number or rural route) (City or town, zone number) (State)

If this declaration is not for calendar year 1947, show here ending date of your fiscal year .... 194..

1. Estimated Income Tax for 1947		$..........	(CASHIER'S STAMP)
2. Estimated Income Tax withheld and to be withheld during entire year 1947			
3. ESTIMATED TAX after deducting estimated tax withheld (item 1 less item 2)		$..........	
4. Less: Credit for overpayment shown on 1946 return (allowable only if credit was elected in item 10, page 1, Form 1040, for 1946)	$..........		
5. If this is an amended declaration, enter payments made on account of prior declarations for this year			
6. Unpaid balance of ESTIMATED TAX (item 3 less the sum of items 4 and 5)		$..........	
7. Amount paid with this declaration. (Read carefully Instruction 5)		$..........	

I declare under the penalties of perjury that this declaration has been examined by me and to the best of my knowledge and belief is a true, correct, and complete declaration.

....
(Signature of taxpayer or agent)

Dated ...., 194...

....
(If this is a joint declaration (not made by agent), it must be signed by both husband and wife)

INSTRUCTIONS—Continued

4. **WHEN AND WHERE TO FILE DECLARATION.**—Your declaration must be filed on or before March 15, 1947.

It should be taken, or mailed, to the Collector of Internal Revenue of the district in which you expect to file your 1947 income tax return.

5. **PAYMENT OF ESTIMATED TAX.**—Your estimated tax may be paid in full with the declaration, or in equal installments on or before March 15, 1947, June 15, 1947, September 15, 1947, and January 15, 1948. The first installment must accompany the declaration.

Any credit for overpayment (item 4 of the declaration) may be applied against the first installment. If the credit is larger than the installment, the balance may be applied against the next installment.

6. PERSONS OVER 65 YEARS OF AGE. - An additional exemption is allowed persons 65 years of age or over who have gross income of $500 or more. Persons allowed this exemption are required to report as income amounts received up to but not in excess of $500 from annuities under the provisions of the Railroad Retirement Act, or benefits under the old age and survivors insurance provisions of the Social Security Act, or retirement pay in consequence of retirement from the Regular Army or Navy because of medical survey, or any pension, annuity, retirement pay or allowance (other than lump sum payments) because of services rendered by him or by some other person. If you are 65 or over and have income of $500 or more other than from such sources, in deciding whether you are required to file a declaration or in computing the amount of your estimated tax, you should include income from such sources not in excess of $500. If you file a joint declaration this requirement also applies to your wife (or husband) if she (or he) is eligible for an additional exemption.

7. **JOINT DECLARATION.**—A joint declaration may be filed by husband and wife provided they are both citizens or residents of the United States. Even though a joint declaration is filed, separate income tax returns may be filed for the taxable year 1947 if desired, in which case the payments of estimated tax may be treated as payments by either the husband or the wife or may be divided between them in any proportion.

8. **CHANGES IN INCOME OR EXEMPTIONS.**—Even though your situation on March 15 is such that you are not required to file a declaration at that time, your expected income or exemptions may change so that you will be required to file a declaration later. In such case the time for filing is as follows: June 15, if the change occurs after March 1 and before June 2; September 15, if the change occurs after June 1 and before September 2; January 15, 1948, if the change occurs after September 1. The estimated tax may be paid in equal installments on the remaining payment dates.

If, after you have filed a declaration, you find that your estimated tax is substantially increased or decreased as a result of a change in your income or exemptions, you should file an amended declaration on or before the next filing date—June 15, 1947, September 15, 1947, or January 15, 1948.

An amended declaration should be marked "Amended" and must be filed with the Collector of Internal Revenue with whom the original declaration was filed. Any increase or decrease in estimated tax should be spread evenly over the remaining installment payments.

9. **FARMERS.**—If at least two-thirds of your gross income is derived from farming, you may file the declaration on or before January 15, 1948, instead of March 15, 1947. If you wait until January 15, 1948, you must then pay the entire balance of the estimated tax (item 6 of the declaration).

10. **RETURN IN PLACE OF DECLARATION.**—If, on or before January 15, 1948, you file your 1947 income tax return and pay in full the *balance of tax due*, you need not file a declaration or amended declaration which would otherwise be due on that date.

11. **FISCAL YEAR.**—If you file your income tax return on a fiscal year basis, your dates for filing the declaration and paying the estimated tax will be the 15th day of the last month of the first, second, and third quarters of your fiscal year, and the 15th day of the first month of your next fiscal year.

12. **PENALTIES.**—The following penalties are imposed by law:

For failing to file declaration or failing to pay estimated tax.—Five percent of the unpaid amount of each installment due, plus 1 percent for each month or part of a month (except the first) during which such amount remains unpaid, up to a maximum of 10 percent of the unpaid amount of such installment.

For underestimating tax by more than 20 percent (33⅓ percent for farmers).—Six percent of the entire shortage in estimate, but not more than the amount by which the estimate falls short of 80 percent of the tax (or, in the case of farmers, 66⅔ percent of the tax). This penalty will not apply if the estimated tax for 1947 is computed on 1946 income at 1947 rates and exemptions, and is paid on time in equal installments or is paid ahead of time (or, in the case of farmers, is paid in full on or before January 15, 1948).

Penalties provided for willful failure to make a return or for willfully making a false return are likewise applicable to declarations.

(DETACH AT THIS LINE)

Form W-2

EMPLOYEE'S OPTIONAL INCOME TAX RETURN
Read carefully the instructions on the back of Employee's copy

1947

1. Write total of wages shown on this and all your other 1947 Withholding Statements $______
Attach all original Withholding Statements (Form W-2)

2. Write total of all other wages, dividends, and interest - - - - - - - - - - - - $______
If line 2 is over $100, or if you had any other income (such as rent, etc.) use Form 1040 instead of this form.

3. Add lines 1 and 2. Write total here $______
If line 3 is $5,000 or more, use Form 1040 instead of this form.

4. If you were a married person in 1947:
   a. Write name of your wife (or husband)______
   b. Did your wife (or husband) have any income?______ ('Yes' or 'No')

   If so, is it included in line 3?______ ('Yes' or 'No')

   c. If line 3 includes income of both husband and wife, show husband's income $______; wife's income $______
Tax will be computed to your advantage either on combined or separate income.

5. a. Are you 65 years of age or over? ______ ('Yes' or 'No')
   b. If this is a combined return, is your wife (or husband) 65 or over?______ ('Yes' or 'No')

   If answer to a or b is 'Yes' see Instruction Sheet to determine whether you may use this form or must use Form 1040.

6. What is your occupation?______
If this is a combined return, also state wife's occupation.

YOUR 1947 EXEMPTIONS

One will be counted for you. One also will be counted for your wife (or husband) unless she (or he) had income not included in this return. Therefore, do not list below yourself or your wife (or husband).

If you were 65 years of age or over on December 31, 1947, an additional exemption will be counted for you. If your wife (or husband) was 65 years of age or over on December 31, 1947, and she (or he) had gross income of $500 or more included in this return, an additional exemption will be counted for her (or him).

In addition, one will be counted for each dependent you list below--each dependent listed must meet all three of the following conditions:
   a. He or she received over half of his or her 1947 support from you.
   b. He or she had less than $500 income in 1947.
   c. He or she was a close relative as defined in the instructions.

NOTE.--If this is a combined return of husband and wife, list dependents of both and write letter 'W' after names of dependents supported by wife.

______ (Name) ______ (Relationship)

______ (Name) ______ (Relationship)

______ (Name) ______ (Relationship)

______ (Name) If you need more space, attach list. ______ (Relationship)

I declare under the penalties of perjury that the foregoing statements are true to the best of my knowledge and belief, and that ALL MY 1947 INCOME IS REPORTED HEREON.

Signature ______ ______ (Date)

Signature ______ ______
(If this is a combined return of husband and wife, it must be signed by both)

Form W-2

Who Must File.--If your gross income in 1947 was $500 or more, you must file an income tax return on Employee's Optional Income Tax Return or on Form 1040 which may be obtained from the Collector of Internal Revenue, your employer, bank, or post office.

Persons over 65 years of age.--If you are 65 years of age or over and had gross income of $500 or more you are allowed an additional exemption. If you make a combined return of husband and wife, and your wife (or husband) is 65 years of age or over and had gross income of $500 or more, an additional exemption is allowed her (or him).

However, a person allowed this additional exemption must report as income amounts received up to but not in excess of $500 from an annuity under the provisions of the Railroad Retirement Act, or benefits under the old age and survivor's insurance provisions of the Social Security Act, or retirement pay in consequence of retirement from the Regular Army or Navy because of medical survey, or any pension annuity, retirement pay or allowance (other than lump sum payments) because of services rendered by him or by some other person. Even though not otherwise includible in income, receipts up to $500 from such sources must be included by persons allowed an additional exemption.

Persons who have receipts from the sources mentioned above which are includible in income only for the purposes of this additional exemption are not eligible to use this form and must make a return on Form 1040.

Who May Use Optional Return.--You may use the optional return if your total income was less than $5,000 and consisted wholly of wages reported on Withholding Statements (Form W-2) or of such wages and not more than $100 of other wages, dividends, and interest.

Married Couple--Advantage of Combined Return.--A married couple may use Employee's Optional Income Tax Return to show their combined income if the total is less than $5,000 and consists entirely of wages reported on Withholding Statements (Form W-2) or of such wages and not more than $100 of other wages, dividends, and interest. A combined return on the optional form never results in more tax than separate returns because the tax is computed by the collector on the combined income or on the separate incomes, whichever results in the lesser tax or larger refund for the couple.

Income Under $500.--A single person with less than $500 income should file a return to get a refund if tax was withheld. A married person with less than $500 income should always file a combined return with husband or wife to get the lesser tax or larger refund for the couple.

How to Use Optional Return.--Completely fill out the form on the back of the Withholding Statement (Form W-2). If you received more than one statement or if husband and wife who file a combined return have more than one statement, fill out only the last form received and make no entries on the other forms. *Sign* the completed form, *fasten* all others securely to it, and mail to the Collector of Internal Revenue for your district between January 1 and March 15, 1948. If any statement is missing and you cannot obtain a copy from your employer, you must make your return on Form 1040.

Payment or Refund.--Do not make a payment with your optional return. The collector will determine the tax and send you a statement for the balance you owe or a refund of the amount withheld in excess of the tax.

Deductions.--If you use the optional return, the collector will determine your tax from a table provided by law, which allows about 10% of your total income for charitable contributions, interest, taxes, casualty losses, medical expenses, and miscellaneous items. In order to claim deductions amounting to more than 10% of your income, you must file Form 1040.

Close Relative Defined.--'Close relative' means: Your son, daughter, or a descendant of either; your stepson, stepdaughter, son-in-law, daughter-in-law; your father, mother, or ancestor of either; your stepfather, stepmother, father-in-law, or mother-in-law; your brother, sister, stepbrother, stepsister, half brother, half sister, brother-in-law, or sister-in-law; your uncle, aunt, nephew, or niece. Do not include an uncle, aunt, nephew, or niece if related to you only by marriage. The above relationships apply to a legally adopted child. Only dependent relatives who are United States citizens or who are residents of the United States, Canada, or Mexico may be listed.

A relative who files a combined return with her husband (or his wife) uses the exemption and may not be listed as your dependent.

Form W-4
(Revised June 1945)
U. S. Treasury Department
Internal Revenue Service

EMPLOYEE'S WITHHOLDING EXEMPTION CERTIFICATE

(Collection of Income Tax at Source on Wages)

Print full name ______________________ Social Security No. ____________

Print home address ______________________________________

FILE THIS FORM WITH YOUR EMPLOYER. Otherwise, he is required by law to withhold tax from your wages without exemption.

HOW TO CLAIM YOUR WITHHOLDING EXEMPTIONS

I. Yourself. If you claim yourself as an exemption and you -
(a) are under 65 years of age, write the figure "1" . . . . ______
(b) are 65 years of age or over, write the figure "2" . . . . ______

II. Your (wife or husband). If you are married, you may claim your spouse as an exemption if she (or he) is not claiming herself (himself) as an exemption on another withholding certificate.
If you claim your spouse as an exemption and -
(a) if she (he) is under 65 years of age, or is 65 years of age or over and has gross income of less than $500 annually, write the figure "1" . . . . ______
(b) if she (he) is 65 years of age or over, and has gross income of $500 or more annually, write the figure "2" . . . . ______

III. If you claim neither yourself nor your wife (husband) as an exemption, write "0" . . . ______

IV. If during the year you will provide more than one-half of the support of persons closely related to you, write the number of such dependents. (See Instruction 3 on other side.) . . . . ______

V. Add the number of exemptions which you have claimed above and write the total . . . . . ☐

I CERTIFY that the number of withholding exemptions claimed on this certificate does not exceed the number to which I am entitled.

Dated ____________________, 194__ (Signature) ______________________

HOW TO USE THE PERCENTAGE METHOD OF WITHHOLDING

(This page may be disregarded by any employer using the wage-bracket tables)

The percentage method involves several calculations. In using this method reference must be made to the following table, and also to the computation schedule appearing under the heading of the proper pay-roll period:

Percentage method withholding table

Pay-roll period	Amount of one withholding exemption
Weekly	$11.00
Biweekly	22.00
Semimonthly	23.00
Monthly	46.00
Quarterly	139.00
Semiannual	278.00
Annual	556.00
Daily or miscellaneous (per day of such period)	1.50

The steps in computing the tax to be withheld are summarized below.

1. Multiply the amount of one withholding exemption by the number of exemptions claimed by the employee.
2. Subtract the amount determined in step No. 1 from the employee's wages.
3. Compute the amount of tax required to be withheld on the net amount determined in step 2 as follows:

If the pay-roll period is weekly and the net amount determined in step 2 is—

Not over $21	12 percent of the net amount.
Over $21 but not over $30	$2.52 plus 18 percent of excess over $21.
Over $30 but not over $43	$4.14 plus 14 percent of excess over $30.
Over $43	$5.96 plus 15 percent of excess over $43.

If the pay-roll period is biweekly and the net amount determined in step 2 is—

Not over $43	12 percent of the net amount.
Over $43 but not over $60	$5.16 plus 18 percent of excess over $43.
Over $60 but not over $85	$8.22 plus 14 percent of excess over $60.
Over $85	$11.72 plus 15 percent of excess over $85.

If the pay-roll period is semimonthly and the net amount determined in step 2 is—

Not over $46	12 percent of the net amount.
Over $46 but not over $65	$5.52 plus 18 percent of excess over $46.
Over $65 but not over $93	$8.94 plus 14 percent of excess over $65.
Over $93	$12.86 plus 15 percent of excess over $93.

If the pay-roll period is monthly and the net amount determined in step 2 is—

Not over $93	12 percent of the net amount.
Over $93 but not over $129	$11.16 plus 18 percent of excess over $93.
Over $129 but not over $185	$17.64 plus 14 percent of excess over $129.
Over $185	$25.48 plus 15 percent of excess over $185.

If the pay-roll period is quarterly and the net amount determined in step 2 is—

Not over $278	12 percent of the net amount.
Over $278 but not over $388	$33.36 plus 18 percent of excess over $278.
Over $388 but not over $556	$53.16 plus 14 percent of excess over $388.
Over $556	$76.68 plus 15 percent of excess over $556.

If the pay-roll period is semiannually and the net amount determined in step 2 is—

Not over $556	12 percent of the net amount.
Over $556 but not over $775	$66.72 plus 18 percent of excess over $556.
Over $775 but not over $1,111	$106.14 plus 14 percent of excess over $775.
Over $1,111	$153.18 plus 15 percent of excess over $1,111.

If the pay-roll period is annual and the net amount determined in step 2 is—

Not over $1,111	12 percent of the net amount.
Over $1,111 but not over $1,551	$133.32 plus 18 percent of excess over $1,111.
Over $1,551 but not over $2,222	$212.52 plus 14 percent of excess over $1,551.
Over $2,222	$306.46 plus 15 percent of excess over $2,222.

If the pay-roll period is daily or miscellaneous and the net amount (per day of such period) determined in step 2 is—

Not over $3	12 percent of the net amount.
Over $3 but not over $4	$0.36 plus 18 percent of excess over $3.
Over $4 but not over $6	$0.54 plus 14 percent of excess over $4.
Over $6	$0.82 plus 15 percent of excess over $6.

The series of rates for each pay-roll period classification is necessary to give effect to the tax reduction provided by the Revenue Act of 1947. The tax rates also give the employee the full benefit of the 10 percent standard deduction for charitable contributions, etc.

Example: An employee has a weekly pay-roll period, for which he is paid $80, and has in effect a withholding exemption certificate claiming three exemptions. His employer, using the percentage method, computes the tax to be withheld as follows:

Step No. 1:		
Amount of one withholding exemption		$11
Multiplied by number of exemptions claims on Form W-4		×3
Total withholding exemptions		33
Step No. 2:		
Total wage payments		80
Less amount determined in step No. 1		33
Income subject to withholding		47
Step No. 3:		
Income from step No. 2 — $47		
Less — 43 on which the tax to be withheld is		$5.96
Balance subject to 15 percent rate, 4 on which the tax to be withheld is		.60
Total tax to be withheld		6.56

Where the withholding is computed for a "miscellaneous" pay-roll period, the wage and the amounts shown in the percentage method withholding table must be placed on a comparable basis. Thus the wage may be placed on a daily basis by dividing the total wage by the number of days in the period. After computation of the tax on a daily basis using the steps indicated above, the amount so found multiplied by the number of days in the period is the amount to be withheld.

In the case of any employee who has no withholding exemption certificate in effect, or an employee who has claimed no exemption, use no exemptions for purposes of steps Nos. 1 and 2.

In determining the amount of tax to be deducted and withheld, the last digit of the wage amount may, at the election of the employer, be reduced to zero, or the wage amount may be computed to the nearest dollar. Thus, if the weekly wage is $37.43, the employer may eliminate the last digit and determine the tax on the basis of a wage payment of $37.40 or he may determine the tax on the basis of a wage payment of $37.

Mr. SHERWOOD. They demonstrate the indirect method by which H. R. 1 accomplishes the tax reduction in the case of the approximately 10,000,000 persons who make their return on Form 1040, but who do not use the tax table to determine their tax. Under this indirect method a tentative combined normal tax and surtax must be computed at present statutory tax rates. The reduction in tax liability is then achieved by decreasing this tentative tax in accordance with some one of four rules—as compared with only one at present—the proper rule depending on the amount of the tentative tax. This step is covered by item 7 in the tax computation schedule on page 3 of Form 1040, which may be found in appendix A.

These computations will not cause difficulty for all of the 10,000,000 taxpayers. But too many would be disturbed by them and make arithmetical errors in arriving at their tax. This means an increase in the work load of the Bureau and taxpayer annoyance.

Among the added computations is one caused by the so-called "notch" provision of section 2 (d) of the bill. While it is a relatively minor matter from a computation standpoint, it is something new to individual income taxpayers in this country and constitutes one more item to which the taxpayer may justifiably point as evidence of unnecessary tax form complications. There are about 8.5 million taxpayers falling within this notch area. Since close to 7,000,000 will use either the Form W-2 or the table method of tax computation, there will be only about 1.5 million concerned with the actual computation of the tax involving the notch.

The major source of the difficulties and complexities under H. R. 1 is the three-way break of the present $2,000 first surtax bracket: The first break is under $1,000; the second is $1,000 to $1,395.83; and the third is $1,395.83 to $2,000. The major portion of all taxpayers, or 41.2 million, fall wholly within the first bracket. Any split of this bracket, therefore, is a matter of vital importance and no break should be made in it unless positive equity or over-all fiscal advantage is to be realized by the whole economy. The proposed breaks do not seem to me to be of this character. Considering the administrative aspects alone, the effects of breaking up the first surtax bracket are dangerous for the following reasons:

1. Number of taxpayers subject to graduated rates would be increased from 7.3 million to 22.9 million, or from 15 percent to nearly 50 percent of all taxpayers.
2. Incentive to rearrange family income so as to avoid the graduated tax would be extended to include a large segment of the taxpayers now falling in the first surtax bracket.
3. Enforcement problems would be aggravated in the lower income areas where cost of administration is disproportionately high.
4. More than 2,000,000 couples will be confronted for the first time with difficult problems of choice in filing separate or joint returns.
5. Separate returns would be made advantageous for first time for married couples in community property States having surtax net income between $1,000 and $2,000.
6. Millions of additional returns will result from filing of separate rather than joint returns; this means more paper and less tax.
7. Employers using the percentage method in computing the withholding tax will be confronted with four withholding rates instead of the present two.

To conserve your time the foregoing points have merely been cataloged here and are discussed in more detail in appendix B in case you care to refer to them.

(Appendix B is as follows:)

Appendix B

The Administrative Difficulties That Result From Splitting the First Surtax Bracket

Increase in number of taxpayers subject to graduated rates, with resultant increase in overwithholding

It is estimated that under H. R. 1 there will be 47.7 million taxpayers in 1947. Under present law, approximately 85 percent are subject to one flat rate alone—i. e., the tax rate applicable to income in the first surtax bracket, while only 15 percent are subject to graduated rates. Under H. R. 1, the number subject to graduates rates would be increased to about 22.9 million, an increase of 235 percent, or to nearly one-half of all taxpayers. Otherwise stated, over 15.5

million persons who have previously been subject to one flat rate only would have to concern themselves with the mechanics of graduated rates in order to understand the computation of their tax. Likewise, overwithholding of tax for persons in the lower income groups will be increased if graduation of rates is extended further down on the income scale.

Incentive to rearrange family income so as to avoid the graduated tax

Many of the attempts to avoid taxes are simply schemes to circumvent the graduated rates. Income is frequently divided between husband and wife, or among other family members, by the use of family partnerships, gifts, trusts, and other income-splitting devices, where graduated rates apply. Our experience in this connection with the Victory tax exemption and the similarly limited normal tax exemption of 1944 and 1945, which were dependent upon the division of income between husband and wife, has demonstrated that couples with relatively low incomes tend to divide their incomes on the basis of highly informal arrangements rather than on the basis of legal rights.

Enforcement problems expanded severalfold

H. R. 1 would accentuate the enforcement problem in connection with these tax-avoidance devices because the area in which such manipulations are profitable would be expanded severalfold. Nevertheless, since the tax savings from filing separate returns is limited to $38 if the combined surtax net income of a couple is not in excess of $2,000, the Bureau would probably find it difficult and unprofitable to make a thorough examination of such returns for illegal divisions of income. The practical result would be that couples who, correctly or incorrectly, legally or illegally, divide their incomes would pay less taxes than couples with the same income and exemptions who do not divide their income because they are too conscientious to take advantage of tax-avoidance schemes, or their income is not of a divisible nature, or they are not informed about tax-saving possibilities. I venture the prediction that a three-way split of the first surtax bracket would greatly increase the sale of How to Save on Your Income Tax pamphlets, and result in a windfall to the "fly-by-night"—or perhaps I should say "fly-by-March-16"—tax practitioners.

Difficult choice problems presented to additional millions of taxpayers

Under H. R. 1, the question of whether to file separate returns or a joint return would face millions of couples for the first time. These are the husbands and wives who actually have separate incomes and a combined surtax net income of between $1,000 and $2,000. Whether the tax advantage for them is in separate returns or in a joint return will depend upon the allocation of (1) income, (2) deductions, and (3) exemption as between the husband and wife. Since at present the starting rate applies to the first $2,000 of surtax net income, such couples can never incur a tax penalty under present law by reason of graduated rates if they file joint returns.

Let us examine the possibilities in a relatively simple case. Assume a couple with no dependents and with net income of $3,000:

If a joint return is filed, the tax under H. R. 1 would be	$304.00
If the net income is divided equally between husband and wife, and separate returns are filed, the tax on each return would be $133, or an aggregate tax of	266.00
If the husband's income is $2,600 and the wife's income is $400, and separate returns are filed, the tax on the husband's return would be $320.72 and the tax on the wife's return would be zero, or an aggregate tax of	320.72

Persons thoroughly familiar with the surtax brackets and the "wastage of exemption" possibilities would have little or no difficulty in determining that separate returns have a tax advantage in the above case when incomes are divided evenly or when division is such that the exemptions do not exceed the income. They would also find it easy to determine that if exemptions exceed income for either spouse a joint return would be advantageous. The vast majority of taxpayers, however, are confronted with these problems only once a year and cannot be expected to determine the more advantageous type of return by any method other than trial and error. The collectors would assume the responsibility in the case of persons filing the short returns, Form W-2, on a combined basis, but all other couples would have to make their own choice.

Community property inequity accentuated

Under present law, couples who are recipients of community income—i. e., residents of community property States—pay less taxes than couples who receive no community income provided their combined surtax net income is in excess of $2,000. Couples with combined surtax net income under $2,000 incur the same tax liability, irrespective of whether the income is community or noncommunity. A splitting of the first surtax bracket has unpleasant administrative implications in this community-property area.

The differential as between community-property and non-community-property States would be widened under H. R. 1, since couples in community-property States with combined surtax net incomes between $1,000 and $2,000 would for the first time pay less taxes than couples in non-community-property States.

Under present law, the tax on a couple with a combined surtax net income of $2,000 is $380. Under H. R. 1, the tax liability on a surtax net income of $2,000 is $304, a reduction of $76, or 20 percent. In the case of a couple in a community-property State, however, with a combined surtax net income of $2,000, who could file separate returns and report $1,000 surtax net income on each return, the tax liability would aggregate $266—a reduction of $114, or 30 percent, instead of the 20 percent reduction ostensibly accorded by H. R. 1. Thus, we can expect married couples who have surtax net income of between $1,000 and $2,000 from community property to file separate returns for the first time.

Added administrative load

The administrative significance of this is that joint returns represent the filing of one instead of two returns, with obvious savings to the taxpayer and to the Bureau in computations and paper work. Moreover, in the case of joint returns, the aggregate tax withheld is credited against the aggregate tax liability, thus avoiding the necessity of separate year-end adjustments in the case of each spouse. In many instances separate returns result in a balance of tax to be paid by one spouse and a refund due to the other spouse.

Effect on employers using the percentage method of computing tax to be withheld

One other consequence of splitting the first surtax bracket as provided by H. R. 1 is that the number of withholding rates involved in the percentage method would be increased to four, in contrast with the two rates provided by present law. The additional rates would result in new and somewhat more complex computations by employers using the percentage method to arrive at the amount of tax to be withheld. The nature of the revised computation method is described in the draft of a page from Circular WT, found in appendix A. Further, as mentioned above, splitting the first bracket for withholding purposes, or lowering the income level at which the second withholding rate becomes applicable, would increase both the number and amount of refunds by reason of overwithholding of tax.

Mr. SHERWOOD. Tax reductions along substantially the same lines as provided by H. R. 1 could be accomplished by a simple revision of the surtax schedule which would incorporate the tax reduction and preserve the present $2,000 first surtax bracket. This method would accomplish the following important administrative objectives:

(1) Millions of taxpayers would escape disturbing choice problems that might easily result in payment of taxes in excess of their minimum statutory liability if the most advantageous choice were made;

(2) The differential between taxpayers in community-property and in non-community-property States would be held within present bounds rather than extended to cover some hundreds of thousands of additional taxpayers; and

(3) The computations shown as item 7 on page 3 of Form 1040 necessitated by H. R. 1 could be eliminated.

A revision of rates could be designed to produce approximately the same tax reduction over all as well as within the several brackets.

In considering this approach, it is desired to invite your attention to page 14 of the report of the Ways and Means Committee accompanying H. R. 1, wherein it is stated:

> It would, of course, be possible to accomplish the same type of reduction as that provided by your committee's bill by changing the rate schedules rather than providing for a set of percentage reductions. Your committee believes, however, that percentage reductions are more readily understood by the public and therefore should be used for a reduction made during the year it becomes effective.

In this connection it should be noted that 80 percent of all the taxpayers will either use Form W-2 or the tax table on Form 1040, in which case they will not have an opportunity to visualize the percentage reduction provided by H. R. 1. Therefore, it does not appear that there would be any objections on these grounds to providing a direct method of computing the tax by the surtax table for the remaining 2 percent.

As to the provisions of H. R. 1 relating to an additional exemption for persons aged 65 years or over, there are two features which are particularly disturbing in their administrative implications. The first is the provision that in the case of a joint return by husband and wife each over 65, two additional exemptions will be allowed only if each spouse has gross income of $500 or over. The second is the requirement for the inclusion in gross income up to $500 of certain types of formerly excludible income by persons aged 65 or over who have $500 or more gross income from other sources.

A wife aged 65 or over with gross income of $499 represents only one exemption under a joint return; whereas if her income is $500, or just $1 more, she represents two exemptions. Thus, the additional dollar of income would produce a tax saving of $66.37 in the case of a joint return subject to the first surtax bracket rate only. The inequitable nature of this provision is obvious, but our concern now is solely with the administrative significance of it.

A couple, both over 65 and with no dependents and having net income of $1,500 or over would have a tax advantage if each spouse could claim an additional exemption. Every couple so situated would have a strong inducement to claim a division of income between husband and wife that would enable each to qualify for the extra exemption. We can scarcely doubt that under those circumstances many attempts will be made to claim a tax-saving division of income without strict regard for the legal propriety of such division. The claimed basis of the division might be either some informal family arrangement or some device such as a purported gift from husband to wife that may bring the division within the statutory pale.

In consequence, the Bureau would be confronted with a difficult and even somewhat embarrassing enforcement task. A check on the legal basis for the claimed division of income would be a very time-consuming job for the Bureau and a source of irritation to the elderly taxpayers. Our activities might be considered by the public as a kind of semipolicing operation that was discriminating against a class of taxpayers who are quite naturally regarded with sympathetic concern.

A further consideration is that because of the gross-income limitation, the return form would probably require persons aged 65 and over filing joint returns to state the amounts of their gross income. The item of gross income is one which the return form has not been designed to reveal. Moreover, a definition of "gross income" is impractical, and the term would be extremely difficult to explain on the return form. The difficulties of definition are especially pronounced in the case of farmers and other persons engaged in small-business enterprises.

The second point is that the reporting as gross income of the first $500 of social security benefits, railroad retirement pensions, and similar items would be a cause of great confusion and uncertainty to taxpayers and of additional work for the Bureau. It is reasonable to assume that only a fraction of the persons who receive military pensions could tell, from reading either H. R. 1 or any instructions that we might be able to place on the return forms, whether they were required to report their receipts of that type as gross income. As you may see from examination of our tentative revisions of the tax forms, this special income provision will necessitate expanding and complicating the forms to a degree that seems to me quite disproportionate to the fiscal objectives. Even if he is correctly informed as to the nature of all his income, many a taxpayer over 65 would have difficulty reporting it correctly.

If the Congress decides that a special exemption is to be available to persons aged 65 and over, the most administratively feasible method for accomplishing this purpose is to grant the exemption without any attendant income requirement whatsoever and without any modification of existing statutory provisions with respect to the taxable status of different types of income received by the beneficiary. This, in effect, would grant the additional exemption on a "per person" basis, in contrast with the "per return" basis provided in H. R. 1.

The foregoing discussion of the administrative problems of the extra exemption is based on the assumption that some form of extra old-age exemption is to be enacted. But even the simplest form as outlined above is not free of complications from the standpoint of added lines and instructions on the various tax blanks, as may be visualized in appendix A. The related problem of inclusion of currently nontaxable income is one of such proportions that it seems to us to belong in a major tax-reform bill rather than in a tax-reduction bill.

Accordingly, any partial treatment of this rather large subject in H. R. 1, to which the taxpayers might become accustomed, would make our task double difficult in the event of any broader treatment of this subject at a later date by the Congress in a more basic revision of the tax laws. Therefore, from a purely administrative standpoint, it would be desirable to delete both the old-age exemption and the provision for the inclusion of currently nontaxable income from H. R. 1 on the grounds that both may be more adequately and appropriately treated in a structural revision of the tax laws.

Between the date of enactment of any statute reducing withholding rates and the time they are actually applied to wages paid by the employer, it is necessary that there be prepared and distributed to all employers full and complete instructions in respect to such withholding These instructions are contained in our official pamphlet entitled "Circular WT." This is a 12-page document which must be printed in sufficient supply by the Government Printing Office and physically distributed to each of some 2.2 million employers. Moreover, after the employers receive these instructions they must adjust their own pay-roll records, which in some instances are quite involved as a result of coding devices employed as a means of mechanically determining the amounts to be deducted.

It is, therefore, suggested that a period of not less than 60 days between the date of enactment and the date of actual application of the new withholding rates be allowed. In the event there are other changes which make it necessary to obtain new exemption certificates from employees prior to inauguration of the new withholding rates, then perhaps a longer time might be required. H. R. 1 in its present form does not necessitate new exemption certificates except in the case of those aged 65 and over.

In addition to the above steps which must be taken in order to give effect to the bill, it will also be necessary to provide a new supply of declaration forms on which the taxpayers may recompute their estimates of tax liabilities for 1947 and file amended declarations.

H. R. 1 as now drawn has a few omissions or defects of a purely technical nature which will undoubtedly be drawn to your attention by your legislative counsel. These are fully discussed in appendix C and in the interest of brevity will not be described at this time.

(Appendix C is as follows:)

Appendix C

Technical Defects in H. R. 1, Because of Lack of Coordination With Existing Provisions of Internal Revenue Code

Section 58 (a), Internal Revenue Code, requirement for declarations of estimated tax

Section 58 (a) of the Internal Revenue Code requires a declaration of estimated tax if the taxpayer's gross income from wages subject to withholding may be expected to exceed $5,000 plus $500 for each exemption to which he is entitled except his own. These provisions are coordinated with the withholding tax provisions and are designed to require a declaration of estimated tax in the case of wage earners where the full tax liability is not withheld at source. Under existing provisions of law, if the taxpayer's income is derived solely from wages, the full amount of the tax liability is withheld where the net income does not exceed $4,000, which amount represents the amount of the income subject to tax in the first two surtax brackets. For example, in the case of a single person the full tax liability is withheld on wages of $5,000 or less since that amount represents net income of $4,000 after the allowance of an exemption of $500 and the standard deduction of 10 percent or $500. Section 58 (a), however, was not adjusted to give effect to the additional exemption provided in the House bill for persons who have reached the age of 65. A simple method for making this adjustment is to change the $5,000 figure to $4,500 and strike out the parenthetical phrase "(except his own)" so that a declaration will be required if the anticipated wage exceed $4,500 plus $500 for each exemption to which the taxpayer is entitled. Under this proposed amendment a single person who has attained the age of 65 and who derives his income solely from wages would not be required to file a declaration unless his anticipated wages for the calendar year exceeded $5,500.

Section 143 (b), Internal Revenue Code, withholding at the source on nonresident aliens

Section 4 of the bill provides additional exemptions for the aged and requires that there be included in the gross income of persons entitled to such exemptions the first $500 of the amount of certain pensions, retired pay, and similar payments otherwise exempt from tax. Apparently, because of existing policies respecting exemptions of nonresident aliens who are residents of a contiguous country, these provisions were made applicable to such aliens. However, as a practical matter only in a rare case would the provisions affect such nonresident aliens and, because the inclusions in gross income are required only in the case of persons entitled to the additional exemption, the provisions never operate to increase tax liability. Nevertheless, in the case of nonresident aliens entitled to the additional exemption the amount required to be included in gross income automatically becomes subject to withholding under the provisions of section 143 (b), at a 30 percent rate in the case of residents of Mexico, but at a 15 percent rate in the case of residents of Canada under the provisions of the Canadian Tax Treaty. Because of the limited application, and because withholding in such cases would usually result in overpayment and subsequent refund of the tax, withholding would only result in additional burdens without corresponding benefits. For these reasons it is suggested that section 143 (b) be amended so as to provide that no withholding shall be required with respect to amounts which are includible in gross income solely by reason of the provisions of section 4 of the bill.

Section 211, Internal Revenue Code, tax on nonresident aliens

Except as otherwise provided by treaty, nonresident aliens not engaged in trade or business in the United States are subject to tax under section 211 (a) of the code at the rate of 30 percent of the amount of gross income from sources within the United States, and such tax is in general withheld at the source. Section 211 (c), however, provides that if the gross income of such alien exceeds $15,400 for any taxable year, the tax shall be determined at the rates provided in sections 11 and 12, but in no case shall the aggregate of the normal tax and surtax be less than 30 percent of the gross income. The purpose of section 211 (c) is to insure that the effective rate of tax in the case of such aliens, except as otherwise provided by treaty, shall in no case be less than the effective rate in the case of citizens of the United States. Under the Revenue Act of 1942 the tax imposed on citizens of the United States reached an effective rate of 30 percent at a gross income level of approximately $15,400, which was the figure adopted for the purposes of section 211 (c) by that act. Since that time, however, there have been several reductions in the tax imposed on citizens of the United States and a further reduction is now proposed under H. R. 1. The cumulative effect of these reductions is to raise the gross income level at which an effective rate of 30 percent is produced to approximately $25,000 of gross income. It is accordingly suggested that section 211 (c) be amended by inserting $25,000 in lieu of the figure $15,400 appearing therein to eliminate the requirement for returns in those cases in which the full amount of the tax liability is satisfied by withholding at the source.

Section 1621 (a), Internal Revenue Code, definition of "wages" for withholding tax purposes

Section 22 (o), added to the Internal Revenue Code by section 4 of the bill provides, in effect, for the inclusion in gross income of the first $500 of payments received as pensions, annuities, retired pay, and similar items which are wholly exempt from tax under existing law. These payments include such items as old age and survivors' insurance benefits under title II of the Social Security Act, retired pay for disability resulting from active service in the armed forces, and similar types of payments from other sources. In most instances the amount of such payments required to be included in gross income will, under the existing provisions of law, constitute wages subject to withholding. In other instances there is some doubt as to the status of the payments for withholding tax purposes. Inasmuch as the amount required to be included in gross income can never exceed the amount of one withholding exemption, it is only in the rare case in which no withholding exemption is claimed that tax would in fact be withheld. Nevertheless, if such amounts are characterized as wages for withholding tax purposes persons receiving such payments would be required to file withholding exemption certificates, and the organization making such payments would be required to file withholding tax receipts on Form W-2, setting forth the amount of the payment and the amount of the tax withheld, if any. The Bureau would have the burden of handling thousands of those certificates although it is likely that only a very few dollars of tax would be involved. For these reasons it is desirable that such amounts should not be treated as wages for tax purposes. It is accordingly suggested that section 1621 (a) of the code, relating to the definition of "wages," be amended to provide that such amounts shall not be considered as wages for withholding tax purposes.

While it is not considered desirable to require withholding at the source and the issuance of withholding tax receipts with respect to the amounts includible in gross income as an offset to the additional exemptions for the aged, it might be advisable to clothe the Commissioner with authority to require information returns with respect to such payments in the event experience shows that such procedure is necessary to insure compliance with these provisions. Under the provisions of section 147 (a) of the Internal Revenue Code the Commissioner is authorized to require information returns with respect to payments of fixed or determinable income of more than $500 in any taxable year; and under section 147 (b) such returns may be required with respect to certain classes of interest payments, regardless of the amount. Authority to require such information returns with respect to the payments includible in gross inicome under the provisions of section 4 of the bill could be accomplished by a simple amendment to section 147 (b) of the code.

Section 1622 (h), Internal Revenue Code, withholding exemptions

In its present form the bill does not make available for withholding tax purposes the additional exemption allowed to individuals who have attained the age of 65. The existing law, section 1622 (h) of the Internal Revenue Code, provides the same number of exemptions for withholding tax purposes as are allowed in computing income tax liability. Such exemptions are allowed on the basis of a withholding exemption certificate furnished the employer by the employee setting forth the number of exemptions to which he is entitled. These exemption certificates are furnished upon commencement of employment and also at the time of any change in the employee's withholding exemption status. Under the provisions of section 1622 (h), if the employee furnishes a new withholding exemption certificate, employers are required to give effect to the exemptions claimed with respect to the first payment of wages made after the first status determination date which occurs more than 30 days after such certificate is furnished. The status determination dates are January 1 and July 1 of the calendar year. Employers may, however, if they desire, give effect to the changed withholding exemptions upon the first payment of wages made after a new certificate is furnished. These provisions are designed to give effect to changes in withholding exemptions at the earliest practicable date with the minimum of inconvenience to employers. In order to prevent overwithholding in the case of persons entitled to the additional exemptions, it is suggested that section 1622 (h) be amended to authorize the allowance of such exemptions for withholding tax purposes and to insure that employees receive the benefit of such exemptions at the earliest date consistent with the policies underlying existing law. For the latter purpose it is suggested that the proposed amendment require employers to give effect to the additional exemption with respect to the first payment of wages made on or after the nintieth day after enactment of the bill, if a withholding exemption certificate is filed more than 30 days before such date. This will allow employees approximately 60 days from the date of enactment within which to furnish new exemption certificates and, consistent with present policy, will allow employers a minimum of 30 days to give effect to such certificates. Unless some such provision is adopted employees affected may not receive the benefit of the additional exemption during the calendar year 1947 because it is unlikely that they will be able to furnish employers with new certificates more than 30 days before July 1, 1947, and the next status determination date does not occur until January 1, 1948. Of course, many employers may be expected to give immediate effect to the new certificates but this is not mandatory.

The CHAIRMAN. Mr. Sherwood, I assume that you will not wait in doing your tentative work until we have a final decision on the new tax bill. In other words I assume that you are doing work on certain assumptions at the present time.

Mr. SHERWOOD. You are quite right, Senator. I suggested the other day, and we have discussed with the men who will be charged with the operating problems, that we keep pace with the committee's action and be ready for any eventuality that we might be able to foresee.

The CHAIRMAN. I am glad to hear that. How many persons will incur income tax liability for 1947?

Mr. SHERWOOD. Dr. Atkeson, do you have that statement?

Mr. ATKESON. Under the present law it is 48,500,000.

The CHAIRMAN. I believe you used the figure in here of 47 million plus, but the exact figure is not important.

Mr. ATKESON. The 47 million is under H. R. 1.

The CHAIRMAN. Of this number, the 37 million, how many will have their tax computed by the collector on Form W-2?

Mr. SHERWOOD. That figure is 22 million.

The CHAIRMAN. There will not be any complication to those taxpayers since they do not compute their tax, is that not right?

Mr. SHERWOOD. It will be necessary to have a revised Form W-2 in order to inform at least those who are in the 65 age group of their opportunities for additional exemptions.

The CHAIRMAN. With the exception they do not have to compute their tax.

Mr. SHERWOOD. That is right.

Mr. ATKESON. The form will have some additional lines in respect to the old-age provision.

Mr. SHERWOOD. That is the only change.

The CHAIRMAN. But those 22 million will not compute their own tax?

Mr. ATKESON. That is correct.

Mr. SHERWOOD. That will add to the difficulties of the collectors' forces in computing the taxes of those 22 million people.

The CHAIRMAN. I think we could assume that the collector's force will have to accustom itself to the difference.

Mr. SHERWOOD. It will.

The CHAIRMAN. The different routine of work. But so far as the taxpayer citizen is concerned——

Mr. SHERWOOD. He will not be affected.

The CHAIRMAN. The 22 million of them, they will not have any complication.

Mr. SHERWOOD. That is correct, sir.

The CHAIRMAN. How many taxpayers will use the tax table where their tax is automatically computed?

Mr. SHERWOOD. We had that figure. I stated that about three-fourths of all taxpayers will probably have no difficulty since they will use the tax table, or have their tax computed for them by the collectors.

The CHAIRMAN. So there will be no complications for those taxpayers.

Mr. SHERWOOD. No additional complications for those taxpayers.

The CHAIRMAN. How many will actually make their computation on Form 1040?

Mr. SHERWOOD. Close to 10 million. They will use the Form 1040. They take advantage of the opportunity to list their deductions and do not make use of the standard deduction.

The CHAIRMAN. As to that 10 million, the form according to your appendixes have the following question: Let us turn to that form, the proposed form on page 3. I think it is.

Mr. SHERWOOD. That is correct.

The CHAIRMAN. On page 3 of appendix A.

Mr. SHERWOOD. That is appendix A.

The CHAIRMAN. On page 3 down toward the bottom you break up your item 7.

Mr. SHERWOOD. That is correct, sir.

The CHAIRMAN. Now, coming to No. 7 (a), of the number of taxpayers using Form 1040, and computing their tax, how many will not have to go beyond (a) on the form?

Mr. SHERWOOD. Do you have that figure?

Mr. ATKESON. Mr. Chairman, we have not made an actual distribution of that, but I think that we can distribute it roughly in proportion to the distribution of all returns which will be in this bracket. There will be 24.8 million out of the 48 million subject to tax of under $200, so that would be 50 percent of the 10 million, that would use the first line.

The CHAIRMAN. So 5 million roughly will use the first line.

Mr. ATKESON. That is right.

The CHAIRMAN. Will not those 5 million taxpayers compute their tax exactly in the same manner as they do under existing law, except that instead of reducing their tax by 5 percent, they are doing it by 33⅓ percent?

Mr. ATKESON. That is correct.

The CHAIRMAN. So that is the only complication involved there.

Mr. SHERWOOD. As to the 5 million that seems to be the only one.

The CHAIRMAN. Making the 33⅓ percent reduction instead of the 5 percent. We have 5,000,000 left.

Mr. ATKESON. And one-sixth of the total has been estimated as subject to the notch provision, so they would use line 7 (b). That would be one-sixth of the 10 million.

The CHAIRMAN. What would that give us?

Mr. SHERWOOD. That would give us 1,666,000.

The CHAIRMAN. 1,666,000?

Mr. SHERWOOD. That is right.

The CHAIRMAN. Is it not true that the taxpayers falling within this group do not even have to compute their tax reduction? Do they do any more than compute their tentative tax under existing law, and reduce it by a flat $67?

Mr. ATKESON. That is exactly the procedure.

The CHAIRMAN. So that is all that is involved as to that next 1,666,000, is that correct?

Mr. SHERWOOD. That is correct, sir.

The CHAIRMAN. How many will fall within group 7 (c)?

Mr. ATKESON. Substantially all of the remainder.

Mr. SHERWOOD. About 3,300,000, approximately.

The CHAIRMAN. As to these, will they have anything to do except instead of reducing by 5 percent, to reduce by 24 percent?

Mr. SHERWOOD. That is correct.

The CHAIRMAN. So that is their total new burden.

Senator LUCAS. You think they probably would like to do that.

The CHAIRMAN. I was going to ask the witness if they would not be overjoyed.

Mr. SHERWOOD. You mean because of the increased advantage to them?

The CHAIRMAN. Yes.

Mr. SHERWOOD. I suspect we would all be pleased to have our taxes reduced. But we are trying to describe to you the taxpayer reaction we have when we have any form that appears to offer any complications.

The CHAIRMAN. Senator Lucas' question goes directly to the taxpayer reaction. I suggest that he would be overjoyed to figure 33 or 24 rather than 5.

Mr. SHERWOOD. I suspect I would have to agree with that.

The CHAIRMAN. Let us take the last group of taxpayers. These are in excess of $250,000, whose taxes are in excess of that, is not that correct?

Mr. SHERWOOD. That is correct.

The CHAIRMAN. In determining their reduction, they will enter on their return $60,000 plus 15 percent of the excess over $250,000, will they not?

Mr. SHERWOOD. That is correct, sir.

The CHAIRMAN. Is this any complication for a man whose tax is in excess of $250,000 a year?

Mr. SHERWOOD. I would not consider it a complication, no, sir.

The CHAIRMAN. It is a matter of simple arithmetic, is it not?

Mr. SHERWOOD. That is correct, sir.

The CHAIRMAN. And the job would be probably performed by an auditor or a tax expert, would it not?

Mr. SHERWOOD. Well——

The CHAIRMAN. So that the taxpayers in that rarified group would not be inconvenienced at all, and I imagine that applying the expression which Senator Lucas applied to the lower brackets, I imagine they would be overjoyed.

On page 3 of your statement you state that the major source of difficulties and complexities under H. R. 1 is the splitting of the present $2,000 first surtax bracket.

The first part is under $1,000.

Mr. SHERWOOD. That is correct.

The CHAIRMAN. The second is $1,000 to $1,395.83.

Mr. SHERWOOD. Correct.

The CHAIRMAN. And the third of $1,395.83 to $2,000.

There of course may be some administrative difficulty in the splitting of the first bracket, but is this not justified in giving greater relief to the first-bracket taxpayers?

Mr. SHERWOOD. Senator, please understand that our comments are not addressed at all to the policy question involved in reduction. We have suggested that it might be possible, if reductions are made, to do it in a manner that is more adaptable to the administrative problem.

The CHAIRMAN. I understand that.

Mr. SHERWOOD. And perhaps save some confusion to the taxpayer.

The CHAIRMAN. I understand that you are not going into the policy. I understand also that you want to achieve a simplification that will evoke a good taxpayer reaction.

Mr. SHERWOOD. That is correct, sir; that is the sole purpose of my appearance.

The CHAIRMAN. And we have that to consider as we go along.

When the Revenue Act of 1943 was before the Senate, the Treasury presented proposals, dividing the first bracket into four parts, and I desire to insert in the record at this point the Treasury proposals made at that time, which appear on page 84 of the hearings before the Senate Finance Committee with respect to the Revenue Act of 1943.

Do you wish to refresh your memory on that?

(The proposals are as follows:)

EXHIBIT 8

Comparison of surtax rates under present law, the Treasury proposal of Oct. 4, 1943, and 2 alternative schedules [1]

Surtax net income	Present law	Treasury proposal Oct. 4 1943	Treasury alternative proposal A	Treasury alternative proposal B
	Percent	*Percent*	*Percent*	*Percent*
Not over $500	13	21	22	24
$500 to $1,000	13	24	25	26
$1,000 to $1,500	13	27	28	28
$1,500 to $2,000	13	30	31	31
$2,000 to $4,000	16	35	36	36
$4,000 to $6,000	20	40	40	40
$6,000 to $8,000	24	45	43	40
$8,000 to $10,000	28	49	46	44
$10,000 to $12,000	32	53	49	44
$12,000 to $14,000	36	57	52	47
$14,000 to $16,000	40	61	55	47
$16,000 to $18,000	43	65	58	50
$18,000 to $20,000	46	68	60	50
$20,000 to $22,000	49	71	62	53
$22,000 to $26,000	52	74	64	55
$26,000 to $32,000	55	77	66	58
$32,000 to $38,000	58	79	68	61
$38,000 to $44,000	61	81	70	64
$44,000 to $50,000	63	83	72	66
$50,000 to $60,000	66	85	74	69
$60,000 to $70,000	69	86	76	72
$70,000 to $80,000	72	87	78	75
$80,000 to $90,000	75	88	80	78
$90,000 to $100,000	77	89	82	81
$100,000 to $150,000	79	90	84	84
$150,000 to $200,000	81	90	86	87
Over $200,000	82	90	87	88
Normal tax	6	6	6	6

[1] Under each of the proposals, the Victory tax and earned-income credit are eliminated and the exemptions are $500, $1,100, and $300.

Source: Treasury Department, Division of Tax Research, Nov. 29, 1943.

Mr. SHERWOOD. Yes, sir; I recall that.

The CHAIRMAN. Would the administrative difficulties be any greater in applying the Treasury proposal of '43 than in applying those of H. R. 1.

Mr. SHERWOOD. I would not say so, Senator, but we are basing our case for a better arrangement, if it is practical, to avoid the difficulties that followed the Revenue Act in 1943, and the taxpayer reaction was certainly vociferous at that time.

The CHAIRMAN. If as a matter of policy we believe that fairness requires us to split the bracket, we do not run into any greater difficulty than the Treasury proposed for us in a similar operation back in 1943, do we?

Mr. SHERWOOD. Well, I suspect I will have to answer "yes," to that, but I can say at the same time that the taxpayer reaction there was most vociferous and our difficulties were greater than we like to anticipate in future years.

The CHAIRMAN. My attention has been invited to the fact that that proposal was not adopted.

As a proposed alternative method for accomplishing the objective of H. R. 1, you suggest a revision of the surtax schedule.

Would any such revision give the same relief as contemplated under H. R. 1, and result in the same loss of revenue?

Mr. SHERWOOD. Our expectation was to get as close as possible to that, it was our hope that our people could sit down with your people and work out a schedule that would produce the same results if your determination is that the taxes ought to be cut.

The CHAIRMAN. If an alternative tax schedule is presented, will taxpayers with surtax net income of $1,000 or less receive a 30 percent reduction under the revised schedule, and taxpayers with surtax net income over $1,000 receive the same reductions that they receive under H. R. 1?

Mr. SHERWOOD. To this point; the computations that have been apparently practicable have not accomplished exactly that result. The one that so far was examined did not exceed a difference of $7 for those under $1,000 nor $24 for those up to $2,000. We were not satisfied with that, and that was to be restudied. Whether we can get closer, I do not know.

The CHAIRMAN. If you split a bracket, you are bound to have complications, are you not?

Mr. SHERWOOD. That is correct, sir.

The CHAIRMAN. Will you be good enough to prepare a schedule with the burden tables and estimated loss of revenues so we can study its effects?

Mr. SHERWOOD. We will do the very best we can with that.

The CHAIRMAN. In regard to relief for persons over 65, I notice that you state that this exemption will complicate the return. Would it be possible to have a separate return for people over 65?

Mr. SHERWOOD. That would I think be most difficult. In the first place, you would have to identify the people over 65 years old. The distribution costs would be increased, and I cannot imagine more difficult problems than to provide different forms of returns for different classes of persons.

The CHAIRMAN. They will identify themselves.

Mr. SHERWOOD. That may be possible.

The CHAIRMAN. You would not have to look at their teeth.

Mr. SHERWOOD. We would not have to do that, and we would have to depend upon them to come and ask for the returns. It is a rather sizable job to distribute returns to 65,000,000 taxpayers. That costs us money, and today we are in a little budget trouble, as you know. It is definitely a budget trouble unless the Senate can help us.

The CHAIRMAN. You state that if the Congress decide that a special exemption is to be available to persons over 65, the best way is to grant this exemption on a per person basis instead of on a per return basis.

Mr. SHERWOOD. That is upon——

The CHAIRMAN. How much additional revenue would that cost over H. R. 1?

Mr. SHERWOOD. Have you been able to get a figure on that, Doctor?

Mr. ATKESON. No.

Mr. SHERWOOD. We have not been able so far as I know to get a figure on that, Senator, but I do not imagine it would be more than $10,000,000 or $12,000,000, do you, Doctor? We will attempt to have a figure for you.

The CHAIRMAN. I wish you would give us one. That is a pertinent factor.

Mr. SHERWOOD. If the special exemption for persons aged 65 and over is granted without any attendant income requirement and without any modification of existing statutory provisions with respect to social security, railroad retirement, and similar benefits, the revenue cost would total approximately $50,000,000 more than under H. R. 1. Roughly $17,000,000 of this additional cost would result from the allowance of the exemption on a "per person" rather than a "per return" basis, and about $33,000,000 would result from the continued exclusion of social security, railroad retirement, and similar benefits from the tax base.

Senator LUCAS. Will you explain that difference? I do not quite follow that.

Mr. SHERWOOD. The suggestion of the Bureau, Senator, is that if the $500 is to be permitted as an additional benefit to those over 65 years, that it be not accompanied by the principle that they be required to report the nontaxable income, in order to establish that benefit.

Senator LUCAS. I understand it. Thank you.

The CHAIRMAN. Have you studied Senator Lucas' proposed substitute bill?

Mr. SHERWOOD. I have had no opportunity to do that, sir.

The CHAIRMAN. Have any of your men?

Mr. SHERWOOD. Have you studied it, Doctor, or any of our people, except to look at it and as it was opportune for us to look at it after it appeared in the public record.

The CHAIRMAN. Would you mind, Senator Lucas, if I asked Mr. Sherwood to give us a statement on the administrative simplicities or complicities of your proposal?

Senator LUCAS. I want someone to do that.

Mr. SHERWOOD. I understand that you would like us to supply a statement which would describe the administrative difficulties to be expected upon the enactment of Senator Lucas' bill.

Senator LUCAS. I would like to have the same examination made of my bill by the different experts in the Treasury Department that you have made on H. R. 1.

Mr. SHERWOOD. I will be glad to do that, sir.

Senator LUCAS. And submit it to the committee, if that is agreeable to the chairman.

The CHAIRMAN. That is agreeable. As I understand Senator Lucas will divide the income equally between the elderly people for tax purposes, and I assume that would run into administrative difficulties.

Mr. SHERWOOD. I would like to examine that, Senator, before committing myself.

The CHAIRMAN. Have you any questions?

Senator LUCAS. There is one question I would like to ask. On pages 3 and 4, you speak rather candidly about the difficulties that the Treasury Department is going to have because of splitting the first bracket and you proceed to give seven cogent reasons why you think so.

Assuming that H. R. 1 should pass in its present form, may I inquire whether you believe that that will take additional personnel to administer it?

Mr. SHERWOOD. My answer to that would be yes; if we did what I would consider to be an honest job, and undertake to get the tax return appropriate to the bill's provisions.

Senator LUCAS. It seems to me that we have to consider the fact that you are making this bill retroactive or you are starting under Senator Taft's proposal of July 1, and neither gives to the Treasury Department any opportunity whatsoever to get its house in order, so to speak, but does throw you into a lot of chaos and confusion, and in order to do an efficient job for the taxpayers throughout the country, it appears to me from all that I can see and hear up to now that you are not going to do that kind of a job with the personnel that you have.

Mr. SHERWOOD. I am quite ready to agree with that, Senator.

Senator LUCAS. That is just my offhand opinion about it. I wanted to get your reaction to it.

Mr. SHERWOOD. That is certainly my reaction, that we are in sufficient difficulty now trying to give the proper service to the 50,000,000 taxpayers in this country. I personally, whether this is the place to say it or not, consider the force that we have now completely inadequate to do the kind of a job we ought to do, if we are going to collect 40 billion or 30 billion dollars or any such substantial sum from the 55,000,000 people to whom we are responsible.

Senator LUCAS. This is probably not quite material, either, to the issue pending, but I am cutting wherever we can cut in this budget. But I hope the distinguished Senator here, the chairman of this Finance Committee, will look upon the Treasury Department with a sympathetic eye on this question of cutting that budget, because from what little I know about you fellows down there, you are paying your way pretty well, and we are going to cripple the services down there if we start cutting you fellows with a meat ax, as has been proposed.

Mr. SHERWOOD. I could say without equivocation that any dollar that is taken away from that appropriation is going to cost a minimum of $20. Of course we have our weak spots. Of course we have many problems that we should handle better than we do today. But if you consider the growth of this organization, more than 10 times the size it was a few years ago, and the difficult problems of recruitment with which we were confronted during the war period, and even now, and if you consider, as I hope you will, that you cannot make a proper tax man without at least a year to two of training, you obtain a better idea of the job size. You do not have the kind of man you want to send out to put his hand in the pockets of the American people unless you give him the right kind of training. You first have to give him some character, too.

Senator LUCAS. That is right. I think one of your difficulties, from the complaints that have come in from the field where I live, is the lack of good public relations that exists between your tax fellows and the public.

Mr. SHERWOOD. We are entirely conscious of that and today you have a new type job because the tax interest in the first dollar of taxable income is a substantial one. When you begin to take $12, $15, $19 out of the first $100 of taxable income, the individual taxpayers, and there are 50,000,000 of them, have a very substantial concern in what you are doing.

Senator LUCAS. They should have.

60865—47——10

Senator BUTLER. Mr. Sherwood, have you made any estimate or has anybody in the department made any estimate as to the additional cost of administration of the proposed bill H. R. 1 to what it has been?

Mr. SHERWOOD. We have not yet, sir.

Senator BUTLER. You have not?

Mr. SHERWOOD. No; we know now, I hope you will understand that I say this without any particular selfish interest, that we are not staffed as well as we should be to administer the provisions of present law which does not have the difficulties and complications that H. R. 1 may present.

The CHAIRMAN. Thank you very much, Mr. Sherwood.

Mr. SHERWOOD. Thank you.

The CHAIRMAN. Mr. Lawton, will you state your name and your present occupation?

STATEMENT OF F. J. LAWTON, ACTING ASSISTANT DIRECTOR, BUREAU OF THE BUDGET, WASHINGTON, D. C.

Mr. LAWTON. Frederick J. Lawton, Acting Assistant Director of the Bureau of the Budget.

The CHAIRMAN. Have you been attending these hearings?

Mr. LAWTON. Just this morning, sir.

The CHAIRMAN. During the morning we were trying to get at the basis for your budget estimates for the succeeding fiscal year. I think it was testified that the estimates for the fiscal year 1947 were completed in December '45, that the estimates for fiscal '48 were completed in December of '46.

Mr. LAWTON. That is correct, Senator.

The CHAIRMAN. In making your estimate for fiscal '47, what did you figure would be the national income for that year?

Mr. LAWTON. Senator, the estimates for the expenditure side of the budget are not directly related in many cases to the question of national income. That is a more important question for the tax side of the budget.

The revenue side of the budget, we receive from the Treasury, and accept the assumptions that the Treasury makes us to national income.

As to the expenditure side, in most cases, the question of the operations of the various departments and establishments are based on the performance of the functions vested in them by law at a minimum effective rate.

The CHAIRMAN. Yes.

Mr. LAWTON. Regardless of the question of national income.

The CHAIRMAN. Then what was the Treasury's estimate of national income for the fiscal year 1947 as made by them in December of 1945?

Mr. LAWTON. I do not recall that, Senator. The only one I recall is the current year.

The CHAIRMAN. All right.

Mr. LAWTON. The estimates for '48.

The CHAIRMAN. What was the Treasury's estimate made in December '46 of national income for the fiscal year 1948?

Mr. LAWTON. It was around 168 billion.

The CHAIRMAN. And what was the current rate of income at the time the estimate was made?

Mr. LAWTON. I do not know that figure, Senator. I believe it was testified this morning that it was around $174 billion.

The CHAIRMAN. So that assuming that to have been 174 billion, the estimate required the prediction that there would be a dropping off of revenue of $6 billion in the next fiscal year, is that correct?

Mr. LAWTON. The revenue estimate for the next fiscal year which is included in this budget is 37.7 billion.

The CHAIRMAN. If I said revenue, I misspoke myself. I mean a drop of income, national income. You stated that the estimate of '48 was based on 168 billion of national income.

Mr. LAWTON. I understood that was the Treasury's statement.

The CHAIRMAN. As of the time that that estimate was made, the national income was running 174 billion, is that not correct?

Mr. LAWTON. I say that is what I understood the Treasury testified to this morning.

The CHAIRMAN. I asked you whether assuming that to be correct, the Treasury had to estimate and the Budget adopted its estimate, that there would be a drop-off of $6 billion in national income during the then coming fiscal year.

Mr. LAWTON. Well, it would assume that the income for the fiscal year 1948 would be that much less than the rate in December, at the time the estimate was made.

The CHAIRMAN. Exactly.

What do you estimate to be the surplus of revenue over expenditures at the end of fiscal '47?

Mr. LAWTON. A billion and a quarter.

The CHAIRMAN. A billion and a quarter?

Mr. LAWTON. Yes.

The CHAIRMAN. Do you make that on your own calculations or do you accept that from the Treasury?

Mr. LAWTON. The revenue estimate was the Treasury's estimate. The expenditure estimate was ours, and the difference between the two produces that figure.

The CHAIRMAN. You have nothing to do with the revenue except to accept that which the Treasury provides?

Mr. LAWTON. That is correct. That is what we did in this instance.

The CHAIRMAN. Do you know how much the national debt has been reduced during the past year? Let me interrupt you to say if in those matters also you simply accept the Treasury's figures, I do not care to rehash it with you in a second-hand way.

Mr. LAWTON. In the case of the reduction of the debt, the figure was estimated in the Budget to be a reduction of $9 billion during the year.

Now, the situation at the current time is that the debt has been reduced $12 billion.

The CHAIRMAN. To date?

Mr. LAWTON. Approximately, yes.

The CHAIRMAN. As against $9 billion estimated for the entire fiscal year?

Mr. LAWTON. Nine estimated in the budget at the beginning of the year.

The CHAIRMAN. And how much additional reduction of debt do you anticipate between now and the end of the fiscal year?

Mr. LAWTON. We have not gone into the question of the additional debt reduction at this time; in making these estimates we did not discuss with the Treasury their financing plans from now until the end of the year or any changes they propose to make in the cash balance.

The CHAIRMAN. Are you riding current herd on the developments of your budget which you estimated for '48?

Mr. LAWTON. To some extent; yes, sir. We are keeping a record of what happens in the progress of those bills through the Congress.

The CHAIRMAN. That would be an essential part of your duty, would it not?

Mr. LAWTON. Correct.

The CHAIRMAN. You could not give intelligent budget advice unless you keep track of those matters; is that not correct?

Mr. LAWTON. That is correct.

The CHAIRMAN. To get over to the expenditure side, give us, please, the relationship of the estimated expenditures which you planned on making in fiscal '47 as compared to those which you actually expect to have achieved by the end of fiscal '47.

Mr. LAWTON. The estimate which was included in the January budget for '47 was $42,523,000,000. That is in January we estimated that for this year we would expend $42,523,000,000. We now estimate the expenditures for 1947 will be $41,250,000,000, a reduction of $1,273,000,000.

The CHAIRMAN. Yes.

Mr. LAWTON. That is from the January estimate.

The CHAIRMAN. Will you please give us a break-down of the expenditures that you believe will be made between now and the end of the fiscal year?

Mr. LAWTON. I can. The break-down that I have, senator, is for the fourth quarter of the fiscal year.

Senator LUCAS. May I ask a question before you get to that? Would it be proper to ask him just for a short summary break-down of the difference between the $42 billion that they first estimated, and the $41 billion that they estimated later? How did that happen?

The CHAIRMAN. We will be very glad to have him answer that.

Mr. LAWTON. It is composed of a wide variety of changes. I can run down the list of them here, if you wish to have that.

(The break-down referred to is as follows:)

Analysis of estimated budget expenditures, fiscal year 1947

[In millions]

Item	Original full-year estimate	Revised estimates: Quarterly expenditures: Actual, first	Actual, second	Actual, third	Estimate, fourth	Revised full-year estimate	Change original to revised full-year estimate	Change third quarter to fourth quarter
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SPECIAL CASES								
1. Bretton Woods Agreements Act:								
(a) International Monetary Fund	$950	....	....	$950	....	$950	....	−$950
(b) International Bank	476	....	$159	159	$158	476	....	−1
2. Credit to United Kingdom	1,500	$400	200	500	800	1,900	+$400	+300
3. Post Office Department (deficiency)	276	(1)	100	....	140	240	−36	+140
4. Interest on public debt	4,950	1,019	1,217	1,093	1,621	4,950	....	+528
5. Refunds of taxes and duties	2,127	647	215	613	825	2,300	+173	+212
6. Transfers to trust funds:								
(a) Government employees' retirement	223	223	....	....	....	223	....	....
(b) National service life insurance	974	271	51	45	542	909	−65	+497
(c) Railroad retirement	502	165	44	44	249	502	....	+205
7. Terminal leave	1,900	2	644	916	568	2,130	+230	−348
Subtotal, special cases	13,878	2,727	2,630	4,320	4,903	14,580	+702	+583
OTHER EXPENDITURES								
8. Agriculture:								
(a) Agriculture Department	1,736	1,138	101	118	301	1,658	−78	+183
(b) Commodity Credit Corporation	−790	−761	90	41	−264	−894	−104	−305
9. Export-Import Bank:								
(a) General and special accounts	325	200	125	....	....	325	....	....
(b) Corporation accounts	700	19	106	251	274	650	−50	+23
10. Federal Security Agency	911	248	220	211	232	911	....	+21
11. Federal Works Agency	468	85	101	72	116	374	−94	+44
12. Interior Department	292	61	67	62	77	267	−25	+15
13. National Housing Agency:								
(a) General and special accounts	465	114	189	132	55	490	+25	−77
(b) Corporation accounts	−250	−46	−45	−65	−40	−196	+54	+25
14. State Department	278	29	30	32	99	190	−88	+67
15. Treasury Department	1,077	209	161	154	266	790	−287	+112
16. Veterans' Administration	6,544	1,460	1,565	1,659	1,716	6,400	−144	+57
17. Navy Department	5,116	1,556	1,219	1,063	1,062	4,900	−216	−1
18. UNRRA	1,515	446	376	257	321	1,400	−115	+64
19. Surplus property disposal	520	78	91	142	189	500	−20	+47
20. Maritime Commission (+WSA)	398	92	88	53	84	317	−81	+31
21. War Department:								
(a) Rivers and harbors, Panama Canal, etc	365	63	46	57	99	265	−100	+42
(b) War and defense	7,654	1,359	1,950	1,829	2,214	7,352	−302	+385
22. Atomic Energy Commission	201	....	....	*70	80	150	−51	+10
23. Reconstruction Finance Corporation	161	−26	−154	−64	144	−100	−261	+208
24. All other:								
(a) General and special accounts	955	297	239	*212	172	920	−35	−40
(b) Corporation accounts	3	−17	−39	17	40	1	−2	+23
Subtotal, other expenditures	28,645	6,604	6,526	6,305	7,235	26,670	−1,975	+930
Total	42,523	9,331	9,156	10,625	12,138	41,250	−1,273	+1,513
General and special accounts	42,698	10,162	9,198	10,443	11,988	41,789	−909	+1,543
Corporation accounts	−175	−831	−42	182	152	−539	−364	−30

*Partly estimated.

[1] Less than $500,000.

NOTE.—Due to rounding, figures do not necessarily add to totals.

Mr. LAWTON. The credit to the United Kingdom is up $400 million; postal deficiency down $36 million; refunds of taxes up $173 million; national service life insurance down $65 million; terminal leave up $230 million; Agricultural Department general funds down $78 million; Commodity Credit down $104 million, representing an increase in receipts; Export-Import Bank down $50 million; Federal Works Agency down $94 million.

Senator LUCAS. Right on that point, Federal Works Agency down $94 million; what information did you get that you did not have previous that caused you to reduce $94 million in the Federal Works?

Mr. LAWTON. The third quarter expenditures and a general slowing up of the rate of expenditure below that which we had anticipated in December when we made this estimate.

Senator LUCAS. I suppose each and every one of these items could be explained in a similar way, if you had to go into them. In other words it is a sort of day-to-day proposition, is that correct?

Mr. LAWTON. There are fluctuations in the rate of expenditures. They occur for varying reasons. Some of the expenditures have a definite pattern. Others are dependent upon the timing rather than that they will not or will be made at all.

In some cases this represents a delay into next year of certain expenditures. In other cases, it represents a flat decline in the program which will not change next year's picture at all.

Senator LUCAS. Are there any of these items on which after a second or third consideration of them, you just submit a decision that they were too high, and then flatly reduce them, or do you find factors or evidence surrounding each item that gave you a sufficient reason either to raise or lower them?

Mr. LAWTON. In this particular revision of estimates, we did not make a complete detailed review and hearing with agencies and examination into each and every item, but we took the current trends of expenditures, and developed any unusual items that would occur in the fourth quarter, any changes in the pattern, projected or put those into the projection and arrived at this figure.

Senator LUCAS. But in arriving at your original estimate of $42,523,000,000—That is correct, is it not?

Mr. LAWTON. Yes.

Senator LUCAS. As I understand it, each and every item that went into that $42,000,000,000 was carefully scrutinized by the Budget before you finally made up the total budget, is that correct?

Mr. LAWTON. Let us get one thing clear on this. We are not talking appropriations. We are talking about the rate of expenditure of the moneys which Congress has appropriated to the agencies, or for which appropriations are being made during this year.

We made those estimates on the basis of the projected rate at which the agency expected to expend its funds during the balance of the year. We had available, as accurate information on detail, the November figures.

Senator LUCAS. I want to get clear in my mind about the President's budget message that came up to the Congress for our consideration, and which we have before us now.

If I understand it correctly, what he was talking about in that budget message had been carefully considered by the Bureau of the

Budget, and all of the experts in the different branches of the Government, before his recommendations were made upon what he should have as a budget this year.

Mr. LAWTON. That is correct.

Senator LUCAS. Since that time you have found reasons to lower it?

Mr. LAWTON. We have found in certain instances the rate of expenditure is not meeting the estimate that we made in December for those expenditures. They are not changes in program.

Senator LUCAS. I understand that.

Mr. LAWTON. They are delays in——

Senator LUCAS. But you made that estimate in December of 1946.

Mr. LAWTON. That is right.

Senator LUCAS. The first one, and then you made another one in January 1947.

Mr. LAWTON. These are the two most recent estimates we are talking about here.

Senator LUCAS. You made one in '46 and in January of '47, a month later, you made another estimate.

Mr. LAWTON. No. We made one estimate in December, that was in the January budget, and this estimate, the most recent one is one that was released on Saturday.

Senator LUCAS. Last Saturday?

Mr. LAWTON. Last Saturday.

Senator LUCAS. Well, will you have another estimate before the year is over?

Mr. LAWTON. There will be no further estimate before the year is over.

Senator LUCAS. You are settled on that.

Mr. LAWTON. The actual results will be known in two and a half months.

Senator LUCAS. Thank you, sir.

The CHAIRMAN. Thank you, Senator.

You were in the middle of telling us what expenditures were up and which ones were down. Will you go ahead with that, and if it is not too much trouble, start from the beginning again.

Mr. LAWTON. All right, sir. British loan up $400 million; postal deficiency down $36 million; refunds of taxes up $173 million.

Senator LUCAS. May I make an inquiry right there on that. Why would that happen? Did the Treasury give you any reason why they missed their estimate there by $173 million?

Mr. LAWTON. No. That is the latest estimate based on the current information that they received, and having the advantage of the recent tax returns.

Senator LUCAS. I suppose Mr. O'Donnell can explain that.

The CHAIRMAN. Refunds up $173 million.

Mr. LAWTON. Yes.

Senator BYRD. Is this in response to my inquiry regarding the fourth-quarter expenditures?

Mr. LAWTON. This is the total for the year as compared with the present estimate compared with the estimate in the January budget.

Senator BYRD. I asked the Secretary of the Treasury to furnish information as to why they expected to spend $12,137,000,000 in the fourth quarter, and when they have been spending a little over $9 billion.

Mr. LAWTON. I can furnish that. I can come to that next. I am now on the totals.

National service life insurance is down $65 million.

Senator BYRD. Down from what?

Mr. LAWTON. This is from the January 1947 budget, the estimates made last December.

The CHAIRMAN. Down how much?

Mr. LAWTON. $65 million; terminal leave is up $230 million; Agriculture Department, general and special fund expenditures, down $78 million; Commodity Credit Corporation, down $104 million.

As I stated before, that represents an increase in receipts, an increase in credit items.

Export-Import Bank down $50 million; Federal Works Agency down $94 million.

I can furnish this statement. I have two copies of it.

The CHAIRMAN. Have you got some copies for the press?

Mr. LAWTON. Interior Department down $25 million; National Housing Agency, general and special accounts, up $25 million; corporation accounts up $54 million; State Department down $88 million; Treasury Department down $287 million; Veterans' Administration down $144 million.

Senator LUCAS. You say the Treasury Department is down $287 million?

Mr. LAWTON. Yes.

Navy Department down $216 million; UNRRA down $115 million; Surplus Property Disposal down $20 million; Maritime-War Shipping down $81 million; Rivers and Harbors, and Flood Control, down $100 million; War Department defense expenditures down $302 million; Atomic Energy Commission down $51 million; Reconstruction Finance Corporation down $261 million.

Senator BYRD. What does that mean?

Mr. LAWTON. It means that they will have a net receipt this year instead of net expenditure.

Miscellaneous items, all other items, in general and special accounts, down $35 million.

The CHAIRMAN. Hold up 1 second. I understood that these figures show the amount by which the estimates which were made in December had been exceeded or fall short.

Mr. LAWTON. Reduced in total.

The CHAIRMAN. Of those estimates, is that correct?

Mr. LAWTON. This is the present estimate as compared to the estimate included in the January budget, which was made in December. That is correct.

The CHAIRMAN. Take the Atomic Energy Commission; has that spent less or more than was anticipated?

Mr. LAWTON. It will be $51 million less, under the present estimate, than was anticipated in January.

The CHAIRMAN. All right. Proceed.

Mr. LAWTON. And this last item, corporation accounts for other than those listed above, is down $2 million.

The CHAIRMAN. Did I understand you to say in answer to a question by Senator Lucas that these changes involve only the rate of expenditure?

Mr. LAWTON. Well, of course, this is a question of change in the total expenditures. It does not change the authority, the obligating authority or the appropriations made to the agencies. This is a change in the amount of money which those agencies will spend from funds available to them during the year 1947. It is a revised estimate of how much of the funds that have been authorized or appropriated to them will be spent. It does not change the authorization or the appropriation.

The CHAIRMAN. The President in his statement of April 19 said, referring to the contemplated surplus for fiscal '47,

> The improvement is due to two factors: first of all, we have been able to hold expenditures below our earlier expectations while some items, such as refunds, terminal leave payments, and international payments, will exceed the earlier estimates. These increases will be more than offset by reductions in the areas where economy is possible.

Skipping a paragraph:

> I have required the major departments of the Government to limit their expenditures to the fullest possible extent. Economies in the War and Navy Departments and in the public works expenditures of the Government have contributed substantially to the reduced estimate for expenditures.

Where there are reductions in this list which you have supplied us, will you please point out which ones result from economies and which one merely go to the rate of expenditure?

Mr. LAWTON. A reduction in the rate of expenditure, of course, is an economy, as far as the Government is concerned, if that is not projected into the succeeding year——

The CHAIRMAN. Well, if it is projected into the succeeding year——

Mr. LAWTON. Relatively few of these are projected; some are. There are about three or four items that are projections into the next year, and the remainder have no effect on the 1948 expenditures, so that they are in effect a reduction in expenditures below prior estimates which will remain as a reduction.

The CHAIRMAN. Give us those, please, which will not affect expenditures in fiscal 1948.

Senator LUCAS. Why do you not just turn it around?

The CHAIRMAN. He said that is the lesser number.

Senator LUCAS. That is correct.

Mr. LAWTON. The larger number will not affect expenditures in 1948. The lesser is the carry-overs into 1948.

The CHAIRMAN. Give us those that will affect 1948.

Mr. LAWTON. About half of the UNRRA item.

The CHAIRMAN. What number is that?

Mr. LAWTON. That is No. 18.

Senator LUCAS. Approximately what is it?

Mr. LAWTON. It is $115 million.

Senator LUCAS. One-half of that, you say?

Mr. LAWTON. About half of it will be delayed into next year.

The CHAIRMAN. UNRRA, about half will go over. All right. What else?

Mr. LAWTON. A part of the Treasury item, in item 15.

The CHAIRMAN. What part?

Mr. LAWTON. I would have to verify that figure, and supply it for the record. I do not have it offhand.

The CHAIRMAN. Will you do that, please?

Mr. LAWTON. I will do that.

The figure is $140 million.

Mr. LAWTON. But it represents the liquidation of lend-lease obligations.

Senator LUCAS. Is there anybody from the Treasury Department that can supply that figure?

The CHAIRMAN. Is there anybody from the Treasury prepared to give us that?

Mr. O'CONNELL. No, sir.

The CHAIRMAN. Go ahead, please.

Mr. LAWTON. A small amount, probably $10 million, of the Atomic Energy Commission; and part of the State Department, probably around $50 million. That is item 14 which represents the post-UNRRA relief.

The CHAIRMAN. About $50 million?

Mr. LAWTON. Yes.

The CHAIRMAN. Is that the whole of it?

Mr. LAWTON. Those are the major items that will carry over.

The CHAIRMAN. Those are the items that will carry over?

Mr. LAWTON. Yes.

The CHAIRMAN. Did your budget estimate for fiscal '48 contemplate that those items should carry over?

Mr. LAWTON. No.

The CHAIRMAN. Did your budget estimate for '48 contemplate that these other items should not carry over?

Mr. LAWTON. It contemplated their expenditure in the current year.

The CHAIRMAN. In the current year?

Mr. LAWTON. Yes.

The CHAIRMAN. What accounts for the extraordinary concentration of expenditure in the last part of fiscal 1947? The reason I ask this question is this: It seems to me that in the fourth quarter you are spending nearly $2.5 billion more than was made in previous quarters. Is that entirely accounted for by the explanation that have been made by the President?

Mr. LAWTON. I have that in the last column on that statement. That is the explanation of the difference between the third- and fourth-quarter expenditures for particular items, and I can run down that list and tell you why those items are greater or less than the third quarter.

Certain types of expenditures have a particular pattern that they follow year after year, and they are unusual items that occur irregularly. It is not safe just to project a rate from one quarter or one month as a constant rate from that time on.

I can run down this list if you care to and go to that.

The CHAIRMAN. Let me read what the President said about that. He said:

> This is because of an important concentration of expenditure in the last part of the fiscal year. For example, the heaviest payments on interest on the public debt are made in the month of June. Also there will be large payments to the national life insurance fund during the last part of the fiscal year. These and other items account for the difference between the surplus now shown in the daily Treasury statement and the expected surplus for the entire fiscal year.

Mr. LAWTON. Running down the list in comparison between the two quarters, in the third quarter there was a payment to the International Monetary Fund completed. For that particular item, there is no corresponding payment in the fourth quarter. So, that to that extent——

Senator BYRD. That is nonrecurring.

Mr. LAWTON. That is a nonrecurring third-quarter expenditure, and the fourth quarter on that account for that particular item is down the whole amount.

Senator BYRD. Suppose we take that off the third quarter for comparison purposes.

Mr. LAWTON. All right. In the credits of the British loan, the withdrawals in the fourth quarter——

The CHAIRMAN. Would you mind calling the number of the item?

Mr. LAWTON. Item 2. The expenditures in the fourth quarter for withdrawals under the British will be $300 million greater than in the third quarter.

The CHAIRMAN. Do you anticipate expedited requests during fiscal 1948?

Mr. LAWTON. The British have indicated that that is what they expect to withdraw.

The CHAIRMAN. They have indicated that?

Mr. LAWTON. They have.

The CHAIRMAN. And are you at liberty to tell us, will it be greater or less than you anticipate for fiscal 1948?

Mr. LAWTON. There has been no change in 1948.

The CHAIRMAN. No change in 1948?

Mr. LAWTON. No. This is for the current year.

The CHAIRMAN. But will this expedited rate, so far as you know, in the last quarter of 1947 carry over to 1948?

Mr. LAWTON. I do not know that yet. All I know is this quarter from now until the end of the year. That is all we have the information on.

Senator LUCAS. They could ask for more and get it, could they not?

Mr. LAWTON. We have a commitment of $3¾ billion cash. The question of withdrawal is governed largely by their needs.

Since we have the entire commitment to them, we had anticipated a billion and a half this year, and now the information is that they will ask for $1.9 billion.

There will be a second payment on the postal deficiency in the fourth quarter. That will be $140 million higher than in the third quarter.

Interest on the public debt will be $528 million higher in the fourth quarter. Refunds of taxes will be $212 million higher in the fourth quarter.

The CHAIRMAN. Why is the interest on the public debt?

Mr. LAWTON. It is payments to special accounts which are made on the 30th of June, largely special issues.

Senator BYRD. Social security and those accounts?

Mr. LAWTON. Yes. It is a pattern that occurs every year. The same thing was true last year and the previous fiscal year; the interest payment for the month of June 1946 was $1,394,000,000, which was $577 million higher than any other month in the year. The next highest month was December.

Senator LUCAS. Do I understand that this is a general pattern that is followed year after year?

Mr. LAWTON. As to interest; yes.

Senator LUCAS. How about other items? Are there other items that recur in similar fashion?

Mr. LAWTON. The postal deficiency is usually drawn at two intervals during the year, the midyear and the end of the year. Last year they only drew once, and that was in June.

Senator BYRD. That is the amount that we appropriate to the Postal Department in excess of its own revenue?

Mr. LAWTON. The excess over the postal revenues; that comes from the general fund of the Treasury.

Senator BYRD. How much is that for the year?

Mr. LAWTON. For the year it is $240 million, $140 million being in the fourth quarter.

Senator LUCAS. The point I want to make—I think I am correct on it, from what you said—is that year after year, your last quarter always exceeds the third quarter or the second quarter.

Mr. LAWTON. In a normal year the fourth quarter expenditures are the highest.

Senator LUCAS. That is what I thought.

Mr. LAWTON. That is right.

Senator LUCAS. In an abnormal year?

Mr. LAWTON. I am thinking of a war year where you started at the last year, with the beginning of last fiscal year you were in a war situation, and then came out of the war situation. The normal pattern was not true then.

The CHAIRMAN. And you are identifying the items which usually are higher in the fourth quarter?

Mr. LAWTON. No. I am indentifying the specific items. Some of these are, of course, new items, and they are unusual. The British loan was a brand-new item.

The CHAIRMAN. You are identifying them.

Mr. LAWTON. I am identifying the items in the fourth quarter which will exceed or be less than the expenditures for those same items in the third quarter.

The national service life insurance—that is item 6 (*b*)—the increase will be $497 million.

The CHAIRMAN. How does that come about?

Mr. LAWTON. That comes about from the fact that the Senate is still acting on the deficiency appropriation bill which contains an appropriation of something around $535 million for the national service life insurance for this year. When that appropriation is made, then the payment will be made into the fund.

The CHAIRMAN. That is not a matter then of budget discretion.

Mr. LAWTON. No. It arises in large part—$300 million of it—from an actuarial revaluation of the fund. The item has passed the House. It has been recommended by the Senate, and is in the pending deficiency bill which was reported yesterday or the day before.

Senator BYRD. What is the item?

Mr. LAWTON. National service life insurance.

Senator BYRD. How much?

Mr. LAWTON. $497 million.

Railroad retirement, $205 million in excess of the third quarter. That is item 6 (*c*).

The CHAIRMAN. Does that follow actuarial results?

Mr. LAWTON. That is a backlog of collections which have not been appropriated for up to this time. It is an amount that is included in the Labor-Federal Security appropriation bill to be immediately available, and, of course, we are assuming that that bill will be passed before the end of June.

Senator BYRD. That fund is self-sustaining.

Mr. LAWTON. That fund is, and this represents the excess of collections over amounts previously appropriated. The appropriations are not automatic. They have to be made by Congress, but they are based on the revenue collections.

Senator BYRD. There is no charge on the Treasury in a year's time.

Mr. LAWTON. Well, insofar as the receipts are included in general revenues, this is a charge in the budget against the revenues.

Senator BYRD. You take in enough to pay it. It does not cost the Government anything.

Mr. LAWTON. No. But it is included in the revenue side of the picture. It is also on the expenditure side.

Terminal leave will be $348 million less in the fourth quarter than in the third, the third being the peak quarter for that program.

The CHAIRMAN. What item?

Mr. LAWTON. Item 7.

The Agriculture Department, item 8 (*a*), their general and special funds, there will be an increase of $183 million.

The expenditures in the third quarter were abnormally low because of a credit of $160 million from the Commodity Credit Corporation. The remainder of the increase is due to a seasonal swing upward in agriculture. Their heavier expenditures begin in the late spring and early summer months.

Senator LUCAS. Is that transaction primarily with the Commodity Credit Corporation?

Mr. LAWTON. In the third quarter there was a large credit transfer from Commodity Credit to Agriculture, a payment of $160 million, which reduced Agriculture's general expenditures by that amount.

Commodity Credit Corporation, there will be a reduction of $305 million, representing large increases in receipts. A large part of that increase in receipts will be a payment from the War Department for supplies for the occupation function.

The Export-Import Bank will be $23 million higher in the fourth than in the third quarter.

The Federal Security Agency $21 million higher.

The Federal Works Agency $44 million higher, which in that case represents seasonal increase in the public works activities, mainly public roads, where the construction season starts in the early spring.

The Interior Department there will be an increase of $15 million. Again seasonal increase in public works activities and in national parks.

Senator BYRD. How much is that?

Mr. LAWTON. $15 million.

Senator LUCAS. You better get that right away.

Mr. LAWTON. The National Housing Agency, in the general and special accounts there will be a reduction of $77 million.

In the corporate accounts, an increase of $25 million, representing mainly a decline in receipts in the HOLC.

In the State Department there will be an increase of $67 million, and that is due to the post-UNRRA relief program which is expected to be enacted by that time.

In the case of the Treasury Department there will be an increase of $112 million.

The Veterans' Administration has an increase of $57 million.

The CHAIRMAN. What accounts for the Treasury increase?

Mr. LAWTON. Some lend-lease liquidation, some expenditures for stock piling, and temporary employment of internal revenue following the tax payment period. Mainly of course it is due to stock piling and lend-lease liquidation.

The Veterans' Administration will be up $57 million.

UNRRA will be up $64 million. That is a payment to the War Department as a reimbursement, and is reflected in the War Department as a credit item.

The CHAIRMAN. Any particular reason for the higher figure in the Veterans' Administration?

Mr. LAWTON. An increase in readjustment benefits and hospital care.

Senator LUCAS. Any hospital construction involved?

Mr. LAWTON. No construction is involved in that item.

UNRRA, I have stated, is up $64 million, representing a payment to the War Department, and will reflect as a credit in the War Department defense estimate down below.

Surplus Property Disposal is up $47 million.

Senator BYRD. What about that Big Inch and Little Inch pipe line?

Mr. LAWTON. That is not reflected in these estimates. It is anticipated that the receipts in that case will come in in the next year.

Senator BYRD. How much is that, a hundred-and-some million?

Mr. LAWTON. $140 million, I think.

Maritime Commission is up $31 million.

The CHAIRMAN. What is the reason for that?

Mr. LAWTON. They had some extra heavy credits in the third quarter in the nature of the nonrecurring items. Their rates for the other quarters were: The first quarter, $92 million; the second, $88 million; the third quarter, a drop to $53 million. We expect them to go back to the more normal pattern of $84 million in the fourth quarter.

The War Department Rivers and Harbors up $42 million. That is a seasonal increase in public works.

War and defense items, up $385 million. $292 million of that will be payments to miscellaneous receipts, and there will further be a payment of a considerable sum to the Commodity Credit Corporation for supplies for occupied areas which has been reflected above, as an increased receipt to Commodity Credit. It is an offset in here. Commodity Credit buys certain supplies for the War Department.

Senator LUCAS. What do you mean by miscellaneous receipts—$292 million in miscellaneous receipts?

Mr. LAWTON. That is in your revenue picture. It is a part of your $42.5 billion revenue. It represents in this case one item of payment for services rendered in India and China to the War Department, which were liquidated by the Office of Foreign Liquidation through the transfer of surplus property. The War Department will pay foreign liquidation for that surplus property and the money goes into miscellaneous receipts and is in the receipt estimate.

It is a wash transaction so far as its effect on the surplus.

The Atomic Energy Commission, $10 million increase.

Reconstruction Finance Corporation, an increase of $208 million. That is primarily due to heavier REA withdrawals to GI loans, the guaranteeing of GI loans on purchase of housing, the Philippine loan and some reduction in their surplus property receipts.

Senator TAFT. This Atomic Energy Commission, is that only for half of the year, that $150 million?

Mr. LAWTON. That is correct. It was carried in the War Department for the first half years.

Senator TAFT. That would be equivalent to $300 million for the entire year, that expenditure.

Mr. LAWTON. Yes.

Senator BYRD. In 1948 it is more than that, is it not?

Senator TAFT. It will be $450 million in '48, or $500 million; they spent only $450 million.

Mr. LAWTON. The estimated amount for the War Department for 1947, for the first half year, for atomic energy, was $179 million, so this represents a total of $329 million for that purpose; $179 million was expended by the War Department and $150 million by the Atomic Energy Commission.

Senator BYRD. Why is it larger in the fiscal year '48?

Mr. LAWTON. In this transfer and in giving the Atomic Energy Commission time to revalue some of the items in the program, there was a delay in the current year, and they will get back to what they consider a going rate in 1948.

Senator BYRD. That is going to require $500 million.

Mr. LAWTON. I think that the sum here is less.

Senator LUCAS. $443 million.

Mr. LAWTON. $440 million I believe for next year.

Senator LUCAS. The President in his message said the largest single item is $443 million for the Atomic Energy Commission.

Mr. LAWTON. Yes.

In the general and special accounts, that $40 million is a projection of rates in the closing months of the quarter in the early part of the fourth quarter.

Senator BYRD. That is '44, you say? How much did you say it was?

Mr. LAWTON. $40 million for general and special accounts. There is an increase of $23 in corporation accounts under all other corporations.

The CHAIRMAN. I would like to get it clear again, what you are carrying over into '48, that you intended to take care of under your estimate in '47.

Mr. LAWTON. A small amount of the Atomic Energy, about half of the UNRRA, about $50 million of the State Department item, and an amount of the Treasury which I will have to furnish later. I do not recall that figure, but it does represent part of the lend lease liquidation and some stock-piling expenditures which have been anticipated and I will furnish the figure.

Senator TAFT. Those are what?

Mr. LAWTON. Those are things that will affect '48.

Senator TAFT. Carrying over out of '47 into '48?

Mr. LAWTON. Yes.

Senator TAFT. Are you carrying back anything in the '48 budget that is now being spent this year?

Mr. LAWTON. No. There is one possibility, that is in connection with terminal leave payments. We are not ready to change yet the '48 estimates for these.

Senator TAFT. Do you mind if we carry something back? I was thinking particularly of Commodity Credit, $833 million. Can we not pay that this year instead of next year? It is a dead horse; I do not know why we should shift it on the '48 budget.

Mr. LAWTON. That is a matter for the Congress to decide, if they want to make that appropriation.

Senator BYRD. I think it should be paid this year. It certainly ought not to be included in '48.

The CHAIRMAN. Do you carry forward current revisions of estimates for the succeeding fiscal year?

Mr. LAWTON. We have not made any attempt to make any revision of the 1948 fiscal year at the present time.

The CHAIRMAN. Are you running figures on it?

Mr. LAWTON. The only thing that we have done is to make some estimates, current estimates of the effect of actions on appropriation bills.

The CHAIRMAN. You pay no attention to increased appropriations?

Mr. LAWTON. Well, that is what I just covered.

The CHAIRMAN. I mean increased revenues.

Mr. LAWTON. We have not received any revised revenue estimates from the Treasury for '48.

The CHAIRMAN. So that as of this time you are not prepared to testify as to whether your '48 budget is still reasonably accurate or whether it is out of joint.

Mr. LAWTON. The only substantial change that has been made in any of the appropriation actions so far that would have any major effect on it is the reduction that was made in the House on the estimate for refunding taxes.

The CHAIRMAN. Which we have from now until the end of July to continue to work on reduction, have we not?

Mr. LAWTON. We cannot forecast what will be done.

The CHAIRMAN. You forecast when you made your '48 estimate. You did a lot of forecasting, did you not?

Mr. LAWTON. That was only as to the needs for the various agencies of the Government in carrying out the functions imposed on them by law.

The CHAIRMAN. Exactly.

Mr. LAWTON. At an effective and minimum rate of expenditure.

The CHAIRMAN. Exactly. In your forecasts, you forecast certain reductions in expenditures, did you not?

Mr. LAWTON. Well, some of those of course there were reductions under the current year expenditures.

The CHAIRMAN. You forecast them?

Mr. LAWTON. Yes; that is right.

The CHAIRMAN. They had not been made at the time you made your estimate, had they?

Mr. LAWTON. No, because the appropriations were being included in the same budget, and we were recommending appropriations which would result in expenditures of that character.

The CHAIRMAN. At the time you made your estimates for the '48 budget, the appropriations had not been made for the '48 budget, nor had the receipts come in to support the '48 budget; is that not correct?

Mr. LAWTON. Certainly.

The CHAIRMAN. Of course, you had to estimate, did you not?

Mr. LAWTON. That is right, and propose what those appropriations should be.

The CHAIRMAN. Exactly.

Mr. LAWTON. That is the purpose of the budget.

The CHAIRMAN. Exactly. I will ask you again, you have no revised estimate on '48, your budget for '48?

Mr. LAWTON. That is right.

The CHAIRMAN. And you have seen, and no developments have come to your attention officially that would cause you to revise it?

Mr. LAWTON. Well, as I said, the only action of Congress that so far in connection with those budgets that has indicated that any major revision in an item would be the item for refunds. I am thinking of the items of more than half a billion dollars, and that of course is a guess. If the guess is right, that means of course lower expenditures. If the guess is wrong, it means that Congress will either have to appropriate that money in a deficiency or pay interest on those claims in the succeeding year.

Senator BYRD. Now there is no use of paying any attention to that, what the House did, because if the refunds come in, they have to be paid.

Mr. LAWTON. That is correct, or pay interest on them if you hold them up.

Mr. LUCAS. It is a bookkeeping entry.

Senator BYRD. That is just a bookkeeping entry.

The CHAIRMAN. Let us take a look at that. We are on an expenditure basis.

Mr. LAWTON. That is right.

The CHAIRMAN. If it is estimated that we will spend less on refunds in 1948 than on the original estimate, it is a logical procedure to reduce that expenditure item so far as your expenditures for 1948 are concerned. That does not mean to say that you might not have to make up the lag in 1949, but if you are running your budget on an expenditure basis it is your duty, is it not, to figure how much you are actually going to spend in the fiscal year?

Mr. LAWTON. That is correct.

The CHAIRMAN. And if they figure out that they are going to spend less in refunds for 1948, even though they have to make it up in 1949, that reduction goes into the 1948 budget, does it not?

Mr. LAWTON. That is correct.

The CHAIRMAN. Of course.

Senator BYRD. You did not figure that out. The House did that.

Mr. LAWTON. I said that is the major change that has been made in the action on appropriation bills so far; the major reduction.

Senator BYRD. There was no revision of your estimate.

Mr. LAWTON. No; we made no revision; that was done in the House bill. It is now pending before the Senate committee.

Senator BYRD. Let me ask you about this comparison of the third and fourth quarter. The third quarter expenditures were 10.6. If you take the 930 million off, that makes it 9.7.

Mr. LAWTON. That is right.

Senator BYRD. And then the estimated fourth quarter is 12.1. The difference between the two is 2.4. I made a rough addition here. And it seems that you have added to about 2.4 billion, and taken off 663 million, which makes a net there of 1.7, and there would still be about $700 million difference between what you estimate you are going to spend in the fourth quarter, as compared to the third quarter. That is unaccounted for.

Mr. LAWTON. The items of reduction where the fourth quarter will be less are about 1.7 billion.

Senator LUCAS. May I ask a question, Mr. Chairman, of the witness?

The CHAIRMAN. Surely.

Senator LUCAS. You have been interrogated here on certain facts that have gone into this budget and whether or not you have seen anything that would cause you to revise the budget downward.

I will ask you whether or not, if you know anything about or if you have watched—the Budget Bureau has watched a number of bills that have been introduced here into the Congress of the United States, which seek huge appropriations for the fiscal year 1948.

For instance, I am thinking about one bill that came out of the Agricultural Committee, introduced by Senator Langer of North Dakota, seeking $315 million for a bonus to wheat and corn farmers throughout the country. That passed the Agricultural Committee almost unanimously. Only two members voted against it. It is now on the calendar.

Do you know about that, or would you consider that in any way?

Mr. LAWTON. We have considered generally only those bills on which the committees have requested reports and where in connection with those reports estimates of costs were involved. We have generally not made a complete survey of all bills introduced, because we have only done it in connection with those bills where the committee has asked for reports.

Senator LUCAS. I merely mention that along with a couple more bills that are pending before the Civil Service Committee, of which Senator Langer is chairman, whereby he seeks millions of dollars in more retirement privileges.

Then I am thinking about a bonus bill that has been introduced in the House to pay all World War soldiers, which will take eight or nine billions of dollars; and I am just wondering whether or not, if you are going to look at one trend, you are justified in looking at another trend, in view of the tremendous number of bills that have been introduced here despite this so-called economy wave, which, if we went through with them would certainly throw the economy out of the window. And if you are going to look at them one way it seems to me you would be perfectly justified in following these bills, not on the theory that all of them are going to pass perhaps, but merely for purposes of budget speculation.

I heard one fellow say on our Agricultural Committee that he would spend a billion dollars if necessary to support prices, so far as he was concerned, and he does not belong to my party.

It does seem to me that those are the things that we have to take into consideration in the question of this budget for 1948, if the bills are coming out with any likelihood of being passed.

I do not say that I am for them. I voted against this $315 million as being a raid on the Treasury, but, nevertheless, it is there. It is on the calendar and will pass the Senate with that solid Democratic and solid Republican bloc in there for it.

Senator TAFT. You do not count if it is contrary to the policy of the President.

Mr. LAWTON. We have only made estimates in this budget as to items which were proposed in connection with the budget.

As to other legislation where a committee has asked for a report, and in that report the cost figures have been involved, we made attempts to get the best estimates of costs that can be furnished.

Senator BYRD. You do not include that in the budget estimate until some bill is passed?

Mr. LAWTON. We do not include it in the estimates until we are prepared to make or propose an appropriation for that purpose.

Senator BYRD. Will you give me those figures again, the figure about the increases of the fourth quarter over the third quarter.

Mr. LAWTON. The total of the increases?

Senator BYRD. I have a rough figure here of 2.4 billion.

Mr. LAWTON. The increases are about 3.2 and the decrease, 1.750.

Senator BYRD. Increases 3.2?

Mr. LAWTON. Yes.

Senator BYRD. Do you mind calling those off?

Mr. LAWTON. 300 million, 140 million, 528 million, 212 million, 497 million, 205 million, 183 million, 23 million, 21 million, 44 million, 15 million, 25 million, 67 million, 112 million, 57 million, 64 million, 47 million, 31 million, 42 million, 385 million, 10 million, 208 million, 23 million.

Senator BYRD. Your total there is 3.2.

Mr. LAWTON. Yes.

Senator BYRD. Then the deductions—those are about 1.5?

Mr. LAWTON. 1.750.

Senator BYRD. That makes just about the difference between the two.

Senator TAFT. May I ask this: I was not here on the credit of the United Kingdom. There was nothing drawn before this fiscal year, was there? That is the first that is the complete draft on the British loan of a billion nine. So far as I can find in the budget, there was nothing.

Mr. LAWTON. I believe that was it.

Senator TAFT. Have you any reason to think that the estimate of 1.2 billion——

Mr. LAWTON. There was nothing drawn before 1947.

Senator TAFT. The total, I think, was $3,750,000,000, so that leaves $1,850,000,000 more. Do you have any reason to think that this estimate of $1,200,000,000 for the next fiscal year will be larger or smaller? Is this a permanent acceleration of the original plan?

Mr. LAWTON. I have no information on that, Senator. As I stated, we had received information as to what they would draw in the last quarter of this year, but we have received no information as to any change in their plans if any is contemplated for the next fiscal year.

The CHAIRMAN. I would like to make it clear again, you do not run any independent check on revenue?

Mr. LAWTON. No; we do not.

The CHAIRMAN. You take that entirely from the Treasury.

Mr. LAWTON. We do furnish the Treasury with the estimates of miscellaneous receipts but not the taxes estimates or the customs duties or any of those.

The CHAIRMAN. The over-all figures which are supplied to you by the Treasury are accepted as they are; is that correct?

Mr. LAWTON. That is right.

The CHAIRMAN. How much did you miss your budget estimate for the fiscal year 1947?

Mr. LAWTON. From the original?

The CHAIRMAN. Comparing the original with what you now believe will be the results at the end of the year, how much will you have missed your budget estimate?

Mr. LAWTON. The original estimate for the fiscal year 1947 which was contained in the budget document in January 1946 was 31.5. The present estimate is 42.5.

I might say that that estimate had been revised in connection with the budget summation last year, last August, and it was revised in the January budget.

The CHAIRMAN. What will your surplus be at the end of this fiscal year?

Mr. LAWTON. $1,250,000,000.

The CHAIRMAN. $1,250,000,000?

Mr. LAWTON. Yes.

The CHAIRMAN. And what was your predicted deficit?

Mr. LAWTON. The original estimate was 4.5 billion.

The CHAIRMAN. And the original estimate you predicted a deficit for the fiscal 1947 of 4.5 billion?

Mr. LAWTON. That is right.

The CHAIRMAN. And you will wind up with a surplus of $1,250,000,000.

Mr. LAWTON. Yes. Those estimates have been revised twice in the intervening period.

The CHAIRMAN. As of the present time, from the time of your first estimate, you have missed it $5,750,000,000; is that correct?

Mr. LAWTON. That is the difference between expenditures and receipts; yes.

The CHAIRMAN. A total miss of $5,750,000,000; is that right?

Mr. LAWTON. Yes.

The CHAIRMAN. Secretary Snyder this morning estimated that with the surplus of this year plus the surplus of next year we will have available about 2.5 billion dollars for debt reduction during the 2 fiscal years. Have you any reason to believe that it will be any different than that?

Mr. LAWTON. Those figures represent the present estimates of the surplus for the 2 years; and from that source, that is the amount that will be available for debt reduction.

Of course, during the current year a reduction was made in general fund balance, and the debt was reduced.

The CHAIRMAN. Do you challenge in any way the validity of the Secretary's estimate that at the end of fiscal 1948 that we will have applied, roughly, 2.5 billion dollars?

Mr. LAWTON. Of surplus.

The CHAIRMAN. To the national debt, consisting of, roughly, a billion and a quarter out of each of the fiscal years 1947 and 1948.

Mr. LAWTON. No; I do not challenge that, sir.

The CHAIRMAN. You do not challenge that and have no reason to challenge that?

Mr. LAWTON. No.

The CHAIRMAN. Are there any further questions?

We thank you very much for coming.

We will recess and resume at 10:30 in the morning. We will have tomorrow Mr. Levy Smith, president of the Burlington Bank of Burlington, Vt., and Mr. John W. Hanes.

(At 4:30 p. m., the committee recessed, to reconvene Thursday, April 24, 1947, at 10:30 a. m.)

INDIVIDUAL INCOME TAX REDUCTION

THURSDAY, APRIL 24, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin, chairman, presiding.

Present: Senators Millikin (chairman), Taft, Bushfield, Hawkes, Martin, George, Connally, Byrd, Johnson of Colorado, and Lucas.

The CHAIRMAN. Come to order, please.

Mr. John W. Hanes. Will you be seated, please, Mr. Hanes? Would you mind stating your full name, your present occupation, and tell us something about your past experience?

STATEMENT OF JOHN W. HANES, CHAIRMAN OF THE BOARD OF TRUSTEES, TAX FOUNDATION, NEW YORK, N. Y.

Mr. HANES. Senator Millikin, my name is John W. Hanes. I am chairman of the board of trustees of the Tax Foundation. This is a nonpartisan research organization which has been studying, over the past decade, the impact of taxation upon our national economy. However, the views I express are my own. I am appearing here today in response to a request from the chairman of your committee.

I appeared before the House Ways and Means Committee in support of H. R. 1. Subsequently, in letters to the chairman of this committee and to Senator George, the ranking minority member, I made certain calculations as to the probable size of the Treasury surplus at the end of the fiscal year June 30, 1947. Those estimates varied somewhat sharply from the official estimates that had been made up to that time.

You will recall, for example, that the President's Budget message in January had predicted a deficit of $2.3 billion at the end of the 1947 fiscal year. Secretary Snyder began by being equally pessimistic but has gradually upped his figures since. On Tuesday, the Secretary admitted that there has been a radical change in the situation; he would concede, however, no more than that a surplus of $1,250,000,000 was in prospect.

Now, what does this argument over the size of the prospective surplus really mean? How is it relevant to H. R. 1? This is a simple declaration of Congress recognizing that, since our unprecedented expenditures for war had now ended, the taxpayer was entitled to a break for his equally unparalleled sacrifices.

As a means to this end, a straight-across-the-board cut was proposed. The measure, as I see it, merely intends to recognize a situation which needs relief; it is in no sense a permanent revenue bill designed to balance Federal income with outgo or to outline the sources of tax revenue for the peacetime era ahead. That will come in due course when Congress begins to study permanent and long-range fiscal policy.

Tax reduction and debt reduction are practical when a surplus comes within view; they are meaningless while deficit financing proceeds and while inflationary forces continue to be powerfully at work, as has been the case during the past decade.

My approach to the problem has not been on an "either or" basis; that is, that we must choose between one or the other course, debt reduction or tax reduction. My position has been that we could have both, that the Treasury surplus will be sufficiently large to provide effective taxpayer relief and to make at the same time substantial reductions in the Federal debt—I am assuming of course that Congress will proceed with its present plan of reducing the executive budget for 1948. We should not lose sight, however, of the great importance of holding to a minimum every appropriation for the balance of the fiscal year 1947.

The problem this committee faces is far larger than a mere technical debate over fiscal policy. In the action you take, you must weigh not only effects upon future Government revenues but the economic consequences incident to every change in taxation, no matter what economic groups may be affected. It has been a long time since the Government was even willing to think in terms of subordinating its wishes to citizens or taxpayer interests. That time, it seems to me, now has arrived, and the quicker we face up to that fact, the sooner our economy will rest upon a substantial and permanent foundation.

I have urged speed in enacting tax reduction for reasons which every passing day not only confirms but makes doubly imperative. The more promptly the question can be acted upon the more positive will be the constructive effects upon business and our national economy.

Many economic experts currently feel that our existing high-level production is at a critical point. Our maladjustments seem to grow worse rather than better as prices and wages seem ready for another inflationary turn. The President consults his Council of Economic Advisers, and then calls upon business to reduce prices. If prices do not come down, he says in effect, then labor is justified in asking higher wages. Instantly inflationary pressures are increased as a new wage-price struggle impends.

It is a mistake to assume that, in these contests, the Government is a mere outside observer, acting in a detached way as the public's representative. That is not the case. While labor and industry must carry their fair share of the blame for our present situation, primary responsibility must be assessed against the Government itself. We must not overlook the fact that, in the fixing of prices which the public is called upon to pay, in recovering the mounting costs of production, one of the most important factors is the cost of Government services, expressed in the form of taxes, which is compounded into the price of goods and services which the public buys.

The CHAIRMAN. You are suggesting that we lower the price of government?

Mr. HANES. Yes, sir; sharply.

If we really mean to go about reducing the price level and cancel out some of our wartime excesses, then let us begin at the point where Government assistance can be most effective. This is in cutting the high cost of government itself, which today is a basic element in every price tag and in every hourly pay schedule.

I would like to introduce at this point a graphic picture of the rise in some prices since 1939.

You will note that is 1939 compared to 1947 prices in manufactured products the increase has been 70 percent; in clothing, 77 percent; in food, 93 percent; in Federal Government, 371 percent.

(The chart referred to is as follows:)

Mr. HANES. We hope prices will come down, all prices, including price of Federal Government, which as you will note has risen 371 percent in this period.

We are apt to forget that the Federal Government is only one part, true, a major part, of this particular problem. Out of a total national income of $176 billions, the American people are paying out for government at the State and local, as well as Federal levels, the staggering total of $52 billion.

Senator MARTIN. Do you have the break-down of how much of it is for local level?

Mr. HANES. Yes, sir, Senator. It is about $11 billion at the State and local levels, and about $42 billion at the national level.

The CHAIRMAN. That figure of $52 billion exceeds our total national income during a part of the depression period of the thirties, does it not?

Mr. HANES. Yes, sir; it does.

I might say, Senator, there, parenthetically, that it compares with the highest peacetime year of taxation that I remember, which was, I believe, the year of 1938, when we collected at that time $6,242,000,000 in taxes, but that was not all tax revenue. It was the revenue that some day must be paid back in the form of social security and old-age pension benefits, which I believe in that budget amounted to $720 million. So our total tax collections in the highest peacetime year prior to the war was about $5,550,000,000.

This is a back-breaking charge that must be met before any taxpayer has a single dollar to spend for his own account. It is a prior lien on the whole productive energy of the American people. If we cannot reduce the tax charge at a time when business activity is at the highest level in the Nation's history, we know perfectly well it will not be reduced if business begins to slacken and unemployment mounts.

We must start now, it seems to me, to prepare against such adverse developments. The problem is not only financial and economic; it is psychological. Down in North Carolina, where I come from, we found out a long time ago that we could get more work out of a mule by coaxing than by beating. A bag of oats gets better results than a whip. Let us apply this homely adage to our present tax situation.

Our Federal debt today is equivalent to $6,800 per family. In 1940, only 7 years ago, it stood at $1,200 per family. In 1930 it was $650 per family. After World War I the Federal debt reached its then peak for all time of $1,070 per family.

The history of the repayment of all great national debts contracted during war periods shows that reduction is brought about by the creation of new wealth through production. Essential elements in the creation of new wealth are (1) incentive to those who assume the risks of building new business enterprises; (2) hard work by all classes of the population; and (3) thrift which makes possible the building of new homes and better living.

It is for this reason that I have said that the question is far larger than "which should come first—debt reduction or tax reduction." Earnest and intelligent people have been confused over an argument that has been blown up, out of all proper proportions, in my opinion.

The general feeling that the debt must be reduced during this period of prosperous business is most wholesome. I heartily agree. But to attempt to pay off debt without relieving the taxpayer of at least a part of his excessive tax burden is wrong. It will defeat the very purpose we are trying to achieve.

Let me illustrate how this problem affects business as I saw it work out some years ago.

In order to enter a new business requiring a total capital of $1,160,000, three men put in $100,000 each, and borrowed $860,000 from a bank in their local community at 3 percent interest.

Before embarking on this new venture, each of these men, let us assume, had net income from outside sources of $20,000, plus interest of $2,500 from a safe investment of his $100,000. At today's sharply higher income-tax rates, their spendable income after taxes would have shrunk to $14,250.

	Mr. A.	Mr. B.	Mr. C.	Total
Before entering new business:				
Net income from outside source	$20,000	$20,000	$20,000	$60,000
Interest from investment, $100,000	2,500	2,500	2,500	7,500
Total net income	22,500	22,500	22,500	67,500
Less tax on $22,500	8,241	8,241	8,241	24,723
Spendable income	14,259	14,259	14,259	42,777

The new business was expected to, and did produce a 12-percent return. The three men paid off their bank loan in less than 6 years, the business prospered, and a healthy and happy little community grew up around the plant.

Here is the same situation as it would exist today.

	Mr. A	Mr. B	Mr. C	Total
1. Income from business assuming 12-percent return	$46,400	$46,400	$46,400	$139,200
2. Less interest on bank loan at 3 percent	8,600	8,600	8,600	25,800
3. Net income from business	37,800	37,800	37,800	113,400
4. Assumption: Net income from outside sources	20,000	20,000	20,000	60,000
5. Total net income	57,800	57,800	57,800	173,400

Let us assume that and see how much better off he is after having taken the risk, and so forth.

	Mr. A	Mr. B	Mr. C	Total
6. Tax on $57,800 (tax bracket of 71.25 percent or effective tax on the $57,800, of 53.70 percent)	$31,036	$31,036	$31,036	$93,108
7. Income after tax	26,764	26,764	26,764	80,292
8. Payment on bank loan at amount to give same spendable income as if they had not gone into business	12,505	12,505	12,505	37,515
9. Spendable income	14,259	14,259	14,259	42,777

After paying interest on his share of the $860,000 loan, each man would have net income (including his income from outside sources) of $57,800. After paying his tax of $31,036, he would have left $26,764. Let us assume that each man was willing not to increase his scale of living, but to keep his spendable income at the same level as before entering this business. He could then pay back $12,505 each year on his loan. At this rate it would take 23 years to repay the bank loan. No bank in the United States would make such a loan today.

Thus after a quarter of a century, each man will have built up his equity in the business, under the following circumstances:

(1) by risking $387,000 of his capita;

(2) by being content not to increase his scale of living for 23 years; and

(3) on the very optimistic assumption of an annual return of 12 percent for every one of the 23 years.

It was this combination of opportunity with the ability to obtain adequate capital that made possible the unprecedented development of our whole country. Vast as that development has been, particularly in new industries, the surface has barely been scratched. But that program will come to a halt, indeed to a dead stop, if some of the tax barriers damming the flow of fresh capital are not removed.

Before I leave this particular phase of the subject, I should like to touch upon one question which has been raised: Would tax reduction proposed in H. R. 1 be inflationary?

We must consider tax reduction as only one part of a three-phase fiscal program. The other two phases are expenditure reduction and debt reduction.

The fact that tax reduction is accompanied by debt reduction effectively meets the argument that tax cuts would be inflationary. After all it is the net effect of the Government's fiscal operations which counts. When the Government takes more money away from the people than it pays out to them, and has a surplus to retire debt, its operations are not inflationary but deflationary. That is what the Government is doing now, and that is what it will be doing after H. R. 1 is passed. This is true, however, only so long as Congress adheres to its program of cutting expenditures.

It is true that people will have more to spend if their taxes are cut. On the other hand, the Government will have less to spend by the same amount. There will not be any more money in the aggregate to spend. People will be spending their own money for a change, instead of having the Government spend it for them.

The CHAIRMAN. Yesterday we noted an argument which Mr. Snyder had made to the effect that the income-tax reduction would be inflationary, and therefore that there should not be any income-tax reduction. The point was made by a member of the committee that it is morally wrong, except for proper revenue-raising purposes, for the Government to take money out of the taxpayers' pocket on the theory that it knows how to spend his money better than he himself does.

Do you agree with that?

Mr. HANES. Most heartily I do; yes, sir. I think it might be well for us all to read the request made by the State of Indiana to the Federal Government. I believe they petitioned the Congress to stop taking so much of their money out of Indiana, and leave some of it back home, as they felt they could do a better job of it than the Federal Government could.

I think we might say it would be a good thing for the other States to do the same thing.

In another sense, also, the argument that tax cuts would be inflationary overlooks major considerations. The buying power of the vast groups of the population has been cut by price increases. Labor demands higher wages to compensate. Yet higher wages mean still higher prices, and a further increase in prices must be avoided. Tax reduction to restore individual buying power helps people to keep abreast of living costs, and thereby contributes to price stability.

Finally, I would say that while we should resolutely fight against further inflation, we must also avoid the opposite extreme of monetary deflation introduced by too much or too rapid debt retirement. There are now signs that the inflation has about run its course. If the economy is ready to turn downward, a further argument is provided for balancing debt cuts with tax cuts.

For all these reasons I believe the claim that this program would be inflationary is without merit. It may be an excuse but it is certainly not a valid reason for opposing tax reduction.

The next question is whether the program of tax reduction embodied in H. R. 1 is a good program or whether some other would be better. I think it is a good program, first, because it is in an amount that we can afford and still retire debt. Second, because it makes the same percentage cut for all taxpayers with the exception of a larger cut for the lowest brackets and a smaller cut for the few persons in the top brackets.

Suppose you were offered $1 for your first hour's work, 75 cents for the second hour, 40 cents for the third hour, and 15 cents for the fourth hour; how long do you think you would work? Yet this is essentially what we ask the men who guide our industry to do when we levy taxes under the present schedule.

The CHAIRMAN. That downward progression that you refer to there comes about through the upward progression of income-tax brackets, does it not?

Mr. HANES. Yes, sir, a very sharp progression.

There is still another misconception regarding the tax-reduction method proposed under H. R. 1 that is in need of clarification. This is the proposal for across-the-board reductions. The argument is made that this benefits the larger taxpayer more than it does the small taxpayer. By examining the chart which I submit herewith to the committee, you will see that the reductions proposed maintain exactly the same relationships between different levels of income as under the present law.

In other words, to give a simple example, a man who has an income of $2,000 per year, compared with a man who has an income of $50,000 per year, you would think he should pay 25 times as much tax. He does not. The man with $50,000 a year pays 67 times as much tax under the present law, and he will pay 67 times as much tax under H. R. 1.

The CHAIRMAN. That relationship will be preserved no matter what the percentage of reduction, so long as it is a flat across-the-board percentage tax reduction; is that not correct?

Mr. HANES. Yes, sir; that is correct.

The CHAIRMAN. Has it not been the dream of tax people for a general revision of the tax law one of these days that would establish an equitable tax structure, and that from that time on we could raise or decrease our revenues by the expedient of a flat percentage increase in taxes or a flat percentage decrease? Has that not been the ideal toward which we have been striving?

Mr. HANES. Yes, sir. We have never been able to attain it because there has been varying viewpoints as to what should be done at different levels, and therefore we have gotten our present levels grossly distorted.

The CHAIRMAN. That of course assumes an equitable base to start with.

Mr. HANES. That is right.

I have here a table which I would like to submit.

(The table referred to is as follows:)

Ratio between taxes paid under present law and under H. R. 1 at various income levels

	$2,000 taxable income	$5,000 taxable income	Ratio between taxes paid
Tax under present law	$380.00	$1,045.00	2.75
Tax under H. R. 1	304.00	836.00	2.75

	$5,000 taxable income	$10,000 taxable income	Ratio between taxes paid
Tax under present law	$1,045.00	$2,508.00	2.40
Tax under H. R. 1	836.00	2,006.40	2.40

	$10,000 taxable income	$20,000 taxable income	Ratio between taxes paid
Tax under present law	$2,508.00	$6,897.00	2.75
Tax under H. R. 1	2,006.40	5,517.60	2.75

	$20,000 taxable income	$30,000 taxable income	Ratio between taxes paid
Tax under present law	$6,897.00	$12,559.00	1.82
Tax under H. R. 1	5,517.60	10,047.20	1.82

	$30,000 taxable income	$40,000 taxable income	Ratio between taxes paid
Tax under present law	$12,559.00	$18,753.00	1.49
Tax under H. R. 1	10,047.20	15,002.40	1.49

	$40,000 taxable income	$50,000 taxable income	Ratio between taxes paid
Tax under present law	$18,753.00	$25,479.00	1.36
Tax under H. R. 1	15,002.40	20,383.20	1.36

	$2,000 taxable income	$50,000 taxable income	Ratio between taxes paid
Tax under present law	$380.00	$25,479.00	67.05
Tax under H. R. 1	304.00	20,383.20	67.05

Mr. HANES. The theory of "ability to pay" which underlies and justifies our income-tax schedules has been abused. For instance, under the Revenue Acts of 1936 and 1938, our concepts of taxation were changed from revenue-raising purposes to the use of taxation for social ends. This was based on a socialistic philosophy and has no place in the tax system of our capitalistic economy.

The bankruptcy of this policy should be evident. Income taxes have now been scaled up progressively to the point where they provide virtually 75 percent of Treasury revenue. This fact alone entails the most far-reaching consequences which are worth examining.

When a position is reached where the Government is completely dependent upon one main source of revenue, in this case the income tax, that source of revenue tends to become, as far as the Treasury is concerned, the most indispensable of all taxes. When business slackens, Treasury revenues will fall rapidly.

Similarly, there develops a fixed relationship between the financing of Government spending, proceeding at an unprecedented rate, and the income-tax rates required to sustain that spending. In other words, the greater the spending, the greater the necessity to justify the confiscatory surtax rates levied primarily against the business groups of the country. The result is that the time never arrives when it becomes possible to make voluntary reduction in such rates. Always the argument is made that the lower-income groups should receive preferred treatment, a viewpoint which is designed to receive widespread political support.

Next let us turn to the inequity of this situation, as reflected in tax yields to the Treasury. Here we find how completely the existing surtax brackets have sucked dry almost every available dollar that can be obtained from the higher income groups.

How much revenue would the Treasury actually lose if all income tax receipts on income over $100,000 were segregated from general tax revenues? The answer is $877 millions. In other words, the surtax rates long ago passed the point of diminishing returns and became, in fact, purely punitive levies against wealth as it is expressed in the form of income, or against the country's managerial capacity employed to direct our industrial enterprises.

Senator TAFT. This figure of $877 million applies to all income over $100,000?

Mr. HANES. That is correct. That is the income tax.

Senator TAFT. The $100,000, people who have more than $100,000.

Mr. HANES. That is the income tax receipts derived from all people in the United States having an income of $100,000 or over.

Senator TAFT. That is what I wanted to know, whether that figure included the income of all persons who had more than $100,000 or whether you took the $100,000 out. What you say is income tax receipts on income over $100,000. That would be hard to segregate, or have you segregated it?

Mr. HANES. I do not think we have segregated that, Senator. We took those figures right out of the House figures; I think that were submitted to the House.

Senator TAFT. You would say this $877,000,000 was the tax on all persons, the total tax on all persons having an income of more than $100,000?

Mr. HANES. No; this is the tax on income of $100,000 and more, no matter what particular bracket it falls in after it exceeds $100,000.

Senator TAFT. After it exceeds $100,000.

Mr. HANES. That is the tax on income over $100,000.

Next, let us see how really discriminatory these surtaxes are and how, as a result, they fail of any revenue-producing purpose. As a matter of fact, these rates are now so high that if all income above the $50,000 level were actually confiscated over what is now left after the payment of taxes, the total sum accruing to the Government would be only $382,000,000. In other words, if the surtax bracket were now raised to a full 100 percent after the $50,000 level of income, the increased tax return to the Government would be enough to run the Government about 3 days. That shows, I think, how little still remains for the tax collector to get from our present high income groups.

Now, I want to make myself absolutely clear. I am addressing myself to one particular phase of this question; the taxation ability and energy; in other words, the tax on earned incomes. I am making no plea for the rich. What I do protest is a foolish and dangerous discrimination against those with managerial ability, which has no economic justification, and rests solely upon a mischievous class consciousness. What I protest is not a tax on wealth or income but a tax on brains, a stupid levy against the know-how and the managerial experience that are the Nation's greatest assets.

The enactment of H. R. 1 by the Congress in no way precludes a thoroughgoing revision of our entire tax system. Therefore, I support wholeheartedly the program of cutting spending to the limit as voted by the Congress, of cutting taxes as proposed by H. R. 1, and of applying to debt reduction the surplus that will result therefrom.

The CHAIRMAN. Mr. Hanes, do you agree with the statement of the Secretary of the Treasury that a tax reduction at this time will not stimulate incentive and production because all of our materials and products are being used to the fullest extent?

Mr. HANES. I do not agree with that, Senator. It may be perfectly true that those facilities that we have at the moment are being used to their fullest extent, commensurate with the amount of labor at hand and the amount of materials at hand. That may be true. In some cases it is not true; in some other cases it undoubtedly is.

Senator TAFT. It is true that a good many of these will have to be replaced by new kinds of enterprises as this extraordinary volume lets up.

Mr. HANES. I was going to say that there are so many places in the economy where these needs require rejuvenation, where we need new machinery, new equipment. You will understand that for a period of 5 years most of our industrial enterprises have been hard at work producing war materials. Those industries which formerly produced the so-called consumer goods had converted their plants to war material. They have used those machines at the very topmost speed, running them 24 hours a day without ability to replace machinery through their normal expenditure of their depreciation account during the war period. That machinery has got to be replaced. The expenditure of a lot of money by industry is necessary not only to build and buy equipment for new products, but for the building of their old line production as it was going on prior to the war.

The CHAIRMAN. That necessarily must be a continuous process.

Mr. HANES. That is right. And I maintain that unless a man can make some provision for the future and understand what his burden is going to be, and what the compensation is going to be to him, I say you are going to bring to a dead standstill all the business enterprise in this country that is dependent upon the building of new plant and new machinery, and the expenditure of money for the heavy and durable-goods industries, which is required to keep our economy going on an even keel.

The CHAIRMAN. Have you made any studies as to the investment plow-back, the annual investment plow-back that will be required to maintain at a static level an economy which provides now 175 or 180 billion dollars of national income a year?

Mr. HANES. Yes, sir, and one thing more. In order to provide also the tools and the equipment and the machinery necessary to put the boys and girls to work who are each year becoming candidates for jobs, will require the investment of about $8,000 to $10,000 of invested capital to put each one to work and keep him at work. And in the history of our economy, whenever we have fallen short of pumping back into the economy enough equity capital to take care of those people who are entitled to jobs, each year we have run into depression and unemployment, because of this failure we have failed to inject into the economy the required amount of money.

The CHAIRMAN. How long do you feel, Mr. Hanes, it will take for tax reduction bill to have its effect on our economy?

Mr. HANES. Well, Senator, before the House, the Secretary of the Treasury made the statement, and as I recall I think he said it would take 18 months. I notice in the transcript as it was corrected it appears now as 12 months. He said it would take about 12 months to get any real benefit out of a tax reduction.

Now, my own opinion is that it will take a good deal longer than 12 months. I think he was nearer right before he changed it. I think we probably should say 18 to 24 months, because bear in mind the things that will happen 2 years hence must in large measure be planned today, and if your business people have no hope of profit and so not get real encouragement from you gentlemen right here in Washington, business may not stop because we all are confronted by necessity, but it will certainly be slowed down. We will never be able to maintain this economy on any 180 billion basis as it is at the moment.

The CHAIRMAN. The point is, as I assume, that you cannot wait to pass such a bill until you have the immediate need for the help that it can provide. You necessarily must pass it from a year to a year and a half in advance of the time that you might need its aid.

Mr. HANES. And, Senator, I think you have to pass the bill when men's minds are not distorted. Men will not act the same way in a depression period as they will act in a more normal period. I maintain that we will hardly get a tax bill passed in time to do you good if we wait until the horse is out of the stable.

Are there any questions, gentlemen?

Senator JOHNSON of Colorado. I should like to ask Mr. Hanes if unemployment is caused by a lack of manufacturing facilities, or if it is caused by an overproduction of goods that get on the shelves and do not move?

Mr. HANES. Well, Senator, those things are all so closely related that I do not believe I can give you an intelligent answer as to what causes depressions. I do not believe anybody else can give you one, either, for that matter.

There are so many circumstances surrounding the change in the business cycle. All of a sudden for some reason or other in October 1929, we were hit by a maelstrom, and we were in the depression before anybody knew that we were even having an upset.

Senator JOHNSON of Colorado. But your argument this morning seems to indicate that you believe that unemployment is caused by a lack of facilities.

Mr. HANES. Well, perhaps you do not quite understand what I am getting at. I will try to explain it to you more clearly.

What I was trying to say was this: You cannot put a man to work unless he has facilities with which to work, unless he has tools, buildings, machinery, equipment, land, and inventory, and all of the things that are required, which we normally call invested capital. There has to be a certain amount of fixed and liquid capital.

Senator JOHNSON of Colorado. That is becoming more certain every day.

Mr. HANES. That is right.

Senator JOHNSON of Colorado. The trend is in that direction.

Mr. HANES. That is right. What I meant to say was this, that to put a man to work, you have to buy a certain amount of equipment and tools in order to give him the things to work with.

In other words, you cannot say, "Go out and go to work" with his bare hands. He has to have tools and equipment. You have to provide a place, and that means housing and hospitals and all kinds of allied things that go to make up a great industry.

So it required back in the old days, and I have not related this to the present because I have not thought of doing it up to this moment, but in the old days prior to the war, it required about $8,000. In other words, the total number of people divided into the invested capital of the country showed about $8,000 of invested capital per worker.

Whenever we fail to inject the required billions of dollars into the economy that has resulted, unemployment creeps up on us before we know it.

So I say it is the most essential part of our economy, because our economy is based upon a big broad base of equity capital. It is like a pyramid. The pinnacle is the borrowed capital at the top. Whenever that pyramid gets top-heavy with borrowed capital over equity capital, then the system will topple over.

To specifically answer your question does that cause unemployment and does that in turn cause depression, as I understood your question——

Senator JOHNSON of Colorado. Yes.

Mr. HANES. I will say it has a very strong influence but as I said before, all of a sudden some day our shelves will be filled with merchandise, your shelf at home will be full; you will not require any more for the moment. You can stop buying and for some reason people cease to buy, and we will be in the middle of a depression.

I am not predicting that, because I hope we have learned something by experience and can avoid these things. The responsibility is so strongly upon us, upon you gentlemen right here in Washington, to see that that does not happen, if you can avoid it. I do not say that you can avoid it. I say that you can earnestly try, and I believe right here at these desks is the place to begin.

Senator CONNALLY. Mr. Hanes, is it not true that the corporate concerns, industries and things that you are talking about, now have a very high level of profit and income?

Mr. HANES. I believe it is the highest level of profit we have ever had, Senator; I believe one of the most inflationary things, and one of the hardest things to explain about this situation today. We are all human beings, and I think we all suffer from the same frailties, and one of those frailties is that we try to get somebody else to pay our taxes.

If people in business today have been grabbing for higher prices in my opinion, it is because they do not know what the permanent policy of taxation is going to be, and they want to get somebody else to pay these taxes. And everything we buy today has in it the tax, every profit that is made by industry.

Senator CONNALLY. Of course.

Like every other expense that goes into the manufacture of an article, they figure them all in.

Mr. HANES. That is right, every tax.

Senator CONNALLY. Is it not true that our income, national income, is greater now than it has ever been in the history of the world?

Mr. HANES. I believe it is, sir.

Senator CONNALLY. You believe it is? Do you not know it is?

Mr. HANES. No, it is not, because it was 190 billion, running about 188, I think it has come down a little. But it is running at the highest rate; you are correct.

Senator CONNALLY. It is higher than peacetime, higher now than it has ever been heretofore at any time.

Mr. HANES. That is certainly correct.

Senator CONNALLY. Well, now, the Government, as you know of course, owes a great deal of money, $260,000,000,000, does it not?

Mr. HANES. 257.5; yes, sir.

Senator CONNALLY. When all of these profits are so high and when our income is so great, and the necessities of the Government on the indebtedness is so great, do you not think that is a good time to get some of this money by taxation?

Mr. HANES. I certainly do.

Senator CONNALLY. It will hurt not the taxpayers more now than later on, will it?

Mr. HANES. That depends. No.

Senator CONNALLY. It depends?

Mr. HANES. No, no. That depends on what you do to the economy whether it hurts more now.

Senator CONNALLY. Let us talk about the economy.

Mr. HANES. Yes, sir.

Senator CONNALLY. I thought these matters were matters that were related to the economy, income and profits and all of that sort of business.

Would not the burden of taxation, would not the pinch to it be less now than it would probably any time within our times that you can foresee?

Mr. HANES. Senator, it might feel better for the moment to feel that you are getting along faster, but when the impact comes 2, 3, or 4 years hence, I do not know how long, we may be sorry that we did not do something today to alleviate that circumstance.

I am not able to look into the future, nor do I want to try.

Senator CONNALLY. Well, would not a substantial payment on the public debt tend to alleviate that so we would not have as much hanging over us in the form of mortgage?

Mr. HANES. As a generality.

Senator CONNALLY. As a generality. Make it a specialty if you want to, but it is a fact.

Mr. HANES. It is, that is right, I say as a generality.

Senator CONNALLY. Whether you will call it a generality or fact, it is a fact.

Mr. HANES. I do not think you should carry that to the excess of hurting the economy by a too great monetary deflation. That is all I am trying to say.

Senator CONNALLY. Paying part of these taxes, we repealed the excess-profits tax here last year and that is one of the reasons that the corporations and manufacturers are making such tremendous profits now.

Do you not think it would be better to postpone the tax reduction, say, to next year or the year after, when you say the probabilities are they will need it worse than they do now?

Mr. HANES. I do not.

Senator CONNALLY. You do not?

Mr. HANES. I positively do not.

Senator CONNALY. We would all be glad if we could get rid of all taxes, would we not?

Mr. HANES. I daresay we would.

Senator CONNALLY. We would. I will vote that way if you can find any other way of running the Government without taxes. I will be for it.

Mr. HANES. I have no doubt.

Senator CONNALLY. Especially in the next election. That is frivolous of course, and I beg your pardon for injecting that sort of a frivolous thing into a very solemn and important discussion.

But I am getting at the point that when I have got my pockets full of money and I owe a big debt, it looks to me like then is the time to pay something on the debt. We cannot pay it all, but you ought to pay part of it.

Mr. HANES. Yes, sir.

Senator CONNALLY. And talking about economy, does not the burden that is hanging over every business concern in the form of its mortgage indebtedness and its bond indebtedness, do not those things always figure into their costs of operation, and things of that kind?

Mr. HANES. They certainly do, and they figure into the hope for the future which is more important.

Senator CONNALLY. I am talking about the future, too, but I want the future people that have these bonds outstanding against the Government which they subscribed at great sacrifice, in time of national peril, I want to see them have some hope of getting something back on their bonds. It seems to me that the time to get money is when everybody has plenty of it, and you say that the corporate income is high, individual incomes are high, greater than any, the national income is greater than it has ever been, why would it not be better to get some of that money now than to wait until these hard times that you are predicting are going to come, and then gouge their eyes out?

Mr. HANES. Senator, I think that is somewhat exaggerated when you say I am predicting anything.

Senator CONNALLY. You said that probably in the next 3 or 4 years.

Mr. HANES. No, I did not. I beg your pardon, sir.

Senator CONNALLY. I beg yours.

Mr. HANES. I do not predict.

Senator CONNALLY. Give us your thought. You predict or edict——

Mr. HANES. No, sir, I did not.

Senator CONNALLY. Well, you are predicting though, you said if you do not do something about this in the future there will be difficulties, there are going to be hardships.

Senator JOHNSON of Colorado. He said that impact was going to hit us.

Senator CONNALLY. I do not know what impact is, but if it hits us—

Mr. HANES. If that is a prediction, I will stick to it.

Senator CONNALLY. What?

Mr. HANES. If that is a prediction, I will then stick to it. I think we have to prepare for the future.

Senator CONNALLY. Exactly. All of us want to do that. Do you not think a good way to prepare for the future is to while we have all of this money out on the table, to rake some of it into the debt and pay off the debt, rather than to let them spend it and squander it?

Mr. HANES. Yes; I do.

Senator CONNALLY. That is all.

Mr. HANES. May I add one thing to this statement that I made, Senator. I said that I heartily subscribe to the payment of debt. There are three phases to this program, debt reduction, expenditure reduction, and tax reduction. So I do not want to leave the answer unqualifiedly that I think that you shuld pay debt, yes, I think you should pay debt, but I think you should also cut taxes.

Senator CONNALLY. Just one word, and then I am through. Every dollar that you pay in the indebtedness is that much money saved, is it not, for the Government?

Mr. HANES. Well, the Government will save interest on the debt.

Senator CONNALLY. Save the amount that it does not owe as much. If I owe a fellow $50 and I pay him $25, I am not owing him but $25 when I get through.

Mr. HANES. Every dollar that you save——

Senator CONNALLY. Every dollar that we cut the taxes is that much less on the public debt at the present moment.

Mr. HANES. That is not necessarily so, because there have been times when you have cut very sharply.

Senator CONNALLY. I am talking about this time.

Mr. HANES. I am answering your question. There have been times when you have cut taxes very sharply and increased your income very sharply thereafter, and that happened in several successive tax cuts, right after 1920, between 1920 and 1927. So you have increased your income by cutting taxes.

Senator CONNALLY. I want to increase the Government's income a little and pay something on the debt.

Mr. HANES. That is a very admirable thing. I advocated that here when I was working for the Government, but I almost got thrown out for it.

Senator CONNALLY. Why do you not advocate it now?

Mr. HANES. I am in moderation.

Senator CONNALLY. In moderation?

Mr. HANES. Yes, sir, three phases.

Senator CONNALLY. But you want the tax bill first and if there is anything left, then pay it on the public debt?

Mr. HANES. That is not a true statement, because I said it was part of a three-phase program. I also submit to you that the Congress has acted in both Houses on the first thing first; that is the cut of expenditures, $6 billion in the House, and $4.5 billion in the Senate.

Senator CONNALLY. That is on paper, is it not?

Mr. HANES. I am accepting that as in good faith by this Congress.

Senator CONNALLY. I am hoping it is true, and I am going to vote to cut them in every case that I think it ought to be cut.

Mr. HANES. God bless you for that.

Senator CONNALLY. I am prepared to go along with the reduced budget that we voted in the Senate, but still we have to wait and see what is going to happen. Furthermore, if they do it will be just that much more money available for the public debt.

Senator LUCAS. Nobody can tell anything about that 6 billion or 4½ billion; it is lost some place in the shuffle.

Mr. HANES. Beg pardon?

Senator LUCAS. No one can give you any intelligent conclusions as to what we are going to do with respect to the six billion or four and a half billion; it is lost somewhere between the House and the Senate.

Mr. HANES. That is a very great disappointment to the country, Senator, and I think it ought to be speeded up.

Senator LUCAS. I am glad to hear you say that. We have been doing what we can to get the Legislative Budget Committee to inform the Senate what they are going to do, but I am informed they are hardly speaking to one another.

Senator HAWKES. I want to say that I agree so thoroughly with what Mr. Hanes has just said that I would like to make this little statement.

It seems very strange to me that so many men in the Senate and the Congress fail to understand that the rate of taxation does not determine the rate or the amount of revenue that the Government gets. If we could just get that thing clearly in our minds, the rate of taxation could be reduced 10 or 15 or 20 percent, and still stimulate industry and stimulate initiative, and get the machine going that is producing the profits from which the revenue is received by the Government. So I want to say that I agree thoroughly with you, and I also would like to say that the fact that your national income is so high means that is in dollars, it does not mean in purchasing power. It does not mean in purchasing power at all. In other words, look at the inventories today. I happen to be connected with a business that has an inventory that is higher than it ever was known and yet the volume of material in that inventory is just about half.

Mr. HANES. That is correct.

Senator HAWKES. What it was under normal conditions. That is another thing that people should not forget.

In other words, the rate of national income does not mean the volume of purchasing power at all. If you have to pay $1.50 a dozen for eggs, against 50 cents a dozen for eggs, you get one dozen eggs for $1.50, and the other way you get three dozen eggs. And after all is said and done, the only vital thing for the American people is what they can get for their dollar.

I said the other day, and I will repeat it here because it is a very apt place to put it, that I believe the question of reducing taxes is so tied in with the question of reducing the national debt, that you cannot separate them. I do not know whether you agree with me on that or not.

Mr. HANES. I do.

Senator HAWKES. So tied in with that thing that you cannot separate that.

I want to say that I have been doing a lot of work lately in connection with the contention that corporate profits are high, and they are high, but what kind of dollars are they? They are 50-cent dollars, as related to what they were before the war.

Senator CONNALLY. The same kind of dollars everybody else has.

Senator HAWKES. All right. Just a minute, please. I want to go on. I want to say that I am in favor of no corporation in this country asking $1 more for its products than it has to ask to keep itself in sound conditions so that it will not have to close its doors and put thousands and hundreds of thousands of men out of work.

Even if the Government took over industry, there would be a hiatus in there that would be terrific, and I want to see these people get themselves in shape, proper shape for a rainy day.

I will leave this thought with you, because I have done a lot of work on it. If you gave the entire $12 billion, the income of the corporations that they keep is $12 billion, if you gave that entire $12 billion to the people, so that the corporations made nothing at all, you would not reduce the cost of living to the people in the United States 5 percent. Those are figures that can be proved, and any time anybody wants to take the time, I will prove them.

I want to reiterate that I think that the business men of this country have got a great obligation on their shoulders today to keep prices where they belong. I do not know why anybody should want to make a lot of money under present conditions. They ought to want to make enough money to pay their stockholders, who have a right to live the same as anybody else in the United States, a decent return on their investment, and they ought to want to make enough money so as to keep the concern in shape so that when this inventory drops it does not wreck the institutions and put millions of people out of work.

That is my philosophy in this thing. You take labor. Of course labor is trying to get rid of its taxes. If you have talked with any labor men about a raise, you tell them how much you are paying them, they say, "Why, sure, you are paying us that, but we only keep so much."

Sure, capital wants to get rid of its taxes. It wants to make some money after taxes have been paid. That is a perfectly normal human objective, and you are not going to get rid of it by any act of Congress or anything else. It is in the human family throughout the world.

I just want the people to know that if you took all of that profit, which is estimated at $12 billion, if you took the whole business away from the corporations, it would not affect this thing more favorably than 5 percent, and that is not enough under the present conditions.

We have to find ways to get along together. We have to find ways to function voluntarily together. We have to find ways to work efficiently and produce efficiently. We have to stop having rules that say that a man who can lay 2,000 bricks a day cannot lay more than 450.

If the American people, and I am just talking in the interest of the workingman, his interests are the same as yours or mine, and I just wanted to let you know that I feel very strongly that there is not very much difference in the human family. If you took a slice out of them right through the center and analyze it, you would find every one of them pretty much the same.

That is proved when a workman gets to be a foreman. His attitude of mind is different. When he gets up, it is different, and if a fellow up above goes back to being a workingman, his attitude is different.

Senator GEORGE. Mr. Hanes, I believe that we are in agreement that you could make application to debt reduction if you had an unexpected increase in revenue with more safety than you could a tax reduction. In other words, if you do not reduce your expenditure budget, I understand that is one of your premises, it must be reduced, but unless we do reduce the expenditure budget, if it happens that we nevertheless have a surplus, that is due to an increased income that could be applied to the debt more safely or with less hazard than you could take a part of it and apply it to tax reduction. Would you not think so?

Mr. HANES. Senator, as I say, I do not like to divide these programs.

Senator GEORGE. I understand your three phases.

Mr. HANES. I did not say so much about this tax-reduction idea and debt reduction until I saw it in the daily papers. The New York Times has a daily Treasury statement published. I see those revenues creeping up, and I see the reason for it, because every time you raise wages $100, $19 stays right with you here in Washington.

Senator GEORGE. That is right, yes.

Mr. HANES. It is estimated that this last 15 cents——

Senator GEORGE. That policy is not a sound one for a long run.

Mr. HANES. That of raising wages to pay debt certainly is not, no, sir. No, sir; I agree with that.

Senator GEORGE. Yes, sir.

Mr. HANES. But this present increase in wages it is estimated will raise national income and bring into the Treasury about $10 billion and the Treasury calculates of each billion dollars that they will keep about 28 percent. So in other words, there is going to be here a very great increase in the revenue to the Treasury on this one raise in wages.

Senator GEORGE. There will be increase in the revenue and I can understand in considering the whole problem you should take into consideration the increase in revenue, there is no question about that, but there is less hazard in applying a surplus that results from an increase in revenue than there is in applying it to tax reduction, because that increase in revenue may not go on.

I understand the optimism that has been generally expressed but it may be that it is supposed to be always rosy, but I do not want to offer any suggestion to the contrary, but then you may not have it always that way. I can at least go that far.

I understand that your proposal is that a tax reduction is not necessarily inconsistent with debt reduction, but that the two should go together, or might go together, but also that is the third one, reductions of expenditures should take place also at the same time.

Mr. HANES. Yes, sir.

Senator GEORGE. I do not know what the House will be able to do, the House committee nor the Senate committee. I think any fair student of the Appropriations Committee work in the House would hardly be able to escape the conclusion that that committee is really trying to bring about reductions in expenditures, and so far as I am concerned, I commend them. I hope they can do it. I think they have done on the whole a fairly good job. They have still got, of course, some of the big items to tackle, such as your armed services. What they may do there I do not know.

Mr. HANES. Of course I do not know what the reason for the hitch is, Senator, but I believe it was Senator Knowland who introduced a bill into the Senate stipulating a certain amount of money should be set aside for debt retirement. I think that may be one of the things that is holding up the agreement in conference.

Senator GEORGE. That is the agreement. I was talking more particularly about the appropriations.

Mr. HANES. Yes, sir.

Senator GEORGE. The acid test is on the appropriations.

Mr. HANES. Certainly nobody could argue with you that the House has done a very commendable job.

Senator TAFT. The only difference between the House and Senate on the cut is whether the House objects to naming specific amounts for debt reduction without naming a specific amount for tax reduction. If we once agree on tax reduction, the whole thing will go through. It is perfectly possible to settle the difference on amount. It is merely that the House does not want to make a specific sum for debt reduction without making the specific sum for tax reduction. There is no way we could agree to a specific sum for tax reduction until this committee at least decided what we are going to do.

Mr. HANES. That is another good reason why I stated in my statement that speed is the essence here, because we are losing valuable time, Senator, and I will tell you frankly there are a great many programs that are being held up by businessmen because businessmen are uncertain. Their minds are not clear as to what the future holds for them.

Senator TAFT. I am sure that the report of this bill can be accompanied simultaneously by a report from that conference committee. Maybe it can be done sooner.

Mr. HANES. I believe it would stimulate business of the country, and I go so far as to predict that it would arrest the decline in the stock market, because there is one thing, the hope of the people for the future, that has been failing. I think you ought to do everything you can to encourage that hope.

Senator LUCAS. Do you think that has a definite effect upon the stock market?

Mr. HANES. Yes, sir. I think all of these things, Senator, have a definite effect upon the stock market. That is a composite picture of men's minds all over the United States, as to whether they would rather sell or buy.

Senator LUCAS. I asked the question because you said we were hit in 1920 and nobody knew why. We were just hit overnight, practically. I wonder why you figured this budget estimate on the stock-market basis.

Mr. HANES. Well, I think the reason I said that was because we have reports back in New York from the outside people sending in for information. When are we going to get this tax bill? When are we going to get the reduction in the Federal expenditures? When are we going to get a labor bill? When are we going to stop strikes in the country and go back to work? That is the whole thing.

Senator LUCAS. I could not follow you on the statement with respect to the budget, because after all, what amount we estimate the budget to be would have nothing to do with the ultimate total of what the appropriations are going to be.

Mr. HANES. I said it was a composite picture of what is happening here in Washington. You have a tremendous effect upon the economy, what you do here from day to day.

Senator LUCAS. Well, it is a pretty good effect.

Mr. HANES. It is, sometimes.

Senator LUCAS. With the highest profits in all industries.

Mr. HANES. Ever since last November the tremendous effect on industry in the country has been very favorable.

Senator LUCAS. I cannot follow you when you say that a lot of businessmen are waiting to see what we do here with respect to a tax bill in order to increase incentive for investment, when we have an all time high in the national income and an all time high in corporate profits. I just cannot quite see that.

Mr. HANES. Perhaps you place a little more emphasis upon the issue than I did, when you say thet they are just waiting. I did not mean to imply that they were just waiting. I meant to imply that all of these things have a definite and a real effect upon what men do in anticipation of building new plants, for instance, which may require 2 to 5 years to get into operation.

Senator LUCAS. Of course, most of this tax reduction goes to the person of small income groups. They have the buying power.

Mr. HANES. They have the buying power; that is a very handsome thing for industry.

Senator LUCAS. They have the highest and largest buying power that they have ever had.

Mr. HANES. That is exactly right.

Senator LUCAS. May I ask another question, Mr. Chairman?

The CHAIRMAN. Surely.

Senator LUCAS. In this statement, Mr. Hanes, you say that you are chairman of the board of trustees of the Tax Foundation. Would you elaborate a little for the record what the Tax Foundation is?

Mr. HANES. The Tax Foundation was formed in 1935 by a group of businessmen who were very much concerned about the fiscal affairs of government, so they set about to organize a research organization for the study of those affairs.

Ever since that time it has been growing in its experience and ability and so forth, until at the present time, today, they represent some 600 people in the United States who are contributing to the Tax Foundation effort. They are working closely in coordination with and cooperation with 36 State taxpayer associations throughout the United States. They are well organized in 36 States.

Senator LUCAS. Among these 600 people that you represent, are there a number of large corporations involved?

Mr. HANES. Yes, sir.

Senator LUCAS. Would you name some of them?

Mr. HANES. I will send you a list of them if you would like to have them. I have not got them with me. They include many of the biggest and many of the smallest business concerns in the United States.

Senator LUCAS. While you appear here in your own private capacity as a witness before this committee, it is a little hard to dissasociate yourself, is it not, from the group that you are working for at the present time?

Mr. HANES. I am not trying to. On the contrary, I am very proud of the fact that I do work for the 1,070,000 taxpayers that are paying, I think the Senator said, about $7,800,000,000 of the tax. They are the ones that I am representing and appealing very desperately for.

Senator LUCAS. You say your views here are your own.

Mr. HANES. Well, I hope that they are, sir.

Senator LUCAS. But you represent the views of the Tax Foundation in America.

Mr. HANES. I represent my own view. I very much hope that the members of the Tax Foundation will subscribe to them.

Senator LUCAS. Well, you know that they will or you would not be here; is that not true?

Mr. HANES. That is not quite true. I do not know that at all, because I am also appearing here having made a very serious study of the fiscal problems of government for many, many years. I appear here as a private citizen, as a former employee of the United States Government.

The CHAIRMAN. In what capacity were you employed?

Mr. HANES. I was Under Secretary of the Treasury as my last job.

The CHAIRMAN. When was that?

Mr. HANES. With the Government—1938 and 1939 up to 1940.

The CHAIRMAN. Pardon me, Senator Lucas.

Senator LUCAS. I know of Mr. Hanes' connection.

Mr. HANES. I am also connected with other industries and I am proud of that, too.

Senator LUCAS. I know that he likes to talk about the fact that he was almost fired down here because of certain things.

Mr. HANES. I do not like to talk about it.

Senator LUCAS. You have talked about it. You talked about it in the House.

Mr. HANES. I admit it; yes, sir.

Senator LUCAS. You made quite a statement in the House before that committee.

Mr. HANES. Indeed I did.

Senator LUCAS. You also discussed it here.

Mr. HANES. That is right. That is correct.

Senator LUCAS. Are you a member of any corporation yourself?

Mr. HANES. Yes, sir. I work for the Hearst Corp. I work for the U. S. Lines Co. I work for the Johns-Manville Co. I work for the Bankers Trust Co. I work for a great many corporations, Senator. I wish I could find some more.

Senator LUCAS. I do not think you will have any trouble after making this statement here on the tax question; you will probably be in great demand.

Mr. HANES. Of course, you realize there is a little barb in that statement. I am sure you do not mean to imply that I am appearing here in hope that they will offer me employment.

Senator LUCAS. Oh, no.

Mr. HANES. Oh, no.

Senator LUCAS. I merely offer a rejoiner to what you said. You were looking for more folks to work for.

Mr. HANES. I wish you would say that a little louder.

Senator LUCAS. And you have made such a good case here for the big fellows I am sure that you will.

Mr. HANES. That is my earnest endeavor, Senator.

Senator LUCAS. I know that. I am satisfied.

Mr. HANES. I am just trying not to sail under any false colors, and I am not ashamed of it.

Senator LUCAS. You take the position here on this tax bill that 20 percent across the board reduction, or 30 percent for other folks, will not take a single individual off the tax rolls of this country. You appreciate that, not a single individual?

Mr. HANES. Yes, sir, and I hope it does not.

Senator LUCAS. In other words, even though we will ultimately have a complete revision of the tax system in this country, you belong to that school of thought which believes that you should always continue to broaden the base and keep just as many people on the tax rolls as possible.

Mr. HANES. I do, sir.

Senator LUCAS. And so far as you are concerned, the 47,500,000 on the tax rolls should stay there regardless of any tax measure that is passed in the future?

Mr. HANES. I do, sir. I might say, Senator, there is a reason for that, if you would like to hear it.

Senator LUCAS. I would like to have your reason.

Mr. HANES. I would be very happy to give it to you.

Senator LUCAS. It certainly is a far cry from the traditional past insofar as putting people on the tax rolls, is concerned. The point that I want to make is this: You now get, for instance, enough revenue to provide 37.5 billion dollars with a broad base reaching into the lowest income groups of the population. If we are ready to cut a tax reduction melon, in my opinion we ought to try to give the money back to the various income groups, in the same manner we increased the tax load.

In other words, I think if we are going to give any money back to the American people, through the reduction of taxes, we ought to give it back in the same way we obtained it; that is, by increasing the exemptions in the lower income brackets. Do you not agree with that?

Mr. HANES. Senator, you wanted my reason for not agreeing?

Senator LUCAS. I certainly do.

Mr. HANES. I do not agree with that, and the simple reason that I do not agree—No. 1, I think every citizen of the United States ought to have a stake in his country. That is No. 1, and not a very bad reason either.

No. 2, there is a very large proportion of the income of this country, as we express it today, in this 176 billions of dollars, a very high percentage of that income payment is going scott-free from any income tax. It is not paying any income tax at all.

Now, I think frankly when you reduce your exemptions by $100, you take 4,700,000 people off the Federal income tax rolls.

Senator LUCAS. That is the way we put them on there.

Mr. HANES. I understand that, and I think it was a very, very fine and wonderful thing to do, because in 1939 when you started this process of broadening your base, you only had about a million and a half people in this country paying income taxes. We were working then in a very far different area, and at a different level both of business and of cost of government than we are working now. In other words, the total of all income-tax payments made in the highest peacetime year were only $1,200,000,000 and paid by approximately a million and a half taxpayers.

I submit that it is far wiser, and far better fiscal policy to tax everybody in the United States a little than it is to put an unbearable load upon any one group, and when you raise that exemption by $100, you lose a billion and a half dollars revenue, and you take off 4,700,000 taxpayers.

And I say to you that it is a cruel deception upon those people whom you release from the tax, because you have to go elsewhere to get it, and they are going to pay for it, in the end.

Senator LUCAS. Where are you going to get it elsewhere under this bill? You are going to reduce taxes, and under this bill reduce them around four and a half billion dollars. You have to do it one way or the other, and I am going to make a determined effort to present the view all the way through for consideration of this tax bill that we ought to take the tax off just the way we put it on during the war. In my judgment that is the only fair and equitable way we can do it.

I do not agree with you that simply because you take a man off of the tax rolls of this country that he becomes less patriotic or less——

Mr. HANES. I did not say that.

Senator LUCAS. Well, you said——

Mr. HANES. I said you have to tax him somewhere else.

Senator LUCAS. Well, you may have to tax him somewhere else, but you do that with all of these taxes. The little fellow pays it in the final analysis anyway. But you take four and a half million people off the tax rolls. The Republicans are talking about cutting a million people off the pay rolls. Would not taking four and a half million people off the tax rolls do something toward taking a lot of folks from the Treasury Department off the pay roll?

Mr. HANES. I think that that is a matter, Senator, that is up to the Congress to take them off the pay rolls. I think you should, personally.

Senator LUCAS. Would not my bill help do that very thing?

Mr. HANES. I cannot follow that; no, sir.

Senator LUCAS. In other words, it would not make any difference how many people we take off the tax rolls; you would still have to have the same number of people in the Treasury Department to handle the tax situation of this country.

Mr. HANES. Well, that, of course, is a very small portion of our army of two and a half million Government employees.

Senator LUCAS. If you take any number off, it reduces the total that much.

Mr. HANES. Yes. We are dealing in very much larger figures than that, and I do not think that is terribly important.

Senator LUCAS. It may not be important to you, and I understand your theory, because I know exactly that any arguments made in behalf of increasing the exemption of the workingman and his family is not an argument that appeals to you.

Mr. HANES. That is a very unfair statement.

Senator LUCAS. Well, maybe I am wrong if it is unfair.

Mr. HANES. That is a very unfair statement and you should not make it.

Senator LUCAS. If it is unfair, I will certainly withdraw it.

Mr. HANES. It is.

Senator LUCAS. But you take the position definitely that a person should remain on this tax roll if he is paying $1 tax today, and under this bill, H. R. 1, he should still make out a tax schedule and pay 70 cents. You think that that is good for that taxpayer, and you think it is good business for the Government to continue to have to handle that kind of a tax schedule.

Mr. HANES. I do most sincerely think so, and I think it is a cruel deception upon that fellow to say to him "We will take you off the tax rolls", because you know, as well as I do, you will have to put him back some place else.

Senator LUCAS. I think it is a cruel deception not to recognize in any tax measure the standing of the workingman in this country who has a family and not give him the advantage that he is entitled to, which he has always enjoyed under the tax system in the past.

Senator TAFT. May I suggest that the workingman with a family and two children gets $2,000 exemption, which is probably more than he got before the war.

Senator LUCAS. You are wrong on that.

Senator TAFT. Not in the last change, but the change before.

Senator LUCAS. I want to ask the able witness another question or two.

I have introduced a substitute bill. You do not agree with me on my bill with respect to the increase in personal exemptions. As good an expert as you are on these matters, from the long studies that you have made of taxation, you no doubt thoroughly understand the question of splitting family incomes as is done in nine of the Western States.

Mr. HANES. Community property States.

Senator LUCAS. Community property States. In this bill I propose, I suggest that we pass a law which will put every State in the Union on the same basis with those nine community property States. Do you think that would be a good thing or a bad thing?

Mr. HANES. I think that would be a very, very good thing, Senator.

Senator LUCAS. That would cost us——

Mr. HANES. I think every taxpayer in the United States should be on exactly the same footing.

Senator LUCAS. That would cost in this bill a little over a billion dollars.

Mr. HANES. Yes, sir.

Senator LUCAS. The $100 increase in personal exemption would cost 1.5 billion, and the splitting of family income would cost a billion dollars.

Then in my bill there is a third provision which, of course, is not in harmony with your position on H. R. 1, but I do suggest that we take a 2-percent cut in all of the surtax brackets, which would cost the Government about 1.3 billion dollars.

Mr. HANES. I have not had an opportunity to study that. That is not quite fair to ask me a question that I do not understand, but just because I have not studied it.

Your bill has not been made public so far as I know. I have not seen it yet. I would like to study that before I answer the question.

Senator LUCAS. I would like to have you take a copy of it, if you will, and if you would give your views on it, I would appreciate it.

Mr. HANES. I would be very happy to, for whatever they may be worth.

Senator LUCAS. I know that you do not agree with plan A, but you do agree with plan B on splitting income. Another feature of the bill which seems to me to be very important is that this bill does not go into effect until January 1 of next year. You do not agree with that. You think that we ought to have a retroactive measure?

Mr. HANES. Yes, sir.

Senator LUCAS. Retroactive to January 1 of this year, as is provided in H. R. 1?

Mr. HANES. Yes, sir.

Senator LUCAS. Well, now, do you not believe, Mr. Hanes, that the businessmen of this country in whom we are all vitally interested would be in a better position if they knew definitely that a tax bill was being passed to take effect January 1, rather than to make it retroactive as of this year, from the standpoint of their future planning, trying to analyze what the impact of business conditions might be, rather than place the whole situation in a retroactive status, leaving what seems to me, a lot of chaos and confusion in the whole picture.

Mr. HANES. Well, Senator, may I just answer that by saying that I think a tax bill passed to take effect January 1, 1948, would be better than no tax bill at all. I think a tax bill passed to be retroactive to January 1, 1947, would be very much better, because we could start a lot of things with the money saved in this current year, which we will not start under the other plan until next year. It is just that difference. I do not want to argue the point because I do not think it is terribly important. I would not think it was nearly so important when you start to reduce taxes as it would be to give the country a tremendous feeling of confidence in not only your ability to reduce taxes, but your will to stick to it, because I think that is more important than anything else.

Senator LUCAS. That to me raises the point that I desire to make, and I want to comment further just a little on it. It seems to me definitely that if we have a new tax bill effective as of January 1, 1948, that would give everyone in America an opportunity between now and then to study that tax bill, with all of its implications, and would give the industries of the country an opportunity to make their planning accordingly. Furthermore, as one who has been closely allied with the Treasury, you know what it would mean to the Treasury officials to get their house in order to start to administer the law on January 1, 1948, rather than going back retroactively to January 1, 1947. The testimony shows that some $700 million is required for refund of taxes. This means confusion, and extra work. At the same time we would not be hurting the people of America very much, as Senator Connally said, if we took the taxes for this year in these times of high profits, and applied it on the national debt, and then started your tax reduction program January 1, 1948, in an orderly fashion.

I wish you would study that and give your comments on that.

Mr. HANES. I am very glad we have narrowed the question down to just a question of when we are going to give a tax reduction and not are we going to give it. So if we have narrowed it down to that point, I think it is a tremendous step forward.

Senator LUCAS. I do not know that it is narrowed down to that. This is just my own view. I do not know how many folks I can convince to go along with me. I hope to get a lot of Republican support on it.

The CHAIRMAN. Mr. Hanes, I am not so sure that the Congress joins in your view that everyone should be on the tax rolls. We passed a tax act in 1945 which took 12 million people off of the tax rolls. I am sure many hope that the fiscal situation will justify taking others off in the future, but I believe it was developed very clearly yesterday that in view of the present expenditure budget there just is not any hope of transferring the tax burden from the low income tax brackets to any other part of our taxpaying segment, and that we are dealing with pure theory when we toy with that thought, whether we like it or do not like it.

It was also developed yesterday that the last time that the lower brackets were not affected by taxes, to wit, back in 1939, the combined effect of the statute then in force was to raise 5 billion dollars, and that now under the administration's theory, we have to support 37.5 billion dollars of expenditure, and at least so far in this hearing it has not been developed where we could get the money if we relieved the lower brackets from paying taxes.

H. R. 1, of course, is intended to make a 30-percent cut in those lower brackets. I would like to invite your attention also in connection with that tax cut of 1945, that at that time we were plowing back into investments in business $9.1 billion; that in 1946 we plowed back $32.1 billion. I suggest that has bearing on your incentive argument.

Mr. HANES. Yes, sir.

The CHAIRMAN. That you have to have the money to plow back before you can plough it back, and in part at least the Revenue Act of 1945 made the money available for the necessary plow-back to maintain this economy, which is now producing perhaps 180 billion dollars of income a year.

I invite your attention also to the fact that in 1945 the national income was 161 billion, as compared with probably at this time a national income of between 175 and 180. I believe that Senator Hawkes, has had information that if we could make a "today" estimate of our income, it would be probably in excess of 180 billion.

With reference to this subject of exemptions, on a total income of 166 billion dollars a year, we have adjustment exclusions of 22 billion. We have deductions of 17 billion. We have exemptions of 58 billion——

Senator CONNALLY. That is all exemptions for everybody.

The CHAIRMAN. Yes. But the exemption is of more usefulness to the lower brackets.

Senator CONNALLY. I just wanted to make it clear that is everybody's exemption.

The CHAIRMAN. The Senator is entirely right. Where these exemptions count, we are already giving 58 billion dollars a year of them. I am trying to make that point.

So you start with 166 and you come down to a net of 69 billion net income subject to tax.

Senator LUCAS. May I make one further observation and then I will be through.

In view of what the chairman said, and in view of the position of the distinguished witness, I want to place in this record figures with respect to the exemption feature, that we have been discussing, for 1939 and 1947. In 1939, the average family of four people with an income of $4,000 paid a tax of $12. Under present——

Mr. HANES. Would you mind repeating that?

Senator LUCAS. In 1939 the average family of four people with an income of $4,000 paid a tax of $12. Under the present law that same family with the same income will pay a tax of $380, roughly 31 times more than they paid in 1939.

Under H. R. 1, that same family will pay $304, or 25 times as much.

In 1939 that same family with an income of $30,000 paid $3,385 taxes. Under the present law its tax is $11,381, or more than three times as much as in 1939. Under H. R. 1 this family will pay $9,104, or still nearly three times as much as they paid in 1939.

In other words, the fellow with the $4,000 income, either under H. R. 1 or under the present law, is paying from 25 to 30 times more than he paid in 1939, while the fellow with the $30,000 income is only paying three times under either one of those bills, as much as he paid then.

One more thing. In 1939, if that family income was $300,000, it paid $161,000. Under the present law they pay $233,700, or less than one and one-half times as much. Under H. R. 1 this family would pay $186,960, which is only slightly more than they paid before the war.

The point of these figures is that the upper bracket taxpayers are very close to prewar level while under H. R. 1 the lower income groups are nowhere near the prewar level in the payment of taxes.

Mr. HANES. That is correct Senator, as I recall the figures. It is correct for several reasons, one being that the men with those incomes you cited, in 1939 were not paying their fair share toward the burden of government, and we were in a period then where we were not taxing any of the low income groups because you take a man with $3,000 and $4,000 and $5,000 incomes, the three of them combined only paid $142 tax, the three combined.

Senator LUCAS. That is correct.

Mr. HANES. I submit to you that they were paying too little, because at that time we were operating with a three and a half to four billion deficit every year. You were relieving those great numbers of taxpayers from paying any tax, whatsoever which I submit was their fair share that they should have been paying for government.

Senator LUCAS. I am not going to argue that question.

The only thing I was trying to demonstrate was a comparison of what we call the normal year of 1939, as far as taxes are concerned with 1947 taxes, and the taxes proposed under H. R. 1, to show the tremendous discrepancy between the upper and the lower income brackets.

Senator GEORGE. I think it ought to be observed that until 1939 we built up our taxing system on a wholly different theory from what we did after 1939.

Mr. HANES. That is correct.

Senator GEORGE. It had gotten all warpsided on one side up until 1939, and since then it has gotten pretty much in bad shape on both sides.

Mr. HANES. May I take one moment to give you, if you want to exaggerate and distort the figures for just a moment, just to prove the point. You take a man with $100,000 a year income, and let us assume that the tax on that man was 99 percent. He would have left after taxes $1,000. Let us assume now that we are going to reduce it across the board by 1 percent—reduce his tax from 99 to 98 percent. We have by that one move of 1 percent increased the man's take-home pay 100 percent. In other words, he keeps $2,000 instead of $1,000.

I think when you are dealing with these figures, we are all old enough to know that you can make figures do anything you want them to do, and when you multiply the $30,000 man by any figure like 25 or 30, you will find that he has not enough money to pay the tax on that kind of multiplication.

Senator LUCAS. Your premise is probably correct. I must admit that you know more about figures, Mr. Hanes, than I do.

Mr. HANES. I appreciate the compliment. I do not think it is quite correct.

The CHAIRMAN. The obverse of the figures presented by Senator Lucas is that at the present time on a net income before personal exemption of $2,500, there is an effective tax rate of 3.8 percent.

For example, on a net income before personal exemption of $5,000, there is an effective rate at the present time of 11.8 percent. On $20,000 there is an effective rate at the present time of 29.5 percent. On $50,000, there is an effective rate of 48.2 percent. On $100,000, an effective rate of 62.3 percent. On $350,000, an effective rate of 70.1 percent.

Senator HAWKES. I wanted to just make a little comment while the Senator from Illinois is here. He takes the position, and I think his position is not bad, that in making any tax reduction——

Senator LUCAS. Did you say "is bad" or "is not."

Senator HAWKES. Not bad.

Senator LUCAS. Thank you, sir. I am encouraged.

Senator HAWKES. The premise that we should go back in our taxation in some such way as we went forward; that is the way I understand your position to be.

Senator LUCAS. Yes, sir.

Senator HAWKES. In talking about raising exemptions, that is what you are in favor of, which we lowered in the bill enacted in—what year was that, Mr. Stam?

Mr. STAM. We have been lowering it during the war at different times.

Senator HAWKES. In the different bills; that you are going back the way you went up. Well, the truth of the matter is that you went up by two routes. You went up by the exemption route and you went up by the increased taxation route.

Senator LUCAS. In the excess profits, and we took the excess profits off.

Senator HAWKES. Not only excess profits, but you already had gone up.

Senator LUCAS. On everything, I know.

Senator HAWKES. I think there being a Democrat Congress, which was not particularly looking after the welfare of the so-called rich, and they having studied the whole program——

Senator LUCAS. You look healthy. You have done pretty well.

Senator HAWKES. They were not looking after the rich, but they studied this whole thing over, and I am giving the Democratic Congress the credit of enacting the best and the sanest tax bill they could possibly enact, and if they could have gotten more in the upper brackets, and left the exemptions as they were, I think they would have done it.

The fact has been proven here—the chairman stated it several times, and I do not think anyone has denied it—that you cannot get the money you need to pay these bills unless you get the money from these lower brackets.

Senator LUCAS. Just think what I am doing; just an increase of $100 from $500 to $600.

Senator HAWKES. I understand that. All I want to say is that I think your suggestion of going back is somewhat similar to the way you went up, but I want to be sure that you went up that way.

Senator LUCAS. That is all right. I will go both ways with you.

Senator HAWKES. I want to be sure that you studied the situation that was created by putting this tremendous tax on the upper brackets—which, I would like to say in connection with what Mr. Hanes has said, I do not believe one can talk the way Mr. Hanes is talking: that you are disregarding the poor man's interest. I think you are thinking of the poor man's interest, because you are thinking of maintaining substance in your organizations that give decent employment.

Senator LUCAS. You talk to a working man with four children.

Senator HAWKES. What they would like to do is to get rid of the taxes the same as you and I would.

I would like to ask this question of Mr. Hanes, as to whether in his opinion a reduction in taxes somewhat similar to that proposed would not take the pressure off the demands for increases in wages, and thereby reduce the cost of things and, if properly regulated, reduce the cost of living.

Mr. HANES. Yes, sir; that is my premise.

Senator HAWKES. That is your premise?

Mr. HANES. Yes, sir.

Senator HAWKES. You may have said that before I came in.

Mr. HANES. Yes; I did.

Senator HAWKES. I did not happen to be here at the beginning.

Mr. HANES. Yes, sir.

Senator HAWKES. But after all is said and done, what we are trying to do is to reduce the cost of living and not distort and disorganize our whole economy.

Mr. HANES. That is right.

Senator HAWKES. And I cannot help feeling that if you gave a reduction in taxes—in fact I have had some of my workmen tell me, "Well, Mr. Hawkes, if we got some of these taxes off, we would not have to ask for an increase in wages."

I cannot forget that wages and labor is somewhere between 56 and 85 percent of the cost of everything that we use.

I want to ask another question of Mr. Hanes, because I am very much of the opinion that the way to pay the debt is to pay a substantial amount that we would know we can pay now, and we have some right to assume that we can keep continuing—that we can continue to pay. In other words, I can remember very well when I went to a banker a number of years ago and offered to pay him more than I had to pay. I can remember his saying to me, "Are you sure you can do this and keep your payments up next year and the year after, because we want this thing to be done in an orderly way?" just as you and I agree.

Senator CONNALLY. Did you pay him or not?

Senator HAWKES. Yes; I paid him. I got rid of the debt. I want to ask Mr. Hanes if he does not think there is something in the point I am making in starting payments against the debt at a rate that we have a right to assume, unless we have a calamity in industry, at a rate we can continue year after year, and thereby keep faith with the people and have them know that we are reducing this debt, and it will hold their bonds up where they belong.

Mr. HANES. I not only agree with what you say, but I go one step further. I think that that has to do with the problem of debt management, and I think one of the most important phases of the fiscal problem to be considered by the Congress is the setting up of a program which we hope to maintain over a period of years; in other words, I cannot think of any more salutary influence upon the whole economy than if the business people of this country knew that we had an orderly program that was going to extend out over a period of years—and believe me, it will be a great many years; I think perhaps we could safely put some of our long-term obligations in a flat 100-year type of console—that type of financing. I think it ought to be stretched out over a long period of time, with an annual amortization which would be taken care of through the regular budget, just as we do any other expense of Government.

I think nothing in the world would give the people of this country more confidence than a feeling that the Congress was attacking that problem which today is just something that everybody says is so huge we just do not want to tackle it.

I think it could be tackled and tackled constructively by the Secretary of the Treasury, and now.

Senator HAWKES. In other words, you feel that if we could establish a program over-all that we are going to try to hew to, it would do more to rebuild confidence and stimulate industry and business and the activities of the human family than anything else we could do.

Mr. HANES. That is exactly right.

Senator CONNALLY. I do not want to delay. Just one question, Mr. Hanes.

You have constantly—or not constantly, but scattered all along through your statement and your testimony—you spoke about the urge for these new enterprises and the expansions and the plannings for the future. Would you mind telling us in what particular line that is most prominent—what industry?

Mr. HANES. Senator, there have been so many developments during the war in plastics—just to give you one example, chemical development and research by industry during the war for new materials, for new enterprises—why, I could get you up a list of probably 100 that could be profitably entered into for manufacturing purposes at this particular moment.

Senator CONNALLY. There would be some hazard in that. You cannot guarantee that 100 new plants would be profitable, can you?

Mr. HANES. There are about three out of every five that go bankrupt, Senator, and that is the history of our economy more clearly written in the failures than it is in the successes.

Senator CONNALLY. That is what I was thinking about.

Mr. HANES. That is right.

Senator CONNALLY. There is no use in having 100 new plastic plants that would all be prosperous. They are willing to gamble, to take a chance; is that it?

Mr. HANES. You would not have the profit-and-loss system we have got, you know.

Senator LUCAS. Do you know what the bankruptcies have been during the last year?

Mr. HANES. I do not, Senator.

Senator LUCAS. I understand they are down to the minimum.

Mr. HANES. It is very small, yes; I would assume so. Of course, there are a great many new businesses that have been started up since the boys have come from the war, and I imagine that rate of mortality is going up.

Senator LUCAS. At the close of Mr. Hanes' testimony, I would like to introduce into the record a joint memorial passed by the General Assembly of Colorado to approve pending legislation concerning Federal income-tax returns.

Senator CONNALLY. Has it been submitted to the Senator for his approval?

Senator LUCAS. I will ask unanimous consent.

The CHAIRMAN. They do not ask the junior Senators.

Senator LUCAS. It deals with splitting the family incomes. May I put that in the record?

(The memorial is as follows:)

COMMUNITY PROPERTY LAWS AND THE FEDERAL INCOME TAX

EXTENSION OF REMARKS OF HON. WILLIAM S. HILL, OF COLORADO, IN THE HOUSE OF REPRESENTATIVES, TUESDAY, APRIL 22, 1947

Mr. HILL. Mr. Speaker, under leave to extend my remarks in the Record, I include the following memorial from the General Assembly of Colorado:

"Senate Joint Memorial 9

"Joint memorial memorializing the Congress of the United States to approve pending legislation concerning Federal income tax returns

"Whereas several States now have community property laws by virtue of which certain citizens of such States receive Federal income tax advantages over the citizens, similarly situated, of other States, including the State of Colorado, which do not have community property laws; and

"Whereas it is the opinion of the General Assembly of the State of Colorado that the citizens of each State should be permitted to file Federal income-tax returns on the same basis, whether such State is a community property State or not; and

"Whereas the General Assembly of the State of Colorado is advised that there is now pending before the Congress of the United States certain proposed legislation which is designed to eliminate Federal income tax discrimination between the citizens of community property States and the citizens of noncommunity property States: Now, therefore, be it

"*Resolved by the Senate of the Thirty-sixth General Assembly of the State of Colorado (the House of Representatives concurring herein)*, That the Congress of the United States be, and it is hereby, memorialized to approve said proposed legislation or so much thereof as is necessary to eliminate the Federal income tax discrimination between the citizens of community property States and the citizens of noncommunity property States; and be it further

"*Resolved*, That copies of this memorial be forwarded to the President of the Senate and the Speaker of the House of Representatives of the Congress of the United States, and to the Senators and Congressmen representing the State of Colorado in the Congress of the United States."

The CHAIRMAN. I find myself in agreement also with part of the theory of Senator Lucas' bill, and I hope you will cogitate on it when you are studying it. Implicit in his bill is his belief that at least starting the first of this coming year we can reduce taxes $3,800,000,000.

Senator CONNALLY. It is a good argument for putting them off until '48.

Senator LUCAS. Thank you.

The CHAIRMAN. Thank you very much for coming, Mr. Hanes.

Mr. HANES. May I say one word? May I ask you to put in the record the editorial of the New York Times this morning? Would that be out of place?

The CHAIRMAN. No; the reporter will put it in.

(The editorial referred to is as follows:)

[From The New York Times, Thursday, April 24, 1947]

POLITICS AND TAXES

Reading the debates and following the maneuvers of the rival parties in Washington these days on taxes and the budget, the onlooker may be pardoned for wondering from time to time whether these are regarded primarily as matters of fiscal policy or of political strategy. One thing is certain. Both sides, in their efforts, conscious or otherwise, to fuse intellectual discussion with wishful thinking, have made some outstanding contributions to romance economics.

Admittedly, public finances at the moment present ticklish problems for both Republicans and Democrats. Undoubtedly one of the contributing factors in the Republican victory at the polls last November was that party's promise to balance the budget and reduce taxes. In its haste to make good on the second half of this program, the majority party in the House has passed a bill retroactive to January 1, 1947, reducing taxes by approximately $4,750,000,000 on the optimistic assumption that it would be possible to lop $6,000,000,000 off the 1948 Presidential budget. This, along with $1,500,000,000 expected in the form of taxes over and above the administration's estimate, would be expected to provide a surplus of $7,500,000,000. More conservative leaders in the Senate realized that the party could not afford to run the risk of incurring a possible deficit in 1948, and made their plans on the theory that the President's budget could be pared down by only about $4,500,000,000. The precipitate action of the House has caused these leaders a good deal of embarrassment, and that embarrassment has visibly increased since they moved on to the practical problem of making their theoretical budget cuts a reality.

But the Republicans are not alone in their discomfiture. Tax reduction means votes for the party identified with it, and it seems clear that the administration party has no intention of making the Republicans' task any easier than necessary. Its resistance to reductions in departmental and bureau budgets has been consistently determined and vociferous. But now the problem has been complicated by a windfall in the form of a budget surplus for the present year. How dubiously welcome this development is would seem to be suggested in the fact that, although it had been plainly evident in the Treasury's own figures since February, it was not until April 20 that it received official recognition from the administration.

Much of the reasoning advanced by John T. Snyder, Secretary of the Treasury, against proposals for tax reduction at this time is understandable only against this background. Mr. Snyder foresees price reductions which are going to mean a reduction of $8,000,000,000 in the national income during the current year. Now that would constitute at least a mild manifestation of deflation. Yet the Secretary finds in this circumstance a basis for opposing a reduction in taxes, which at other points he criticizes for the fact that it would be inflationary. He notes that present taxes, in view of the high level of national prosperity, "are not an excessive hardship." Only a day or two ago, however, the President, who happened to be discussing prices and the cost of living, was making the point that the public couldn't make both ends meet, and in consequence was expanding its use of consumer credit.

It is equally difficult to understand how the administration can reconcile its argument that tax reduction is "inflationary" while at the same time admitting the desirability of "reasonable" increase in wages. The generalization of the pay increase agreed to by United States Steel would add approximately $10 billions a year to the Nation's current purchasing power or about $15 billions for the 18 months over which the proposed tax reductions would be spread.

The argument that tax reduction would be inflationary assumes that it would result in a net increase in purchasing power. But if Government expenditures are reduced pari passu with reduction in taxes, there is no net increase in expenditure. A tax reduction program which is achieved by cutting the budget by twice the amount of that reduction and using the other half for reducing the debt is not inflationary; judged as a whole, it is actually deflationary in its implications.

The problem, however, is still how to cut the budget. That must come first and debt reduction second. After that, and only after that, does tax reduction become a proper subject for consideration.

The CHAIRMAN. Mr. Smith, please. Will you state your full name for the record, and your occupation, your activities generally in the financial field.

STATEMENT OF LEVI P. SMITH, PRESIDENT, BURLINGTON SAVINGS BANK, BURLINGTON, VT.

Mr. SMITH. My name is Levi P. Smith, president of the Burlington Savings Bank. I am State United States Savings Bond chairman, and I was Vermont State War Bond chairman in every one of the war drives.

Through that connection, I take it, I was invited to become and did become and am a member of the Committee on Public Debt Policy, and it is from the angle of debt management that I am interested to appear before this committee.

The CHAIRMAN. We will be glad to have the benefit of your observations.

Mr. SMITH. Some degree of tax relief now is not only entirely consistent with sound long-range plans for debt retirement, but is necessary to it, if the debt retirement is to prove continuous, steady, and successful. Long-range thinking is vitally important in setting up a pattern of future financial stability.

The Spartan view that all possible Government savings be directed exclusively to debt retirement, and that taxes be continued at war levels commands respect by its logic and courage.

Let me break in there and say that the suggestion that this be done sometime in the future has exactly the unsettling effect which from my angle of approaching this with a view to debt management and long-term-debt management is most unfortunate and destructive.

It is true that we are overshadowed by the threat of inflation and will continue to be as long as we have such a monstrous national debt. It must also be granted that tax relief is in some respects inflationary, and is likely to be especially inflationary in a democracy where most relief will always go to the most people and where, therefore, that part of the budget savings will swell the pocketbooks of spenders more than it will swell the funds of enterprisers likely to use it to lower prices or to create more production and more jobs.

However, as I shall point out later, I believe that a great many of these potential spenders can be made into potential enterprisers through redoubled efforts to push the Government's thrift campaign and program.

All of this, however, fails to take into account the effect of such action on a populace which has carried war taxes to victory and beyond. We are confronted with a problem which is 90 percent human, or, if you will, political, in the sense that if the debt is to be carried evenly and triumphantly, it will be done by enlisting the energies of the people for a long, steady, continuous pull, as contrasted with the sporadic action and reaction, the chills and fever of inflation and deflation incident to an unsettled finance, and certain to result in an economy of boom and bust.

The public debt is so immense that whether all budget savings or only part of them are directed to its retirement now will make relatively little difference. What we must plan now, therefore, is a pattern of life under which our people may live with the debt with some degree of cheerfulness and look forward to its eventual retirement with some degree of confidence. To tell a person that he must go on all his life still carrying these drastic war taxes is not conducive to cheerfulness and confidence.

These taxes were imposed in a hurry when money had to be raised, and it was necessary to go after it where it could be found. What we want now is some readjustment, some revision, and what the people really are looking for to reestablish confidence is some recognition of that fact, and some squaring off for the long pull.

Any sound program must relax the pattern of war taxes, must offer definite relief in such form as will be encouraging to as many people as possible, and to counteract the inflationary effect of such encouragement must rely upon redoubled efforts to mobilize the thrift of all the people to drain off the spending money, and to turn back into the government pool a flood of savings.

It would seem that the suggested tax relief, if combined with a consistent plan for debt retirement and balanced off by a continued and increasing promotion of the savings bond program must be the line most likely to enlist the overwhelming popular support necessary to the successful solution of this vital problem.

Furthermore, I submit that is the line carrying directly to the people; that is the line that is most democratic. As I said, I am president of a small savings bank, and I am among those who feel that thrift is the badge, individual thrift is the badge of a free and democratic people. I feel that one of the great achievements coming out of the war has been the achievement of mobilizing the millions to the support of the Government debt. In our own little bank we have been writing to the larger depositors—they are not large, because we try to hold them down to $5,000 apiece, but we have been writing to those who had larger deposits, and asking them to split their deposits, and we have been urging them to buy Government bonds. We have been offering to buy those bonds for them without any charge. We have been offering to give them free safe keeping for them.

I might say in bringing that to the people, I had some recordings made for the radio, and the radio company put those recordings on at 6:05 in the morning. We immediately had a whole procession of farmers come in who said they wanted to do business with a bank whose president got up when they did.

Now, gentlemen, it is with that kind of people in mind that I feel that it will be a constructive thing if we can at this time, now, give them some pattern for a long range, stable future. We all know that what we have to fear most socially, and every other way in this country is the demoralizing effect of the ups and downs, the chills and fever, incident to the illness of financial instability, which we have to study and endeavor to work out from under in as triumphant and confident a way as possible.

Thank you very much.

The CHAIRMAN. Any questions?

Your courtesy in coming is very much appreciated. Thank you very much, Mr. Smith.

Senator HAWKES. I might say just this, that the witnesses have very definitely touched on the thought that I gave earlier in the meeting, and that is what we want is a pattern, something that we know is reasonably as definite as can be, so that the people can build around that pattern.

Mr. SMITH. Right in line with that, Mr. Chairman, may I put into the record the first three studies of that committee on which I was glad to have the chance to serve, the Public Debt Policy Committee.

The CHAIRMAN. We will file them with the proceedings.

Thank you very much.

The meeting is recessed until 10:30 tomorrow morning.

(Thereupon, at 12:30 p. m., the committee recessed, to reconvene Friday, April 25, 1947, at 10:30 a. m.)

INDIVIDUAL INCOME TAX REDUCTION

FRIDAY, APRIL 25, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin, chairman, presiding.

Present: Senators Millikin (chairman), Taft, Butler, Bushfield, Hawkes, Martin, George, Connally, and Johnson of Colorado.

The CHAIRMAN. We will come to order, please.

The first witness today is Mr. Harry E. Humphreys, Jr., assisted by Mr. Mitchell, Mr. Gilbert, Mr. Davidson, and Mr. Lutz, representing the NAM.

Mr. Humphreys, will you proceed, please?

STATEMENT OF H. E. HUMPHREYS, JR., VICE PRESIDENT, UNITED STATES RUBBER CO., AND CHAIRMAN, GOVERNMENT FINANCE COMMITTEE OF THE NATIONAL ASSOCIATION OF MANUFACTURERS; ACCOMPANIED BY DOW G. MITCHELL, PRESIDENT, SYLVANIA ELECTRIC PRODUCTS CORP. CHAIRMAN, TAXATION COMMITTEE, NATIONAL ASSOCIATION OF MANUFACTURERS; HAROLD N. GILBERT, VICE PRESIDENT IN CHARGE, PROGRAM DIVISION; JOHN C. DAVIDSON, ACTING DIRECTOR, GOVERNMENT FINANCE DEPARTMENT, NATIONAL ASSOCIATION OF MANUFACTURERS; AND HARLEY LUTZ, CONSULTANT, GOVERNMENT FINANCE DEPARTMENT, NATIONAL ASSOCIATION OF MANUFACTURERS, NEW YORK, N. Y.

Mr. HUMPHREYS. My name is Harry E. Humphreys, Jr. I am a vice president of United States Rubber Co. I am chairman of the government finance committee of the National Association of Manufacturers. This statement is being made on behalf of the association.

My remarks are divided into two sections. The first deals with some matters of general taxation doctrine and procedure, and the second deals with some of the specific criticisms that have been directed against H. R. 1 as amended.

With respect to the more general aspects of the subject, I would like to point out that there is almost universal agreement on the proposition that the Federal tax rates are too high and must be reduced. The principal divergence of viewpoints has been on the time at which these reductions should be made. At least three different positions have been taken on this question by different individuals and groups. These positions are:

1. Defer tax reduction until the present period of virtually full employment has ended, that is, when signs of a business recession are evident. Tax reduction made then, it is said, would stimulate business revival.

2. Defer tax reduction until the entire field of Federal taxation can be reviewed and the most appropriate places can be discovered at which tax changes should be made. Advocates of this position say such a general review may prove that H. R. 1 as amended goes too far in the reduction of certain individual income taxes, a finding that would involve the trouble and embarrassment of later making some increases in individual income taxes.

3. Proceed at once with the enactment of H. R. 1 as amended as a first step in the relief of taxpayers, and then carry through with the more detailed study and revision of other features of the Federal tax system.

The National Association of Manufacturers supports the third of these positions, namely, that the Congress proceed now with the granting of such tax relief to individuals as is provided in H. R. 1.

Our analysis of the issues involved leads to a different conclusion as to the correct timing than that which has been expressed by Secretary of the Treasury John Snyder. The essence of the problem before the Congress and the country is the relation of tax reduction to the maintenance of active business operations, high level employment, and a liberal flow of national income. Apparently those who contend that the tax reduction should be deferred until signs of a recession appear, believe that the current rates of employment, production, and national income will continue uninterrupted, in the face of present high-tax rates.

Our view is that definite steps should be taken now looking to the support of employment and production in the future. It will be too late, if tax reduction is deferred until positive signs of a recession are visible. A tax reduction such as is provided for in H. R. 1 cannot be expected to have instantaneous effect.

In the hearings before the Ways and Means Committee on this bill, Secretary Snyder admitted that something like a year would be required for the reduction to develop its full effect. This would be just as true if the reduction were to be made at the onset of a definite business recession as it would be under present conditions.

In advocating this step now, we are looking ahead to the business situation as it may be a year or so from the present time. There can be no assurance as to what that situation may be then, but testimony is not lacking to the effect that some slackening may be expected.

The Council of Economic Advisers, in its first report to the President, last December, referred to the somewhat artificial character of the present prosperity and expressed the view that this prosperity could not be expected to last indefinitely. It is our contention that tax relief, now, to the extent provided in H. R. 1 will be a substantial anchor to windward in the event that a business recession is brewing.

It is our contention, further, that a postponement of action on this important matter until the recession is at hand would be too late. Moreover, it would be dangerous, since we should be obliged to worry along for some time through the recession until the tax reduction had developed its beneficial effects.

We know, from experience, that many things can go wrong in even 1 year of depression tendencies. We consider it the wise and prudent action to be prepared in advance for such a contingency. Therefore, we must disagree with those who think that no tax reduction is necessary at this time on account of the extraordinary prosperity which we are currently experiencing. On the contrary, this is the time to act if we are to provide such assurance as tax relief can give against a slacking off in the levels of employment, production, and national income.

Another general proposition that has been advanced as a basis of opposition to the immediate enactment of H. R. 1 is that we should keep tax rates high during this period of unusual prosperity in order to make a large payment on the public debt.

We agree that the size of the debt and the problem of its management are serious matters. But we would emphasize two points in that connection:

The first is that we shall be able to accomplish more toward the ultimate reduction of the public debt if we can maintain a high level of national income. It is far more important that we be able, over a period of years, to make steady, regular payments on the debt than that we take such action for a year or so and then face a recession which will dry up the revenues to a point where debt payment must be suspended. It is our contention that tax relief, now, will do more to sustain and extend the high-level prosperity which we currently have than can be accomplished by keeping tax rates high.

The second point to be made in this connection is that we are not facing a choice between debt reduction and tax reduction. The outlook for the Federal receipts is such that we can do both. These receipts are now running at record peacetime levels, because of an unprecedented peacetime national income. Again we must emphasize our proposition that we have a better chance of maintaining the national income by reducing taxes than we have by not reducing them. Therefore, we shall have a better prospect of being able to continue making good-sized payments on the debt if we reduce taxes now.

To date in the fiscal year 1947 Federal net receipts have been at a rate which indicates a total for the year of some \$41.5 billion. Assuming the continuance of such a rate in the fiscal year 1948, under present tax rates, the limitation of expenditures even to the ceiling of \$33 billion, as approved by the Senate, would provide a margin of some \$8.5 billion. The revenue loss under H. R. 1 is estimated at \$3.8 billion. Hence the Federal net receipts, after enactment of H. R. 1, would be \$37.7 billion, which would make available for debt reduction \$4.7 billion under the Senate expenditure ceiling, an amount much in excess of that which the Senate has already voted as aminimum for this purpose.

In the event that a conference ceiling were to be set at some amount less than \$33 billion, the available surplus for debt reduction payment would be correspondingly greater. We hold that a payment of from \$4.5 billion to \$5 billion on the debt in the fiscal year 1948 would be more than enough to sustain the confidence of the people in the integrity of the Government's purpose regarding debt redemption, and in the soundness of the values which the debt represents.

We hold also that it is fully as important to promote the confidence and the well-being of the people as workers, as consumers and as investors, for it is only as we do this that we can sustain the volume of production and the level of national income from which sufficient revenues can be derived to assure the maintenance of the debt redemption policy.

A third general proposition that has been set up in opposition to tax reduction at this time is that high taxes are useful in combating the inflationary situation. The argument as it is made applies with equal force against any and all tax changes, and not merely H. R. 1. The underlying thought appears to be that by taking away more of the current income which the people, as taxpayers, now have, they will be able to spend and invest less and hence will not be as ready to pay high prices as they would be if taxes were reduced and the taxpayers had more money to spend.

We do not agree with this analysis. In our opinion, it is an ill-disguised attempt to justify an Executive budget which is entirely too high. It is true that taxpayers will have less income to spend—and save—if taxes are high than if they are low. That is because the Government, instead of the taxpayer, is doing the spending. This is just as inflationary as private spending. Under present circumstances, it is more so because it diverts materials and manpower from civilian production. Stated differently, the Government's use of the taxpayer's money does not reduce the demand for goods—but it definitely limits the production of goods with which to meet the demand.

In this connection, the President last August stated that "One of the most effective means" of reducing inflationary pressures "is to reduce Federal expenditures." He also stated that "it is particularly important that the Federal Government not compete with private demand for items in short supply." These words are as true today as then. Yet, the Government is now spending, and contemplates spending next year, but little if any below the rate of last summer.

The condition which we call inflation is the result of the great expansion of bank credit in the course of the war financing. Relief from this situation can be had either by an immense increase of production, which would correct the distorted price structure by adding to the supply of goods, or the relief can be had by reversing the process of bank credit expansion, which would diminish the aggregate purchasing power. I would like to quote from a recent discussion of this subject which was issued by a group of experts headed by Randolph Burgess, vice chairman of the National City Bank of New York:

> In sum, both bank deposits and money in circulation increased with the rise of Government borrowing from the banks, or, to put it the other way, with the rise of bank investment in Government securities. Part of this increase in the money supply was warranted by substantially higher levels of business, employment, and pay rolls. However, during the war the money supply increased much more rapidly than did the national income. In the prosperous twenties, money supply (demand deposits and money in circulation) was about one-third of the annual national income; during the uncertain thirties it averaged slightly less than one-half. The war raised it to about three-quarters of the yearly national income. * * *.
>
> Over a period of years, the economy may expand sufficiently to reestablish relationships between the supply of money and the volume of business more in line with prewar experience. Until that stage is reached the only effective method for restoring a more normal balance is to reverse the process by which the money supply was increased during the war, or, in other words, to follow policies that will reduce bank holdings of Government securities.

Our conclusion from the evidence relative to the nature and the cause of inflation is that reducing taxes would not be inflationary at this time. The inflationary pressure resulting from the expansion of bank credit can be reduced only by contracting the volume of bank credit. By proper and effective control of the spending for current purposes it would be possible to provide a surplus revenue for debt payment within a budget total of $31.5 billion and even within a much smaller total than that after another year or so. High tax rates, as such, will not diminish the inflation. And I must point out that, although the President's budget for 1948 contemplated the retention of existing tax rates, the provision for a surplus in that budget was much smaller—even after restoration of wartime excise rates and recommended increase in postal rates—than this Congress is intent on providing.

It is possible, however, that the present high tax rates may contribute to the inflationary situation through the effect which these rates may have upon the financing plans of business. There has been a marked increase of private bank borrowing. From June 30, 1945, a date which coincides approximately with the end of the fighting, to December 31, 1946, the loans of commercial banks expanded by $7.6 billion.

It is well understood that an expansion of bank credit through private borrowing has precisely the same inflationary effects as the expansion which occurs through Government bank loans. The private bank borrowing was resorted to, in large degree, to secure additional working capital, a necessary requisite to an enlarged scale of business operations. It is logical to assume that the depletion of cash by the heavy taxes on both business and individual incomes compelled business concerns to borrow from the banks on a larger scale than would have been necessary had the tax rates and the tax burdens been lower.

I turn now to some of the specific criticisms that have been made against the tax reductions incorporated in H. R. 1.

Two principal criticisms that have been advanced require particular attention, because in each case there appears to be a considerable degree of misunderstanding involved.

The first is the charge that H. R. 1 is an unfair tax bill, in that it gives too little relief to those with small incomes.

The question of fairness or unfairness in taxation is always a relative matter. Taxes are burdensome for they represent a reduction of the income which the taxpayer would otherwise use for his own consumption or investment purposes. Taxation means that someone else makes the decisions as to how a portion of each taxpayer's income is to be spent. We all recognize the necessity of this sacrifice of control of a part of our income, but it must be clear that the greater the proportion of one's income over which the private owner has no control, the greater the impairment of the incentives to get income.

In the case of the individual income tax, we have adopted, as a public policy, the procedure of taking relatively more from the large than from the small income. There is no scientific rule in progressive taxation, hence there is no basis on which to determine, by any absolute standard, just how much more it is "fair" to take from a large than from a small income.

During the war all tax rates were advanced to levels that must be regarded as unfair for the postwar period, by any reasonable standard of fairness. In the case of the individual income tax, the progression of tax rates has been steadily steepened in the series of war tax acts.

It is doubtful if any candid person can consider the tax rate scale of the 1945 act without agreeing with the conclusion to which we have come, namely, that this tax-rate scale must be revised.

This general revision must be deferred, however, until the Congress enters upon the comprehensive task of tax adjustment and revision. It is not proposed in H. R. 1. Those who oppose any action on tax reduction at this time are fully cognizant of the severity of the tax rates but they are evidently prepared to subordinate all questions of fairness and unfairness to such other purposes as they may hold as a basis for their opposition.

NAM's recommendation for a 20-percent cut across the board would have retained precisely the same effective progressive relationship as now exists under the 1945 rates. To the extent that this relationship is acceptable, then the results of a 20-percent cut must also be so regarded. Whatever degree of fairness or unfairness there may be in the 1945 rates would also exist in the distribution of the tax burden after a 20-percent cut.

As H. R. 1 passed the House, however, the percentage reductions of tax actually involve a steepening of the tax rate progression beyond that which now exists. The small taxable incomes would receive a 30-percent cut, and those few large incomes about some $302,000 annually would receive only a 10½-percent cut. It follows, therefore, that H. R. 1 does actually moderate, to the extent of the 10-percent differential, the relative burden of taxation on the small incomes.

The charge of unfairness has been carried further, by some, who have demanded that there should be not merely a liberal percentage cut in the tax at the bottom of the scale but a complete exemption of additional amounts of income at the bottom.

These demands rest on a unrealistic conception of the distribution of incomes and of the operation of a tax on net incomes. In a statistical exhibit attached to the statement of Secretary Snyder before the Ways and Means Committee it was shown that an increase of $100 in exemptions across the board would decrease the number of income-tax payers by 4,728,000 and would diminish the revenue by $1,646,000,000. That is from the hearings before the Committee on Ways and Means on H. R. 1, pages 32 and 33. An increased exemption of $200 across the board would reduce the number of taxpayers by 10,528,000 and the revenue by over $3 billion. In the exhibit was a chart which showed that the first surtax bracket $0–$2,000 of taxable surtax income accounts for 72 percent of total taxable income and for 56 percent of total income tax yield at current national income levels.

These data indicate quite conclusively that it would be impossible to grant as much tax relief at the bottom of the income scale as some have asked for, if any reduction at all were to be made elsewhere in the income scale. We have brought out, in our earlier discussion of the general objectives to be aimed at in this tax measure, that we expect it to be a strong, positive advantage for the economy as a whole.

We believe that its enactment will contribute to the maintenance of employment and production in the future. But such results cannot be expected if the bill concentrates the tax relief at the bottom of the income scale to an extent that makes substantially proportionate relief elsewhere impossible. As the figures just quoted indicate, even so moderate an adjustment as an increase of $200 in exemptions across the board would cause almost as great a loss of revenue as the flat 20 percent cut would involve, yet an additional exemption of $200 would be utterly inadequate as a measure of tax relief for the middle and upper brackets.

The second basis of attack against the specific content of H. R. 1 is that it goes too far in the amount of relief to be given to the middle and upper incomes, since the present high level of employment and national income demonstrates that there is no lack of venture capital. Hence it is argued there is no need to reduce taxes on the larger incomes in order to permit greater savings.

This contention, as is evident, is a companion piece with the argument that there is insufficient tax reduction provided at the bottom. If no relief at all is required or warranted for the higher incomes at this time, then there would be more leeway for relief at the bottom.

These arguments seem to concede that little or no saving is possible out of the larger incomes under existing tax rates. This is so, perhaps, to a greater extent than is realized by those who lay stress on an economy of consumption without much thought about how production occurs.

We do not minimize the importance of consumption. But, of equal importance is the health of the producers of the Nation—the little ones, the new ones, and those yet to produce anything, as well as the established manufacturers. Production must precede consumption. The thing that distinguishes America is its capacity to produce. Our leadership in the world is wholly dependent on the maintenance and expansion of that capacity.

Capacity to produce and investment in production are one and the same thing. We imperil the capacity to produce whenever and however we imperil the ability and the willingness of individuals to save and to invest.

Only a tax system which permits individuals to save substantial amounts out of income and to risk such savings in new and untried business ventures will protect and enlarge our capacity to produce as a nation. The source of savings available for such purposes is, therefore, of primary concern to all the people of this Nation.

In view of this fact, we have had a study prepared by NAM's research department of the sources of individual savings and of the effects of the present individual income tax on saving. It is appended to the formal statement or brief filed with this committee on Monday.

Briefly, its findings are—

1. The rate of saving like the rate of taxation is progressive. In other words the greater the individual's income, the greater the percentage of his income which is saved.

2. The Nation is nearly entirely dependent for new venture capital on savings of individuals with incomes exceeding $10,000 a year.

3. At present, personal income taxes consume approximately half the potential savings of the Nation.

4. Of those savings which are not taxed away at present the great bulk are not in a form which makes them available for financing enterprises involving risk. This means that personal income taxes today consume very nearly all of the potential savings, which, except for the taxes, would be available as risk or venture capital.

Thus the study leads to the conclusion that high taxes on the larger incomes are paid primarily out of income that would have been saved and invested and only secondarily out of income that would either have been spent or saved in other forms.

It is thus clear that if the tax relief to be provided at the present time were to be concentrated as heavily in the lower income brackets as some have proposed, there would be only a small amount of savings accumulated out of these incomes by reason of the tax reduction.

The argument that there is no present need for venture capital reveals an inadequate understanding of the way in which our complex economic system works. The present employment situation is in no sense an indicator of the need which the economy now has, or will have, for new supplies of capital. We have already cited the expansion of bank loans, an expansion which to some extent would not have occurred had tax rates been lower. The important fact in this connection, as in our earlier discussion of the bearing of tax reduction upon future employment and business activity, is the substantial time lag between the release of income through tax reduction and the accumulation of savings and the conversion of the saved funds into new capital equipment. A considerable time would be required, after tax rates were reduced, for individuals having incomes from which something could then be saved, to accumulate amounts of any size out of current income.

This cannot happen overnight, or even in a single year. In stressing the need for new venture capital, we are looking to the future, for which we must now begin to make preparation. Here, also, it will be too late if we delay until the future has become the present before taking steps to provide more capital.

As we look to the future, we know that there must be more capital provided, for these reasons:

First, there will be a steady net addition of some 500,000 to 600,000 persons annually to the total of workers through population increase. Provision of jobs and opportunity for these new workers to earn good incomes, build homes, establish families, and live comfortable lives is dependent, in our complicated economy, upon a flow of new capital into the varied forms of economic activity. Assuming that it will require anywhere from \$2,000 to \$10,000 according to the type of industry, to provide a job for each additional worker, we shall have, in the growth of population, a steady demand for some billions of additional investments annually while the population growth continues.

Second, there are many new fields of enterprise which can and will be developed when capital is available and when the rewards for the risks involved are once more adequate by reason of lower tax rates. There was a time when some were seriously concerned lest we had reached the stage of a mature economy. The war disposed of this myth and there has been a marked falling off in the number of those who still preach this doctrine. It is now rather generally realized that enormous possibilities of new and better production await the coming of more venture capital and of a tax system that will not unduly and improperly penalize those who assume the risks of enterprise.

Third, we all look forward to a steady, consistent rise of our scale of living. This rise will be dependent upon the growth of output and productivity per worker, a result which in turn is dependent upon additional capital investment per worker. The expanded capital investment will be required both for the new workers who will come along, and for all members of the present labor force. In short, our capital equipment must be improved both horizontally and vertically. That is, we must gain both in the quantity of investment and in its quality. Increasing output depends on more tools and better tools.

In conclusion, our arguments may be briefly summarized:

First, we have shown that the operation of time lag requires action on tax reduction in advance of the conditions under which such reduction becomes an emergency measure. This is true both with respect to the influence of tax reduction in sustaining employment and business activity in face of recessive tendencies and to its influence in establishing the atmosphere under which new supplies of venture capital will be forthcoming. It is our conviction that the tax reduction should be made now.

Second, we have shown that there can be both tax reduction and debt reduction, in view of the productivity of the Federal tax system at current income levels and of the control over total expenditures which the Congress is intent upon exercising.

Third, we have shown that the tax reduction to be made at this time should be sufficiently broad in its application to all taxpayers to promote the economic motives and incentives to work, to save and invest, and to take the risks of enterprise. I this connection, we have emphasized the fundamental truth that in the long run the best interests of even the small income recipients will be most fully served by a tax reduction policy which benefits all members of the economic community.

The people want more and better things for use and enjoyment. The tax relief to be provided through enactment of H. R. 1 will be a significant beginning toward the release of the productive energies by which this popular demand can be met. Passage of H. R. 1 will be an act of constructive economic statesmanship.

(The brief referred to is as follows:)

A BRIEF IN SUPPORT OF INCOME-TAX REDUCTION NOW SUBMITTED TO THE FINANCE COMMITTEE, UNITED STATES SENATE, BY THE NATIONAL ASSOCIATION OF MANUFACTURERS, APRIL 21, 1947

GENERAL ARGUMENTS IN SUPPORT OF INCOME-TAX REDUCTION NOW

The principal arguments advanced by opponents of income-tax reduction at this time before the House Ways and Means Committee and in debate during consideration of H. R. 1 as amended by the House of Representatives are dealt with in this section of the brief. A later section deals with some of the specific criticisms that have been made of H. R. 1 as amended.

The Secretary of the Treasury and others contended that taxes should not be reduced during the present high level of prosperity and that such action should be delayed until a business recession has set in. In response to a question from the chairman of the Ways and Means Committee, Secretary Snyder said: [1]

"At the present time, as I have already stated, business is operating at capacity. If, however, at a future date business should be operating at less than capacity, I believe that it could be stimulated by tax reductions."

Our view is tax reduction now will contribute to the maintenance of high-level, stable prosperity.

The need and importance of tax reduction is admitted by the opponents of H. R. 1, as amended, but they would delay making it until the peak of the prowar business activity is past. We submit that it would be too late to provide an effective stimulus, if Congress were to wait until a business recession has set in before reducing income taxes. Changes in the rate of business activity are

[1] This, and subsequent references to the testimony and exhibits presented by Treasury witnesses are taken from the statement of Secretary Snyder before the Ways and Means Committee of the House of Representatives, March 18, 1947.

usually the product of forces and influences which have been operative over a considerable period, although the culmination of tendencies in one direction or another may become visible suddenly. It is difficult to diagnose with certainty the early symptoms of a condition that may develop into a recession, consequently the time to apply preventatives, such as income-tax reductions, is before such a condition develops.

No one can now forecast with accuracy the time when a definite reversal of the present business trend may occur. The following passage from the first report of the Council of Economic Advisers is, however, significant:[2]

"While the prospect for high employment and production in the near term is good—barring the possibility of a brief dip—it is pretty generally recognized that the bases of this activity are somewhat artificial or at least that activity in the present lines cannot be expected to continue indefinitely."

It was stated in testimony on H. R. 1 before the House Ways and Means Committee on March 14, 1947, that upward of a year would be required for the national economy to feel the full effect of a tax cut. On that basis, if prompt action were to be taken in the enactment of H. R. 1, as amended, its influence as a stimulus business would not be fully apparent before the spring or early summer of 1948. On the other hand, if we were to accept the counsel of Secretary Snyder, which is to wait for tax reduction until there is visible evidence of a business recession, we would then face the prospect of a period of developing business stagnation before any marked stimulating effects of corrective action could be expected. We know from experience that many things can go wrong in a year of economic recession. The Treasury proposal amounts to locking the barn door after it is too late. Our concern here is that taxes be reduced now as one of the means to prevent the start of a recession, or lessening its effect if one should occur. The time for making these steps is before the adverse factors that might develop into a recession have begun to operate. We believe that tax reduction now will be a necessary preventive measure, and that now is the time to introduce this safeguard against a possible future business decline.

2. It is further contended by the opponents of income-tax reduction now that taxes should be held at their present levels in order to create a revenue surplus that can be applied to the reduction of Federal debt. In this connection it may be noted that the President's budgets for 1947 and 1948 made no provision for a revenue surplus, despite the retention of high tax rates. Secretary Snyder said the following in testimony before the House Ways and Means Committee:

"I am convinced that the entire surplus which is likely to be realized in 1948 should be devoted to the reduction of the public debt. It will be time enough to enact tax reductions when and if there is definite evidence that the 1948 surplus is greater than prudence requires to be applied toward reduction of the public debt."

NAM has recommended a consistent policy of debt reduction. In its recommendations for Federal fiscal policy, approved by the board of directors on December 3, 1946, the first plank is an annually balanced budget, and the second plank is debt reduction at a minimum rate of $2.5 billion a year, plus an amount equivalent to the saving in interest on amortized principal.

It will be helpful in arriving at a decision on this issue to consider the present prospects for fiscal years 1947 and 1948. Secretary Snyder admitted to the House Ways and Means Committee that the budget estimates for 1947 erred by underestimating receipts and by overestimating expenditures. When the budget for 1947 was transmitted to the Congress in January of this year, a deficit of $2.3 billion was forecast for 1947, and a surplus of $200[3] million was anticipated for 1948. As of March 27, 1947, there was a surplus of receipts over expenditures of about $3.2 billion. With the same control over expenditures during the final quarter of the fiscal year 1947 as has been exercised thus far, a policy which we believe can and should be applied, the final 1947 surplus may reasonably be expected to be about $2 billion.

We lay particular emphasis upon the matter of expenditure control which was mentioned in the preceding paragraph. Secretary Snyder referred, in his response to a question, to the outlook that receipts will be higher than estimated, and "that we shall succeed in our program of reducing expenditure to an even greater extent than we had estimated earlier." The inflow of receipts is a function of the level of economic activity in the economy, and under given tax rates it can be influenced, through administrative measures, mainly by the exercise of due diligence and vigilance in the enforcement of the revenue laws. On the other hand, the outflow

[2] The Council of Economic Advisers, First Report to the President, December 1946, p. 20.
[3] Before restoration of wartime excise rates and recommended increases in postal rates.

of expenditure, within the limits of appropriation totals, is subject to direct influence and control through the attitude of the administrative heads of the various governmental agencies.

The practice of free spending and of incurring obligations against available balances in order to avoid losing the money through the lapsing of appropriations is a common one, and unfortunately, there is not always an adequate degree of supervisory control to prevent abuses. In our outline of the prospective budgetary results for the fiscal year 1947, just presented, we are assuming that the policy of reducing expenditures which was announced by the Secretary of the Treasury will be vigorously applied during the remainder of the fiscal year for the rush to use up available funds is ordinarily most evident in the closing months of the year.

If the current level of national income be assumed to continue through 1948, the Federal net receipts for that fiscal year under existing tax rates should be approximately equal to those for 1947, namely, about $41.5 billion. The Joint Committee on the Legislative Budget has recommended total expenditures in 1948 of $31.5 billion. If the higher amount of $32¼ billion reported as the probable legislative ceiling, should be the final total, there would be a surplus of $9¼ billion with no reduction in taxes. We submit that this would be a greater amount than prudence requires to be applied to reduction of debt in 1 year. The revenue loss under H. R. 1, as amended, has been estimated to be $3 8 billion annually at the current national income level. After enactment of this bill there would remain nearly $5.5 billion for debt reduction.

It is true that we have no assurance that the current level of national income will be maintained through 1948. But we do have the assurance of a far greater likelihood of this result if tax reduction is made now than we can have if the existing tax rates and tax burdens are retained.

We do not underrate the gravity of the problems presented by the public debt. It is a threat to our solvency as a nation and to the security of our institutions. We must maintain the faith of the people as bondholders and maintain their confidence in the stability of the values which their bonds represent. Citizen morale as bonders may be weakened, or broken, if we revert to further large deficits and additional debt increase. It will be preserved and strengthened by a resolute policy of debt retirement.

For these reasons NAM recommends a strong and consistent policy of debt retirement. But we must also consider the morale of the citizens as workers, taxpayers, and consumers, as well as their morale as bondholders. A tax burden so heavy as to discourage work, saving, and investment will undermine the capacity of the Federal Government to support the debt and proceed with its retirement. Tax reduction is the key to maintenance of production and income levels at which the debt burden can be carried.

Our view is we can have both tax reduction and debt reduction by acting now.

A third point that has been made in opposition to tax reduction at this time is that we should wait until the Congress can undertake a broad, over-all revision of the Federal tax structure.

This is a delaying action, pure and simple. Everyone knows there is neither the time nor the disposition on the part of the Congress to undertake such a general revision of Federal taxes at this time. The proposal is tantamount to indefinite postponement. Furthermore, it is inconsistent with the proposal of Secretary Snyder that tax reduction should be undertaken in case of a business recession, for, if the Congress had not entered upon the task of general tax revision by the time a recession had appeared, there would presumably be as good reason for not doing a piecemeal job then as there is now, assuming any validity at all in the argument that we must, willy nilly, do the whole job at one time whenever any tax changes are to be made.

We do not agree with the contention that the entire Federal tax system must be revised at one time. There is no reason whatever for contending that the Congress will not be able to deal reasonably and intelligently with other features of the Federal tax system if it proceeds now to make certain badly needed changes in the individual income tax. It is certain that a reduction of this tax must be a part of any general revision that may be undertaken. Action now on H. R. 1, as amended, would in no way conflict with this general aim. Rather, it would be a preliminary step—a step which would go only part of the way toward the final goal that should be sought in the adjustment of individual income taxes. We hold the belief, which is shared by many others, that the degree of tax relief provided by H. R. 1, as amended, is not all that individual income taxpayers may eventually expect. Therefore, in the final revision, the provisions and the procedure of H. R. 1, as amended, would be absorbed and replaced by such further adjustments of rates as were then introduced.

It is completely logical to begin the great task of Federal tax revision by dealing first with the individual income tax. This tax is levied directly upon the incomes of a large proportion of all income recipients. Its operation is inflexible by comparison with the excises, for example, where the individual has a choice between buying taxed or untaxed articles, and also a choice as to the time when the expenditure will be made and an excise tax will be paid. The individual income tax affects directly the motivations and incentives of individuals, and at the existing rates its influence upon the vigor of economic activity is seriously adverse. Therefore, much as we realize the importance of proceeding promptly with a general revision of the Federal tax structure, we hold that the most urgent aspect of this task relates to the individual income tax.

Our view is H. R. 1 as amended is only a first step in tax revision which should be taken now.

The fourth point that has been urged, in opposition to tax reduction at this time is that taxes should be kept at high levels as a means of combating inflationary tendencies.

The basic cause of what we call inflation is the expansion of bank credit, expressed directly as an increase of bank deposits as bank loans are expanded, or indirectly as an increase of money in circulation, which occurs as bank deposits are withdrawn in the form of Federal Reserve notes. The current volume of bank deposits and of money in circulation has been produced by the large amount of bank borrowing that occurred in financing the war. On this subject we quote from a recent study by a group of well-known authorities under the direction of Mr. Randolph Burgess:[4]

"In sum, both bank deposits and money in circulation increased with the rise of Government borrowing from the banks, or to put it the other way, with the rise of bank investment in Government securities. Part of this increase in the money supply was warranted by substantially higher levels of business, employment, and pay rolls. However, during the war the money supply increased much more rapidly than did the national income. In the prosperous twenties, money supply (demand deposits and money in circulation) was about one-third of the annual national income; during the uncertain thirties it averaged slightly less than one-half. The war raised it to about three-quarters of the yearly national income. * * *

"Over a period of years, the economy may expand sufficiently to reestablish relationships between the supply of money and the volume of business more in line with prewar experience. Until that state is reached, *the only effective method for restoring a more normal balance is to reverse the process by which the money supply was increased during the war, or, in other words, to follow policies that will reduce bank holdings of government securities.*" [Italics in original.]

High tax rates and large tax collections, with no provision of a surplus which can be used for the reduction of bank-held public debt, can have no effect upon the inflationary situation, for the above passage makes it clear that an inflation can be reduced only by reversing the process which originally produced it. Taxing and spending, at any budget level, is simply a transfer process which tends to maintain the available volume of purchasing power intact. On this point we quote from another recent study by a well-known group of fiscal experts:[5]

"The implication that taxation at the present levels operates as a restraint upon inflation is one which, in our opinion, rests upon a wrong conception of the problem. Federal taxing and spending at an annual rate of $37 billion to $40 billion would have no different effect upon the inflation situation than if the taxing and spending were to occur at $25 billion or less annually. At either level, the purchasing power taken from the people through taxation returns promptly into the stream of purchasing power through the Government spending. There is no effect on the total amount available for private spending."

From this it is clear that the official budget programs for 1947 and 1948 could have made no impression on the inflation since they involved the retention of high taxes in order to support a large volume of Federal spending, and not for the purpose of providing revenue surplus to be applied to the reduction of public debt. Under the congressional budget program, whether at the total as voted by the House, or the Senate, or at some compromise figure between these totals, there will be a substantial margin of revenue surplus, even after giving effect to the tax

[4] Our National Debt and the Banks, Report No. 2, by the Committee on Postwar Debt Policy, p. 10, 25 Liberty St., New York 5, N. Y. 1947.

[5] The Committee on Postwar Tax Policy, a Tax Program for a Solvent America, 1947, p. 20.

reduction provided in H. R. 1 as amended. To the extent that this surplus is devoted to the retirement of bank-held debt, it will contribute to a reduction of the inflationary situation.

The public debt reached its peak of $279 billion in February, 1946. Since that time it has been reduced by about $20 billion, largely through the application of the huge general fund balance to this purpose. From December 31, 1945, to December 31, 1946, the public debt holdings of commercial banks declined by $15.7 billion. This operation has had little effect on the inflation potential because the bank deposit credits used to retire debt had originally been created by bank loans to the Government and they had not been expended in such a way as to add them to the general supply of purchasing power. In order to be effective as an inflation control, the funds used for redemption of bank-held debt must be drawn from the current supply of purchasing power in the hands of the people. This is done through taxation or by obtaining cash from the citizens through the sale of surplus property and in other ways.

In another direction, however, the retention of the present high tax rates may be a factor which would promote greater inflationary tendencies than would be the case under lower tax rates. We refer here to the increase of private borrowing. From June 30, 1945, a call date corresponding roughly with the end of the fighting, to December 31, 1946, the loans of commercial banks expanded by $7.6 billion. It is well understood that an expansion of bank credit through private borrowing has precisely the same inflationary effects as the expansion which occurs through Government bank loans. The private bank borrowing was resorted to, in large degree, to provide additional working capital, a necessary requisite to an enlarged scale of business operations. It is logical to assume that the depletion of cash income by the heavy taxes on both business and individual incomes compelled business concerns to borrow from the banks on a larger scale than would have been necessary had the tax rates been lower.

NAM is actively attacking the price situation because of our relief that it will promote industrial peace and economic stability. To the extent that business does reduce prices, the real income of individuals will be increased, since a larger quantity of goods can then be bought for a given outlay of money. We believe that the tax reductions to be provided under H. R. 1, as amended, will also promote industrial peace and stability by increasing the take-home money income of individuals. The price reductions in combination with the tax reduction will be a double gain for the workers, a far greater gain than can be hoped for from another round of costly strikes in an effort to secure further wage increases. It is apparent to all that a continuation of the series of wage increases must increase costs, and hence prices. A price situation that has been built up on a foundation of high operating costs is even more difficult to adjust and reduce than one which is caused by an inflation of the money supply, for the reason that, by proper fiscal and debt management policies, it is possible to lessen the pressure of a monetary price inflation. But a high price level which rests on high wage costs is not reducible by fiscal measures. Business generally is cooperating in the price reduction movement; we hope that Government will cooperate by giving at least the tax reduction provided for in H. R. 1, as amended; and that labor will also cooperate. Through this cooperation of all elements, we may expect to achieve a new record of industrial peace and economic stability.

Our view is, as an inflation curb, taxation must provide a revenue surplus for debt reduction. Enactment of H. R. 1, as amended, will provide a surplus under the legislative budget ceiling, and lessen the pressure upon business to expand private bank credit.

REPLY TO SOME SPECIFIC CRITICISMS AGAINST THE CONTENT OF H. R. 1

In the preceding section of this brief we have dealt with some of the general grounds of criticms and opposition that have been raised against the proposition that there should be tax reduction now. In this section we turn to some of the specific points that have been raised against the content of H. R. 1 as amended, as a tax-reduction measure.

First, has been charged that H. R. 1 as amended, is an unfair tax bill, in that it gives too little relief to those with small incomes.

The question of fairness or unfairness in taxation is always a relative matter. Taxes are burdensome for they represent a deprivation of income which the taxpayer could otherwise use for his own consumption or investment purposes. In the case of the individual income tax we have accepted, as a public policy, the procedure of taking relative more from the large than from the small income. This is the principle of progressive taxation. There is no scientific rule of progression, hence no basis on which to determine, by any absolute standard, just how much more it is "fair" to take from a large than from a small income. On this subject we quote again from the recent report of the Committee on Postwar Tax Policy:[6]

"There is no scientific rule or principle of tax progression. Assuming that some degree of progression has been established as public policy, its extent and severity must be determined by a consideration of the actual impact and effect of the rates upon the community. Our deep concern is with the expansion of production and employment, the sound growth of national income, and the stable advance of well-being for all. We therefore advocate tax rates which, while representing a fair contribution to governmental costs from the persons who gain substantial incomes through their effort or their saving and investment, will not be so severe as to interfere more than is necessary with the effort and investment upon which the well-being of all depend. No one can translate into terms of a tax rate scale the vague and indefinite slogan 'taxation according to ability.' We emphasize primarily a policy that would release and make more fruitful the abilities of men."

During the war all tax rates were advanced to levels that must be regarded as unfair for the postwar period by any reasonable standard of fairness. In the case of the individual income tax, the progression of tax rates had been steadily steepened for many years in progressive tax acts. It is doubtful if any candid person can consider this record without agreeing with the conclusion to which we have come; namely, that the present income tax rate scale must be revised.

Nevertheless, such a revision is not proposed in H. R. 1 as amended. The original proposal for a 20-percent cut across the board would have retained precisely the same effective progressive relationship as is now provided by the rates of the 1945 act. To the extent that these rates are to be regarded as acceptable, then the results of a 20-percent cut must also be so regarded.

As H. R. 1, as amended, was voted upon by the House, however, the percentage reductions of tax actually involve a steepening of the progression beyond that which now exists. The small taxable incomes would receive a tax reduction of 30 percent, while those few large incomes above some $302,000 would receive only 10½ percent reduction.

We can agree that taxes, at all income levels, would still be too high, even after enactment of H. R. 1, as amended. The remedy for this situation is a sufficient further reduction of the Federal expenditures to make possible a general lightening of the tax load.

The discussion of the merits of H. R. 1, as amended, has been confused by comparisons which purport to indicate unfairness by emphasizing the small number of dollars by which the tax on a low income would be reduced, as against the large number of dollars by which the tax on a high income would be reduced. We need not dwell upon the mathematical absurdity of this argument, since it is patently impossible to give a person who now pays only $19 tax as much as $100 or $1,000 of tax relief, although persons with sufficiently large incomes would receive tax reductions of these or greater amounts. Enough is now known about the distribution of incomes by net-income classes and by taxable income brackets to make clear that we dare not revert to exemption levels or to first bracket tax rates comparable with those in effect before the war. In a statistical exhibit attached to the statement of Secretary Snyder on H. R. 1 before the House Ways and Means Committee, it was shown that an increase of $100 in exemptions across the board would decrease the number of income taxpayers by 4,728,000, and would diminish the revenue by about $1,600,000,000. An increased exemption of $200 across the board would reduce the number of taxpayers by 10,528,000, and the revenue by more than $3,000,000,000. In the same exhibit was a chart which showed that the first surtax bracket, $0 to $2,000 of taxable surtax income, accounts for 72 percent of total taxable income, and for 50 percent of total income tax yield. It is apparent that we cannot go further now than the 30 percent reduction which H. R. 1, as amended, would give to the smallest taxable incomes without making it impossible to afford any tax relief at all to the middle and large incomes. We do not concede that the best interests of the whole economy, or even the best interests of the small-income recipients themselves, would be served by a concentration of the tax reduction at the bottom end of the income scale. On this point the following statement by the Committee on Postwar Tax Policy deserves the serious attention of all who attack H. R. 1, as amended, as unfair to the small-income recipients:[7]

"Every citizen has a vital stake in the welfare of the economy in which he lives and works. Regardless of what he does or what his own income may be, he will be

[6] Op. cit., p. 83.
[7] Op. cit., p. 81.

better off with respect both to cash income and real income in proportion as there is vigor and growth throughout the conomic system. The essential condition of this vigor and growth is a reduction of the tax load, not merely for small incomes but for all incomes."

The cost-of-living argument as a guide to how and where to make tax reductions is unsound historically and weak fiscally. The course of tax rates and exemptions during the war demonstrates that fiscal necessity rather than hardship to the taxpayer has been the ruling consideration. That is, as more revenue must be provided, the income-tax base must be broadened by lowering the exemptions, and the first-bracket rate, which produces so large a share of the total tax, must be increased. In 1939, for example, the individual exemptions were $2,500 for married persons, $1,000 for single persons, and $400 for each dependent as then defined. National income was $70.8 billion, but taxable income was only $9 billion or 12.7 percent of income payments, and the tax yield was $929 million. In 1947, with personal exemptions at $500 across the board, it is estimated that there will be 43,500,000 taxpayers, with taxable income of $69 billion, or 41.5 percent of a national income of $166 billion. The tax liability for the year will be some $17 billion. It is stated in the Federal Reserve Bulletin for February 1947 (p. 120) that the tax rates and exemptions in effect for the fiscal year 1939–40 would produce a revenue of about $2.5 billion at current national income levels. What more impressive demonstration can be given of the impossibility of going beyond the provision which H. R. 1, as amended, makes for the easing of the tax load, unless and until there is further drastic reduction of the Federal budget?

Secondly, a further point in opposition to making any part of the tax reduction in H. R. 1, as amended, applicable to the middle and higher incomes is the proposition that the present high level of employment indicates no lack of venture capital, hence no need to reduce taxes on the higher incomes in order to permit greater savings.

This argument concedes, in effect, that little or no saving is possible out of the larger incomes under existing tax rates. We agree that this is so. We agree, also, that if the tax relief to be provided were to be concentrated as heavily in the lower income brackets as some have demanded, there would be only a small amount of savings accumulated out of these incomes by reason of the tax reduction. The emphasis upon cost of living indicates an expectation that the gain from such tax reductions as are proposed, or as have been demanded, for the lower incomes would be very largely devoted to consumption uses.

The argument betrays an inadequate understanding of the way in which as complex an economic system as ours works. The present employment situation is in no sense an indicator of the need which the economy now has, or will have, for new supplies of capital. There is a substantial time lag between the release of income through tax reduction and the accumulation of savings and the conversion of the saved funds into new capital equipment. It would require a considerable time, after tax rates were reduced, for individuals having incomes from which something could then be saved to accumulate amounts of appreciable size out of current income. This cannot happen overnight, or even in a year. In stressing the need for new venture capital we are looking to the future, not to the immediate present.

As we look to the future, we know that there must be more capital provided for these reasons:

First, there will be a steady net addition of some 600,000 persons annually to the labor force through population increase. Creation of jobs and opportunity for these new workers to earn good income, build homes, establish families, and live comfortable lives is dependent, in our modern complicated economy, upon a flow of new capital into the varied forms of economic activity. Assuming that it requires anywhere from $2,000 to $10,000 of capital investment to provide a job for each additional worker, we shall have, in the mere growth of population, a steady demand for some billions of additional investment annually while the population growth continues.

Second, there are many new fields of enterprise which can and will be developed when capital is available and when the rewards for the risks involved are once more adequate by reason of lower tax rates. There was a time when some were seriously concerned lest we had reached the stage of a mature economy. The war disposed of this myth, and there has been a marked falling off in the number of those who still preach this doctrine. The members of the National Association of Manufacturers know, better than almost any other group in our society, the enormous possibilities of new and better production which await the coming of more venture capital and of enterprisers who are encouraged by the tax system to assume the risks.

Third, we all look forward to a steady, consistent rise of our scale of living. This rise will be dependent upon the growth of output and productivity per worker, a result which in turn is dependent upon additional capital investment per worker. The expanded capital investment will be required both for the new workers who will come along and for all members of the present labor force. In short, our capital equipment must be improved both horizontally and vertically. That is, we must gain both in the quantity of capital and in its quality. Increasing output depends on both more tools and better tools.

All of these developments will take time. The sooner we begin to plan for them, by reducing the tax load, the sooner may we expect the gains and advantages that will come from them. The people are impatient with present living standards. Everybody wants more and better things for use and enjoyment. The tax relief to be provided through enactment of H. R. 1, as amended, will be a significant beginning toward the release of the productive energies by which this popular demand can be met.

The ultimate advantage to the Federal revenue from action taken now to stimulate and facilitate more saving and investment must not be overlooked. To the degree that tax reduction now would make possible more savings and investment, there will be greater production and more income as the people respond to the new influences. Hence, even at the lower rates of tax, we may expect in time a recovery of much, possibly all, of the revenue loss that is immediately in prospect. In fact, we have no assurance that the present levels of production and income will be maintained for long under the existing rates. The long-run capacity to support the Government and to make the necessary payments on the debt is much more likely to be realized under lower tax rates than under the present rates.

And, finally, the House version of H. R. 1, as amended, is opposed by some because it would be effective on January 1, 1947, instead of July 1, 1947.

The recommendation of the National Association of Manufacturers is that the tax reduction be made effective January 1, 1947. The improved revenue prospects for the current and the next fiscal years add force to this recommendation at the present time. The situation is, of course, bolstered by the evident and commendable intention of Congress to effect drastic reduction in the level of Government spending for next year. It is apparent, therefore, that the tax reduction can be made effective January 1, 1947, and still leave ample room for a good beginning on debt retirement in the next fiscal year. We urge that the committee give full consideration to these facts and approve an effective date of January 1, 1947, for the tax reduction.

In testifying before the House Ways and Means Committee, the Commissioner of Internal Revenue stated that about 60 days would be required after enactment for the preparation and issuance of forms and instructions to employers relative to the new withholding schedules. We do not agree that any such time would be required. We understand that the Commissioner is expected to testify before this committee to the effect that under revised estimates only about 30 days would be required.

Making the tax cut effective as of January 1, 1947, would evidence the optimism of this Congress for the future prosperity of this Nation. It would demonstrate your determination that whenever and however it is possible to reduce the tax burdens of the people, within the limits of sound Federal fiscal policy, you will do it. Coming at this time, such an act would provide a real stimulant to a tax-weary people.

Appended to this brief is a National Association of Manufacturers publication entitled "Industry's View on Individual Savings and Income Taxes." This sets forth the findings of National Association of Manufacturers' research department on the sources of individual savings and of the effects on such savings of the present individual income tax. We call particular attention to the conclusion reached in this research study that the Nation is mainly dependent for new venture capital on savings of individuals with incomes exceeding $10,000 per year.

Respectfully submitted.

HARRY E. HUMPHREYS, Jr.,
Chairman, Government Finance Committee,
National Association of Manufacturers.

INDUSTRY'S VIEW ON INDIVIDUAL SAVINGS AND INCOME TAXES

What is the impact of personal income taxation on savings and investment? Is there reason for public concern over the disproportionate tax burdens now imposed on persons in the middle and upper income brackets.

Answers to these questions have direct bearing on the tax legislation now being considered in Congress. National Association of Manufacturers advocates that the legislation provide for proportional reduction in taxes for all taxpayers. This position is broadly based on the principle that taxation should not be employed to penalize the successful. More specifically, it is based on a conviction that the near-confiscatory tax rates on higher incomes threaten to destroy the process of individual saving and investment which has made this Nation great and productive.

Only a tax system which permits an individual to save substantial amounts out of his income, and to risk them in new and untried business ventures, will permit a continuation of the historic process by which the workman has been given better tools to increase his output and raise his real wages. National Association of Manufacturers' research department has undertaken a study of one of the aspects of this problem; namely, the sources of individual savings and of the effects of the present individual income tax on them. This study is attached hereto. Some of its highlights are—

1. The rate of saving, as well as the rate of taxation, is "progressive;" that is, the greater an individual's income the greater the percentage of it which is saved.
. For provision of new venture capital the Nation is mainly dependent on savings of individuals with incomes exceeding $10,000 per year.
3. Personal income taxes consume approximately half the potential savings of the economy.
4. All savings are not in a form which makes them available for financing enterprises involving risk. Personal income taxes consume very nearly all of the potential savings which are available for this purpose.

The conclusion to which the study leads is that the high taxes on incomes in the upper brackets are paid primarily out of income that would have been saved and invested in risky enterprises, and only secondarily out of income that would either have been spent or saved in other forms.

A tax system which confiscates the potential savings of the upper income brackets will in the long run be just as fatal to national prosperity and full employment as would be a tax system which confiscated the spending power of the ower and middle income brackets. For this reason National Association of Manufacturers advocates an immediate reduction of 20 percent across the board in individual income taxes.

Background

The individual income tax is a just and reasonable, and indeed an inescapable, means for providing the Federal Government with the revenue it needs. However a tendency has existed for the Federal income tax to be developed as a sociological rather than merely a fiscal instrument. It is conceived in some quarters as a ready means of correcting what is viewed as an unjust distribution of the national income.

It was during the depression and postdepression era that pseudosociological objectives dominated income-tax legislation. These objectives were to be attained by increasing the steepness of progression of the tax rates. Between 1929 and 1939 the maximum surtax rate increased from 20 to 75 percent.

It is significant that during the war years, when the primary role of the income tax was to provide the Federal Government with enormously greater funds than it had previously required, this was accomplished by broadening the base of the income tax. The number of individuals paying a Federal income tax increased more than sixfold between 1939 and 1944.

Our present personal income tax structure, then, is the joint product of the theories of the prewar decade and the fiscal requirements of the war period. The question at issue now is whether the postwar revisions of the tax structure shall be dominated by the pseudosociological tax theories of the 1930's, or by sound considerations in regard to the fiscal requirements of the Federal Government and a correct analysis of the effects of the tax on the economy.

The present inquiry deals with only one of the many economic effects of the present tax structure; namely, the relation among income, savings, and income taxes. As will be shown, the high degree of progression of the income-tax rates has a very critical bearing on the total amount of individual savings. It is a factor which must be dealt with in considering the proper form for tax revision.

Savings and investment

As incomes increase, a larger proportion is available for savings and investment. Obviously, those in the lowest income brackets can save little above their actual needs, while those in the highest brackets usually set aside a considerable part of their income for savings and investment. Thus, a large part of our national savings, especially that portion which goes into venture capital, comes from those in the relatively high income brackets.

Our present highly progressive income tax has the effect of taxing away the major portion of savings which are needed for investment. A glance at the income tax schedules shows that the larger an individual's income, the greater the percentage of it which he pays in taxes, and this percentage may range up to 85.5 percent on very high incomes. The increase in the rate of taxation with the size of income is what it meant by "progressive" tax rates. The present rate of progression is so steep that it is impossible for those in the highest income brackets to save the customary portion of their income which normally is set aside for investment. If the present extreme degree of progression continues, the new investment needed for plant extensions and better machinery so essential to increase productivity will not continue. Ultimately, the choking up of new investment funds would result in lower production, lower employment, and eventually the collapse of our economy. Professor Slichter [1] has said that: "A visitor from Mars would suspect that a Communist fifth columnist was writing the laws for the purpose of making private enterprise unworkable."

The present schedule of income tax rates, which imposes the highest tax rates on the very income classes which would provide the maximum amounts of savings, must result in a very serious reduction of the fraction of the national income which is saved, and an especially serious reduction of the fraction which is saved in a form available for new ventures or expansion of old ventures. It is the purpose of this study by the National Association of Manufacturers research department to measure the extent of this diminution of savings. First, the study measures statistically the degree to which rates of saving and rates of venture saving are progressive with income. Second, the estimated rates of saving at various income levels are used to indicate the total potential national saving and to illustrate the extent to which the present highly progressive personal tax rates eat into the savings of the economy.

The dearth of official statistics on rates of saving, particularly in upper bracket incomes, necessitates a statistical procedure which is somewhat arbitrary. Nevertheless, the results of this study present a correct general picture of the effects of income taxes on the over-all annual savings of the Nation.

Rates of saving in relation to income

For the provision of new venture capital the Nation is largely dependent on the savings of individuals with annual incomes of more than $10,000. This conclusion emerges from an analysis of a Bureau of Labor Statistics study [2] on rates of spending and saving at various income levels. While the study applies to the year 1941, and while it is based on a small sample of income recipients, it indicates general tendencies which may reasonably be expected to obtain at present.

The data of the Bureau of Labor Statistics study were obtained by interviews with families and single consumers. The families and single consumers are classified by the amount of income (before personal taxes) and for each income class averages are obtained for the amount of spending and the amount of saving in the year 1941. For example, families or persons in the income class $3,000 to $5,000 have average incomes of $3,735, of which $28 was paid in taxes, $3,400 was "spent," and $307 was "saved." Table 1 shows the average income in each income class, and the manner in which it is divided between saving and spending.

However, the definition of saving which is used in this and similar studies, is not satisfactory, if we are attempting to measure individual savings which are available for providing equity capital in venturesome undertakings.

It is clear that if an individual saves only relatively small amounts, he will keep his savings in riskless investments. For example, he will buy Government bonds, or perhaps deposit his savings in a savings bank, or buy life insurance. The savings banks and insurance companies cannot invest his funds in risky under-

[1] Lectures in Memory of Winthrop Ames, Radcliffe College, 1942.
[2] Family Spending and Saving in Wartime, Bulletin No. 822, U. S. Bureau of Labor Statistics.

takings; they can only purchase "riskless" forms of securities. It is only after the individual is able to save amounts in excess of what he considers necessary for safety that he has a surplus available for taking risks. It is desirable for purposes of this study to measure not only the rate of total saving, but also the rate of "venture saving."

Fortunately, the BLS breaks down its total for savings into sufficient detail to permit us to derive a figure for "venture saving" at each income level. The total savings consists of net increases in specified assets or net decreases in certain liabilities. Of the assets listed by the BLS, there are certain types which clearly are not in the class of "venture savings"; e. g., money (either on hand or in banks), United States Government bonds, investment and improvements in real estate, building and loan association shares, insurance policies, social security, taxes paid, and loans on mortgages. The liabilities are mainly mortgages on homes, bills due, and balances due on installment purchases. Excluding these two items, we are left with the items, "Investments in business," and "Other bonds and stocks" which are savings that are available for venture investments. Accordingly, in this study the name "venture savings" is given to the net increase in investments of these two types. Venture savings, are shown separately from other savings in table 1.

The percentage break-down between spending and saving shows, as might have been expected, that the larger the income, the larger is the percentage saved. (See table 2.) For incomes below $1,500, saving is negative; that is families and single persons in this category spend more than they earn. Families and single persons with incomes between $1,500 and $2,000 save on the average 3.4 percent of their incomes. This percentage increases with increasing income. All families or single consumers with incomes of more than $10,000 are lumped together by the BLS and they save 31.4 percent of their incomes.

A somewhat different picture is presented in regard to venture saving. If venture saving, as defined above, is expressed as a percentage of income (after tax) it is found that venture saving is not a large percentage in the income classes below $10,000. For income classes below $5,000 the percentage of venture saving are all very small, and some of them are negative. It seems reasonable to assume that these small percentages of venture savings are statistical accidents due to the fact that the BLS figures are for small samples of each income class. Only in the classes of income above $5,000 does it appear that any significant percentage of income is saved in form available for risk taking. Only in the class of incomes above $10,000 is any substantial percentage of income so saved.

In chart I the percentage of income spent is presented for each income class. Chart II shows the progression with income in rates of saving in general, and rates of venture saving in particular.

Thus it appears from the BLS study of spending and saving in 1941, that individual savings available for equity investment, are mainly derived from incomes exceeding $10,000 per year. This thesis cannot be less valid at present than in 1941: the increased cost of living and the increased personal tax rates since 1941 would make it even more difficult for low-income classes to save out of income.

Taxes and potential savings

The tables and charts discussed so far deal with estimates of savings at particular levels of income. Available studies however do not furnish estimates of the total potential saving of the Nation. In the present section the rates of saving by individuals are applied to the income distribution as it exists now, in order to determine the potential savings of the whole economy.

The amount left out of income after current expenditures is designated "potential saving" in this analysis. It is merely potential (and not realized) saving because taxes must also be paid out of this portion of income. Thus potential saving is the amount that would be saved if there were no personal income tax. It is of interest to estimate potential saving, and actually to determine the degree to which personal income taxes cut into it.

If rates of spending can be measured at different income levels, then rates of potential saving can also be measured, for potential saving is what is left of income after spending. Chart I is such a measurement of rates of spending at different levels of income and illustrates the economic fact that the percentage of income which goes for current spending decreases regularly as income increases. But the highest income class for which the rate of spending as shown in chart I could be derived from published statistics is for incomes of $10,000 and above, lumped in a single class. Rates of spending for higher incomes may be computed on the assumption that the rate of spending will continue to decrease, when income becomes higher than the classes shown on chart I, according to the same law of decline which holds among the income classes which do appear on the chart.

This type of extrapolation, (i. e., the projection of the trend beyond the limits of data) while it cannot be depended on to yield results of a high degree of quantitative accuracy, does permit computation of potential savings in the higher income brackets which are sufficiently accurate for qualitative and illustrative purposes. By a similar extrapolation of the rates of venture saving, it is possible also to estimate "potential venture savings" for each income class.

In table 3 and in chart III total income, total potential savings, and total venture savings are given for each income bracket. These may be compared with the total tax liability in each bracket, which is also shown.

Chart III is worth a careful perusal. It shows, from one point of view, what portion of the income of each income class is potential savings. From another point of view it depicts what portion of the total potential savings of the Nation is derived from each income class. Third, it shows the magnitude of the tax burden on each income class compared with potential saving and the potential venture saving of that class.

The figures are very striking. Although only 20 percent of the national income is received by individuals with incomes above $5,000 per year, the potential savings of this group is about half the national total potential savings. Also, it is out of this 20 percent of the national income that all of the venture savings of the Nation must come.

The total income-tax liability of all income recipients (16.49 billion dollars) is more than half of the potential savings of the Nation (30.16 billion dollars). The potential venture savings of the economy is limited to the classes with incomes of more than $5,000 per year, and in each such class the potential venture savings is exceeded by the tax liability.

It should, however, be noted that "potential savings" is the amount that would be saved if there were no taxes. On the other hand it is not true that actual realized saving is simply potential saving less taxes. Some of the tax is paid out of money that would have been saved if there were no taxes, but some of the tax is also paid out of money that would have been spent. Similarly, despite the fact that in each of the three income classes above $5,000 listed in the table the tax liability exceeds the potential venture saving, it does not follow that no venture savings will take place. Some of the tax in these three classes will be paid out of money which would have been saved in forms other than venture saving, and some out of money which would have been spent. However, in the class of incomes above $50,000 where 1.51 billion dollars would normally be spent and 4.02 billion dollars would normally be saved, it is perfectly clear that the 3.19 billion dollars of personal income taxes must come mainly out of funds which would otherwise have been saved.

Despite the limitations on the meaning to be attached to table 3 and chart III, they leave no doubt that the high personal income taxes on the upper brackets of income are for the most part paid out of income which would have been saved, and especially out of income which would have been saved in a form available for initiation of new enterprises involving risks.

Conclusion

All income groups suffer from high income tax rates. Those in the lower income brackets have to forego purchases they might otherwise make. Those in the middle and upper income brackets must forego savings and investment as well as some types of expenditure. Both evils must be corrected if we are to continue to increase our standard of living and provide for reasonably full employment. Over the long term, with rigid economy in Government expenditure, our tax rates can be adjusted downward so as to accomplish both purposes—increase purchasing power and provide for continuous expansion of our industrial plant. For the fiscal year 1948, the best procedure is to make a slight reduction (20 percent) uniformly in all income brackets and leave to subsequent years other much-needed adjustments in our tax structure.

During the war period, highly progressive tax rates were justifiable. It was necessary, so far as possible, to pay for the war out of current income to avoid inflation. Moreover, during the war years, there was little need for funds for private investment for civilian production. Now that the war is over, it is necessary to readjust our tax structure so that it will no longer retard investment.

The NAM advocates a 20-percent cut in personal income tax rates across the board, for two reasons: (1) To relieve all taxpayers of part of the heavy burden they have been carrying so that they can purchase more goods and support a higher standard of living, and (2) to encourage investments for new ventures and for the expansion and extension of existing industries.

TABLE 1.—*Distribution of family incomes as between spending, venture saving, and other saving, by income classes*

[Bureau of Labor Statistics data for the year 1941]

Income class (1)	Average income (2)	Average personal tax (3)	Average income after tax, (2)−(3) (4)	Average spending [1] (5)	Average saving, (4)−(5) (6)	Net increase in business investments (7)	Net increase in investment in stocks [2] and bonds (8)	Venture saving, (7)+(8) (9)	Other saving, (6)−(9) (10)
Under $500	$310	....	$310	$440	−$130	−$6	....	−$6	−$130
$500 to $1,000	735	$1	734	773	−39	−2	+$1	−1	−38
$1,000 to $1,500	1,247	3	1,244	1,286	−42	+9	−2	7	−49
$1,500 to $2,000	1,752	3	1,749	1,707	42	+1	+2	3	39
$2,000 to $2,500	2,238	11	2,227	2,183	44	+26	....	26	18
$2,500 to $3,000	2,743	11	2,732	2,664	68	−26	−2	−28	96
$3,000 to $5,000	3,735	28	3,707	3,400	307	+41	+4	45	262
$5,000 to $10,000	6,208	88	6,120	5,010	1,110	+148	+33	181	920
$10,000 and over	14,125	768	13,357	9,448	3,909	+1,326	+520	1,855	2,054

[1] Includes gifts and contributions.
[2] Excludes investment in United States securities or building, and loan association shares.

Source: U. S. Bureau of Labor Statistics Bulletin No. 822, Family Spending and Saving in Wartime, tables 19 and 35.

TABLE 2.—*Percentage distribution of family income as between spending, venture saving, and other saving*

Income class	Spending	Venture saving	Other saving	Income after tax
Under $500	141.9	−1.9	−40.0	100.0
$500 to $1,000	103.9	−.1	−3.8	100.0
$1,000 to $1,500	101.5	.6	−2.1	100.0
$1,500 to $2,000	96.6	.2	3.2	100.0
$2,000 to $2,500	96.2	1.2	2.6	100.0
$2,500 to $3,000	96.2	−1.0	4.8	100.0
$3,000 to $5,000	90.9	1.2	7.9	100.0
$5,000 to $10,000	82.3	2.4	15.3	100.0
$10,000 and over	68.7	13.9	17.5	100.0

Source: U. S. Bureau of Labor Statistics Bulletin No. 822. Family Spending and Saving in Wartime, tables 19 and 35.

TABLE 3.—*Total income, potential saving, potential venture saving, and personal income taxes, by income classes*

(Assumed national income of 165 billion dollars)

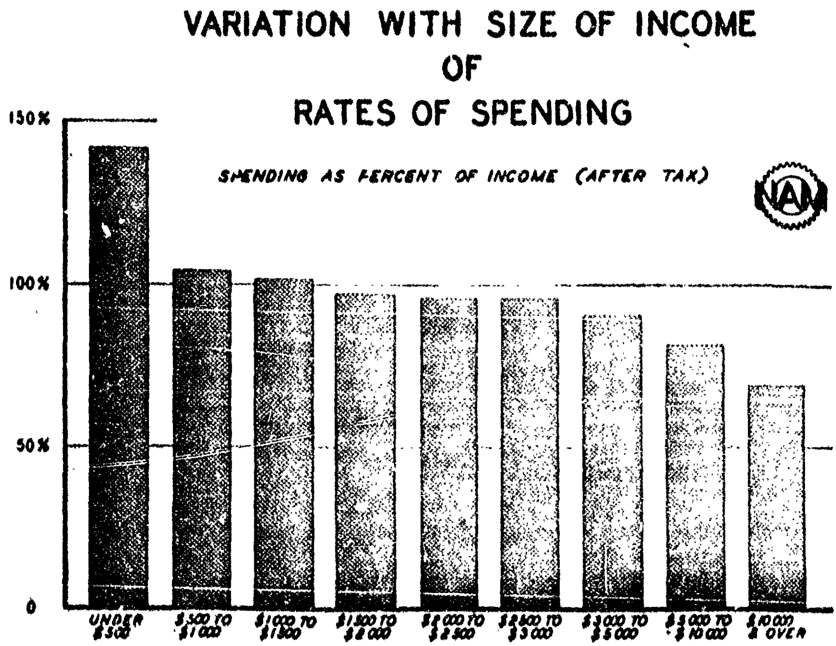
[Billions of dollars]

Income class (1)	Income (2)	Potential saving (3)	Potential venture saving (4)	Federal income tax liability (5)
Nontaxable incomes	36.07	0	0	0
Taxable incomes:				
$500 to $2,000	26.40	[1] 1.35	.00	1.35
$2,000 to $5,000	70.28	14.10	.00	6.47
$5,000 to $10,000	15.78	5.52	2.09	2.18
$10,000 to $50,000	10.94	5.17	2.71	3.29
$50,000 and above	5.53	4.02	2.40	3.19
Total	165.00	30.16	7.20	16.48

[1] Assumed great enough to pay taxes.

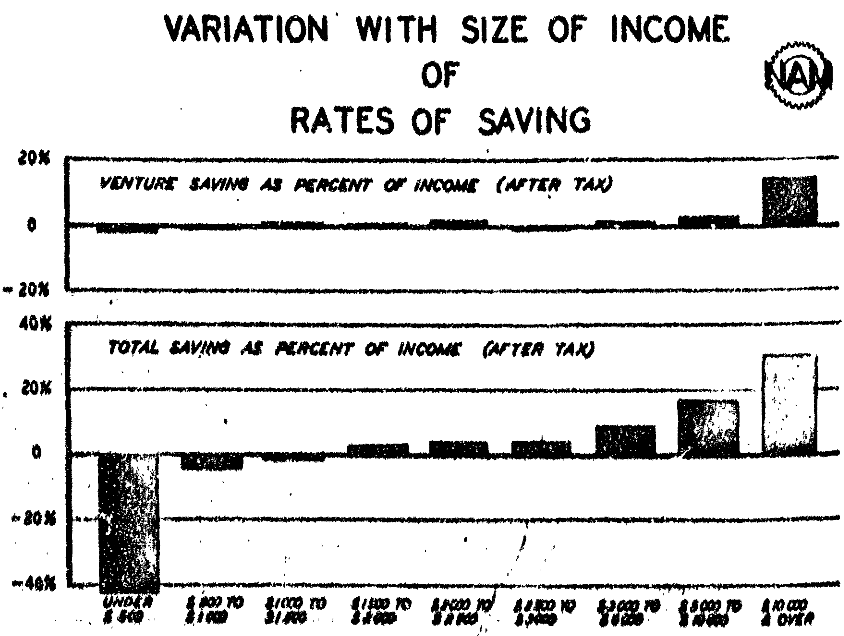
Sources: Columns (1), (2), and (5), the Tax Foundation; columns (3) and (4), computed by NAM.

CHART I



Source: Based on a Bureau of Labor statistics study applicable for the year 1941.

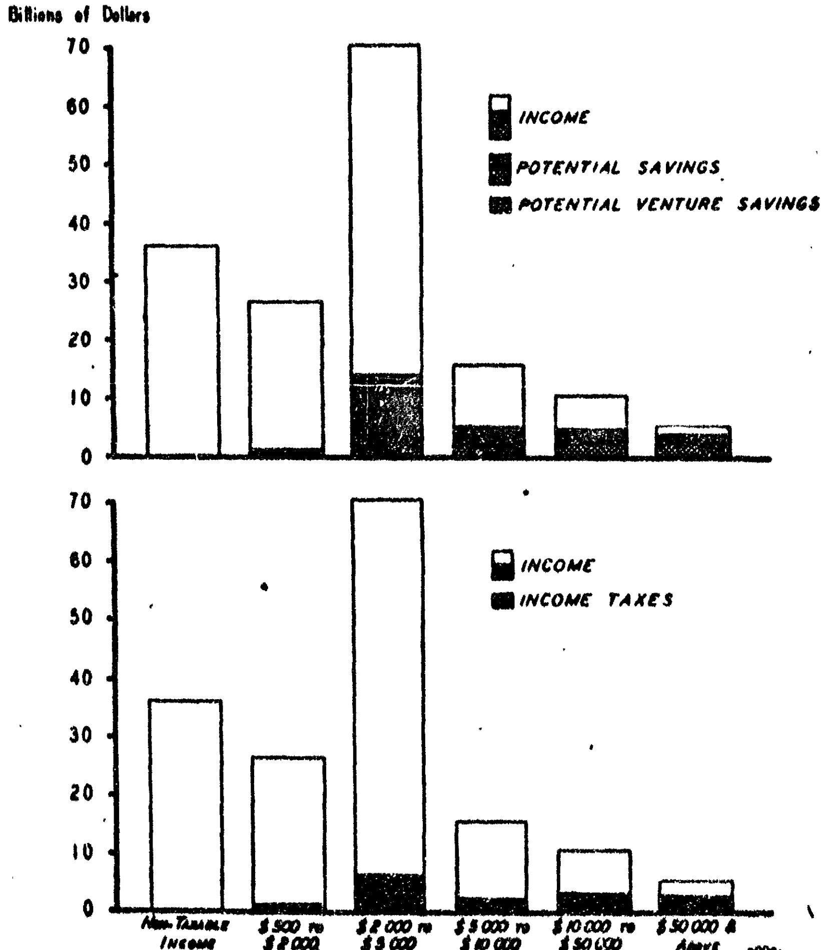
CHART II



Source: Based on a Bureau of Labor statistics study applicable for the year 1941.

CHART III

INCOME DISTRIBUTION, SHOWING POTENTIAL SAVINGS, AND PERSONAL INCOME TAX LIABILITY UNDER PRESENT LAW



SOURCE: INCOME AND TAX LIABILITY ESTIMATED BY THE TAX FOUNDATION.
POTENTIAL SAVINGS ESTIMATED BY N.A.M.

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The CHAIRMAN. Are there any questions?

Senator TAFT. I note that you argue that because the fiscal '47 will apparently produce $41.5 billion, I think the figure is $42.5, is it not, according to the figures submitted here?

Mr. HUMPHREYS. Yes.

Senator TAFT. That therefore we will get at least $42.5 billion in fiscal '48. Is that the argument, or have you figured it out more specifically than that?

Mr. HUMPHREYS. Of course those figures change from time to time, Senator Taft, but if we assume the continuation of the present tax rates, and at or about the same level of national income, it would produce that amount, that revenue.

Senator TAFT. The national income is now larger than it was most of fiscal '47.

Mr. HUMPHREYS. It should be larger; that is right.

Senator TAFT. Instead of $38,750,000,000 or something of that kind, that was estimated by the Treasury.

Mr. HUMPHREYS. That is true, Senator Taft.

Senator GEORGE. Do you think it would be a bit hazardous to base tax reduction on the hope that you would continue to have an uninterrupted high income?

Mr. HUMPHREYS. Senator George, I think the surest way of continuing a high level of national income is to encourage the taxpayers by a reduction in taxes.

Senator GEORGE. I agree with you there. Do you not think it is a bit hazardous, unless you are going to reduce your expenditure budget? I have to keep coming back to that, and I see that you are an optimist, and you have decided that we would reduce it to at least $33 billion.

Mr. HUMPHREYS. I am an optimist because I believe the control of the expenditures is in good hands, the Congress, and I think that can be done.

Senator GEORGE. I hope that can be done. If that can be done, then you have a substantial basis, as I see it. You can reduce to 33 or even to 34 billion dollars for fiscal '48. I think you have got a basis on which you can calculate debt payment and tax reduction.

Mr. HUMPHREYS. Yes, we feel that there is that.

Senator GEORGE. I note here, though, one interesting thing. You point out the increase in bank loans. May I not ask if some bank loans have not been made simply for the purpose of living; in other words, the living costs?

Mr. HUMPHREYS: Consumer credit?

Senator GEORGE. Yes.

Mr. HUMPHREYS. Yes, I understand there has been quite a good deal of that.

Senator GEORGE. Is it not true that in the corporation field, have you not had loans made there because the cash balances were declining in many instances?

Mr. HUMPHREYS. Yes.

Senator GEORGE. In certain lines.

Mr. HUMPHREYS. Yes. That is quite true, Senator George. The cost of doing business now, due to higher prices and the higher price level all around, requires that many businesses find a supply of cash for their working capital requirements.

Senator GEORGE. Well, now, when you discuss the reduction in the low bracket, as compared to the middle and higher brackets, I do not understand that you are departing from the sound principle of a graduated income tax, are you?

Mr. HUMPHREYS. No. We are not departing from that.

Senator GEORGE. Because actually the sound basis for that graduation is that in the case of the low-income producer, any tax may be taking away part of his necessities, whereas in the middle and upper brackets, it may be taking only his conviences or luxuries, or it may be taking all of his luxuries, but if your tax rate is very high on your low-income producer, you are cutting pretty deep in his necessities, and it might be necessary to give more relief to the people in the lower income brackets in order to prevent actual hardships there. You do not think H. R. 1 does that?

Mr. HUMPHREYS. It is no hardship, I do not believe, Senator, on the lower-income groups. I believe fair relief has been given at that level, considering the amounts available for tax relief at this time.

I would like to make this point, if I may, that the greatest hardship that a man can face is the lack of a job and what we would like to see is some ability of taxpayers to save money to invest in business to make jobs.

Senator GEORGE. I am not quarreling with that part of it. I do think, however, that there may be a little tendency to overlook the basis, what I think is basic in a graduated income, that is, that you must never take away the actual necessities of your lower income group, but if the necessity is present, your Government needs the money for legitimate purposes, you can take away the luxuries and you can take away those things that do not fall in the category of strict necessity.

Mr. HUMPHREYS. That is true, Senator George. Of this roughly $3.8 billion of reduction in tax revenue involved in H. R. 1 more than 60 percent of it falls in the income category of net incomes of less than $5,000.

Senator GEORGE. That is necessarily true, because you have the great producer, the mass.

Mr. HUMPHREYS. That is where the mass of the taxpayers are.

Senator GEORGE. The mass of the taxpayers are, and the mass of your income is; there are more people there.

Mr. HUMPHREYS. Yes.

Senator GEORGE. I appreciate that fully.

Senator CONNALLY. More of them.

Senator GEORGE. What seems to impress me as being the correct attitude regarding tax reduction at this time is that if we do realize the surplus, not based entirely upon expected income increase, not looking entirely to the income side of the ledger, but also looking to your expenditure side of the ledger, that since all that is proposed in H. R. 1 is but a beginning of tax reduction, it is not by any means the end of it, because even if you made that reduction and stopped there, you would still have very, very high tax rates.

Mr. HUMPHREYS. I agree with you, sir.

Senator GEORGE. For peacetime.

Mr. HUMPHREYS. I agree with you. Of course, I agree with your point on the matter of Federal expenditures, as I got it. The surest way to reduce taxes is to reduce the amount of money which the

Government spends, and that is the starting point. Government spending is the genesis of all need for taxes. So the soundest way I believe to produce a surplus is to cut the Federal expenditures.

Senator GEORGE. I think that is the only dependable way that you can figure on because while we all may be optimistic today, tomorrow we may be very pessimistic, and our economy is not just wholly dependent upon domestic policies. You have the international picture that has got to be kept in mind.

Mr. HUMPHREYS. Yes.

Senator GEORGE. And it is not so good, and for that reason I have not been able to bring myself around to a strong optimistic point that $180 billion national income is going to keep on flowing in here without any interruption, without any checks.

I do not want to get on the pessimistic side, but I think sometimes somebody on the committee might as well take a look at the other side of it.

Mr. HUMPHREYS. Yes.

The CHAIRMAN. Mr Humphreys, has your association any views as to whether or not we would have a serious recession in the fiscal year '48?

Mr. HUMPHREYS. Senator Millikin, I am not prepared to say that. I do not believe there is, or should be. Certainly the National Association of Manufacturers should be optimistic and not take any pessimistic view of this well advertised recession, but I am not prepared to say anything on that point.

The CHAIRMAN. The Secretary of the Treasury has refused to subscribe to any serious recession theory, which I assume carries with it the corollary that there will be no serious drop in national income.

Mr. HUMPHREYS. We will from time to time have changes in our national income level, and changes in the index of industrial activity. I will admit that, of course. Whether that is imminent I am not prepared to say.

Senator TAFT. On this question of the budget receipts in fiscal 1948, of course, that is not entirely dependent on the national income in 1948; the corporation taxes are paid on the basis of the national income that we are now enjoying.

Mr. HUMPHREYS. That is true.

Senator TAFT. So that the falling off would not necessarily affect that end of it.

Mr. HUMPHREYS. That is right.

Senator TAFT. And of course the personal income tax would be affected but only gradually, I should think, by a recession. The large number of people's incomes do not begin to be affected until some time after the depression shows up.

Mr. HUMPHREYS. No; well, there may be a difference between a recession and a depression, too. There is in my mind. We may have a reduction in prices.

Senator TAFT. I remember last year the Democrat Congress reduced the taxes in the face of the deficit, did they not?

Mr. HUMPHREY. They did, yes.

Senator TAFT. And it happened to turn out to be a surplus instead of a deficit.

Mr. HUMPHREYS. Yes; it was great encouragement to business when that was done.

The CHAIRMAN. Mr. Humphreys, Senator George a while ago commented on your statement as to the amount of borrowing that is being done. The President in a recent speech pointed out that there has been a very rapid expansion of installment credit, his point bring that this indicated that the people were getting to a level of income where they had to borrow.

Mr. HUMPHREYS. Yes.

The CHAIRMAN. To buy the things they want. If that be true, that would indicate that we should allow the people to retain a larger percentage of their own buying power, would it not?

Mr. HUMPHREYS. That is true. That would mean more money in their pockets to spend.

The CHAIRMAN. Has your association any statistics on the amount of installment borrowing that is going on at the present time?

Mr. HUMPHREYS. I do not personally know that figure, Senator Millikin. I would have to guess at it. I have a figure in mind, but I would not want to quote it. I can get that information for you and supply it for the record, if you please.

The information referred to is: $4.142 million of installment borrowing (sales credit plus loans) as of February 1947.

The CHAIRMAN. The Treasury seems to have the theory that because of the shortage of materials and because everyone is working, that it is not necessary to plow back into industry any substantial sums of capital investment.

It seems to me that the obvious fallacy of that is that if you have a machine like our economy, which produces 168, or 170, or 180 billion in national income, if you want to keep on producing that income, you have to keep plowing back investment capital.

Mr. HUMPHREYS. Emphatically.

The CHAIRMAN. Is that not correct?

Mr. HUMPHREYS. That is absolutely right.

The CHAIRMAN. I invite your attention to the fact that in 1946, 32.1 billion dollars was plowed back, I think probably the largest sum in our history as compared with sums ranging from $11 billion down to 1.8 billion during the preceding 7 or 8 years.

Perhaps there is a relationship between that 32.1 billion which became available for investment plow-back, and the action of the Congress in 1945 in reducing taxes.

Mr. HUMPHREYS. There is, Senator. Of course, the elimination of the excess-profits tax, which was a great relief, given to businesses, which were in the excess-profits category.

The CHAIRMAN. It was done for the specific purpose of enabling industry to reconvert, to make available the capital investment necessary to get going.

Mr. HUMPHREYS. Yes.

The CHAIRMAN. I do not have a fully developed thesis on the subject, but I think it is worth thinking about.

Mr. HUMPHREYS. In that connection, Senator Millikin, you well know that many of our bigger corporations who are presumably so well-heeled with cash are now going into the security markets for more money to do the very thing of financing their business, General Motors, du Pont, Texas Co.

The CHAIRMAN. There is a lot of borrowing going on for capital investment.

Mr. HUMPHREYS. That is true. But that is not equity capital. It is not venture capital.

The CHAIRMAN. It is operating capital.

Mr. HUMPHREYS. Well, it is used. The source of the money I am thinking of, it is from insurance companies and lenders of money and buyers of preferred stock, rather than the purchase of common stock in the corporations. It is a limited return capital. They are playing it safe. They have not enough money around to really invest in the profits of the enterprise and grow with it, and take a chance with their money.

Senator TAFT. I am informed by the staff that if we had not passed this tax-reduction bill last year, we would have collected $9 billion more than we actually collected. We would have had a surplus therefore of $10 billion, would have taken that $10 billion right out of this money which is now being used for the reconstruction of industry.

Mr. HUMPHREYS. Yes.

Senator TAFT. We thought at that time we were giving a tax reduction of about five, I think, but the larger basis of income of profits was such that it would actually have made $9 billion difference if we had not reduced the tax.

Mr. HUMPHREYS. I think you gentlemen were very wise in eliminating the excess-profits tax.

The CHAIRMAN. Certainly it would be an unsound general rule, but I invite your attention to the fact that we did that while operating on a deficit.

Mr. HUMPHREYS. Yes; I know.

The CHAIRMAN. I am not advocating that procedure as a general rule. It was done for a particular purpose, and I think we were warranted in doing it. But it does have a certain significance in relation to the problem that we are considering.

Mr. HUMPHREYS. I testified in behalf of that before this committee.

The CHAIRMAN. I may say also that what we did was not a partisan matter. I doubt if there was any opposition to that.

Senator GEORGE. There was not in the committee.

The CHAIRMAN. There was no opposition.

Senator CONNALLY. I do not recall how I voted on the final passage, but I opposed the repeal of the excess profits, and I favored a splitting of that, reducing it in half, both as a member of the committee and on the floor.

Senator GEORGE. I think the excess-profits tax stands in a little different relationship. That was definitely a wartime tax, and not on the question of rates, so much. Of course, we have these wartime rates here now, but our tax system rates have been increased, but actually they have not changed the system so far as individual incomes are concerned.

Mr. HUMPHREYS. That is true.

Senator CONNALLY. Mr. Humphreys, you represent the National Association of Manufacturers?

Mr. HUMPHREYS. That is true.

Senator CONNALLY. Do you give all your time to this tax matter?

Mr. HUMPHREYS. No; I do not.

Senator CONNALLY. You are a businessman?

Mr. HUMPHREYS. I am vice president of the United States Rubber Co.

Senator CONNALLY. The United States Rubber Co.?

Mr. HUMPHREYS. Yes.

Senator CONNALLY. That company has done pretty well, has it not?

Mr. HUMPHREYS. Yes, we have.

Senator CONNALLY. Are you making higher income than you have for any time in the recent past?

Mr. HUMPHREYS. In dollars of profit we have; in percentage——

Senator CONNALLY. That is what counts, dollars. I am not talking about percent; I am talking about dollars.

Mr. HUMPHREYS. I want to make the point that our percentage of profit was lower than it has been.

Senator CONNALLY. Percentage of profit.

Mr. HUMPHREYS. Percentage of profit on sales; yes.

Senator CONNALLY. I am talking about your company.

Mr. HUMPHREYS. Our company has, Senator Connally.

Senator CONNALLY. You have made a higher income and you are getting a higher income right now?

Mr. HUMPHREYS. That is true.

Senator CONNALLY. Than you ever had in your history, are you not?

Mr. HUMPHREYS. That is true.

Senator CONNALLY. Is not that generally true in all lines of manufacture?

Mr. HUMPHREYS. Not in all lines.

Senator CONNALLY. Not in every line?

Mr. HUMPHREYS. Not in every line.

Senator CONNALLY. On the average?

Mr. HUMPHREYS. Those of us who were able to get back into peacetime production without any major reconversion problems have done very well.

Senator CONNALLY. On the whole, just take the whole manufacturing field, is it not its income and profits are larger than at any time in the recent past?

Mr. HUMPHREYS. I would agree with you on that.

Senator CONNALLY. That is a fact, is it; you are agreeing with me because it is true, is it not?

Mr. HUMPHREYS. That is right.

Senator CONNALLY. The profits of 1946, have you got any data there to show the increase over the years immediately preceding '46?

Mr. HUMPHREYS. Of corporations generally?

Senator CONNALLY. Yes, of business generally.

Mr. HUMPHREYS. No, I have not, Senator. I will be glad to furnish that for the record.

Senator CONNALLY. I would be glad if you would furnish it for the record.

Mr. HUMPHREYS. Yes, all right. We will make a note of that.

(The information referred to is as follows:)

Corporation profits as percent of net worth and as percent of sales, for leading manufacturing corporations

[Sample compiled by National City Bank]

Year	Profits as percent of net worth	Profit margin, profits as percent of sales
1936 percent	10.4	7.6
1939 do	8.5	6.5
1942 do	10.1	4.3
1943 do	9.9	3.6
1944 do	9.8	3.3
1945 do	9.1	3.9
1946 do	12.1	6.0
Approximate number of companies in sample	1,400	1,100

Source: Economic Conditions, monthly letter of National City Bank, April 1947 and May 1946.

Senator CONNALLY. The national income, of course, has already been developed and is higher than it has ever been, is that not true?

Mr. HUMPHREYS. That is true, Senator.

Senator CONNALLY. That means that on the average of all of the people of the United States, they have more money coming in, more profits than they have ever had in their history.

Mr. HUMPHREYS. That is right.

Senator CONNALLY. And it is also true that we owe the biggest debt in the history, is it not?

Mr. HUMPHREYS. Yes, sir.

Senator CONNALLY. Is it not sound business that when you have more money than you have ever had and owe more money than you ever did, that you should pay some of that on your debt?

Mr. HUMPHREYS. I agree with you, sir. We should pay something on the debt, and plan to do it every year.

Senator CONNALLY. You cannot do that and also reduce taxes radically, can you?

Mr. HUMPHREYS. Well, this tax measure we are discussing is not a radical reduction. It is a step in the direction of postwar tax plans.

Senator CONNALLY. I will admit that my question was a generality, but you are talking in generalities, so I wanted to interrogate you on generalities.

As a sound business proposition when you have more money in your pocket than you ever had in your life, and you owe more money than you ever did in your life it is pretty sound to pay some of it on that debt, is it not?

Mr. HUMPHREYS. That is true.

Senator CONNALLY. And a sound national fiscal situation helps everybody whether he is a manufacturer or whether he is a buyer, does it not?

Mr. HUMPHREYS. That is right.

Senator CONNALLY. So that any substantial reduction in the debt would have a tendency to stabilize fiscal relationships in the United States, would it not?

Mr. HUMPHREYS. Yes, that is true.

Senator CONNALLY. Senator George touched on a point—the foreign situation outside of the relief which I regret that we have to extend—your exports to Europe and other countries in the world will be smaller and are smaller.

Mr. HUMPHREYS. Yes.

Senator CONNALLY. That will not probably increase very radically until the foreign countries are somewhat rehabilitated and reconstructed to the point where they will have money to buy.

Mr. HUMPHREYS. Yes.

Senator CONNALLY. Is that not true?

Mr. HUMPHREYS. That is true, Senator.

Senator CONNALLY. How long do you estimate that we probably will have this high national income of 180 or 168 billion dollars a year? Have you any thoughts on that?

Mr. HUMPHREYS. I am not a prophet, sir.

Senator CONNALLY. You have been prophesying on other things; get down to this.

Mr. HUMPHREYS. I will make a definite prophecy on the effect of lowered taxes.

Senator CONNALLY. I know that.

Mr. HUMPHREYS. Enabling us to maintain this high level of national income, what it might be in dollars, I am sure——

Senator CONNALLY. You do not know.

Mr. HUMPHREYS. You could not hold me to it if I did put in a figure.

Senator CONNALLY. I do not believe you would be able to sustain it financially or otherwise, even with your big profits.

Mr. HUMPHREYS. But the high national income, Senator, is made by people at work.

Senator CONNALLY. That is right.

Mr. HUMPHREYS. And that is the thing that we want to sustain and maintain.

Senator CONNALLY. That is right.

Mr. HUMPHREYS. The jobs.

Senator CONNALLY. Well, they are working now.

Mr. HUMPHREYS. They are working now.

Senator CONNALLY. Employment is at a high level now.

Mr. HUMPHREYS. At the highest level in our history.

Senator CONNALLY. More people are working; it is the highest level in the history.

Mr. HUMPHREYS. Yes.

Senator CONNALLY. You have not any complaint about that; have you?

Mr. HUMPHREYS. No, I have not.

Senator CONNALLY. More people are at work, more income coming in, more national income, more debt, and you do want to split this thing, put part of it on the tax reduction where they do not need it, and save a little on the debt where they do need it; is not that right?

Mr. HUMPHREYS. We can do both and I propose that.

Senator CONNALLY. We can do both?

Mr. HUMPHREYS. I think we can. I disagree with you on the matter of the people needing tax reduction. I am not speaking of tax reduction for corporations. It is only for individuals, as you know, and I think the tax rates on individuals are too high. Individuals have had only slight relief from wartime tax rates. They should be reduced, and further than H. R. 1 goes. This is only a step in the direction of what should be an ultimate comprehensive revision of our whole tax law in getting the rates down where they are much lower than they are now, based upon much lower Government expenditures.

Senator CONNALLY. Reduction of individual income taxes, you say, do not affect the corporate one? I know everybody that has got a stock in a corporation pays on his dividends. Is that not true?

Mr. HUMPHREYS. Yes, sir.

Senator CONNALLY. So it does affect everybody, does it not?

Mr. HUMPHREYS. I am thinking of the individuals as divorced from the corporations.

Senator CONNALLY. The corporations got $9,000,000,000 so Senator Taft points out, on account of the repeal of the excess-profits tax.

Mr. HUMPHREYS. Yes.

Senator CONNALLY. Is that not right?

Mr. HUMPHREYS. That is true.

Senator CONNALLY. That is a pretty good plum.

Senator TAFT. It was about five for the corporations. It also reduced the personal income 5 percent for everybody.

Senator CONNALLY. Five billions, then.

Mr. HUMPHREYS. I might say that all corporations did not get that relief.

Senator CONNALLY. All of them did not have excess profits.

Mr. HUMPHREYS. That is true.

Senator CONNALLY. Consequently did not pay an excess-profit tax.

Mr. HUMPHREYS. Yes.

Senator CONNALLY. That is sound, is it not?

Mr. HUMPHREYS. Yes. But when relief was given, those who paid a maximum of 40 percent were only reduced 2 percentage points, or 5 percent to a 38-percent rate.

Senator CONNALLY. Those were making the highest profits and were the ones that got the benefit of the reduction in excess profits.

Mr. HUMPHREYS. Yes. That excess-profits tax in wartime was a very sound tax.

Senator CONNALLY. The wartime is not over until you pay your debt, is it? It is a war cost.

Mr. HUMPHREYS. The war cost has not been liquidated.

Senator CONNALLY. The war cost has not been liquidated.

Mr. HUMPHREYS. The best way to do that is to have a good sound prosperous economy postwar.

Senator CONNALLY. We have the prosperous economy but you do not want to take advantage of it by paying back on the debt that we created in the war.

Mr. HUMPHREYS. I do want——

Senator CONNALLY. But you want to pass the tax reduction before you want to pay some, before you know how much you will pay on the debt, do you not?

Mr. HUMPHREYS. Yes.

Senator CONNALLY. Yes; sure. You got that right now.

Mr. HUMPHREYS. Well, which your committee, as a Democrat committee, did before, reduced taxes.

Senator CONNALLY. Senator Taft made some reference to a Democrat Congress, and I think he was right out with the flag waving "Come on Democrats."

Senator TAFT. All right, and they came.

Senator CONNALLY. He admits they came, and now he is attempting to blame the Democrats for doing something that he encouraged and helped.

As I said awhile ago, I opposed it at the time, the repeal of the excess-profits tax. I did favor cutting the rates.

Mr. HUMPHREYS. Yes.

Senator CONNALLY. About 60 percent of what they had been theretofore.

Mr. HUMPHREYS. Yes.

Senator GEORGE. I think the removal of the excess-profits tax, I think there is some misapprehension about it. I have much doubt if the loss to the Treasury was anything like the amount suggested by Senator Taft, because everything saved by the corporation went into the regular tax, the surtax, and the normal tax.

Mr. HUMPHREYS. That is right.

Senator GEORGE. So your net loss was nothing like the amount that Senator Taft just suggested.

Senator TAFT. My figures for that came from Mr. Stam.

Senator GEORGE. That was a reduction, but that was not the net Treasury loss.

Senator JOHNSON of Colorado. I do not quite understand the relationship between tax reduction and ploughing back capital into industry, and I would like to explore that very briefly. I do not want to be tiresome about it.

I did not quite understand your statement a moment ago. Did you say 31.2 billion dollars had been ploughed back during what period?

The CHAIRMAN. 1946.

Senator JOHNSON of Colorado. 1946?

The CHAIRMAN. As contrasted with 9.1 in '45, 1.8 in '44, 2.1 in '43, 7.7 in '42, 19.4 in '41, 14.6 in '40, and 11.3 in '39. I think those very low years during the war, Senator, are accounted for by the fact that we were running on the existing machinery, and we were not replacing it.

Senator JOHNSON of Colorado. We had neither the labor nor the material to do very much ploughing back even though we had the capital, and then perhaps the excess-profits tax absorbed some of the capital.

But the point I wanted to find out now is the point that I want to explore, to what extent is this plow-back investment used as a tax credit, if at all, under the present tax laws?

Mr. HUMPHREYS. I do not believe there is any tax credit or deduction allowed for money spent in capital investment.

Senator JOHNSON of Colorado. There is a certain amount of it. Senator Millikin has pointed out that we must keep the machinery intact, and in repair, and in a going condition.

Mr. HUMPHREYS. Repairs and maintenance, Senator Johnson, of course——

Senator JOHNSON of Colorado. That is what this plow-back is?

Mr. HUMPHREYS. No. I take that to mean, Senator, the replacement.

Senator JOHNSON of Colorado. Of machinery?

Mr. HUMPHREYS. Of machinery and equipment which has been worn out or the expansion or the replacement of obsolete equipment replacing it with better and more modern equipment.

Senator JOHNSON of Colorado. And a manufacturing plant gets credit on his taxes?

Mr. HUMPHREYS. No.

Senator JOHNSON of Colorado. For replaced machinery, for the deterioration of machinery on a percentage basis. A machine is only estimated to last so many years, and when those years expire, why, he can replace it and use that as a tax credit, can he not?

Mr. HUMPHREYS. He gets an annual deduction on his income-tax return for his depreciation allowance.

Senator JOHNSON of Colorado. For depreciation, yes; on his building and on everything.

Mr. HUMPHREYS. That is true, on his building, machinery, and equipment.

Senator JOHNSON of Colorado. Well, now, when he gets that depreciation, he is not supposed to put that in his pocket. That is not supposed to be a profit. That is supposed to go on back as plow-back money into his investment.

Mr. HUMPHREYS. That is true.

Senator JOHNSON of Colorado. That is the way I understood it.

Mr. HUMPHREYS. Yes.

Senator JOHNSON of Colorado. Now, of course, I do not suppose that we could find out how much of that $32.1 billion was that kind of money. I know that the railroads had a considerable accumulation to go back into new rails and new equipment, and I suppose every other industry had the same sort of a problem. But I should like to know how much of that $32.1 billion was tax-credit money.

Another thing, you mentioned that the borrowings had been very heavy for plant investment.

Mr. HUMPHREYS. Yes.

Senator JOHNSON of Colorado. The borrowings are in the nature of securities that are sold, are they not, to investors?

Mr. HUMPHREYS. Or maybe bank loans or borrowings from insurance companies. Actually individuals supply the money as depositors in the banks and policyholders in the insurance companies.

Senator JOHNSON of Colorado. Bank loans are only to tide over until securities can be sold and floated?

Mr. HUMPHREYS. That often is the case, but sometimes they are made for a 10-year period. Commercial banks are making loans up to 10 years.

Senator JOHNSON of Colorado. Of course, the borrowings are going to the capital investment, and they are not taxable as such.

Mr. HUMPHREYS. No.

Senator JOHNSON of Colorado. They are taxable to the person that originally received them as income.

Mr. HUMPHREYS. Yes.

Senator JOHNSON of Colorado. But when they go into plant improvement, they remain as a capital investment and no income is taxed on them as capital investment.

Mr. HUMPHREYS. That is to the corporation, to the business.

Senator JOHNSON of Colorado. Yes.

Mr. HUMPHREYS. That is true.

On this matter of wearing out of equipment, depreciation, of course, as you well know, is based upon the original cost of equipment. Now, the cost of equipment 10 or 15 years ago was far less than it is today, so that your depreciation does not provide an adequate reserve to replace that which is worn out. The costs are at least 50 percent higher.

Senator JOHNSON of Colorado. The equipment that you buy today is in most instances much more efficient and much better machinery, and does save a great amount of labor.

Mr. HUMPHREYS. That is not always true. It is in some cases. You take a building, for instance; which might be designed a little better, but is still a building. That costs 100 percent more than it did 20 years ago.

Senator HAWKES. Will the Senator from Colorado yield for a little illustration that brings out what I think Mr. Humphreys has in mind? I have a good illustration right now. A house was built about 15 years ago, and it cost $15,000. It was burned down. This is a real illustration. It was burned down about 2 months ago. The man had it insured for the value that he put into it at that time. His replacement cost on that is $45,000, three times what it was.

Your point is that in your depreciation in regular cost valuation, when the thing is totally depreciated, and has to be replaced, to get the same thing or something that may be a little better, you may have to then pay 3 times as much as the original cost. Therefore, you have to have capital to invest to do that thing, to put yourself back into position.

Mr. HUMPHREYS. That is true, Senator.

Senator HAWKES. Why, you cannot continue doing business on the basis you were if you do not.

Mr. HUMPHREYS. Yes.

Senator HAWKES. I think that illustrates the point.

Senator JOHNSON of Colorado. I think that is a fact that has to be taken into consideration. But the point that I should like to have some testimony on, and perhaps Mr. Stam can provide it, or perhaps the witness can provide it, but I should like to know how much of that $32.1 billion plant investment or plow-back money was in the nature of a tax credit.

The CHAIRMAN. Mr. Stam, would you mind getting us what you can on that?

Mr. STAM. I will try to get some figures.

The CHAIRMAN. I think the origin of the figures are the Department of Commerce, so I do not think Mr. Stam will have much difficulty in getting them.

Mr. STAM. Your tax credit would go to your depreciation and reserve, and to some extent I suppose your carry-back, if you had a net loss carry-back or something of that sort, but we will try to get the figures.

Senator JOHNSON of Colorado. Under the tax laws, was depreciation carried forward? They got the credit, we will say, in 1940, 1941, '42, '43, '44, '45, and then in 1946 they made the expenditure, so they got a tax credit perhaps for the whole 32 billion, or a large portion of it.

Mr. STAM. It depends entirely on what the expenditure was, as to whether they got the tax credit for it. I mean there were some expenditures where they got no deduction for it, and they do get some depreciation allowance. But the depreciation rate is low; it does not adequately cover the expenditure. There are other expenditures where they got a full deduction, and there were some expenditures that were made that could not be made during the war period, and if you will recall that is the reason why some of the railroads and other organizations wanted a special relief provision for maintenance.

Senator JOHNSON of Colorado. I recall that, but the ordinary factory, the ordinary industry, when they were not making their repairs, when they were not repairing their plant, and repairing or replacing the deterioration, they did take a credit on their tax return?

Senator GEORGE. In computing that net taxable income that goes to depreciation.

Mr STAM. There was a plant wasting away.

Senator JOHNSON of Colorado. That is right.

Mr. STAM. So they were entitled to take that deduction for gradual depreciation of their plant.

Senator JOHNSON of Colorado. The point I am trying to make is that they did take that credit through the years, and now when they are making this investment, when they are making the repairs, why, some of it was certainly covered by credits already taken in their tax returns.

Mr. STAM. To some extent, I think.

The CHAIRMAN. That would probably depend upon the particular corporation whether it had actually set up cash reserves equivalent to the amount of the depreciation. If it had actually set up cash reserves and accumulated them, of course, then it would have the cash money ready to make the replacements of the type that you are referring to.

If they did not set up cash reserves, it would reflect in the over-all net position of the corporation, which would be lowered in its net value that much.

Senator JOHNSON of Colorado. But they would have had the advantage of it.

The CHAIRMAN. Yes.

Senator JOHNSON of Colorado. I wonder if there is any estimate on the amount of this plow-back money for 1947 and 1948?

The CHAIRMAN. Not under the figures that I have. I do not see very well how they could have it, except for a short period of '47.

Senator JOHNSON of Colorado. That is all, Mr. Chairman.

Senator TAFT. You spoke of the large profits United States Rubber Co. had. Your principal products are automobile tires and tubes?

Mr. HUMPHREYS. That is the principal product. We make many more.

Senator TAFT. I notice that the increase in price in tires and tubes is probably less than that of any other manufactured commodity.

Mr. HUMPHREYS. Yes.

Senator TAFT. And the price index of December 1941 when the war started, 67.4, is now 73. There has been no increase since 1945, is that correct?

Mr. HUMPHREYS. That is true, Senator Taft.

Senator TAFT. So that an increase in your tire prices is only about 8 percent, compared with an increase of 50 percent in all commodities and manufactured goods.

Mr. HUMPHREYS. If I recall that table, it stood pretty well at the the bottom of the list in percentage of increase.

Senator TAFT. That is in spite of a large increase in wages in your industry and every other.

Mr. HUMPHREYS. Increase in wages and materials. I made the point with Senator Connally that our percentage of profit was not high, but our volume of business was, which produced the dollar profit.

Senator TAFT. I wanted to have some credit for an Ohio industry.

Mr. HUMPHREYS. Yes.

Senator HAWKES. Might I add something that I think we must continue to keep in mind? I regret you did not say when Senator Connally was talking about these profits being bigger than they ever have been, that they are in a 50-cent dollar, and after all is said and done, what that dollar will buy is all the thing means. A dollar is only as good as the thing it will buy, and you made that 50-cent dollar on an old-fashioned dollar that was invested in the plant before we got to this lowered valuation of the dollar.

Mr. HUMPHREYS. That is quite true.

Senator HAWKES. I wanted to ask you another point. I know of this so far as my own business is concerned, we have the largest inventory value we ever have had, but we have a much lower volume than we had when the inventory value was half.

Mr. HUMPHREYS. Yes.

Senator HAWKES. What it is today, and unless we are going to take that thing into consideration, I want to see whether you agree with me Mr. Humphreys, unless we are going to take that into consideration when the price falls on all of these products that are in the inventory, unless the corporations of this country have got the money to take care of that reduction in inventory value, then you are going to encounter a very serious question on reorganization refinancing and employment. Do you agree with me?

Mr. HUMPHREYS. I do, Senator Hawkes. That is the fear that I have on this economic picture.

Senator HAWKES. I know everybody thinks this is funny when we talk facts, but facts are the things we are going to have to sit up with and look in the face as we go along, and then I want to ask this question. Is not it a fact that we are all fighting to keep the cost of living down and to get it down?

Mr. HUMPHREYS. Yes, sir.

Senator HAWKES. All right. Do you not believe that a fair tax reduction that has in contemplation a reasonable debt reduction will do more to stop the pressure of labor which is 80 to 85 percent of the cost of all products, from putting pressure on to get additional wages, which will increase the cost of labor for all of the citizens of the United States? Do you not think that that thing has great merit, reduction in taxes along that line of stopping the pressure for more wages and more everything, which raises the cost of living?

Mr. HUMPHREYS. I do agree with that, Senator Hawkes. A tax reduction means more money in the man's pocket. It has the same effect, so far as he is concerned, as an increase in wages.

Senator HAWKES. Is not your experience the same as mine in this respect? I have never seen it to fail. I have been in negotiations personally dozens of times with labor organizations and people representing the men in the plant. They always say to me, when I say, "Well, you are getting so much an hour, or you are getting so much a week," they always say, "No, we are not, Mr. Hawkes; we have to pay a tax out of that, and here is what we are getting per week, and per hour."

Mr. HUMPHREYS. Yes, sir.

Senator HAWKES. Now, is not the laboring man in the same position as the owner of a business or the fellow who invests his capital in a business, that he is looking at what he gets after what has been taken away from him?

Mr. HUMPHREYS. Yes, sir.

Senator HAWKES. And have not we always got to contemplate that fact?

Mr. HUMPHREYS. We must always contemplate that. That is the money which is spendable income. That is the money which keeps it going.

Senator HAWKES. If we fail to take that into consideration, we will do this great industrial economic machine of the United States a serious great injury from which we will not recover very quickly.

Mr. HUMPHREYS. I agree with you, sir.

The CHAIRMAN. Mr. Humphreys, I think Senator Hawkes has touched on something that is very, very important. It goes to the real value of the dollar, does it not?

Mr. HUMPHREYS. Yes.

Senator HAWKES. That is exactly the point I want to keep emphasizing there.

The CHAIRMAN. Do you agree that we have got to maintain a good wage, good profit, high velocity economy in this country unless we want to run into the ditch?

Mr. HUMPHREYS. I do.

The CHAIRMAN. And is it not a condition precedent to the maintenance of that kind of economy that we have constantly reducing unit costs?

Mr. HUMPHREYS. Yes, sir.

The CHAIRMAN. Now, that is a subject I merely want to suggest, outside of the control of Congress. It goes to the heart of everything we are talking about. That is up to labor and management.

Mr. HUMPHREYS. Yes.

The CHAIRMAN. You can not dump that one on the doorstep of Congress; unless you solve that one, you are not going to solve anything. When you solve that one, then you will start the real value of your dollar going back upward. Is that not correct?

Mr. HUMPHREYS. That is very true. Of course it would be a great help and aid to us if the tax burden were lightened on us so that we could do that.

The CHAIRMAN. I am not suggesting that the Government cannot provide a good environment, governmental environment and background, in which you could operate toward that end.

Mr. HUMPHREYS. You did mean that.

The CHAIRMAN. Unless management and labor perform that other little factor, to provide the background, that other enormous factor in the formula, the rest of the formula collapses. Is that not true?

Mr. HUMPHREYS. That is correct.

The CHAIRMAN. That is a problem which it should be emphasized again and again, cannot be dumped into the lap of Congress. That is up to management and labor.

Mr. HUMPHREYS. That is our responsibility.

The CHAIRMAN. That is right. I should like to invite your attention to the fact that using 1939 as 100, inventories as of December 1946 were 190.

Does that not indicate that those inventories when they come out will tend to sustain a high national income?

Mr. HUMPHREYS. Is that in dollars invested?

The CHAIRMAN. It is in terms of dollars.

Mr. HUMPHREYS. Adjusted for the 1939 base?

The CHAIRMAN. I assume so.

Mr. HUMPHREYS. I was wondering whether the present price levels do not increase those inventories considerably. As Senator Hawkes said, the quantity might not be very different.

The CHAIRMAN. It, of course, would make a great difference in that if the figures were not adjusted.

Mr. HUMPHREYS. Yes. Of course, what we need in this economy is a production of goods, services, in quantity, which will have its effect on the inflationary tendency we have seen here, to get more goods into the hands of the people. I think the secret of American standard of living has been the constant improvement in quality and the constant reduction in costs, of automobiles, of what not, up until the war has knocked our trend line into a cocked hat. I think we have responsibility to get back on that line again, as you point out.

The CHAIRMAN. As I recall it, over about a 100-year period we have added about 3½ percent annually to the real purchasing power of the American citizen.

Mr. HUMPHREYS. Yes.

The CHAIRMAN. I think that is about correct.

Mr. HUMPHREYS. Yes.

The CHAIRMAN. And it seems to me that our problem has been emphasized by Senator Hawkes. If we do not restore the real value of the dollar, pretty soon the dollar will not be able to go around far enough.

Mr. HUMPHREYS. That is right.

The CHAIRMAN. When the dollar stops going around far enough, you do a nose dive, is that not correct?

Mr. HUMPHREYS. That is true. Of course, our debt is payable in dollars, and we have to have a high basis of national income in order to get enough taxes to pay the debt.

The CHAIRMAN. It is a consummation devoutly to be wished to restore from our 50-cent dollars to 100-cent dollars, and personally I believe we can do it if we follow the elements of that formula.

Mr. HUMPHREYS. Yes, sir.

The CHAIRMAN. But if you break one of them, you are sunk, I suggest.

Mr. HUMPHREYS. Yes.

Senator HAWKES. May I say that I was unfortunately detailed on business and was not here early, but I would like to know if Mr. Humphreys did suggest a synchronized program under which you made substantial payments on the debt and also reduced taxes to stimulate the production of things which produce the profit from which the Government revenue comes to keep the payments going on the debt? Is that your program?

Mr. HUMPHREYS. That is my program, the Association's program, Senator Hawkes. We believe there are three elements involved, reduction of Government expenditures——

Senator HAWKES. That is always in there.

Mr. HUMPHREYS. And reduction of taxes, and all three can be done.

Senator HAWKES. The three are all bound up together, and they must be done. They must be synchronized and carried on that way if we are going to pay this debt off and continue paying it off, and still stimulate the economic machine.

Mr. HUMPHREYS. That is true. I do not believe that the debt will be paid by taking stabs at it when and if we might have to have surplus. It should be a regularly planned program year in and year out, and included in each budget, a payment of at least 2½ billion dollars on the national debt each and every year. Then if we are fortunate enough to have surpluses above that they can be applied, but I do not believe a governm nt is any different than an individual; who only pays his debts when he plans to.

Senator HAWKES. I brought that out yesterday by saying that every banker that ever loaned me any money, always advised me not to promise paying back that debt any faster than I knew I could, because he wanted me to keep continually paying that thing, and keep faith with the obligation.

Mr. HUMPHREYS. That is good sense.

Senator JOHNSON of Colorado. Mr. Humphreys, this country has been on a deficit-spending program now since 1929. This is the first year that we have not had deficit spending. So when you say we ought to have a planned amount that we pay, that of course means that there is an end to deficit spending, and if we can work that out, our country is stabilized, and the greatest danger that it faces will be removed.

I think deficit spending is the greatest curse to this country and the greatest danger to this country, and the greatest cause of our inflationary situation.

Mr. HUMPHREYS. Yes, sir.

Senator JOHNSON of Colorado. Now, what is your ratio between debt payment and tax reduction? Where do you stop on your tax reduction? You do not of course advocate an entire removal of all taxes. You think that there ought to be a certain amount of taxes, of course. Where is that ideal tax situation?

Mr. HUMPHREYS. Well, I believe, Senator Johnson, in a planned balanced budget every year, that that budget should include at least 2.5 billion dollars of reduction of the federal debt. So that even within the $31.5 or $33 billion there should be $2.5 billion applied to the Federal debt.

Senator JOHNSON of Colorado. And then the taxes?

Mr. HUMPHREYS. The taxes should be sufficient to balance the budget, including planned debt retirement.

Senator JOHNSON of Colorado. The taxes should be levied and expenditures organized so that you do have that balanced condition and make that payment?

Mr. HUMPHREYS. That is true.

Senator JOHNSON of Colorado. Is that your position?

Mr. HUMPHREYS. Yes.

Senator JOHNSON of Colorado. It is a very sound position, if it can be done.

Mr. HUMPHREYS. That takes quite a long while to pay off the debt, maybe a hundred years. Of course, as you pay the debt down, the interest rate gets lower each year.

Senator JOHNSON of Colorado. That is all.

The CHAIRMAN. I would like to suggest that we have a plan at the present time for reducing the national debt. The Secretary of the Treasury is suggesting that we will have a surplus for fiscal '47 of roughly a billion and a quarter dollars.

Mr. HUMPHREYS. Yes.

The CHAIRMAN. That we will have a surplus roughly speaking for fiscal '48 of a billion and a quarter dollars. According to that plan we will pay the debt in 200 years, and have nothing for tax reduction.

Mr. HUMPHREYS. That is rather a long-range plan, sir.

The CHAIRMAN. Are there any further questions?

Senator BUTLER. I want to state that I think one of the important points made by Mr. Humphreys is the rate of increase that we have to the number of workers and wage earners in this country, and that that must be taken into consideration in planning our tax structure.

Mr. HUMPHREYS. That is very important.

Senator BUTLER. That has not been touched upon by questions here but I think that is very important.

Mr. HUMPHREYS. Yes, sir.

The CHAIRMAN. Are there any further questions?

Thank you very much, Mr. Humphreys.

Mr. HUMPHREYS. Thank you very much.

The CHAIRMAN. Mr. Ruttenberg, will you please be seated. Give your full name to the reporter, and state your present occupation.

I believe that we will allow you to go through your statement without interruption, and then we will come back after lunch for any questions that we may have.

STATEMENT OF STANLEY H. RUTTENBERG, ASSISTANT DIRECTOR OF RESEARCH OF THE CIO, WASHINGTON, D. C.

Mr. RUTTENBERG. My name is Stanely H. Ruttenberg. I am the assistant director of research, department of research and education, Congress of Industrial Organizations, Washington, D. C. I am here this morning representing the more than 6,000,000 members of the CIO and their 15,000,000 dependents.

I have never seen a greater avalanche of opposition to any tax measure by trades-union people than I have seen in the past few weeks in opposition to the tax bill as passed by the House of Representatives. On behalf of CIO I want to discuss the Individual Income Tax Act of 1947, hereinafter referred to as H. R. 1, and some of its pertinent features as they affect our total economy.

There should be less talk about an over-all 20-percent tax cut across the board and more intelligent thinking and talking about the necessary and vital revisions in the tax structure which we must have if we are to promote and to sustain our national economy at full production and full employment.

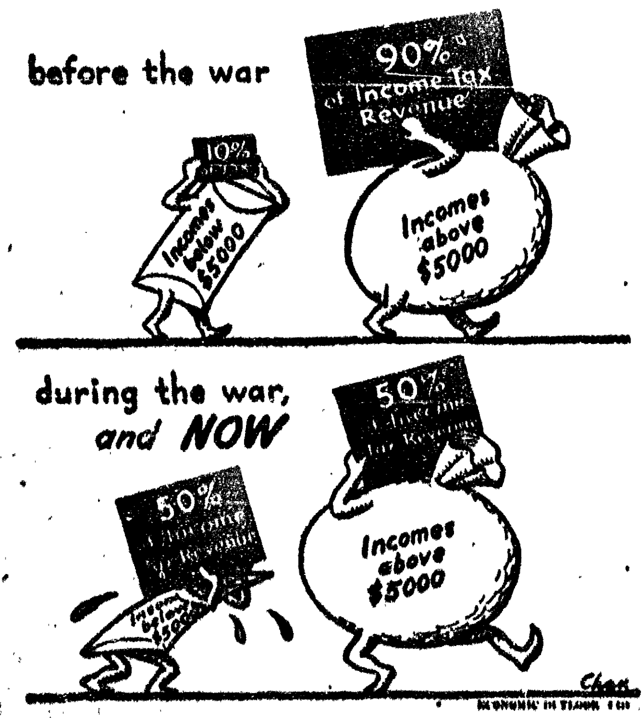
During the war years and subsequently, tax masures were passed by Congress which bore most heavily upon the low-income taxpayers. The number of taxpayers since 1939 has increased almost elevenfold. Personal exemptions were reduced to all-time lows. Individual income-tax rates were greatly increased.

Many who paid no tax in 1939 were unable to obtain a decent minimum standard of living of health and decency. As a result of this expansion of taxpayers, reductions in exemptions and increased rates, a greater and greater proportion of Federal revenue has been received from individual income-tax payments than through any other form of taxation. More specifically, a much greater proportion of our individual income tax has been paid by individuals whose net income has been less than $5,000.

Between the fiscal year 1940 and the coming fiscal year, individual income taxes will have increased more than 19 times from a level of $1 billion to more than $19 billion. All other types of revenue during this same period will have increased only four and one-half times from a level of $4 billion to $18 billion.

You will notice that the first chart which I have had placed upon your desk, gentlemen, shows a particularly interesting picture.

(The chart is as follows:)

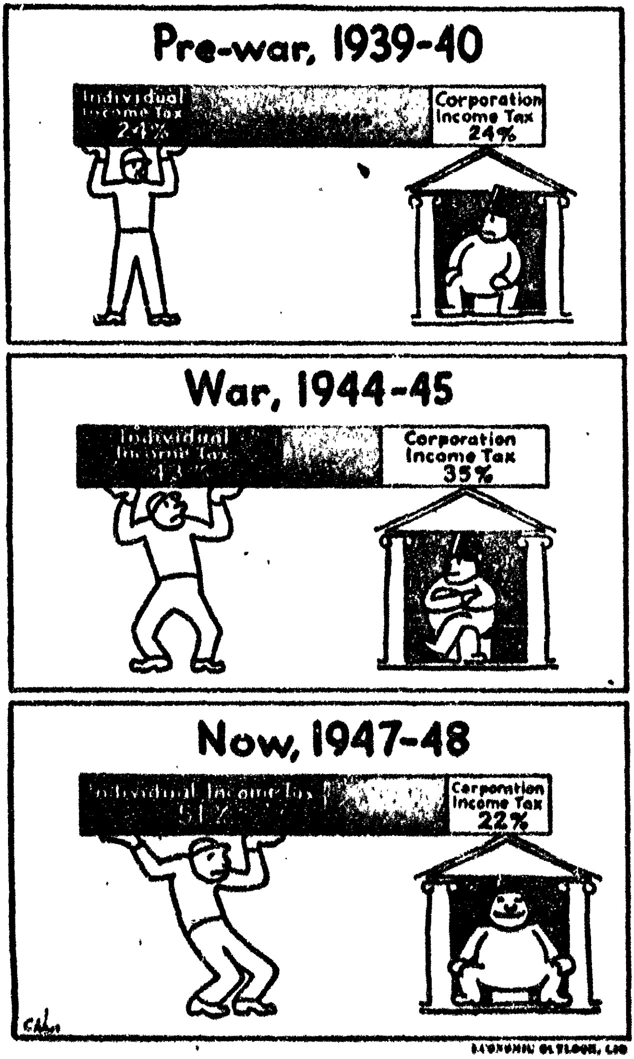


Mr. RUTTENBERG. The proportion of Federal revenue received from various sources has greatly changed during the war years and has been further exaggerated by tax legislation passed since VJ-day. Before the war years individual taxpayers having less than $5,000 net income paid only 10 percent of the total individual income tax. During the war years and continuing on today these same taxpayers with net incomes of less than $5,000 have been paying approximately 50 percent of the total income tax. The shift in burden of taxes upon low income individuals is evident.

The proportion of Federal revenue received from various sources has greatly changed during the war years and has been further

exaggerated by tax legislation passed since VJ-day. In the fiscal year 1940 the total revenue received by the Federal Government was $5.4 billion, as can be shown by chart B that has been placed before you.

(The chart is as follows:)



This chart shows that the share of federal revenue paid by corporations has decreased in the past eight years, while the share paid by individuals has more than doubled.

Mr. RUTTENBERG. Individuals paid an income tax of $1.3 billion and the direct tax on corporations was also $1.3 billion. Individuals and corporations each paid the same proportion of total revenue in fiscal 1940—24 percent each.

During the war when Federal revenue had to be increased, individual personal exemptions on income tax were greatly reduced, rates were drastically increased, a tax was placed upon excess profits of American corporations, and the corporate tax rates were upped. But how equitable these various increases were can be seen by examining the proportion of Federal revenue received from various tax sources subsequent to the adoption of the measures.

In the fiscal year 1945 when our Federal Government received its maximum revenue of $46.4 billion, $19.8 billion, or 43 percent, was received from the individual income tax. The tax upon corporations with the imposition of the excess-profits tax increased the proportion of Federal revenue received from this source to $16.4 billion or 35 percent of the total. With the war's end, Congress immediately passed legislation reducing the tax burden upon corporations.

As a result, according to the President's Budget Message to Congress in January 1947, the proportion of Federal revenue in fiscal 1948 coming from individual tax payments will increase still further to 51 percent while the proportion coming from corporations will be reduced to an all-time low or the past decade of 22 percent.

Thus, since the end of fiscal year 1945, the proportion of Federal revenue coming from individuals will be increased from 43 percent to 51 percent while the proportion coming from direct taxes upon corporations will have declined from 35 percent to 22 percent. Since the end of fiscal year 1945 the revenue paid by corporations has greatly declined as a result of the elimination of the excess-profits tax but the proportion of the amount of revenue coming from individual income tax in spite of the 5 percent tax reduction which was granted in 1945 has been so slight that a greater proportion of Federal revenue will come from the individual income tax in fiscal 1948 than has ever come from this source in history.

At the close of fiscal year 1945, June of that year, profits of all American corporations, after taxes, according to the Department of Commerce, were running at an annual rate of $10 billion. As a result of many factors, not the least of which was the elimination of the excess-profits tax, corporate profits in the last quarter of 1946, after the payment of all taxes, increased to the highest level in the history of America—$14.9 billion.

Most recent estimates for 1947 placed the current rate of corporate profits, after taxes, for the first quarter of 1947 at an annual rate of $17 billion. Taxes upon excess profits were eliminated but taxes upon individuals were cut only 5 percent.

Industry had its tax burden greatly relieved to enable it to meet readjustment and reconversion problems while individuals received only insignificant assistance through tax reduction. Individuals had many reconversion and readjustment problems to meet. Hours were reduced, overtime was eliminated, down-grading on the job occurred, transfers from war to civilian goods industries were prominent, changes from high paid to low paid jobs and other such factors were just a few reconversion and readjustment problems which American workers had to face in the period following VJ-day.

In spite of the wage increases which were won in early 1946 the annual rate of wage and salary payments dropped from $114 billion at the end of fiscal year 1945 to $109.5 billion by the end of 1946. Preliminary reports from the Department of Commerce indicate that the level of wage and salary payments during the first quarter of 1947 has not changed greatly from the $109 billion level.

Thus wage and salary payments have declined while profits of American corporations have gone up. As a result we will have over 51 percent of revenue coming from individual income taxes and only 22 percent coming from corporations during the coming fiscal year unless some necessary changes are made in our tax structure.

In an attempt to ease the tax burden and improve the income position of American taxpayers, the House of Representatives has passed a bill, H. R. 1, which is now being considered by your committee. H. R. 1 in no way meets the crying need of American taxpayers. President Roosevelt's quotation which he used vigorously in vetoing a tax bill during the war can, with equal vigor, be applied to the tax bill as passed by the House of Representatives. This bill gives "tax relief to the greedy and not to the needy."

President Truman, in his budget message to Congress in January 1947 stated that, "under the wartime tax system, millions of taxpayers with small incomes are called upon to pay high rates. When the time comes for taxes to be reduced, these taxpayers will have high priority among the claimants." But still the House of Representatives sent to the Senate a tax bill which gives major relief to those individuals in the high-income tax brackets who need tax relief the least.

Business Week magazine, in discussing our tax structure, said that an answer must be found to the following "perplexing" question: "Should the tax system be designed to encourage consumption or to minimize restraints on enterprise and new investment?"

This "perplexing" question can be answered very simply. Any tax system must of necessity increase the amount of purchasing power or consumption; that is, money available to spend in the hands of American consumers. Is purchasing power increased as taxes are lowered upon corporations and upon the rich?

It is argued by some that by reducing taxes upon corporations and upon high-income individuals more money is made available to build new plant and equipment, expand capacity, and increase the products available for American people to buy. But it does little good to encourage such new investment if the low-income individuals do not have sufficient money to buy the items thus produced. All the encouragement in the world to wealthy individuals and corporations through lowering their taxes is to no avail as long as the mass of American people pay such high taxes and receive such low wages that they are not able to buy many of the necessities of life.

The guiding principle of a sound tax program must in the first analysis be reduced taxes upon low-income individuals, certainly not lower taxes on the wealthy or on corporations. Increased income through reduced taxes, higher wages, and so forth, in the hands of low-income individuals increases purchasing power which in turn increases demand for the products of industry. This increased purchasing power and demand for products is greater encouragement and incentive for business to invest and expand production than any tax cut on high-income individuals or corporations could possibly be.

Randolph Paul, formerly General Counsel for the United States Treasury, in writing in the Washington Post on Monday, April 21, said that—

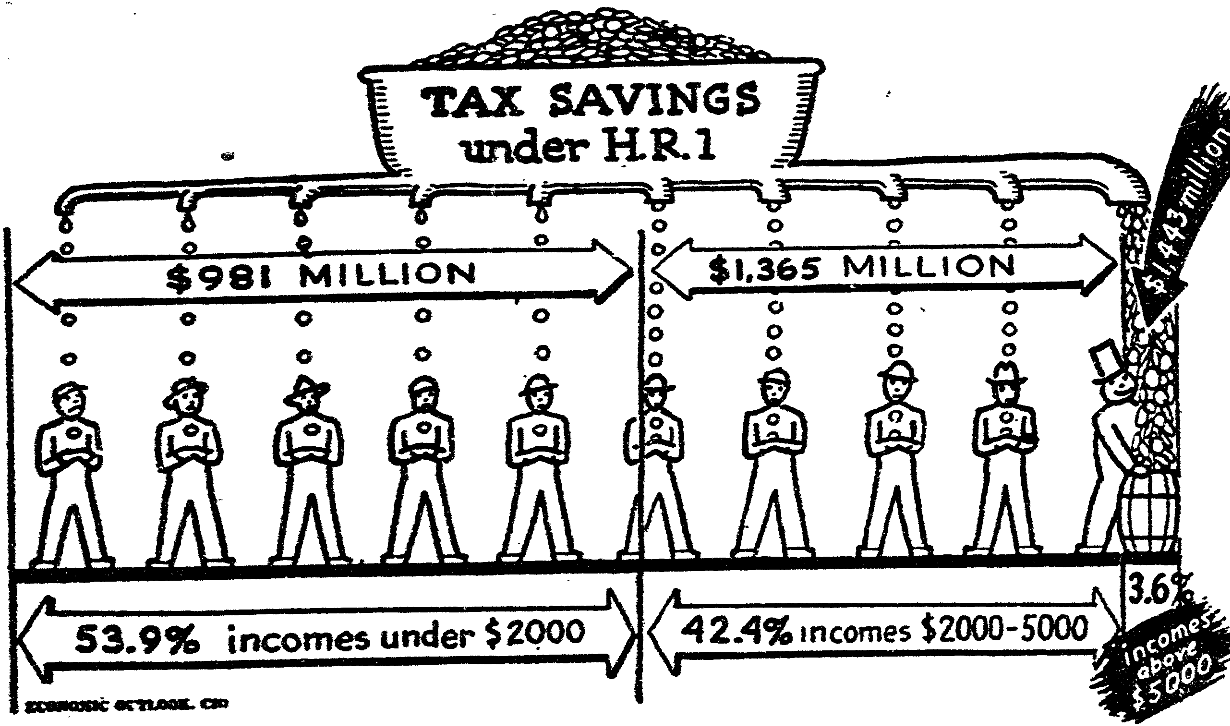
> If we are to use the vast production potential we developed during the war, we must distribute our tax burden in a way that will permit mass consumption. A stabilized market for mass consumption is a prime requisite for productive activity. We can have neither mass consumption nor an expansion of productive activity if our taxes drain off too much purchasing power from the low incomes.

The counter argument made by some that restraint on enterprise and new investment must be minimized is fallacious. The House of Representatives, in passing H. R. 1, is in my judgment perpetuating that fallacy.

The bill in no way provides the necessary purchasing power which is needed to sustain and promote high consumption and purchasing power which is so essential for full production and full employment.

Chart 3 which you have before you will be discussed in the next section.

(The chart is as follows:)



Under the provisions of H. R. 1 53.9% of all taxpayers will receive tax relief amounting to $981 million while the top 3.6% of all taxpayers will receive tax relief amounting to $1,443 million.

Mr. RUTTENBERG. Just what does H. R. 1 do? It unquestionably gives the greatest tax relief to those who least need it. The low-income individuals who are most in need of receiving tax cuts are the ones who get the least relief.

For example, less than 2,000,000 taxpayers, 4 percent of the total, all of whom earn more than $5,000 a year, will receive tax savings through the passage of H. R. 1 amounting to $1,443 million or 38 percent of the total of the $3,780 million provided by this bill. On the other side of the income ladder some 26,000,000 taxpayers, 54 percent of the total, all of whom earned less than $2,000 a year ,will receive only $981,000,000 or about one-fourth of the total provided by H. R. 1. The rest of the tax relief, $1,365 million will go to the 20,000,000 individuals with net incomes between $2,000 and $5,000 a year.

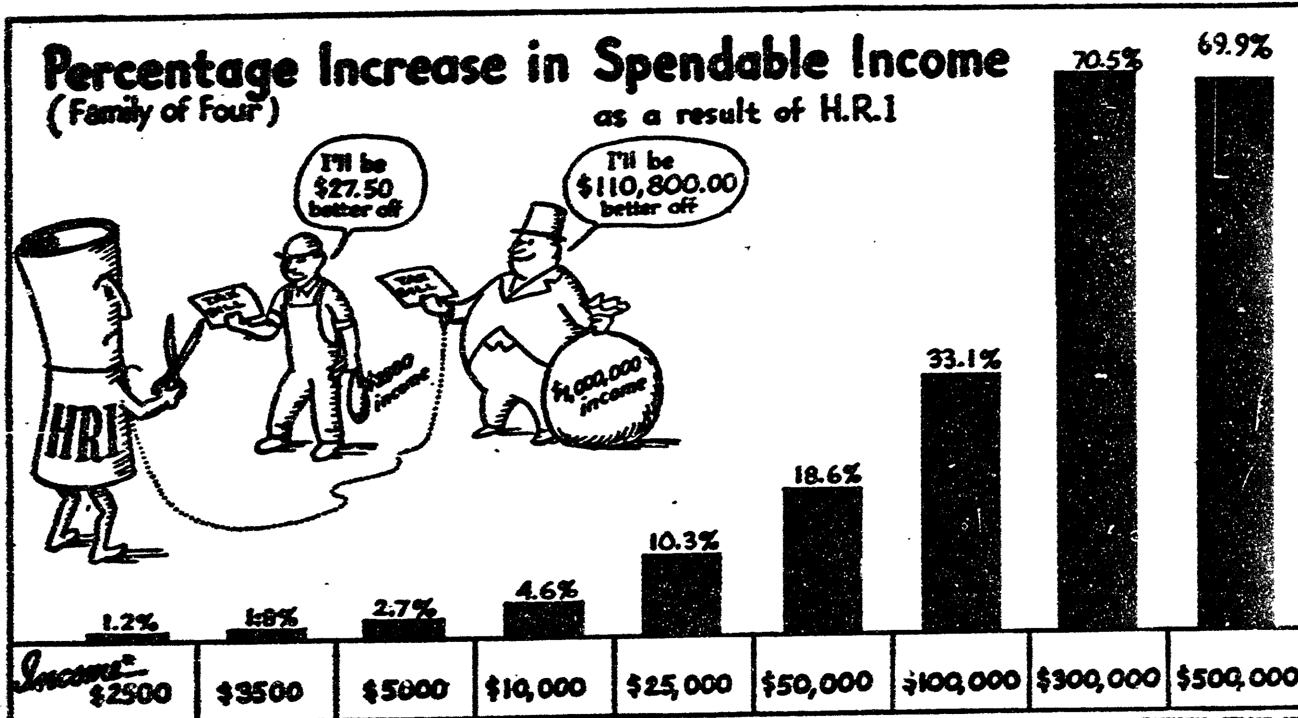
Individuals above $5,000 who will receive almost 40 percent of the tax cut normally save a substantial part of their income. Randolph Paul, in the same article quoted before, writes that individuals "with incomes under $5,000 a year—at present price levels—spend all of their income and in many cases find it necessary to dip into their savings." But yet the individuals with net incomes of less than $2,000, much less those with $5,000 net income, whom Mr. Paul referred to, receive only a meager share of the tax relief.

It is unfair and inequitable to pass a tax bill granting a flat percentage cut across the board. Whether it is a flat 20 percent as originally proposed or a 20 percent leveled down to 10.5 percent for all income above $302,000 or even the bill as it now stands with a 30-, 20-, and 10.5-percent cut, the effect is the same. A 30-percent cut on a tax bill of $100 is only $30. A 10.5 percent tax cut upon a tax bill of $800,000 is $84,000. Is that equity or is that fair? This kind of a tax cut does not give the overwhelming majority of taxpayers the necessary tax relief which they need.

Too much attention has been given by the House of Representatives in their tax bill to reducing the tax burden upon high-income individuals and not enough attention to the more basic and serious problems of granting tax relief to the needy. Every tax dollar taken from low-income individuals is a dollar which would normally be spent for vitally needed food, shelter, and clothing. The tax dollar taken from high-income individuals is only a dollar taken from savings. If we are to continue the demand for the products of industry, the Congress must see to it that the tax burden upon low-income individuals receive the first priority and not, as appears likely from H. R. 1, the last priority.

A flat percentage cut as proposed in this bill reduces the progressivity of our tax structure. For example, the present rate of taxes on the first dollar of taxable income is 19 percent. A 30-percent cut on this rate is equal to 5.7 percentage points. The tax on the top income-tax bracket is 86.5 percent. A 20-percent reduction here equals a 17.3 percentage point cut. Consequently, the range of 19 percent in the first bracket of taxable income to 86.5 percent on the highest bracket is changed to 13.3 percent in the first bracket, and to 69.2 percent on the highest bracket. The sound principle of taxation according to the ability to pay is here discarded in favor of giving major tax relief to the high-income individuals. The just and equitable way to reduce taxes is to increase the exemptions from their present low level. Increased exemptions give relief to those who need it most.

(The chart is as follows:)



*Net income before taxes and personal exemptions

Mr. RUTTENBERG. Before discussing increased exemptions, additional inequities of H. R. 1 deserve comment. The bill as passed by the House reduces the tax on a married individual with two dependents earning $2,500 a year from $95 to $66.50, a total reduction in taxes of $28.50.

This means that this individual has his spendable income, the income available to buy the necessities of life, increased by $28.50, or 8 cents a day, enough to buy just a half of a pint of milk.

On the other hand, a married individual with two dependents earning $100,000 a year would have his present tax of approximately $62,000 reduced to $50,000, a tax savings, or an increase in income, of $112,000 a year or $33 a day, enough to buy 165 quarts of milk. This $100,000 a year man has his spendable income increased by 33 percent in contrast to an increase of 1.2 percent in spendable income for the same type of individual whose net income is $2,500 a year. Carried one step further, an individual with a $1 million income has his tax cut from $839,000 to $728,000, a cut of $110,000 which in effect means an increase in spendable income of 68 percent. This $110,000 a year increase is $301 a day or enough to supply a quart of milk per person per day for a family of four for over a year. Thus, while an individual having a net income of $2,500 has his spendable income increased by 1.2 percent, an individual with $100,000 income has his spendable income increased by 33.1 percent and the individual earning $300,000 receives 70.5 percent, the maximum increase in spendable income permitted under this bill. Individuals with net income of more than $300,000 receive only a 10-percent cut in taxes. Their increase in spendable income tapers off slightly so that the individual earning $1,000,000 a year has his spendable income increased 68 percent. Remember, this contrasts to a 1.2-percent increase in spendable income for the married person with two dependents earning $2,500 in net income a year. This bill, H. R. 1, as passed by the House of Representatives, is clearly a travesty upon justice. It throws a sop to the low-income individuals and gives all the gravy to the individuals with high income.

Referring to Mr. Paul's article again, he states that—

> The House bill would leave taxes substantially above their 1939 levels for low income taxpayers; it would leave a proportionately heavier burden on the middle brackets; and it would bring taxes for persons in the highest brackets back nearly to the 1939 level.

The group that bore the greatest increase in individual income taxes during the war is the group, who in H. R. 1, will receive the least amount of tax relief. This is clearly inequitable and unjust.

A tax program based on sound principles should be developed by Congress.

The CIO has developed a tax program for full employment. This tax program makes the following tax recommendations to alter the present tax structure: (1) Increase of personal exemptions instead of reducing tax rates on individual incomes; (2) elimination of excise taxes except those which are regulatory in character; (3) closing of loopholes in our tax structure such as mandatory joint returns, capital gains, and tax-exempt securities; (4) tax estates and gifts so that the present rates become more effective; (5) place a tax upon undistributed profits and on excess profits of corporations with necessary safeguards for small business.

By reducing excise-tax rates and increasing personal exemptions as suggested by the CIO, Federal revenue would be cut for the coming fiscal year by $6.8 billion.

There is a clear choice. Additional revenue can be secured to offset the suggested reductions by increasing taxes upon corporations, by closing the loopholes in our present tax structure and by altering taxes on estates and gifts. But the majority in Congress seems afraid to face facts.

However, Congress must face facts. Enough revenue can be secured to offset the decline in revenue suggested by increasing exemptions and reducing taxes on excises, as the following table shows:

	Billions	
Increases:		
Mandatory joint returns	$0.5	
Capital gains tax increase	.15	
Taxing securities now exempt	.15	
Estate and gift taxes	1.0	
Corporation taxes (including excess profits and undistributed profits)	5.2	
Total increase in revenue		$7.0
Cuts:		
Raised exemptions on individual income tax	$5.5	
Cut excise taxes on consumer items to prewar levels	1.3	
Total cuts in revenue		6.8
Net gain in revenue		$0.2

I should like to discuss each of these five main measures of the CIO tax program separately.

I have a summary which I will read, but I should like to have my entire paper, as it is in the text presented to the committee, put in the record, in whole.

The CHAIRMAN. That is perfectly agreeable, that will be done, Mr. Reporter, and then at the end of that put in the summary as presented.

Mr. RUTTENBERG. Revision in individual income taxes should be made so that the greatest possible number of persons receive relief. Only by increasing personal exemptions will the low-income individuals receive adequate tax relief.

Historically, Congress originally established personal exemptions to individual income taxes on the general theory that exemptions should be equal to the amount needed to maintain an adequate standard of living. The first income-tax law passed in 1913 provided an exemption of $4,000 for a family of four. During the First World War the amount of exemption was reduced to $2,400 in order to increase Federal revenue. In 1921, exemptions were increased to $3,300 for a family of four. This increase applied only to those individuals with incomes of less than $5,000. In 1926 the exemptions for a family of four were increased to $4,300 and remained at that level during the prosperous twenties and up through the depression year 1932.

Today personal exemptions are at an all-time low. A family of four receives a $2,000 personal exemption. Rising prices since the establishment of this level of exemptions has reduced the purchasing power value to about $1,100. This amount is nowhere near sufficient to meet the historical objective of personal income-tax exemptions which was to permit a family to maintain the necessary minimum standard of living.

After extensive research on amount of income a family of four needs to maintain a minimum standard of living, the Heller committee of the University of California arrived at a figure of $3,576 a year as of September 1946. Our present personal income-tax exemption is $1,500 less than that designated by the Heller committee as being necessary for the maintenance of an adequate standard of living.

The CIO suggests that personal exemptions be increased to $3,500 for a family of four, that is $2,500 for a married person, $1,250 for a single person and $500 for each dependent. This would relieve about 20,000,000 taxpayers from paying Federal income tax.

The people who really need tax relief are those with incomes of less than $5,000. The CIO, therefore, further suggests that only those individuals with incomes of less than $5,000 be given the benefit of these increased exemptions, following the precedent set by Congress in increasing exemptions in 1921.

In addition, provision should be made for a carry-over of unused exemptions by low-income individuals for at least a 2-year period. An individual who earned $2,000 in 1946 and who had an exemption of $1,000 paid taxes upon most of his remaining income. In 1947 this individual's income may decrease to $500, in which case he may pay no taxes as his total exemption will be equal to $1,000. But in 1948 his income may once again pick up and he may earn $2,500. He would normally have his $1,000 exemption but in addition he should be permitted that part of his exemption which he did not use in the previous year. In this case it would be an additional exemption of $500 plus the normal $1,000 exemption, for a total of $1,500. The acceptance of these recommendations would reduce Federal revenue approximately $5.5 billion.

In addition to relieving the burden on low-income individuals by reducing exemptions, it is extremely important that drastic changes be made in the excise taxes. Excise taxes are hidden and indirect. They operate on the same principle as a sales tax. The CIO has always been firmly and unequivocally opposed to any form of sales tax or any other tax which disproportionately hits the low-income groups. Excise taxes normally take more out of the pocketbooks of the low-income groups than any other groups.

Excise taxes are sometimes called luxury taxes. It is clear, however, that most of the excise taxes are not on luxuries but on everyday-consumption items. Taxes on these consumption items increase the daily cost to families least able to afford such an increase.

During the war years excise taxes on most commodities were greatly increased. On June 30, 1947, the wartime increases in excise taxes were to have been eliminated, but Congress has already passed a bill which continues the wartime excise-tax rates indefinitely. This places an excessive hardship upon low-income individuals.

The CIO therefore suggests, as a first step that the prewar excise rates be restored. This would reduce Federal revenue by $1.3 billion. As revenue requirements permit, all excise taxes other than those that are regulatory taxes on such items as narcotics, firearms, and so forth, should be eliminated. As a fundamental principle in a sound tax program, it is essential that there be no excise taxes upon commodities which individuals buy daily. As an ultimate objective, the CIO therefore strives for the complete elimination of all excise taxes.

Some relief should be given to small corporations—those earning less than $25,000 a year. It is these small corporations that form the backbone of our economy. They are the bulwarks against monopoly control and monopolistic practices of big business. If these small corporations are not given some relief and some encouragement that will enable them to compete with monopoly control of industry, our economy will be dominated and controlled by big corporations. The CIO suggests that, while the present corporate of rate 38 percent be retained on all corporations, there be a graduated corporate tax for those corporations earning less than $25,000 starting at 10 percent on the first $5,000 of corporate income and reaching 38 percent on all income above $25,000.

The CIO suggests that there be a tax on undistributed profits of all corporations. Undistributed profits is that part of net income after taxes which is not distributed to the stockholders in the form of dividends.

During the war there was excessive accumulation by corporations of cash and Government securities. American corporations increased their holdings of cash on hand and United States Government securities by $25.4 billion. In 1939 all American corporations had $10.9 billion in cash on hand in banks. By the third quarter of 1946 these corporations had increased their cash to $22.3 billion, an increase of $11.4 billion. Corporate holdings of United States Government securities increased from $2.2 billion to $16.2 billion in the third quarter of 1946, or an increase of $14 billion.

To prevent further excessive accumulation of liquid assets from occurring, the CIO suggests that there be a 19-percent tax on net income of all corporations after the payment of corporate and excess-profits taxes with the proviso that corporations will not pay the 19 percent on that part of net income which is paid to the stockholders in dividends.

As additional help to small business, we suggest that the 19-percent tax on undistributed profits should not apply to any part of the $25,000 of net income of small corporations that is not distributed in dividends. However, large and excessive accumulations of profits of large corporations should and must be taxed. Under the present law, section 102, only "unreasonable accumulation" of profits can be taxed. This in effect means that little or no revenue is secured from this source.

With profits soaring to new highs, the CIO suggests that there be reenacted, on the same basis that existed during the war, a tax on excess profits with the following changes: (1) The rate of tax on excess profits be changed from 95 percent to 75 percent and (2) as a relief to small corporations the exemptions be increased from $10,000 to $25,000.

The adoption of the above corporate tax suggestions would increase total Federal revenue in the coming fiscal year by $5.2 billion.

The many loopholes which exist in our tax laws today favor the high-income individuals. The high rates now in existence on high-income brackets have only theoretical significance. Wealthy individuals may split their income with their wives or may invest in tax-exempt securities or realize capital gains. In each of these three fields high-income individuals keep from paying income taxes at the high rates applicable to top incomes. We shall discuss each of these three main loopholes separately.

At the present time wealthy individuals may split their income with their wives. For example, if an individual has a $50,000 income and reports that income as being all his own, he pays a tax, under the present law, of $24,795. If, however, he is able to arrange to have $25,000 of his income which is really income from dividends, paid to his wife, he can avoid paying a considerable amount of tax. Dividends make up almost 60 percent of the total income in the highest income group and less than 3 percent in the lowest bracket.

Under the present law he can file two separate income-tax returns: one for himself of $25,000 upon which he pays $9,362 and one for his wife on income of $25,000 upon which he pays the same amount of tax. Together, the husband and wife have paid $18,724, or a total tax saving of $6,071, or about 25 percent less than what he would pay if he were required to file only one return for himself and wife and pay tax on total income. To require the filing of mandatory returns would increase the Federal revenue by half a billion dollars.

The present rate of tax on capital gains is 25 percent. An individual with a net income of $50,000 pays 68 percent on the last bracket of his income.

Over one-third of the income in the highest brackets is derived from capital gains. This means that all of his income is taxed at a rate considerably lower than the income-tax rate of individuals in the high-income brackets. Less than one-half of 1 percent of the total income of the lowest income groups is derived from capital gains. It is important that this loophole be closed.

The CIO suggests three things: (1) that the rate be increased from 25 percent to at least 50 percent; (2) that in order to recieve the benefit of a capital-gains tax the holder of these stocks and bonds should be required to retain them for at least 1 year—under the present law any stocks, bonds, or real estate must be held for at least 6 months before being sold if the profit derived from such sale is to be subject to a capital-gains tax; (3) that capital-gains tax be paid on increased value of securities held until death. The adoption of these recommendations on capital gains would increase revenue by at least $150 million.

At the present time interest from securities issued by State and local governments is not subject to Federal tax. There are some $15 billion worth of State and local securities outstanding. A few years ago the Congress imposed a Federal tax upon all further issues of Federal securities. It is important that the loopholes in connection with State and local securities be closed.

At the present time individuals can invest large sums of money in State and local bonds and receive interest on these bonds which are not subject to a tax. The CIO suggests that tax-exempt securities be abolished and interest from such securities be subject to Federal tax. Such a move would increase Federal revenue by approximately $150 million.

There is one other important area of taxation, that of estate and gift taxes which, if proper amendments are made to the present structure, could bring in an additional $1 billion in revenue. Estate- and gift-tax loopholes should be closed. In the coming year we expect to receive about 1.5 percent of the total revenue from estate and gift taxes. Great Britain expects to receive approximately 10 percent of her total tax from this source. Our own estate- and gift-tax base is so riddled through with loopholes that not even the wealthy need pay taxes unless poorly counseled.

The CIO suggests that estate- and gift-tax exemptions be combined into one and the total reduced to $25,000. The amount of gift-tax exclusion should be reduced to $1,000. The present law provides for $30,000 gift-tax exemption and $60,000 estate-tax exemption plus an annual gift-tax exclusion of $3,000 to each of as many persons as the individual wishes. Loopholes should be closed so that an estate cannot be passed from generation to generation for as much as 100 years without being subject to tax as is now the case. If these suggestions were adopted it would increase the total tax yield by approximately $1 billion.

This committee should devote serious attention to a complete reexamination of our entire tax structure. A piecemeal approach such as that followed by Congress first in the repeal of taxes on excess profits and the 5 percent cut in individual and corporate taxes and now H. R. 1 with its "relief for the greedy and not the needy" serves no sound purpose.

The passage of H. R. 1 in its present form places a serious tax burden upon the low-income taxpayers who form the backbone of our American economy. The CIO recommendations for a well-rounded tax program, which I have briefly discussed, has as its fundamental thesis the maximizing of purchasing power.

Our tax structure and fiscal policy needs revamping so that it will operate to promote maximum purchasing power that is so essential if we are to attain levels of full employment at a fair wage and full production.

(The summary referred to is as follows:)

I. Individual Income Taxes

Revision in individual income taxes should be made so that the greatest possible number of persons receive relief. Only by increasing personal exemptions will the low-income individuals receive adequate tax relief.

Historically, Congress originally established personal exemptions to individual income taxes on the general theory that exemptions should be equal to the amount needed to maintain an adequate standard of living. The first income tax law passed in 1913 provided an exemption of $4,000 for a family of four. During the First World War the amount of exemption was reduced to $2,400 in order to increase Federal revenue. In 1921 exemptions were increased to $3,300 for a family of four. This increase applied only to those individuals with incomes of less than $5,000. In 1926 the exemptions for a family of four were increased to $4,300 and remained at that level during the prosperous twenties and up through the depression year 1932.

Today personal exemptions are at an all-time low. A family of four receives a $2,000 personal exemption. Rising prices since the establishment of this level of exemptions has reduced the purchasing power value to about $1,100. This amount is nowhere near sufficient to meet the historical objective of personal income-tax exemptions, which was to permit a family to maintain the necessary minimum standard of living.

After extensive research on amount of income a family of four needs to maintain a minimum standard of living, the Heller committee of the University of California arrived at a figure of $3,576 a year as of September 1946. Our present personal income-tax exemption is $1,500 less than that designated by the Heller committee as being necessary for the maintenance of an adequate standard of living.

A. We propose that personal exemptions be increased to their prewar level: $2,500 for a married couple, $1,250 for a single individual, and $500 for each dependent.

B. These exemptions to be raised only for those individuals of incomes of less than $5,000. Precedent was established for this move by congressional tax legislation passed in 1921.

C. Individuals who do not use all of their individual exemptions in any one year should be permitted to carry over the unused portions of their exemptions for a period of 2 years.

The adoption of these recommendations for individual income taxes would reduce the Federal revenue by approximately $5.5 billion.

II. Excise Taxes

Excise taxes are normally regressive. Sharp increases to excise taxes during the war years added importantly not only to the burden of the income taxpayer in the lowest bracket but more so to those below the level of income subject to income taxes. Excise taxes are sometimes called luxury taxes. It is clear, however, that most of the excise taxes are not on luxuries but on everyday consumption needs. The taxes on these needs enter into daily costs without any relationship to ability to pay. We suggest that—

(a) Prewar excise tax rates be restored. This would reduce Federal revenue by $1.3 billion.

(b) As revenue requirements permit, all excise taxes other than those regulatory taxes on such items as those on narcotics, firearms, etc., should be eliminated.

III. Corporation Taxes

The role of the corporation tax is at present an anamolous one. With profits at an all-time high, corporations will contribute less for fiscal 1948 than they did in 1929 or any subsequent year. One source indicates that corporate profits for 1947 will be about $25 billion before taxes, an all-time high. If corporations contributed about $5, billion more and individuals contributed about $5 billion less than they do now, then, on the basis of the President's budget, the share of internal revenue paid to corporations and individuals, respectively, will be approximately reestablished. Such increased taxes upon corporations would leave approximately $11.5 billion after taxes which would still be more than was left to them in any previous year.

A. Relief for small business: Some tax relief should be given to small corporations—those earning less than $25,000. It is these small corporations that form the backbone of our economy. They are the bulwarks against monopoly control and monopolistic practices of big business. If these small corporations are not given some relief and some encouragement that will enable them to compete with monopoly control of industry, our economy will be dominated and controlled by big corporations. The CIO suggests that, while the present corporate rate of 38 percent be retained on all corporations, there be a graduated corporate tax for those corporations earning less than $25,000 starting at 10 percent on the first $5,000 of corporate income and reaching 38 percent on all income above $25,000.

B. Excess-profits taxes should be reimposed on the same basis as existed during the war with the following amendments:

1. Reduce the rate from 95 to 75 percent.
2. Increase exemptions from $10,000 to $25,000.

C. Undistributed profits taxes should be levied on all corporations. This can be done by imposing on corporations' net income, after corporation and excess-profits taxes are paid, a tax of 19 percent with the provisions that—

1. The corporation will recoup such tax to the extent that such income is distributed in dividends.
2. The first $25,000 should be assumed to be distributed whether or not such income is actually distributed. Under the present law (sec. 102) only "Unreasonable accumulation" of profits can be taxed. This in effect means that little or no revenue is secured from this source.

IV. Closing of Loopholes

The many loopholes which exist in our tax laws today favor the high-income individuals. The high rates now in existence on high income brackets have only theoretical significance. Wealthy individuals may split their income with their wives or may invest in tax-exempt securities or realize capital gains. In each of these three fields high-income individuals keep from paying income taxes at the high rates applicable to top incomes. We shall discuss each of these three main loopholes separately.

A. Husbands and wives should be required to file mandatory joint returns. Under the present procedure individuals who receive dividend income as well as salaries can have their dividend income paid to their wives and so reduce their tax obligations to the Federal Government. If joint returns were made mandatory, revenue would be increased by approximately $500 million.

B. The capital-gains tax should be revised so that high-income individuals who now receive one-third of their income from capital gains do not escape with paying only the 25 percent capital-gains tax. We suggest:

1. That capital-gains tax rates be increased from 25 percent to at least 50 percent.
2. A requirement that securities be held at least a year instead of the present 6 months' period if the individual wants the benefits received from securities to be subject to capital-gains tax and not individual income tax.
3. A requirement that taxes be paid on the increased value of securities held till death. At present, if securities are not sold prior to death, they are exempt from whatever capital gains have accrued during the lifetime of the holder.

The adoption of these recommendations would increase revenue at least $150 million.

C. Tax-exempt securities: At the present time interest from securities issued by State and local governments is not subject to Federal tax. There are some $15 billion worth of State and local securities outstanding. A few years ago the Congress imposed a Federal tax upon all further issues of Federal securities. It is important that the loopholes in connection with State and local securities be closed. At the present time individuals can invest large sums of money in State and local bonds and receive interest on these bonds which are not subject to tax. The CIO suggests that tax-exempt securities be abolished and interest from such securities be subject to Federal tax. Such a move would increase Federal revenue by approximately $150 million.

V. Estate and Gift Tax Loopholes Should Be Closed

In 1947–48 we expect to receive about 1.5 percent of the total revenue from estate and gift taxes. Great Britain expects to receive approximately 10 percent of her total tax from this source. Our own estate- and gift-tax base is so riddled through with loopholes that not even the wealthy need pay taxes unless poorly counseled. We suggest that—

1. Estate- and gift-tax exemptions should be combined into one and the total reduced to $25,000. The amount of gift-tax exclusion should be reduced to $1,000. The present law provides for $30,000 gift-tax exemption and $60,000 estate-tax exemption plus an annual gift-tax exclusion of $3,000 to each of as many persons as the individual wishes.
2. Loopholes should be closed so that an estate cannot be passed from generation to generation for as much as 100 years without being subject to tax as is now the case.

If these recommendations were adopted it would increase the total tax yield by approximately $1 billion.

Conclusion

The CIO recommendations for a well-rounded tax program, which I have briefly discussed, has as its fundamental thesis the maximizing of purchasing power. This committee should devote serious attention to a complete reexamination of our entire tax structure. A piecemeal approach such as that followed by Congress first in the repeal of taxes on excess profits and the 5-percent cut in individual and corporate taxes and now H. R. 1 with its "Relief for the greedy and not the needy" serves no sound purpose.

The passage of H. R. 1 in its present form places a serious tax burden upon the low-income taxpayers who form the backbone of our American economy.

Our tax structure and fiscal policy needs revamping so that it will operate to promote maximum purchasing power that is so essential if we are to attain levels of full employment at a fair wage and full production.

The Chairman. Thank you very much, Mr. Ruttenberg. We will reconvene at 2:30.

(Thereupon, at 12:30 p. m., the committee recessed, to reconvene at 2:30 p. m., the same day.)

AFTERNOON SESSION

(Pursuant to the expiration of the recess, the committee reconvened at 2:30 p. m.)

The CHAIRMAN. We will come to order.

STATEMENT OF STANLEY H. RUTTENBERG, ASSISTANT DIRECTOR OF RESEARCH, CONGRESS OF INDUSTRIAL ORGANIZATIONS, WASHINGTON, D. C.—Resumed

The CHAIRMAN. Mr. Ruttenberg, what is the total reduction, of the total annual reduction of the taxes that would result from your proposals?

Mr. RUTTENBERG. The total reduction, sir, would be $6.8 billion. That is broken down with $5.5 billion by increasing exemptions, and the immediate restoration of prewar excise-tax rates, which would reduce it an additional $1.3 billion, a total of $6.8 billion.

The CHAIRMAN. Do you believe that the national expenditures budget for fiscal 1948 could be reduced that much?

Mr. RUTTENBERG. I do not, sir. I do not think they could possibly be reduced by that amount. I think that is exactly why in proposing a cut of this amount we have attempted to put these specific tax cuts within the framework of an over-all revision of our tax structure.

The CHAIRMAN. Which is another way of saying that you would increase the total tax burden if the decrease in expenditures did not meet your whole plan.

Mr. RUTTENBERG. We would propose that the total increase in revenue from closing loopholes and taxing estates and gifts and corporations would make up and provide $7 billion, if the provisions we suggest are accepted. The cuts we propose would be $6.8 billion, or a surplus in revenue of $200 million, which in effect could be used along with expenditure cuts to retire the debt.

The CHAIRMAN. Roughly speaking, you propose to raise new sources of revenue to balance your decreases in revenue under your own proposals.

Mr. RUTTENBERG. That is right, sir.

The CHAIRMAN. So that you would not reduce the over-all tax burden.

Mr. RUTTENBERG. Not the over-all tax burden; no, sir. It would be a redistribution of the collection of taxes and imposition of taxes.

The CHAIRMAN. Do you believe that we can maintain our economy in a healthy state at the present rate of expenditures?

Mr. RUTTENBERG. I think all of the efforts that can be made certainly should be made to reduce Federal expenditures, but they ought not to be made in those fields that so far the Congress has indicated that it will.

For example, if you could just point out, sir, if I could point out that Internal Revenue Bureau was cut some $20 million or $30 million in their appropriation in the House, which would in effect eliminate internal revenue agents from the pay roll of the Government, and in effect lose revenue, rather than increase it.

The CHAIRMAN. The President's budget calls for expenditures of 37.5 billion dollars in fiscal 1948. If you could follow your own system of reduction, how much would you reduce the expenditures side of that budget?

Mr. RUTTENBERG. I think the expenditure side of the budget should be reduced in accordance with what actually is feasible in the light of present economic and expenditure conditions. I do not think that the cuts, for example, that have been made against the Department of Labor and against the Treasury Department, so far, in the proposed cuts against Interior and Commerce should be made the way they are.

The CHAIRMAN. Where would you make them?

Mr. RUTTENBERG. I think there ought to be a reexamination of the whole budget. I am not so sure that for this coming fiscal year it is possible to reduce the budget.

The CHAIRMAN. That is what I am getting at.

Mr. RUTTENBERG. I think it possibly may not. It would take a reexamination of the whole over-all budget to determine that.

The CHAIRMAN. So then so far as the thesis which you have developed in your remarks here today is concerned, you are not contemplating reductions in the expenditure budget?

Mr. RUTTENBERG. I would say that we are contemplating the expenditures in the budget which are going to occur as the result of the Senate action of $4.5 billion and the House action of $6 billion, that they propose to cut from the appropriations.

I imagine that will go through. I would have some question as to how that should be allocated, if they really are serious about reducing the budget that amount, but I assume that kind of a proportion in cut will be made.

The CHAIRMAN. But those cuts, or the kinds of cuts that you would bring about if you had the power to bring them about are not an essential part of the program that you put to this committee.

Mr. RUTTENBERG. We are not appearing before the committee, sir, to discuss in my judgment what kind of proposals we should make to reduce expenditures. I think that would be the kind——

The CHAIRMAN. I am not asking you to specify. I have been very careful not to ask you to specify. I am simply driving to the end point, are cuts in the expenditures as contemplated by the President's fiscal '48 budget any part of your program?

Mr. RUTTENBERG. Well, the President in proposing his budget has set 37.5 billion dollars as the level of expenditures with receipts at 37.7, now gone up as the result of the excise-tax law that has been passed and other provisions of revaluing estimates. I think if possible expenditures should be cut, certainly.

The CHAIRMAN. Let me ask you again, is the cut of expenditures a necessary condition precedent to the operation of the program which you have suggested to this committee?

Mr. RUTTENBERG. Not necessarily, I would say.

The CHAIRMAN. That is what I am getting at. Let us get onto the revenue side. Do you have an estimate of revenue for fiscal '48?

Mr. RUTTENBERG. Of the total Federal revenue?

The CHAIRMAN. Yes.

Mr. RUTTENBERG. Well, the President's budget of course proposed $37.7 billion with the excise tax increase or the maintenance of the wartime excise rates. You would increase the Federal revenue to $39 billion.

The CHAIRMAN. 38——

Mr. RUTTENBERG. 37.7 plus 1.3. That would be 39, so far as the President's budget was concerned, and I think there have been subsequent estimates made, have there not, by the Secretary of the Treasury, or somebody, as to other possible and increased national income, which may result in a higher revenue?

I do not look forward to that myself; I think the top revenue will be derived and may well be indicated by the President's budget plus the $1.3 billion on excise taxes.

The CHAIRMAN. You believe, in your opinion, that the President's estimate of revenue in fiscal '48 is the proper figure to go on?

Mr. RUTTENBERG. Well, sir, it is based, I think, upon a national income level of about $166 billion. Assuming that national income will be that level, the Federal revenue will therefore be as estimated by the President's budget; along with the excise taxes, it would be $39 billion. Whether national income in late '47 and early '48 is going to be $166 billion or whether it is going to be at its current rate of $175 to $180 billion depends upon many factors, many factors which can only be looked upon through a crystal ball.

The CHAIRMAN. We always have to look at them in that way when you are making your estimates.

Mr. RUTTENBERG. That is right, sir.

The CHAIRMAN. Do you believe that the Congress should limit itself to the President's estimate of revenue for fiscal '48?

Mr. RUTTENBERG. I think it should, sir. I cannot see that the national income, unless certain readjustments in our tax structure, certain readjustments in distribution of income, certain readjustments on price level occur, I cannot see that the national income is going to exceed or continue to exceed the levels estimated in the President's budget.

The CHAIRMAN. Do you see any increase in revenue under the President's budget?

Mr. RUTTENBERG. Well, the increase, sir, would come about by a change in the level of national income, a change in the level of individual and corporate incomes.

The CHAIRMAN. Do you think that the President's budget will promote the national income? I meant to say promote the increase in the national income?

Mr. RUTTENBERG. I think, sir, I would not want to answer straight, yes or no to that. I could not possibly because I think there are too many factors involved.

Fundamentally I think that we are in agreement, are we not, that what happens to Federal revenue will depend on the level of national income.

The CHAIRMAN. I agree with you entirely.

Mr. RUTTENBERG. Can we say that the level of national income for fiscal 1948 will be $166 billion as tentatively estimated last December when the President's budget for fiscal 1948 was prepared, or whether it will be the current level of 176 billion, or whether it will be 186 or 146 billion. I do not think we can estimate.

I would be inclined to say, sir, that the level of national income for fiscal 1948, if wages that have been raised in the past few weeks continue to show their effect throughout industry, and if the price indication of slight declines that have been made in certain levels continue, and if prices do not go up as the result of these wage increases, as they certainly should not go up, then I think we stand some chance of an increase in our national income.

The CHAIRMAN. The wage increases, particularly the steel increase, and I understand the increase which is now being negotiated in Detroit, has that been completed?

Mr. RUTTENBERG. No, it has not, sir. They are in tentative agreement on the general factors of it. They are still working out details.

The CHAIRMAN. My understanding is that those two increases are on the assumption of a continuance of the present rate of income which is in the neighborhood of $180 billion.

Mr. RUTTENBERG. Well, I do not think that I quite understand that, sir.

The CHAIRMAN. Your are asking for wage increases to get a better cut out of the economy, are you not?

Mr. RUTTENBERG. Yes.

The CHAIRMAN. And the reason you are asking for a better cut out of the economy is that we have a larger income economy than we had before, is that not correct, or if you wish, put it in terms of profits, or in any other way that you want to put it.

Mr. RUTTENBERG. Of course we are interested in wage increases, sir, for all American workers, not only those in mass producing industries, but for school teachers, white-collar workers, and all, because we think through a higher level of wages, we can promote the kind of national economy with high levels of operation which will encourage business and industry and venture capital and new capital to come out and produce the products which in the nth degree will produce a high level of national income.

The CHAIRMAN. I understand that to be your theory, but am I correct in my assumption that the steel industry wage increase and the proposed wage increase in the automobile industry, are based upon the assumption of a roughly $180 billion national income over the future, rather than the $166 billion to which you have referred?

Mr. RUTTENBERG. It is based upon the current level of national income. That is, well, I would not quite tie it down quite that way.

The CHAIRMAN. I do not want to put words in your mouth. I want to get the benefit of your views on this.

Mr. RUTTENBERG. The current level of corporate profits in the first quarter of 1947 is conservatively estimated by the Department of Commerce to be in the neighborhood of $17 billion. The level of corporate profits in 1942 to 1945 was $9 billion, slightly under $9.5 billion.

The level of corporate profits after taxes during 1936 to 1939 was $3.9 billion, again according to the Department of Commerce. So our current rate of corporate profits after taxes is running at a level four times what it was during the 1936–39 period, and about $8 billion higher or $7.5 billion higher, almost 75 percent higher than during the war years 1942–45.

The CHAIRMAN. You would not dissociate those higher corporate profits from the higher level of national income; would you?

Mr. RUTTENBERG. No. A great deal of the higher corporate profits are the result of a higher level of national income, which has been brought about through a higher level of production, through a higher level of consumption, through price increases, through the elimination of the excess profits tax——

The CHAIRMAN. So we can come back——

Mr. RUTTENBERG. And through increased volume.

The CHAIRMAN. We come back to where we started. The wage increase which you have received from steel, and which you expect to receive from motors, is based upon this unexpected or expected rise in national income, is that not correct?

Mr. RUTTENBERG. Well, the payment of a level of wage as negotiated in the electrical industry, the steel industry, and now the tentative agreement in auto, can be paid out of corporate profits at a level of national income which does not necessarily have to do with a national income level of current levels.

The CHAIRMAN. Was not your talking point that this windfall there did come to corporations in the form of profits and that therefore in order to keep up your purchasing power you were entitled to an increase in wages?

Mr. RUTTENBERG. That is right, sir, except that when we originally, when the Congress of Industrial Organizations presented its wage case to the national public at the time of the Nathan report, we talked in terms of the level of corporate profits which existed in the fourth quarter of 1946, and in the level of national income which existed at that time which was about $165 to $167 billion.

The level of corporate profits at that time was $14.9 billion, which is about $5 billion more than they were during the 1942–45 years.

Now, since that time, subsequent to the fourth quarter of 1946, not only national income has gone up, but the share of that national income going to corporate profits has also gone up, and the amount of corporate profits has gone up, while as I have pointed out in my testimony this morning, the amount, the total aggregate wage and salary bill is still dropping.

The CHAIRMAN. Yes.

Mr. RUTTENBERG. Higher, pardon me, sir. I am sorry. A higher level of wages, if national income goes above the December 1946 level, then industry is even more able to pay the wage increases that are now being granted.

The CHAIRMAN. Let us assume that. Am I correct in what I said to you a while ago, that you did make a strong argument for the increase in pay in the steel industry, and you are making a strong argument at the present time for your increased pay in the motor field on the ground that we have had this enormous increase in corporate profits, which you do not dissociate from this great increase in national income. Am I incorrect in that?

Mr. RUTTENBERG. You would be correct in that, sir, if you stopped, if you added one phrase, and that is that as of the last quarter of 1946, what has happened to national income, corporate profits, wage payments, since then is incidental to the wage case, because the wage case was premised upon the level of national income and the level of corporate profits as of the fourth quarter of 1946.

The CHAIRMAN. You did not premise any part of that on the subsequent level of profit?

Mr. RUTTENBERG. The Nathan report, I have a copy for you in my brief case back there, if you want to take a look at it, does not in any one spot mention 1947 profit.

The CHAIRMAN. Of course not.

Mr. RUTTENBERG. We estimated 1947 profits in one of our own CIO publications.

The CHAIRMAN. The Nathan report was made when?

Mr. RUTTENBERG. In December; about December 10 or 11.

The CHAIRMAN. Obviously it could not refer to the level of 1947 profits if it was made in December 1946.

Mr. RUTTENBERG. It could estimate it.

The CHAIRMAN. Is that not correct?

Mr. RUTTENBERG. We could certainly estimate it, as we did.

The CHAIRMAN. May I assume that your leaders, when they secured this raise in steel, put a blinker over their eyes as to the subsequent raise in national income and profits.

Mr. RUTTENBERG. Frankly, sir, I think the leaders of the organization were well thinking that had we taken into consideration what has happened to national income and corporate profits in the first quarter of 1947, we should have had a far greater and far larger increase than we finally settled with United States Steel.

The CHAIRMAN. Shall we assume then that that increase would become a springboard for another request for a wage raise?

Mr. RUTTENBERG. I would not say that at all. That certainly depends upon the level of national income. It depends upon many factors. I think we can fundamentally say this, the ultimate objective of the labor organization is to improve the living standards of the American workers, and thereby and through improving the living standards, increase national income, increase our general level of full production, full employment.

At the present time the average wage in manufacturing industries before this wage increase is $47 a week. $47 a week, according to the Bureau of Labor Statistics, is the average weekly income of American workers.

According to the budget I cited this morning, which was done by an impartial agency at the University of California, the Heller committee budget, it takes a weekly income in the neighborhood of $68 to maintain just a minimum standard of living.

The CHAIRMAN. You are arguing the virtue of the raise. I am not debating that.

Mr. RUTTENBERG. I am arguing that when you raise the question of whether this is going to mean a springboard for future wage increases, I am saying that the ultimate objective is to see to it that we get a redistribution of our national income to improve the economic position of the American worker, so that over a long-run period we would certainly be saying higher wages and improved national economy.

The CHAIRMAN. There may be a distinction between what you urge in your actual negotiations, and what you urge in the press and over the radio. I am quite sure that in the press and over the radio you have urged the increase in income, in corporate profits which have resulted since the first of the year as a part of your argument for increased wages.

Mr. RUTTENBERG. Part of our justification, sir, certainly those are the facts.

The CHAIRMAN. That is all I am talking about.

Mr. RUTTENBERG. Not the fundamental thesis.

The CHAIRMAN. You therefore accept the continuance of the present national income over fiscal 1948 or do you for your purposes prefer to adhere to the President's estimate of $166 billion?

Mr. RUTTENBERG. I should say, sir, that if we are to go on to the ever-increasing improvement of the standard of living of the American people, we have to have an ever-increasing level of national income, based not upon a higher price level or a higher value level, but upon a steady price or reduced price level, so that ultimately I would say the objective would certainly be to improve the national income, but unfortunately, sir, the situation is such today that we are already beginning to witness unemployment. We are already beginning to witness curtailment of employment in the basic textile industry, and even in the radio industry, the electrical industry, so that that is going to have its effect in determining whether or not we are going to have $180 billion level or $166 billion or lower.

The CHAIRMAN. If it continued and if it expanded and if it did not in some way tie in to offset factors, that would operate toward the recession, would it not?

Mr. RUTTENBERG. It would. You mean the unemployment condition which I have cited.

The CHAIRMAN. To which you have referred.

Mr. RUTTENBERG. I think it would lead to it; yes. I am hoping that by a sound and intelligent approach to not only our wage and price picture, but to our tax situation and our general picture, that we can improve the purchasing power and consumption level of all American workers to prevent the kind of recession or depression we may be falling into.

The CHAIRMAN. So that whether you want to go the exemption route or whether you want to go the reduction of income-tax route, you believe that going one or the other route is a good hedge against the recessions which you indicate are a possibility, is that correct?

Mr. RUTTENBERG. Yes, sir. I think if I may be permitted to just cite what has happened, I am sure you are familiar, sir, and the committee is familiar with what has happened to the level of income-tax rates from 1939. Just take a married man with no dependents, who had an income of $3,000. He is paying now 4,650 percent more in taxes than he paid in 1939, and this proposed bill before your committee will cut his taxes only 30 percent. While on the other hand, sir, if I may point out, a man with a $50,000 income has his taxes increased 180 percent since 1939, and he is getting his taxes cut about the same amount, 20 percent, arithmetically speaking.

The CHAIRMAN. We will get to that in due course.

Mr. RUTTENBERG. I hope we will.

Senator HAWKES. Why can I not make a little remark right there?

The CHAIRMAN. You certainly can.

Senator HAWKES. If a fellow was paying half a cent or 1 cent income tax, and he got raised to $5, his raise would be very substantial, would it not?

Mr. RUTTENBERG. That is right, sir.

Senator HAWKES. It would be 500 times.

If a man is paying 68 percent of all he gets, how can you raise him two times what he is paying?

Mr. RUTTENBERG. You are perfectly right, arithmetically speaking.

Senator HAWKES. Let us not warp figures around so as to fool ourselves. We are here trying to find the tax and do justice.

Mr. RUTTENBERG. I am glad, Senator, that you really want to find the facts, because if you do, I feel sincerely, I feel very honored, because I think when the appropriation bills come before the Senate for the Departments of Labor and Commerce, that correct these facts, that you will be right out in the forefront supporting them because you want the facts.

Senator HAWKES. I want the facts and I do not want any filigree around them. I want to see the real genuine facts, and I do not believe there is anybody in the Senate or on this committee that does not want to do justice.

Mr. RUTTENBERG. Excellent.

Senator HAWKES. But I do want to say that when you talk about this fellow's tax being raised 50 or 100 times, what it was and somebody else only being raised twice, if the other fellow is raised twice, is raised to a point where nearly everything he is making is consumed by taxes, why, it is not a fair comparison. That is the only thing I mean.

Mr. RUTTENBERG. I grant you that. In that connection, I said 4,000 percent, a man with $3,000 income in 1939, who had no dependents, married person, paid only $8 in taxes. He had left $2,992 to spend on the necessities of life, and every dollar then of that will have to be needed to buy those things if he is a married man.

In 1946 under the present law, not H. R. 1, under the present law this man pays $380 in taxes. He therefore has left $2,620.

Now, this proposed bill attempts to cut his tax from a level of $380 to a level of $304. But if I go on to point out what happens to a $50,000, or $100,000-a-year man, the inequity of this tax bill I think is obvious.

Senator HAWKES. You did point that out this morning. I was here. You pointed out all of those things this morning.

The CHAIRMAN. I was going to suggest that we take this up in an orderly way. There is no point in repetition of all of your arguments in answer to every question.

I do not say that in a mean way, but just in the interest of getting along.

Mr. RUTTENBERG. I agree; I think we ought to do that.

The CHAIRMAN. As I understand it, your arguments sort of premise themselves on the fact that your wage requests are based upon the history of the last quarter of 1946 or on statistics prior to 1947.

The Department of Commerce shows that in 1946 we had income payments of $164 billion. We had wages and salaries of $109 billion, and we had profits, and this is after taxes, of $12 billion.

February 1947 showed an annual rate of $177 billion in income, $121 billion in wages and salaries as opposed to $109 billion for 1946, and we have not got a figure on profits after taxes.

So there is no question about the existence of official data on the basic factors involved in either wage increases or in the general problem that is before this committee.

Mr. RUTTENBERG. That is right, sir. The level of $121 billion, as you point out, in February, the level in January was $109 billion, $121 billion in February, is still almost as I recall it $3 billion less than the average for the year 1946.

The CHAIRMAN. Going back to the pay-roll situation in 1946 and this far in '47, I am reading from a Department of Commerce statement of April 10, 1947:

Factory pay rolls. The dominant element in the rise of total wage and salary payments during the preceding 12 months remained at the January level almost 15 percent above the 1946 average. Income payments in both January and February were equivalent to an annual rate of about $177 billion, 7 percent above the full year record total of $165 billion in 1946.

I expect very shortly to get a statement from the Department of Commerce that will show that in our income for March we are running at the rate of about $181 billion at the present time.

Mr. RUTTENBERG. If we can keep that up, we will be doing all right.

The CHAIRMAN. I certainly hope we do. I think it is a better foundation for your wage increases than the obsolete standard under which you have been discussing.

Mr. RUTTENBERG. Well, I am afraid, sir, you put something in my mouth on that one that I did not say.

The CHAIRMAN. Well, now, let us get at this expendable income business. Under the present law, a man with a net income before personal exemptions of $2,500 has how much spendable income after tax?

Mr. RUTTENBERG. Under the present law?

The CHAIRMAN. Yes.

Mr. RUTTENBERG. With no dependents, sir?

The CHAIRMAN. With two dependents.

Mr. RUTTENBERG. With two dependents?

The CHAIRMAN. Yes, married with two dependents.

Mr. RUTTENBERG. Married man with two dependents.

The CHAIRMAN. I am using the table of the House report, and that is on page 14, but you have the same page.

Mr. RUTTENBERG. Married man with two dependents with $2,500 income, will have his tax cost——

The CHAIRMAN. I am not talking about that.

Mr. RUTTENBERG. He will pay——

The CHAIRMAN. Spendable income after tax; For the man who has a $2,500 net income before personal exemption, what is his spendable income after tax under the present law?

Mr. RUTTENBERG. I think it is $2,215. No, that is married with no dependents. I do not have those figures before me.

The CHAIRMAN. It is $2,405, without going through all of the brackets, and under the present law, his percentage of spendable income after tax to net income before personal exemption is 96.20.

Let us skip to $5,000. If you challenge any of these figures, please say so, or otherwise I will assume that you assume them to be correct.

A man with a net income before personal exemption, married with two dependents, and that will apply to all the present illustrations I am giving, has spendable income of $4,411 after paying the tax of the present law. His percentage of spendable income after tax is 88.32.

Let us jump to $10,000. Under the present law he has a spendable income of $8,138. He has 81.38 percent left.

Let us jump to $15,000. He has spendable income of $11,361.50. He has 75.74 percent of spendable income left after he pays his tax.

Let us jump to $25,000. That fellow has $16,478.50 left. His percentage of spendable income after tax to net income under the present law is 65.91 percent.

In jumping from $2,500 there to $25,000, we have seen the decrease in spendable income from 96.2 percent to 65.91 percent.

Let us jump to $40,000. His spendable income after paying taxes under the present law is $22,558. His percentage of spendable income after paying taxes is 56.4.

Let us jump to the $80,000 fellow. His spendable income after taxes is $33,830, and his percentage of spendable income left after paying taxes is 42.29 percent.

Let us jump to the $100,000 fellow. He has $37,699 left, or 37.70 percent.

The $150,000 fellow has $45,462 of spendable income, or 30.31 percent of what he started with.

The $300,000 fellow had $66,300 of expendable income left, or 22.10 percent of what he started with.

And getting up to the million dollar fellow, he has $161,150 left or 16.12 percent of his original spending power.

So in running from $2,500 up to $1 million, we find a decrease in spending power from 96.2 percent to 16.12 percent. Is that correct.

Mr. RUTTENBERG. The figures are right, sir. May I make a comment on those figures?

The CHAIRMAN. I wish you would.

Mr. RUTTENBERG. I think the very basic point must be taken into consideration here, sir. A man, a married person with two dependents earning a million dollars pays a tax under the present H. R. 1 of $728,000. He has left $272,000, if I subtract right. I do not have the spendable income. I am subtracting just the tax from the income. He has $272,000 left to spend, and buy the necessities of life.

The individual earning $2,500, sir, who is married and has two dependents, has four people whom he has to feed, clothe and house, and has after he has paid his tax under H. R. 1, $2,433.

The CHAIRMAN. How much exemption?

Mr. RUTTENBERG. I ask you, sir, can the man earning $2,500 a year with two dependents maintain his family at any decent standard of health and decency at $2,433, in contrast to the man of a million dollars who obviously can do it with $272,000?

The CHAIRMAN. I will concede very readily that he is in not as good a shape with a net of $2,405 to feed his family as he would be under H. R. 1 if he had a net of $2,433.50. I will concede that very readily.

Mr. RUTTENBERG. It raises, of course——

The CHAIRMAN. And the $2,500 fellow with two dependents——

Mr. RUTTENBERG. The $2,500 fellow with two dependents today has $2,000 exemption, not nearly enough based upon the historical concept of personal exemptions, the Congress itself adopted in 1913, when it passed the first income tax law, which was that a man should be permitted to have as an exemption sufficient to maintain a decent standard of living.

This $2,000 now permitted is no way near sufficient.

One other point I should like to make, sir, if I may, is that this same man—what is he paying in taxes today in relation to what he was paying in 1939? He was paying none.

The CHAIRMAN. I do not see that puts any food in his market basket.

Mr. RUTTENBERG. It certainly does not. It takes it out, to have increased this tax from zero to $95 under the present law.

The CHAIRMAN. You decrease his tax and you put some food back in his market basket.

Mr. RUTTENBERG. Some, but unfortunately more is put back into the food basket of the gentleman with the $1 million or the $10,000, than is put back in the gentleman's pocket with the $2,500.

The CHAIRMAN. If you cannot have your own program accepted involving principally exemptions, would you choose to have nothing in preference to H. R. 1?

Mr. RUTTENBERG. I hate the alternative to be put in those terms, sir, I think that if the Congress makes any step in the present tax legislation, it most certainly should, in fairness to the low-income individuals, increase exemptions which were drastically cut during the war, and that that ought to be the approach, instead of the kind of approach in H. R. 1, which is a flat across-the-board cut which destroys the progressivity of your tax system.

The CHAIRMAN. Will you read my question, Mr. Reporter, and then would you mind answering it?

(Question read.)

Mr. RUTTENBERG. In preference to H. R. 1, nothing could be worse than accepting H. R. 1, I think, but any small cut is justifiable, but when that cut in proportion for a $2,500-a-year man in proportion to what a $250,000-a-year man or $1-million-a-year man gets is extremely unfair and inequitable.

The CHAIRMAN. Do you prefer H. R. 1 if you cannot have your own system, or if no other system is accepted by Congress?

Mr. RUTTENBERG. I say if it comes to that kind of choice, sir, H. R. 1 is not acceptable.

The CHAIRMAN. Not acceptable? You would rather have nothing than H. R. 1, is that right?

Mr. RUTTENBERG. You put me, of course in the kind of position, sir, where one has to answer yes or no, and I do not quite believe that. I think the Congress, instead of saying, as you seem to be doing, sir, that you have nothing or H. R. 1, is closing its mind to the very basic and fundamental economic precept which must be taken into consideration in the passage of any tax bill.

The CHAIRMAN. I am not proposing something to you. That is entirely imaginative, and that may be the choice. I am asking you under that choice, would you rather have H. R. 1 or nothing?

Mr. RUTTENBERG. If it came to a choice that an individual with $2,500 has his net taxable, his spendable income increased by only $28, as against a man with $250,000, who has his spendable income increased by about $1,700, and a man with a million dollars who gets an increase of $110,000 in spendable income, I say, sir, that no tax bill is better than that kind of an unfair thing, so far as the American public is concerned.

The CHAIRMAN. Let us look at the implications of that.

What is the total taxable income of income recipients having under $5,000 annual income?

Mr. RUTTENBERG. Of course it would depend upon the level of national income. I think that the Secretary of the Treasury in submitting his testimony before the Senate committee had some figures in the tables that were included. I think you have those handy, sir.

The CHAIRMAN. My figure is that there are 46,801,000 income taxpayers having income, net incomes under $5,000.

Mr. RUTTENBERG. 46,801,000.

The CHAIRMAN. That is 96.4 percent of all of the income taxpayers.

Mr. RUTTENBERG. That is right, sir.

The CHAIRMAN. My figures also are that in terms of amount of net income before exemptions those people under $5,000 have net incomes of $91,382,800,000, or 80.1 percent of all the income of the Nation. Is that correct?

Mr. RUTTENBERG. That is right, sir; according to table D of the Secretary of the Treasury's testimony before the Senate Finance Committee, based on the level of $166 billion national income.

The CHAIRMAN. So that the total tax liability of those people under $5,000 is $9,435,000,000, or 55 percent of the Nation's total income-tax liability. Is that correct?

Mr. RUTTENBERG. According to the same table those are the figures.

The CHAIRMAN. And all of the rest of it, from $5,000 on up to the highest-income recipients, they have 44.5 percent of the total tax liability. They pay $7,566,300,000, as against the $9,435,000,000 which the people under $5,000 pay.

Are you taking the position that you would rather not have these people receive the benefit of from a fifth to a third off on their taxes, those who are paying $9,435,000,000 than to be compelled to take H. R. 1?

Mr. RUTTENBERG. What I am proposing, sir, is this, that there are 26, if these same figures which you have—there are 26 million of those taxpayers with incomes of less than $2,000.

The CHAIRMAN. Yes, sir.

Mr. RUTTENBERG. That great bulk of American taxpayers should be taken off the tax-paying rolls. They are the ones who should receive benefit from a passage of a tax bill by Congress.

When you say, sir, do we propose to see these people prohibited from getting a fifth to a third or fourth cut in tax, I say, sir, that these people should not only not be prohibited from getting a fifth to a fourth or a third or whatever your figures were, but they should be given complete exemption from tax payments, those under $2,000 a year.

The CHAIRMAN. You have not answered my question.

Mr. RUTTENBERG. I think——

The CHAIRMAN. Your first answer was an unequivocal answer to the effect that you would rather not have any relief for these people than the relief which is given by H. R. 1.

Now, in order to bring that answer into terms of reality, I am trying to point out to you that when you give that answer, you are taking perhaps three or four billion dollars out of the pockets of your own people.

Mr. RUTTENBERG. I wonder if I can just cite the figures, under H. R. 1, as passed, only $981 million. This was the bill as passed by the House. I think the figures are just slightly different now, but the main point is there. Only $900 million of the total tax savings of $3.8 billion in this bill goes to these individuals earning less than $2,000 a year, and they constitute 26 million taxpayers, or 54-percent of the total.

On the other side of the income ladder, sir, 4 percent of the taxpayers, which is some 1,700,000 taxpayers, are getting under this bill more tax relief, $1,400,000,000, than are 26 million people in the lowest income brackets.

The CHAIRMAN. Do you adhere to your answer that you would rather not have your people have this $3 billion-plus of relief than to have H. R. 1?

Mr. RUTTENBERG. I think it is an unfair question, sir.

Senator HAWKES. Mr. Ruttenberg answered it once, did he not?

The CHAIRMAN. We answered it once, and I thought he was making a profligate answer, not having in mind at the moment what was involved, so I thought fairness required that I bring to his attention what was involved.

Mr. RUTTENBERG. I am perfectly clear, sir, in what is involved. I realize that involved in H. R. 1 is $900 million tax relief to 26 million people, as against $1,443,000,000 going to only 1,700,000 taxpayers. That is what is involved in this bill.

To say to the American people, the 26 million with incomes of less than $2,000 should get no tax relief or take H. R. 1, is, I think, unfair, because this committee should be considering not only H. R. 1, but all types of tax proposals.

The CHAIRMAN. That precisely is what we are doing. That is why you are here. That is exactly why you are here.

I am simply pointing out to you that it is not out of the range of possibility that something along the line of H. R. 1 might pass, and when you made what I thought was a very unfortunate remark from the standpoint of your own people, I then took the pains to bring to your mind what was involved in that remark, thinking it was a part of fairness to do so.

But I take it you adhere to your original answer.

Mr. RUTTENBERG. If you recall, sir, if you got the record and read what I said, I made my answer unequivocally no, in relation to $900 million tax relief going to 26 million people, as against a billion and a half going to only 1,700,000 people. That type of tax bill is not fair to the American people.

The CHAIRMAN. You do not like it, and you say it is unfair, and you have your own proposal. But if we pass something that is in a general nature of H. R. 1, if you have analyzed it correctly, the results will be as we have discussed, and under the answer which you have given, unless you wish to modify it, you would be taking more than perhaps three billion dollars out of the pockets——

Mr. RUTTENBERG. No, $900 million, sir, from those with less than $2,000 income, and $1,300 million from those between $2,000 and $5,000 income, or about $2.2 billion from those people with less than $5,000.

The CHAIRMAN. Yes.

Mr. RUTTENBERG. And those people constitute 46 million taxpayers who will get $2.2 billion. But 1,700,000 taxpayers will get $1.4 billion in tax savings under this bill.

The CHAIRMAN. And how much do they contribute to the revenues? How much do those above the $5,000 income contribute to the revenues in relation to those below $5,000?

Mr. RUTTENBERG. At the present time they pay about 44.5 percent of the total revenue, those people with more than $5,000 income.

The CHAIRMAN. There are 7 million.

Mr. RUTTENBERG. They can afford to do it.

The CHAIRMAN. I am not challenging that; 1,756,300 pay 44 percent plus of the total amount of income, and the larger number, 9,435,000 pay 55 percent.

I think at this point in the record it might be interesting if I read something that I noticed in Time last night, in referring to the recent British budget. The story is on page 28, and says:

> The budget was a stunner in several ways. It was a beauty for balance. Hugh Dalton had achieved a surplus of about 270 million pounds ($1,080,000,000). It had an unmistakable laborite look in keeping income taxes high on the rich and the middle classes while easing those for the lower-income bracket, but it had one monstrous feature, the duty on tobacco was up by 50 percent. That meant that a package of 20 cigarettes, which cost 47 cents on the budget today cost 67 cents the day after. Britons who had expected some increase were shocked. They swore at Dalton for soaking the poor where it hurt, and they swore they would swear off smoking. By this week's end cigarette sales had slumped more than half. Dalton, who likes a cigar now and then, lectured the House of Commons and the Nation on the dollar evil of smoking too much. Britons had spent a whopping 306 million pounds on tobacco last year. It was almost one-tenth of the national income.

And a footnote says:

> The 1946 United States tobacco bill was about $2,900,000,000, roughly 1.7 percent of the national income; said Dalton, "We are now smoking one-third more than before the war. About 80 percent of our tobacco is imported from the United States, and we are drawing heavily and improvidently on the dollars which we earned with our exports. The whole total of our exports to the United States at this time bearly exceeds in value our own consumption of American tobacco. The thing has become fantastic. Working people, the backbone of labor's support, will be hurt most by the tobacco boost. A man with a £5 weekly wage, about one-fifth of British wage earners get less, will have to spend about one-fourth of his pay to smoke one package of cigarettes a day." Dalton gave the lowest wage group the solace of a cut in income taxes which brought them back to about the 1940 level. Of the basic rate of 9 shillings to the pound, 45 percent remain, but by lifting the basic exemptions and increasing allowances for dependence, the budget took income tax entirely off of about 750,000 low-income Britons. Under the schedule a British couple with two children will pay no tax unless they earn more than $28 a week, and they would not pay the 45 percent rate unless they earn more than $40 a week. The change left middle-bracket taxes murderously high. Example, a married couple with three children earning $4,500 a year would be taxed $1,272 (a cut from $1,320). In the United States, such a family pays about $300. In other respects Dalton's budget follows labor's Robin Hood thesis of taking from the rich to give to the poor. Taxes on undistributed profits (dividends) were up from 5 percent to 12½ percent. A few fortunate Britons breathed easier. They had expected a slashing 20-percent tax. Inheritance duties were almost doubled. Sales taxes were cut on items, including boxing gloves, chamber pots, and tooth paste, but a whopping 66⅔-percent purchase tax went onto heating and cooking appliances.

I contribute that for no other purpose than that it gives a little perspective on the whole subject.

Mr. RUTTENBERG. I would like to make two comments on that. One of the first measures they did was to reduce or eliminate from the tax rolls a great number of low-income people.

The CHAIRMAN. Yes.

Mr. RUTTENBERG. Secondly, but I do not say that we ought to accept what is done in England, I am sure the Senator from Colorado would not be too willing to accept some of the other features of the British Government, just as we possibly would not want to see that kind of a tax system imposed in this country.

The CHAIRMAN. You could probably find other morals from the articles if you searched for them.

Mr. RUTTENBERG. I should, sir, and I should point out——

The CHAIRMAN. I am not asking you to search for them, because I am not making them myself.

Mr. RUTTENBERG. I just want to make one point. As you recall, one of the main features of our tax program was the elimination of the excise taxes on just this kind of commodity, cigarettes.

The CHAIRMAN. The greater proportion of individual income tax in terms of money has been paid by individuals whose net income has been less than $5,000. We have found that the rates of those taxpayers are much lower than those of the higher brackets, the range being from 3.8 percent in the lower brackets to 85.5 percent in the higher brackets.

Mr. RUTTENBERG. I think you just put those figures into the record, sir, based on $166 billion income. Those people above $5,000 a year net income have a total net income before exemptions of $22,650 million, or 19.9 percent of the total. I think it is table D of the Secretary's paper.

The CHAIRMAN. Coming back again to this amount of wages and salaries statistics, you say on page 3 of your statement:

> In spite of the wage increases which were won in early 1946, the annual rate of wage and salary payments dropped from $114 billion at the end of fiscal year 1945 to $109 billion by the end of 1946.

I believe that I have already given you the statistics showing the pick-up in the present quarter.

Mr. RUTTENBERG. You have cited the February figure, which was $112 billion, which is still $2 billion, of course, less than the wage and salary payments while profits quoted in the first part of that paragraph have jumped from $10 billion to $17 billion.

The CHAIRMAN. Several times you sounded the theme "This bill gives tax relief to the greedy and not to the needy."

Would you say that the people who had incomes of $5,000 and less in a year are in the needy category?

Mr. RUTTENBERG. I would, sir. I should like to quote from Randolph Paul.

The CHAIRMAN. Just a moment. The relief that they get is what percentage of the total relief that is given by H. R. 1?

Mr. RUTTENBERG. Well, they get about 60 percent of the relief under H. R. 1 but let us not forget what proportion of that 60 percent goes to those below $2,000. Everybody below $5,000 needs every cent of his income to live decently, but, sir, let us not lose sight of the fact that everybody below $2,000 needs even more tax relief than those between $2,000 and $5,000.

The CHAIRMAN. And the law in adjusting itself to that situation, so far as it has, leaves the man of $2,000 or less what percentage of his spendable income after taking these taxes away from him?

Mr. RUTTENBERG. 98.8, I guess, sir, in that neighborhood.

The CHAIRMAN. Thank you.

Mr. RUTTENBERG. But do not forget, sir, that is only $2,433 a year, for a man, married with two children. That is what the bill leaves him with.

The CHAIRMAN. I am now making the point that no matter what the amount, if you give a man 30 percent relief on that amount, it is not something that should just be cavalierly brushed off as not important, when he has the necessities for spending money which you point out.

Mr. RUTTENBERG. That is right, sir. I propose that his tax should not be cut 30 percent, but that such an individual be eliminated from the tax-paying rolls completely, because he needs that income so badly.

The CHAIRMAN. I want to say to you that the Congress has not demonstrated itself as entirely unsympathetic with that; in 1945 we took off 12 million taxpayers, and in H. R. 1 we are taking off about how many, Mr. Stam, in the old-age relief?

Mr. STAM. About 825,000, according to the Treasury.

Mr. RUTTENBERG. Do not forget that some of those people above 65 years of age who are getting this relief are individuals who really do not need it.

The CHAIRMAN. I would not be surprised. It is like all of these laws. They have to apply uniformly to those who come within the class.

Are you opposed to that feature of the bill?

Mr. RUTTENBERG. No. I think there are considerable numbers of individuals who are 65 years of age who need this kind of relief.

The CHAIRMAN. I am asking you are you opposed to that feature H. R. 1?

Mr. RUTTENBERG. I would not be opposed actually to that.

The CHAIRMAN. Are you not in favor of it?

Mr. RUTTENBERG. In favor of it, yes, because it gives certain individuals——

The CHAIRMAN. Why, of course you are.

Mr. RUTTENBERG. The relief they need. It also gives considerable Senators and Congressmen relief, too, which they do not need.

The CHAIRMAN. I hope it works out that way. Mr. Ruttenberg, if you were not in favor of that part of H. R. 1, you would be flying in the face of a large part of the social security program of your organization; right?

Mr. RUTTENBERG. You are right, sir. That is why I answered in the affirmative.

The CHAIRMAN. Now, on page 4 of your statement, you say:

This perplexing question—

and that is as to whether we want to encourage consumption or whether we want to minimize restraints on enterprise, and so forth—

This perlexing question can be answered very simply. Any tax system must of necessity increase the amount of purchasing power or consumption, that is, money available to spend in the hands of the American consumers.

I would agree entirely with that, and I think most everyone else would, so far as it goes. Do you not have to have both? Do you not have to have mass consuming power and at the same time the power of making pay rolls which keeps the people working?

Mr. RUTTENBERG. If you recall I also said in another part of my statement if we are to continue the demand for the products of industry, the Congress must see to it that the tax burden upon low-income individuals receives first priority, and not as appears likely, the last priority.

The CHAIRMAN. Speaking generally, I doubt whether you would take the position that an intelligent tax act must not give attention to keeping the machine, getting the machine, and supplying the machine to the workers as well as giving benefits to the workers, would you?

Mr. RUTTENBERG. The tax bill should take that into consideration, but I think the basic and major consideration is that of increasing purchasing power in the hands of the workers who will buy the products which industry has been given the incentive to produce.

The CHAIRMAN. It is perfectly obvious that if the worker does not have the machine, he is not on the pay roll and he cannot buy anything; is that not perfectly obvious?

Mr. RUTTENBERG. That is right, sir.

The CHAIRMAN. So you have to give some attention to both, do you not?

Mr. RUTTENBERG. You do.

Senator HAWKES. Mr. Chairman, might I bring in a little point I have been thinking about here, and see if we can get Mr. Ruttenberg's opinion on it?

The CHAIRMAN. Certainly.

Senator HAWKES. He suggested a few moments ago that the average weekly earning was $47, is that not right?

Mr. RUTTENBERG. Of workers in manufacturing industries for the most recent month of February for which information is available.

Senator HAWKES. That is the manufacturing industry?

Mr. RUTTENBERG. That is right.

Senator HAWKES. Have you got the over-all picture of the people that are not in the manufacturing industries?

Mr. RUTTENBERG. These are——

Senator HAWKES. It would be lower than that, would it not?

Mr. RUTTENBERG. Yes; considerably lower.

Senator HAWKES. Considerably lower?

Mr. RUTTENBERG. I do not have the figures offhand.

Senator HAWKES. I know it would be lower.

Mr. RUTTENBERG. Yes.

Senator HAWKES. All right. Now, then, you suggested after that that the average income for anybody to buy the necessities of life should be raised to $68 a week.

Mr. RUTTENBERG. Well, that is one criterion that can be used.

Senator HAWKES. I take it you supported that or you would not have presented it.

Mr. RUTTENBERG. That is right, sir.

Senator HAWKES. What I have been thinking about—you may be able to cure it in my mind—I have been thinking that $21 a week would be $1,092 a year, and there are 50 million workers, so that would be $50 billion. That would be about half of the total money paid to wage earners in the United States over all.

Mr. RUTTENBERG. Presently; yes. The rate is 112 billion, as the Senator pointed out.

Senator HAWKES. Where would you get that $50 billion? That is what I want to ask you. I know, because you are talking about keeping the cost of living down, not raising any prices, and so forth, and I want to ask where you would get that $50 billion.

Mr. RUTTENBERG. The kind of a proposal which would bring about a level of $68 or $69 or $65, whatever it might be, per week, is not one of a short-range issue at all, but over a great many years, as I think that Senator Millikin pointed out this morning. The standards of workers have gradually improved year by year over the past decade; such would continue.

Senator HAWKES. He also pointed out this morning, if I remember correctly, that the real purchasing, the genuine purchasing power had only been increased 3.5 percent.

Mr. RUTTENBERG. I think he meant 3.5 percent a year.

The CHAIRMAN. Yes; over the 100-year period.

Mr. RUTTENBERG. That is an increase in output per man hour as determined by the BLS.

Senator HAWKES. You say you want us to have the facts.

Mr. RUTTENBERG. That is right.

Senator HAWKES. I am looking for information. What is the 15 cents an hour increase in percentage, do you know?

Mr. RUTTENBERG. In percentage of what?

Senator HAWKES. In percentage of the wage earner's wage at the United States Steel. They granted 15 cents an hour increase. Let us take them. What percentage of the wages is that?

Mr. RUTTENBERG. That in the average hourly earnings in iron and steel in the neighborhood of $1.30, so 15 cents an hour increase would be slightly more than 10 percent.

Senator HAWKES. A little over 10 percent.

Mr. RUTTENBERG. Yes.

Senator HAWKES. If that thing went through the whole country, and that is what I think you would like to have it do, and I am not sure that I would not—I do not know, I would want to get some facts—but if it went through the whole country, it would be $11,200,000,000, would it not, as related to $112 billion wage bill that you cited here a while ago?

Mr. RUTTENBERG. $11,200 million.

Senator HAWKES. The total profits of all corporations after taxes last year were how much?

Mr. RUTTENBERG. In the fourth quarter of 1946, they were 14.9 after taxes, but, sir, I think you ought to consider what they were before taxes, if you are going to make that kind of a calculation which I think you have in mind. I think they are in the neighborhood of in excess of $25 billion before taxes.

Senator HAWKES. Mr. Chairman, did we not have an estimate here the other day that the total net profits after taxes of all corporations would be $12 billion in 1947?

The CHAIRMAN. I believe that was the figure.

Mr. RUTTENBERG. That is the figure, sir, for the entire year 1946; the annual rate for the first quarter of 1946 was $9 billion; the annual rate for the second quarter was $11 billion, the annual rate for the third quarter was $13 billion, and the annual rate for the fourth quarter about 15, so when averaged for the entire year it becomes $12 billion.

Senator HAWKES. I know you want the facts.

Mr. RUTTENBERG. And I am giving them to you, if I can.

Senator HAWKES. I am not saying you are not. I want you to help me reach this.

That would be $11,200,000,000 increase if it went through all industry, and the best estimate I think Secretary of the Treasury Snyder said that it was estimated that the net profits might be as high as $12 billion after taxes in 1947.

Mr. RUTTENBERG. The rate for the first quarter is $17 billion. He is then anticipating a decline in national income if he says that.

Senator HAWKES. I do not know what the figure will be. Neither do you. I am using the figures given us. If you took that $12 billion and took $11,200,000,000 off it, it would not leave anything for the corporation, would it?

Mr. RUTTENBERG. But, sir, what were those profits before taxes?

Senator HAWKES. It does not make any difference.

Mr. RUTTENBERG. I think it does. You as an industrialist pay your workers wages before.

Senator HAWKES. It does not make any difference; the corporation is just exactly the same as a laboring man. He is interested in what is left after taxes. If you remove that $12 billion, and there is nothing left, what I am getting to is this, the very thing you are talking about. Have they not got to raise their prices and does not that have to increase the cost of living, and take back some of this thing and change the whole picture again?

Mr. RUTTENBERG. Let me just put this in its proper perspective, if I may. A wage payment by a company is a cost of production, figured and calculated as operating income affecting operating income before the payment of Federal or State taxes.

Senator HAWKES. Yes.

Mr. RUTTENBERG. Therefore, if you say that you are going to increase $11 billion, or whatever the figure is, total wage payments in the country, you are increasing that before the payment of taxes to the Federal Government; by so doing, of course, you reduce the revenue which the Government is going to get, because under the present corporate system about 38 percent of that would be paid by the Government.

Senator HAWKES. My point is that you cannot inject $12 billion into the cost of things without raising the price of them.

Mr. RUTTENBERG. It just depends, sir, how——

Senator HAWKES. I admit in some companies that very frankly they could probably raise wages 15 percent, and if they still had a fair profit left I would think they were very foolish under present conditions to raise their price. I should think in their own self-interest they would not do it.

Mr. RUTTENBERG. Some companies are reducing prices.

Senator HAWKES. There are so many that cannot do it—that is the point that I want to bring out—that this thing is all a circle.

The CHAIRMAN. Would this be true, Senator Hawkes? You cannot absorb wage raises without increasing prices when the market becomes competitive, and at the present time in many fields the market is not yet competitive because the supply has not caught up with the demand; is that not correct?

Senator HAWKES. That is true.

The CHAIRMAN. When the market does become competitive, you are working on narrow margins; and, working on narrow margins, if your costs increase, your prices have to increase. Is that not correct?

Senator HAWKES. Just as sure as night follows day.

Mr. RUTTENBERG. It depends on what you say by narrow margins. Margins in relation to investment or capital investment of corporations in the year 1946 were in the neighborhood of—well, let us just take some estimates—if I can remember roughly, I think return on net worth for all corporations after taxes was in the neighborhood of 12 or 13 percent in 1946, as compared to 6.5 percent in prewar years.

When you talk about whether wage costs, increased wage costs, are going to affect the price structure, you have to talk in terms of what you mean by a fair margin of profit. If you consider double increase in margin of profit from 1936 to 1939 to be adequate and justifiable, and therefore it should not be reduced, then you are correct in saying that prices would have to go up. But prices do not have to go up if margins will be reduced. As margins are reduced, prices remain stationary or go down. You increase volume and the company makes just as much profit as it would anyway because of higher production and volume.

The CHAIRMAN. When you get into a competitive state, everybody is selling as low as he can sell consistent with what he conceives to be fair margin of profit. Is that not right?

Mr. RUTTENBERG. You would not say that the price of steel is a competitive commodity.

The CHAIRMAN. I am not so sure that I would say that, or I would not say that, but is it not true that when you do have competition, that the competition takes care of the price?

Mr. RUTTENBERG. If you have competition, but the problem is we do not in our American economy have too much competition.

The CHAIRMAN. That was the whole premise.

Mr. RUTTENBERG. You would agree with that, would you not; we do not have too much competition in our American economy as it operates today.

The CHAIRMAN. I think we could do well with more competition in some fields.

Mr. RUTTENBERG. We are where we could use more enforcement of antimonopoly.

The CHAIRMAN. I am not arguing that at all with you, and that is neither necessary to your case nor to any view that I might have.

Mr. RUTTENBERG. That is right.

Senator HAWKES. The converse of that is true, because the Government stops vicious competition that goes to the heart of destroying other people. It has got to do it.

The CHAIRMAN. I believe we have already had sufficient discussion of this net spendable income matter. I think you made it amply clear that you would like to increase the net spending power of the low-income man.

I believe, on the other hand, it has also been pointed out that the reason the percentage of increase of the low-income man in spendable income is less than the percentage of increase of spendable income for the higher-bracket man is that the low-bracket man starts out by paying a much smaller percentage of taxes.

I think those two things together put the matter in perhaps its proper perspective.

Mr. RUTTENBERG. But the spendable income of the low-income individuals could be increased that much more if he were taken off the taxpaying rolls of the country by increasing the exemptions, rather than this 20 percent cut across the board.

The CHAIRMAN. Personally, I would like to increase his spendable income.

Mr. RUTTENBERG. In preference to increasing the spendable income of the high-income brackets.

The CHAIRMAN. I think you have to take it off all the way along the line as rapidly as you can. I think if you want to keep your people working, you have to restore some investment capital to the market, unless you are aiming at an entirely totalitarian form of government.

Mr. RUTTENBERG. Which, of course, we are not.

The CHAIRMAN. I did not say that you were, but that is the end point when you argue against leaving enough spendable income to keep the machine going.

Senator HAWKES. I happen to have the figures now that come from the Treasury Department, Division of Research and Statistics, and they show that the total net income available by all corporations for dividends or other disbursements in 1946 amounted to $8,915,000,000, and the estimated figures are just about as I thought they were, for 1947, $12,400,000,000, and they came from the Secretary of the Treasury Snyder.

I might add right here, and see if Mr. Ruttenberg disagrees, that I have a set of figures over in the office showing all of those net earnings of corporations were canceled out and given back to the public; if they were they would not reduce the cost of living 5 percent in the United States.

The point I have in bringing that to your attention is that you have to find other ways to get this cost of living down and hold it within the means of the low-bracket people you are talking about.

Mr. RUTTENBERG. I think you can hold the cost of living down and force it down if industry were willing to accept a more reasonable and equitable profit level and margin of profit.

Senator HAWKES. I am telling you, if the whole thing was given, and industry did not have any, it would not reduce the cost of living but 5 percent in the United States.

Mr. RUTTENBERG. You mean, sir, to say that if we reduced the level of corporate profits to zero——

Senator HAWKES. Yes.

Mr. RUTTENBERG. That it would not reduce the cost of living to the American consumer by more than 5 percent?

Senator HAWKES. All that was was $8 billion, and I have a statement in my office from the Income Tax Department, one of the ablest men in the country. He has made the computation. If that whole thing were not earned, and the price of goods were priced, and the taxes went on as they are, that whole thing, if it were contributed to the situation, would not reduce the cost of living 5 percent.

You take those figures over and check them, and see if you disagree.

Mr. RUTTENBERG. The part of the problem would involve food products and farm commodities which are not affected by the corporate level of profits, but I would like to know what that $8,000,000,000 figure is.

Senator HAWKES. It is given here as all net income available for dividends by all corporations in 1946, $8,915,000,000 and that comes from the Treasury Department, Division of Research and Statistics.

Mr. RUTTENBERG. Available for dividends?

Senator HAWKES. Yes.

Mr. RUTTENBERG. There is a discrepancy between that figure and the Department of Commerce's figure of $12 billion for the level of corporate profits after taxes, unless this is just available for distribution in dividends and does not include that part of undistributed profits which the corporation retains in earned surplus. The figure is higher than that.

Senator HAWKES. No, no. They paid out, let me give you the figures of what they paid out in net dividends paid in 1946. They were $5,100,000,000. That is the total over-all net earnings of the corporations.

Mr. RUTTENBERG. I have not seen those figures for '46.

Senator HAWKES. Those are the Treasury Department figures; are they not, Mr. Stam.

Mr. STAM. Yes.

Mr. RUTTENBERG. I should like to see them.

The CHAIRMAN. Mr. Ruttenberg, as I understand it, you would cancel the wartime excise taxes as a part of the benefit that you would give to the taxpayers under your own proposal, is that right?

Mr. RUTTENBERG. As the first step for the complete elimination of excise taxes.

The CHAIRMAN. Those wartime excise taxes consisted of these items: Admissions, permanent use or lease of boxes or seats, sales of tickets outside of box office, cabarets, roof gardens, dues or membership fees, initiation fees, jewelry, furs, toilet preparations, distilled spirits, imported perfumes containing distilled spirits, still wine, sparking wine, fermented malt liquor, billiard and pool tables, electric-light bulbs and tubes, long-distance telephone calls, domestic telegraph cable radio dispatches, leased wires, wire and equipment service, local telephone service, transportation, advertisements, seats, berths, luggage.

Would you take all of those taxes off before you would grant income-tax relief?

Mr. RUTTENBERG. Not before; simultaneously with.

The CHAIRMAN. You would favor taking them off simultaneously?

Mr. RUTTENBERG. The overwhelming percentage of the excise taxes paid under this higher rate certainly do not come from the commodities like a few of those that you mentioned. They come mainly from liquor and distilled spirits, admissions; those are the things, and perfumes. Those are the things which the American public, low-income people, participate in and use, and it hurts their income.

The CHAIRMAN. There are some items there which to my mind are not luxury items. There are some items which might be considered luxury items.

Mr. RUTTENBERG. Perfumes.

The CHAIRMAN. There are many items which might not be considered necessities under your own definition of necessities. Let us see what we would have if you took those off. You would still have transportation of property, business and store machines, coin-operated machines, electric, gas, and oil apparatus, matches, musical instruments, photographic apparatus, refrigerating equipment, sporting goods, distilled goods, and stamp taxes.

There still would be a very large field of what you properly term regressive taxes, which we ought to get rid of, if and when we can.

Mr. RUTTENBERG. In the proposal, sir, I said as revenue requirements permit, they ought to be eliminated, except those that are regulatory in character.

The CHAIRMAN. All I am driving at is you would not get rid of the war taxes to which I have referred which are rather on the non-necessity side prior to the reduction of income taxes, and your answer to that was you would do it simultaneously, is that correct?

Mr. RUTTENBERG. Yes.

The CHAIRMAN. You would also make some tax saving under your plan by mandatory joint returns.

Mr. RUTTENBERG. Increased revenues.

The CHAIRMAN. Increased revenues. Would you do that even where the income of the husband and wife, their incomes are truly independent, rather than phoney separate incomes?

Mr. RUTTENBERG. Well, that would be a problem that certainly ought to be looked into. I am not too sure of what the effect of legitimate distribution between husband and wife but as a general principle I think there ought to be mandatory joint return.

The CHAIRMAN. We have a lot of States——

Mr. RUTTENBERG. Nine community-property States, yes.

The CHAIRMAN. Where husbands and wives, and outside of the community-property States, are entitled to have independent property and independent income. It is their separate income under their complete control Would it be a just system, and I am talking about that kind of a case, to compel a lumping of that income and to pay taxes on that basis?

Mr. RUTTENBERG. I think that would be one problem that would deserve looking into considerably.

The CHAIRMAN. What you are working toward then, is a phoney division of income, is that right?

Mr. RUTTENBERG. That is right.

Senator HAWKES. Not the division of phoney income.

The CHAIRMAN. Yes.

Mr. RUTTENBERG. You call dividend income phoney.

The CHAIRMAN. I mean where the husband by tax-evasion devices splits his income and thus splits the total amount of taxes.

Mr. RUTTENBERG. I can see, though, there would be considerable area in which it would be hard to tell whether it was phoney or not.

The CHAIRMAN. You also would tighten up the capital-gains end of the business?

Mr. RUTTENBERG. Yes, sir.

The CHAIRMAN. Would you also have compensating provisions for capital losses?

Mr. RUTTENBERG. Yes, sir, we would.

The CHAIRMAN. So that that would probably wash itself, if there were a proper balance between the two.

Mr. RUTTENBERG. Well, capital losses should be permitted to be charged off against long-term capital gains.

The CHAIRMAN. If you had those two in a given period, a period of rising prices, for example, you might take in quite a little revenue on your theory of tightening up on that, and getting more revenue out of it, but you would lose the same amount of revenue in a declining market.

Mr. RUTTENBERG. Assuming of course that there is going to be a large amount of that.

The CHAIRMAN. So that over the longer term you have balanced one against the other and I doubt whether in the long term you would have any net increase in revenue.

Mr. RUTTENBERG. Except I dare say, sir, if you examine the capital-gains revenue receipts over a period of years from 1929, you would have a net gain in revenue, not a loss.

The CHAIRMAN. That depends upon how long you are permitted to carry over. You would be permitted to carry over losses, and it depends on what period of time it is from which you derive your statistics.

Mr. RUTTENBERG. Certainly. You make statistics always prove your point.

Senator GEORGE. Any point in suggesting the capital-gains tax to get more revenue, is that your point?

Mr. RUTTENBERG. I think the type of capital gain from one point alone should be done.

Senator GEORGE. I just wanted your answer.

Mr. RUTTENBERG. Securities held until death, they are exempt from capital gains.

Senator GEORGE. Not exempt from taxes, though.

Mr. RUTTENBERG. Not exempt from estate taxes; no. The estate taxes are paid upon it if they come within the exemptions, but they are exempt from the capital gains tax.

The CHAIRMAN. Do you not want anything to be left in the estate?

Mr. RUTTENBERG. President Roosevelt once proposed something.

Senator GEORGE. So is a mule; if you keep a mule until he dies, you do not get any capital gains on him.

Mr. RUTTENBERG. But just look at the equity of this kind of situation, Senator George. An individual buys securities for $1,000.

Senator GEORGE. Did you have in mind getting more money by increasing the capital-gains tax? That is what I want to know.

Mr. RUTTENBERG. If we have faith in our economy to operate at high levels of production and high levels of employment and national income, over the long run we will get increased revenue from capital gains revisions. But if we have no faith, and say that in a period of coming years we are going to have a recession and a depression with large capital losses——

Senator GEORGE. You have too many "ifs" there. You lose me with your "ifs." The only thing is that we have a long, long record of just what you did gain by a higher capital gains tax. We got down to where we were getting about $12 million a year, and as soon as we cut that tax, why, we began to pick up a lot of revenue.

Mr. RUTTENBERG. I think over the long run, sir, if we are going to have prosperity in this country as against having a recession, net revenue will be increased.

Senator GEORGE. We can depend on that.

The CHAIRMAN. You recognize also that you can carry capital gains to the point where you are not turning your capital.

Mr. RUTTENBERG. Yes, sir.

The CHAIRMAN. We have to avoid that.

Senator HAWKES. That is the same point I have been emphasizing. You can have a tax law on the books that says it is going to take 98 percent of all of anybody's earnings over and above a certain amount, and it would not turn in very much revenue. And you can have a tax rate on the books that is fair and that will stimulate initiative and it will return very substantial revenue. That is what we are looking for, is substantial revenue.

Senator GEORGE. I do not think your basis is good in assuming that by simply increasing your capital gains tax, you might have some increase in your capital gains tax. You might have a readjustment of the holding period and all like that, and you might pick up some revenue, but I think that practically speaking, as you increase your capital gains tax, you are cutting down revenue from that particular tax. You may get some money, it might have some indirect benefits, but because all of our experience has been the other way, and your experience is the thing that counts in writing taxes and what is human nature, and it is not human nature to sell stuff if he has to pay it out in taxes.

Mr. RUTTENBERG. It might avoid a lot of speculation on the market, then.

Senator GEORGE. There may be some other benefits to be derived from increasing the capital gains tax, and we may well consider a rearrangement of holding periods. Actually, I have always felt that a capital-gains tax was a very poor sort of tax, because it does not represent true income, but we have it and I suppose we will always have it.

I would like to see, maybe, capital-gains rearrangements so that after a reasonable length of time, the tax would become less rather than increasing on the holder of property.

I think it would pay in the general economy. That is beside the question. I do know we went down to $12 million, I believe it was.

Mr. STAM. That is right.

Senator GEORGE. Out of capital gains, and now we are getting four and five hundred million, are we not?

Mr. STAM. Over 500 million; close to 600 million.

Senator GEORGE. The boys are speculating. If they had lower individual income rates, they would not be speculating so much. They would still buy stocks.

Mr. RUTTENBERG. Idle money has to be invested.

Senator GEORGE. Yes.

The CHAIRMAN. Mr. Ruttenberg, I notice that you want to make the estate taxes and gift taxes more effective. How much do you figure you would be gaining by doing that?

Mr. RUTTENBERG. I think it has been estimated, sir—this question, of course, has been discussed by this committee for a great many years, I think all during the war years—it has been estimated through various sources approximately a billion dollars' increase in revenues if you could tighten up the estate and gift taxes.

The CHAIRMAN. You mean from the evasion loopholes, is that what you are talking about?

Mr. RUTTENBERG. The high exemptions which are permitted, the life estate, the passing of estate from generation to generation without any tax.

The CHAIRMAN. Is that possible now?

Mr. RUTTENBERG. It is; yes; on life estates and an individual can say, "Upon my death the return from this property shall go first to my wife; upon her death to my grandson, and upon his death, if a great-grandson is living, to that one," pass from one generation not the income itself but the return from the income, without the property itself being subject to estate tax.

The CHAIRMAN. The Bureau of Internal Revenue is trying to collect the tax now for all possible future transfers.

Senator HAWKES. May I ask a question there? Are you sure you are right about what you are saying, because I am told otherwise. You said this morning you could avoid inheritance taxes and gift taxes if you were well advised legally.

Mr. RUTTENBERG. That is right, sir.

Senator HAWKES. I have been looking for some advice to help me avoid income tax, but never to evade it, and I am told by one of the best lawyers in New Jersey there is no way in the world to pass that property along further than one generation. In other words, you can leave the income to your wife, but when it goes on to your daughter or your grandson or whoever it may go to, the next time it has got to be taxed. Is that true?

Mr. RUTTENBERG. It is my understanding, and I may be wrong of course, but it is my understanding that if at the death of an individual, a grandson and a great-grandson are at that time living, not conceived, but living, that the property can be passed from the deceased to his wife, to his grandson, to his great-grandson, and all along that line there will be no estate tax.

Senator HAWKES. On the principal.

Mr. RUTTENBERG. On the principal; that is right; but there will be, of course, tax upon the income derived from the principal.

Senator HAWKES. I am not sure I am right, and you are not sure you are right.

Mr. RUTTENBERG. I feel fairly certain on my point. I would like to be checked by the Bureau of Internal Revenue people.

Senator HAWKES. Why was there so much concern over Henry Ford being able to pass his company right straight along and why was all of this worry about his losing his business to the bankers and distributing the stock and one thing and another?

Mr. RUTTENBERG. I do not know Henry Ford's situation.

Senator HAWKES. It has been one of the most talked of situations in the country.

Mr. Chairman, may I just ask one little question, because I understood Mr. Ruttenberg to say that he would like to see all of these excise taxes removed, certain luxury taxes.

Did I understand you to say that you would like to see the taxes on cigarettes held longer? The war taxes that were put on by the Revenue Act in 1943, would you like to see those continued?

Mr. RUTTENBERG. I think if I could state the problem the way I have it in my testimony is that first, as a first step, eliminate those taxes which were to have been cut as of June 30, 1947, had Congress not passed the bill. That is the first step.

As soon after that as possible I would say add as a parenthetical expression here, now, if possible, all other excise taxes that are there except those that are regulatory in character should be eliminated. Cigarette taxes is one of them. The tax on beer and the tax on a pack of cigarettes, which the average workingman buys today, day in and day out, should be eliminated.

Senator HAWKES. You think they ought to be eliminated as soon as possible?

Mr. RUTTENBERG. That is right.

Senator HAWKES. You would do it now if you could?

Mr. RUTTENBERG. That is right.

Senator HAWKES. Thank you.

The CHAIRMAN. Mr. Ruttenberg, do you wish to go any further with this State gift-tax theme of yours? Can you tell us specifically what loopholes you would close?

Mr. RUTTENBERG. Under the present law, an individual for example has a $30,000-a-year gift-tax exemption. He has a $60,000-a-year estate-tax exemption. Those are total exemptions of $90,000 on just estate and gifts.

He has an additional $3,000 exemption for each gift to as many individuals as he chooses to give that gift to as an exemption, that if he would have say 50 relatives or 50 people to whom he wants to give $3,000 gifts, that would be three times 50 or $150,000, plus a $60,000 estate exemption, plus $30,000 gift exemption, for a total of $240,000.

A man has got to be pretty rich, then, before he can have that kind of estate. The excess of that, that is going to be subject to tax.

The CHAIRMAN. How often does this happen? What man makes gifts to 3,000 relatives?

Mr. RUTTENBERG. I am saying $3,000 is the exemption to 50 relatives.

The CHAIRMAN. How often does that happen?

Mr. RUTTENBERG. Let us exclude the gifts and just limit it to a $90,000 estate.

I say combine the net exemption for estate and gift into one exemption, and make it a maximum of $25,000. Therefore, you begin to hit the estates between $25,000 and $90,000, and excluding any gifts that may be given in the meantime.

The CHAIRMAN. Your theory would increase that 135 percent, the estate- and gift-tax revenues, 135 percent over what we are getting now.

I make two suggestions to you, and I make them most respectfully; one, that you get yourself into immediate touch with the Treasury Department and show them those loopholes, and, two, if you ever run out of your present job, go down to New York and tell the rich people how to work this succession angle.

Mr. RUTTENBERG. They already know it, sir. I do not have to tell them.

The CHAIRMAN. They are all heartbroken that they cannot do it.

Mr. RUTTENBERG. Let us not lose sight of one fact. One of the biggest loopholes in the gift and estate taxes is exemptions; $90,000 exemption combined.

The CHAIRMAN. That is not a frivolous thing.

Senator GEORGE. Only 60.

Mr. RUTTENBERG. $30,000 on the other.

Senator GEORGE. If you give property away, you do not have it in your estate when your estate falls due.

Mr. RUTTENBERG. That is right, if you give it away.

Senator GEORGE. The gift tax is just to protect the estate tax, that is all. That is all it is designed to protect.

The CHAIRMAN. You are not contending that the theory of gifts is entirely wrong, are you?

Mr. RUTTENBERG. The theory of gifts to legitimate organizations, charitable institutions, is certainly not wrong at all. It ought to be encouraged.

The CHAIRMAN. Even to persons, would you say in all cases it is a socially undesirable thing?

Mr. RUTTENBERG. No; it is not undesirable, but I think gifts over certain amounts ought to be taxed.

The CHAIRMAN. They are taxed, and taxed plenty.

Mr. RUTTENBERG. The rates, I would not say that the rates that run up to 77 percent ought to be changed at all. They ought not to be increased. It is just tightening up the exemptions which would bring the revenue.

The CHAIRMAN. A pretty strong argument could be made that the rates might be reduced.

Senator HAWKES. Might I inject a little humorous statement from the newspaper a few years ago? Some fellow was standing on the soap box in Madison Square Garden, and he was advocating "soak the rich," and what right had one man to have half a million or a million dollars, and another not have a meal. Somebody came and notified him while he was standing on the soap box that he had won the Irish Sweepstakes, a $168,000 ticket. Three days after that when he found he had to pay a tax on that thing of something like $89,000, he thought it was the most unfair thing in the world. That was either in the New York Herald Tribune or the Times.

Mr. RUTTENBERG. I would not consider that individual had any honorable intentions from the start.

Senator HAWKES. I think you are right.

Mr. RUTTENBERG. I know as an individual my father paid a considerable amount of gift and estate taxes. I think he should have paid it at his death.

The CHAIRMAN. I notice that you propose a peacetime excess-profits tax. What would be your method of computing that?

Mr. RUTTENBERG. I think it ought to be computed on the same basis that existed during the war with only two specific suggestions; one to decrease the rates down to 75 percent, to increase the exemptions from $10,000 to $25,000 as a safeguard to small corporations.

I think when you say excess-profit tax for peacetime, it was well pointed out here the other day maybe this is not peacetime we are in now yet. Maybe this is still a period of profiteering from war expenditure. Actually profit levels are now so high that there ought to be an excess-profits tax on them to reduce them to equitable levels.

If you might argue would it be better to do it in wages than to do it in excess profits, I say pay higher wages and the profits would be reduced to the level where it would meet the exemptions of capital investment, or the 1936–39 period, or the growing corporation exemptions, so that actually you would end up in the same place.

The CHAIRMAN. The excess profits, where they exist, and when they exist, give your springboard for more wages, do they not?

Mr. RUTTENBERG. I am not arguing that we ought to get them into the Federal revenue in place of wage increases. I am not arguing that at all.

The CHAIRMAN. Are you going to have them both?

Mr. RUTTENBERG. I think it is quite possible if they do not raise wages adequately that it would have to be done.

The CHAIRMAN. What happens to these excess profits?

Mr. RUTTENBERG. Well, sir, let me point that out. Between 1939 and 1946, the actual cash balance of American corporations, according to the SEC reports, increased from $11 billion to approximately $23 billion. The actual increase in Government securities marketable in this same period increased from $2.2 billion to $16.2 billion.

In those two categories, cash, Government marketable securities, their increase was some $26 billion in the corporate holdings of American business.

How did they get those corporate holdings? They got them from profits after taxes, after distribution of dividends, that were not during the war years when we had an excess-profits tax, and were not plowed back into the business.

The CHAIRMAN. During the wartime we also had renegotiation of contracts.

Mr. RUTTENBERG. That is right, but current levels in the third quarter of 1946——

The CHAIRMAN. What I am driving at is, let me put it this way: A very infantile approach to problems of these kinds is to imagine the workingman as a big brainless goon and to imagine the employer as a big pot-bellied fellow sandbagging some little helpless wage earner. That is an infantile approach to the problem. It may serve stump speaking purposes. It may serve organizing purposes. It may serve incendiary purposes of all kinds. But I repeat it is an infantile, asinine approach for responsible people to make to important problems

Now, the corporation is sometimes pictured as this pot-bellied brutal fellow with the blackjack in his hand, but is not the corporation a conduit for paying wages and salaries to the workers, and profits, when they make them, to the owners of the corporation? Is that not right?

Mr. RUTTENBERG. It is sometimes held that corporations as such are a conduit for the doing of business, but I should say in a great many cases ownership and management are very different things in large corporations.

The CHAIRMAN. That is right, exactly; the shareholders own the corporation, do they not?

Mr. RUTTENBERG. And that actually giant corporations have large numbers of stockholders.

The CHAIRMAN. They have large numbers of stockholders, which is to say, large number of owners. They get their dividends even though under your viewpoint they are exceptionally high, and when they get them, Mr. Ruttenberg, then they become subject to this little table that I was showing you that runs taxes from 3 percent on the lowest brackets up to 85 percent on the highest.

Mr. RUTTENBERG. That is right, sir.

The CHAIRMAN. And if the profits are kept in the corporation, they are not kept idle. If you buy securities, you are not wasting your money. If I buy a Government bond, I at least theoretically am helping the Government to perform some useful function. If I buy a municipal bond, I am helping that municipality to put up a school or hospital or sewer system or road system or something. But profits are held in a corporation sometimes for tax-evasion purposes—sometimes, I repeat—but normally they are held in the corporation in order to have the money to allow that corporation to grow and to meet the exigencies and emergencies of its corporate existence, is that not correct?

Mr. RUTTENBERG. Certainly.

The CHAIRMAN. Why do you want to tax that? Are you not injuring the other half of that business, viewing the corporation as a conduit, to use your word, for paying wages and for paying dividends, when you commence to cripple the surplus of that corporation, when you commence to peck away at its profits, are you not pecking away at its ability to maintain its pay roll?

Mr. RUTTENBERG. In proposing an excess-profits tax, it is a tax which would apply to corporate income after that corporation has had its conduit through the payment of wages and in effect also the payment of its dividends.

The CHAIRMAN. The dividends recipient pays wages, does he not? You cannot run this economy by viewing the wage earner as in a vacuuo.

Mr. RUTTENBERG. You certainly cannot.

The CHAIRMAN. It takes the whole economy with all of the people of the United States to keep this thing going right.

Mr. RUTTENBERG. You are perfectly right.

The CHAIRMAN. You have to have employers other than the big fellow, other than the big corporation. You have to have somebody that can pay for a janitor. You have to have somebody that can pay for someone to mow his lawn. You have to have domestics. You have to have all of the service industries which are little businesses.

Mr. RUTTENBERG. That is correct.

The CHAIRMAN. And they get money, the stuff that they eat on, which in turn comes from wages, from salaries, from dividends, comes from interest. You have to keep the whole thing going in pace, do you not?

Mr. RUTTENBERG. I think you have got two assumptions, sir, if I may be permitted. One who receives dividends----

The CHAIRMAN. Yes.

Mr. RUTTENBERG. I think the most recent report of the statistics of income indicated that in the highest brackets about 60 percent of the income comes from dividends. On the lowest brackets less than 3 percent.

The CHAIRMAN. That is right.

Mr. RUTTENBERG. Less than 3 percent comes from dividends so that actually the dividends recipients of America are those individuals in high income-tax brackets, not the street sweeper and the widow and the orphan, in any large degree, although they are sometimes characterized as such. Secondly, on the excess-profits tax against corporations, let me say this: During the war, sir, the excess-profits taxes were on the large corporations. It was the small corporations who did not earn very much, who did not pay excess-profits taxes, and as a result when Congress in 1945 repealed the excess-profits tax, who did they give relief to by repealing it? The big corporations, because they were the ones that paid them. The little guy paid not near as much.

The CHAIRMAN. Are you disappointed with the present tempo of business in this country?

Mr. RUTTENBERG. Not at all, sir. Tempo in terms of the national income it is developing. But I am dissatisfied with it in terms of what it is doing to refusal to grant the kind of wages, the price level——

The CHAIRMAN. Was it not in part due to the plow-back into capital investment to get this machine going that disappointed the predictors of a great industrial tragedy right after VJ-day, and has helped to produce the profits which you are using as a basis for wage increases? Is that not correct?

Mr. RUTTENBERG. It is in part correct.

The CHAIRMAN. That is all I am saying, in part correct.

Senator GEORGE. Let me call your attention to one fact. I know you want to be fair about this. You are in grave error when you say that the little fellow did not have excess profits. The highest and most unconscionable excess profits were exacted from anybody was from a little business, where a few men of real character, capacity, and energy got together, and they had very little capital, but when they made anything, the Government came back and took it all away from them.

Mr. RUTTENBERG. In relation to his base-pay earnings.

Senator GEORGE. He was in a helpless condition.

Mr. RUTTENBERG. That is right; that kind of an individual paid high taxes.

Senator GEORGE. He certainly did.

The CHAIRMAN. Does not our experience show that when you have an excess-profits tax, that it goes into the costs of the product which is another way of saying the consumer pays the bill?

Mr. RUTTENBERG. The point has been argued by a lot of people both ways, sir, and there are arguments on both sides, as to the effect of transferring corporate taxes to the price structure. The incidence of that corporate tax structure depends upon the make-up of the industry. If we get the kind of competitive condition, sir, that you were talking about as being an ultimre objective for American economy, under that the incidence of corporate taxes will not be passed on.

On the other hand, if we get the kind of monopolistic economy that we have in certain industries, we will get the incidence of corporate and excess taxes transferred on to prices. That is why this is not a single problem in itself. This problem has to be tied to the over-all approach to a basic sound economic policy in America.

The CHAIRMAN. I would not oversimplify the problem, but I suggest there is a lot to what Senator Hawkes said a while ago, that any cost of business, and taxes are considered a cost, ultimately passes to the consumer.

Mr. RUTTENBERG. In a competitive economy, would that be true?

Senator HAWKES. It has to be true. In other words, in a competitive economy you have to take every cost and find out how long you can make your goods, and then you have to meet the conditions that are necessary to sell those goods, and if you do not do it, you shut your plant down and you are through.

Mr. RUTTENBERG. In other words, what you are saying, in advance a corporation will fix its price depending upon the amount of income it wants to end up with after taxes.

Senator HAWKES. I am not saying that at all. I am saying the competitors fix the price. The corporation never fixes the price.

They fix it for you at which you have to sell, and you have to take into consideration every cost in the world.

Mr. RUTTENBERG. If that competitor is really a competitor.

Senator HAWKES. You are talking about real economy now; that is what I am talking about.

Mr. RUTTENBERG. Under those kinds of conditions the incidence of corporate taxes are going to be passed on less and less into the price structure, because the competitor, the competitive situation, will force him to cut and cut.

Senator HAWKES. I am saying in a competitive economy when you have a real genuine competition, your competitor fixes the price. You do not fix it at all, and you sell if your product is the same or no better than his; you meet that price or you do not sell it.

Mr. RUTTENBERG. You are going to be the competitor for the guy who sets it first. You are not going to pass that.

Senator HAWKES. In other words, in competition somebody carries the ball part of the time and somebody else carries it part of the time.

Mr. RUTTENBERG. Is not that then what we mean by competition?

Senator HAWKES. That is what we mean.

Mr. RUTTENBERG. As the result, the farther you carry it, the less and less incidence in corporate tax passed on to the price structure.

Senator GEORGE. I want to make just this one observation. I think if you ever adopt as a peacetime measure an excess-profits tax, and an undistributed-profits tax, that you will destroy capitalism in this country. Maybe it is a good thing to destroy it. We will not argue that point. But that would be the inevitable result, because there are some, so relatively few of them, and for the very reason that you are arguing here about the large number of people under $2,000 and under $5,000, would always in the popular form of government be controlling on your taxing system, once you get it thoroughly established.

I think you ought to think about it. I really believe you ought to think about it. You represent a great orgnization, and if you want to maintain a capitalistic state, capitalistic system, if that is the system that is best for us, and on that point, of course, I am not expressing any views at this time, because there are arguments both ways about it, but I do not think you can combine the two suggestions, tax on undistributed corporate earnings and an excess-profits tax in peacetime, without running straight inevitably into the habit of soaking the corporate structure until you pretty well have knocked it out.

And that would pretty well put the capitalistic system out in this country, because we have developed the corporate structure. We have carried it so far, and it is arguable that it maybe has been carried too far. It is that way it exists in our economy.

I think you can get high taxes out of corporations. I did not want to cut the corporate rates from 40 to 38. I think it ought to stay at 40. And I am not by any means sure that we would not eventually have something like a 50 percent corporate tax with your individual taxes more in line with it, so that you would remove the temptation of any business group from getting out of the corporation, and going over into a partnership, and going out and doing business and doing it as an individual when he really ought to be maybe operating under a different form.

Mr. RUTTENBERG. I might say this is an area of tax structures, Senator, which I think would deserve considerable attention on the part not only of our organization but on the part of the Senate committee here, and on the part of a great many organizations and individuals, to study this problem of what we really mean. What is a good sound tax structure as it relates to corporate and excess-profits tax or straight individual income tax with high undistributed profits tax, or some such structure?

Senator GEORGE. You combine the two and I do not believe you could under a system of popular government. I would never be able to think that at all, and I have given a good deal of thought to this problem from year to year. I am sort of loafing on the job now, because I have a great chairman here, Senator Millikin, who is doing the work. But I have a strong feeling and have had for several years now, and had hoped that when the war ended we could bring the individual tax rates more in line with a sound corporate tax, so that there would be no temptation to hold back and not distribute dividends or earnings. That is no human temptation, no purpose of evasion, or anything of that kind, but we have not got that. We are out of line. Our rates are too high undoubtedly, too high on the little folks. I agree with you very strongly.

I think they are too high on all of them, and they are certainly out of line with your corporate tax, and until you have gotten them closer together we will always have very serious trouble with our taxing system.

Mr. RUTTENBERG. I think we ought to direct ourselves to a long-range study of this problem of taxation, because when the Congress passes or does something with the tax bill this year, it is not finished with the problem. The problem of fiscal policy and taxes will remain with our economy forever, and it is something on which there ought to be constant study.

Senator HAWKES. You barely started when you do what you are going to do this year. It is a tremendous over-all study. I take it you would not let the little fellow wait because of the necessity of studying all of these phases.

Mr. RUTTENBERG. No; I would not. Do not get me in the position on H. R. 1. We had that discussion before.

Senator HAWKES. I know your position on that already.

Mr. RUTTENBERG. I think the low-income individual should be given the major share of relief, and that it ought not to be an alternative between H. R. 1 and no bill, but an alternative between who should get the tax relief in our economy.

The CHAIRMAN. Have you gone far enough in your thinking on your excise tax theory to give us a break-down as to who would bear the cost of that as between the wage earner, the consumer, and the dividend man?

Mr. RUTTENBERG. I do not think you can, of course, separate the wage earner from the consumer, and by the dividend man I assume you mean those individuals above a certain net income. I think in 1944 there was a family-expenditure study done by the BLS which attempted to determine the incidence of the excise taxes by income levels.

The CHAIRMAN. At this time you are not prepared to give us your own theory on how that cost would be borne as between the wage earner, the consumer, and the shareholder?

Mr. RUTTENBERG. I could not offhand. I have the material available in a more lengthy tax report which we are going to be publishing in the next few weeks which I shall be glad to submit to the committee.

The CHAIRMAN. We will be glad to have it. Will you give us your formula if you have one for the undistributed-profits angle of your thesis?

Mr. RUTTENBERG. Yes. What in effect we are proposing in this situation is that all profits after the payment of excess-profits and corporate taxes, what profits are left then—let me put it this way, 19-percent tax on all profits after corporate and excess-profits taxes. Then if the corporation decides to distribute 70 or 80 percent of its net income after corporate and excess-profits tax in dividends, then 19 cents on every dollar will be retained by the corporation, 81 cents will go to the dividend recipient, and in effect the dividend recipient would accept that as a dollar payment, getting only 81 cents, as having paid his first income tax, which is at the rate of 19 cents.

The CHAIRMAN. You are opposed to double taxation. You would not tax the corporation and also the dividend recipients?

Mr. RUTTENBERG. I say this is a step along the line of getting an undistributed-profits tax. I am not so sure, sir, that this double taxation theory which has been expounded by a great many individuals is not a fallacious theory.

However, I think it is much too late in the afternoon to begin talking about double taxation.

The CHAIRMAN. Then let me put the end of the point question to you. Does your program contemplate relief from double taxation?

Mr. RUTTENBERG. With any further imposition of taxes, yes.

The CHAIRMAN. Your tax, then, on the corporation, would apply only to that part which it does not distribute in dividends.

Mr. RUTTENBERG. This 19 percent undistributed would be a tax only on that percentage of net profit after all other taxes, which are not distributed in dividends.

The CHAIRMAN. You would have no other tax on the corporation?

Mr. RUTTENBERG. No. It will have the other normal corporate tax structure, and any other kind——

The CHAIRMAN. The short answer is that you would not have relief against double taxation.

Mr. RUTTENBERG. I say first of all we ought to maintain our 38-percent corporate tax structure. Let us say we have no excess-profits tax at all. After the corporation has paid its present 38 percent, we ought to say that that rate, he should pay an additional 19 percent over that 38 on all parts of his corporate profits after that corporate tax that is not distributed in dividends.

The CHAIRMAN. That is what I say the short answer is, that you have no relief against double taxation, is that not correct?

Mr. RUTTENBERG. This does not propose relief against double taxation, because as I say, I think the idea of double taxation is greatly fallacious. I think from this standpoint the dividend recipients are those individuals in high-income brackets, and they are the individuals who would be the beneficiaries, should I say, of the elimination of corporate tax, and therefore higher income available for distribution and dividends.

The CHAIRMAN. Let me ask you again, your proposal does not propose any relief against double taxation, does it?

Mr. RUTTENBERG. Well, I would say it does not, no, because I do not believe in double taxation.

The CHAIRMAN. The answer is no.

Mr. RUTTENBERG. Because I do not believe in double taxation.

The CHAIRMAN. The answer is no; right?

Mr. RUTTENBERG. If we make the assumption I have said, it is hard to answer unequivocally, you know.

The CHAIRMAN. I am afraid that is true.

Senator HAWKES. Might I make a remark there, that suppose corporation A made $10 million and distributed six. There would be $4 million left. As I understand it, regardless of whether corporation A was going to use that to expand its business or extend its plant or put in new apparatus or anything else, you would bring in the 19-percent tax on that money.

Mr. RUTTENBERG. That is right, sir.

Senator GEORGE. Unless paid out in dividends.

Mr. RUTTENBERG. Unless paid out in dividends.

Senator HAWKES. That would certainly interfere with expansion and extension, would it not?

Mr. RUTTENBERG. If I thought it did, I would not suggest it. I would not recommend that my organization support and promote that kind of thing.

Senator HAWKES. It certainly is an added tax burden on the corporation.

Mr. RUTTENBERG. It is, but I do not think it destroys the incentive to produce, and the incentive to reinvest and expand if the market for the product is available. It will expand as evidenced by all sorts of situations developed in past years.

Senator HAWKES. Suppose there was a question as to how much of a market is available. Every corporation that puts in money and builds new plants is in doubt usually, not always, sometimes it is quite sure, but if you owned a corporation, I think that if you owned a substantial part of it, I think you would feel you would be penalized with undistributed profits tax of 19 percent on top of your regular corporation tax. I think if you were the fellow there who was being talked about, instead of doing the talking, I think you would feel it was quite a serious interference.

Mr. RUTTENBERG. It raises the same question we talked about on estate and gift taxes.

The CHAIRMAN. We thank you very much for coming.

Mr. RUTTENBERG. I thank you very much for your courtesy.

The CHAIRMAN. We will take a short recess, and then we will hear Mr. Russ Nixon, Washington representative, United Electrical, Radio and Machine Workers of America, CIO.

The CHAIRMAN. The hearing will come to order. I am sorry, Mr. Nixon, that it is so late in the afternoon. I thought for a time of asking you to come next week, but we are under a very heavy schedule. Will you proceed, please?

STATEMENT OF RUSS NIXON, WASHINGTON REPRESENTATIVE, UNITED ELECTRICAL, RADIO AND MACHINE WORKERS OF AMERICA, CIO

Mr. NIXON. I would like to introduce my statement for the record, and then, if it is agreeable to you, Mr. Chairman, I would like to extemporaneously summarize the statement. I think perhaps, I can save some of your time and perhaps avoid some needless repetition of what has been said.

The CHAIRMAN. That will be entirely agreeable.

Mr. NIXON. I am Russ Nixon, the Washington representative, United Electrical, Radio and Machine Workers of America, CIO.

We are a large union of 600,000 members, representing the workers in such corporations as General Electric, Westinghouse, RCA, Sylvania, and of course, about 1,300 other plants throughout America. The reason why we take the time to come here, in addition to the statement of CIO, is that we are extremely concerned about the growing danger of unemployment in our country and concerned about the effect of the tax legislation on that question. This is a general concern we have. It is also a specific concern, because we have already begun in our industry to experience unemployment, and we have unfortunate indications——

The CHAIRMAN. May I interrupt? Is that pretty general all over the country, or is it spotty?

Mr. NIXON. At this point, it is spotty. Very serious in the radio industry. It is beginning to appear in some durable goods, and it is beginning to appear in some machinery.

Senator HAWKES. May I ask this question, because I know we will all want to get as much light on it as possible. Is that due in the radio industry to the fact that they cannot get certain parts and certain things, or is it due to the fact that the public is not buying?

Mr. NIXON. It is entirely a lack of a market in the radio industry. They produced at the end of 1946, radios, at the rate of 18 million sets a year, and they find that the market is becoming glutted. They cannot continue to make them at that rate.

Senator GEORGE. Large carry-over from the war period they had, too, did not they?

Mr. NIXON. Thirty-three million sets in this country. That is right.

Senator HAWKES. At what rate were they producing before they were limited in their production by the War?

Mr. NIXON. The prewar production rate was around 14 million sets a year.

Senator HAWKES. Then at the end of last year they were producing four million more than their prewar rate?

Mr. NIXON. That is right.

This is really the basis of our concern about talking to you on the tax question. We think it is the threat of unemployment, the coming economic crisis, as we see it, that provides a significant setting for these hearings. Recently there has been a great deal of discussion of the question of unemployment. One of the discussions was in the United States News, a conservative magazine, which analyzed the question: Will there be a recession? In this magazine, they report the likelihood of unemployment as much as 6 million or 7 million, beginning in 1947; and they report in there, and I quote from their analysis, "an unfavorable factor is income distortion that puts a squeeze on buying power, forces consumers to retrench." This was one of the unfavorable circumstances.

The Bureau of Agricultural Economics has pointed out that the share of wages and salaries in national income has fallen from 70 percent at the end of the war to 59 percent last December.

It is our feeling that the bill H. R. 1 flagrantly aggravates this dislocation of income. We think that the philosophy of H. R. 1 and the practical impact of the measure fly in the face of the most generally recognized economic need of the times, which is to safeguard the mass purchasing power of the people. In our view, this moves to speed up and deepen the serious impact of depression.

We feel that in its immediate terms the provisions of H. R. 1 ignore the extreme current economic hardships of the mass of American families in the low income groups, lowers the general standard or fails to permit a rising of the general standard of American living, and gravely increases the problems of the workingman and his family.

The CHAIRMAN. Mr. Nixon, how would the difficulties of the lower bracket people be increased by increasing their spending power by decreasing taxes on them to the extent of probably $3 billion?

Mr. NIXON. It does so because, if it is chosen as an alternative to other measures that are before this Congress on this same issue, it is choosing an alternative which does not give them the maximum benefit that these other measures choose.

The CHAIRMAN. The others give more?

Mr. NIXON. That is right.

The CHAIRMAN. But if you give them $3 billion more spending power, certainly you have not worsened their position.

Mr. NIXON. I am speaking of the terms of its relative impact compared to other bills which this committee has before it. For example, Senator Murray's bill.

The CHAIRMAN. It follows that you have increased purchasing power of $3 billion, does it not, despite the fact that you would like to do it to a larger extent? There is a benefit in this bill of $3 billion additional purchasing power?

Mr. NIXON. Yes.

The CHAIRMAN. That comes to the lower bracket?

Mr. NIXON. Yes.

Senator HAWKES. Is it not fair to say that what he means is that this bill will not increase the purchasing power of the lower-bracket people as much as some other bill that he feels is before the Congress would, if it were enacted? That is what you are saying?

Mr. NIXON. That is correct. I understand that you have more than this H. R. 1 before you. You have Senator Murray's bill.

Senator HAWKES. You are admitting that this bill will improve their position?

Mr. NIXON. It is purely an arithmetical question. There is no question about it. It will improve it. Yes, sir.

I do not want to go into the long discussion about the position we have of the inequitable distribution of the tax relief under H. R. 1. That has been pretty well covered. Fortunately, this is a subject of pretty factual representation, although perhaps by emphasis on one aspect of it you can draw one conclusion; by emphasis upon another, you might draw another conclusion.

I think it is hard to avoid the conclusion from the facts, however, that the relief that H. R. 1 provides is in inverse ratio to the order in which the burden was extended in the wartime.

In 1939, incomes under $5,000 paid less than 10 percent of the total income tax bill. In 1946, they paid 55.7 percent. Under H. R. 1, the burden of those having less than $5,000 income still remains equal to 54.2 percent of the total tax collections. If you take into mind the point that Senator Hawkes made earlier, that you now have a 50-cent dollar, it is clearly seen that the low income brackets are carrying even more than their full wartime proportionate share under the terms of H. R. 1.

The CHAIRMAN. The 50-cent dollar is not confined to the workingman. Its value is the same whether held by the millionaire or by the workingman, is it not?

Mr. NIXON. That is perfectly correct.

The CHAIRMAN. That is a wash item in the whole problem.

Senator HAWKES. That is an excellent way you put what I have been saying today, and day after day. It is the same kind of a dollar in each of our hands, all of our hands.

Mr. NIXON. I do not want to go off too much into the discussion you had this morning on it. The only one difference is that you spend your dollar when it is a 50-cent dollar if you are in the low income brackets; you probably do not spend it if you are in the high income brackets. You spend it later when you have a $1.50 dollar.

Senator HAWKES. Maybe you have a quarter.

Mr. NIXON. Maybe you have a $2 dollar. I do not know where you think prices are going. For this purpose, where I am referring to the impact of the tax load on the low income brackets, even if you stay in simple dollar terms, the proportion under H. R. 1 is virtually the same as the peak under the wartime tax provisions, in significant contrast with the 10 percent share that they had in 1939 before the war. I am only saying that if you make even a general adjustment in terms of real dollars, you will see that the impact below $5,000 incomes is even greater.

This, I think, is a legitimate point, and I think it indicates the general conclusion as worded by Randolph Paul recently, that the House bill would leave taxes substantially above 1939 levels for low income groups, would leave a proportionately heavier burden on the middle brackets and would bring taxes for persons in the high brackets back to nearly 1939 levels. These are simple factual questions, and there can be no question but what this is the general choice in H. R. 1. As you move back, you decide to move back proportionately more in the high income brackets than in the low income brackets.

The CHAIRMAN. One of the basic questions, and I suggest that you do not argue it here now, is whether the 1939 rates were fair.

Mr. NIXON. Yes, that is. I am not sure whether the new majority is raising the question of a complete reconsideration of the relatively progressive nature of tax incidence in 1939. As I understand it, most of us are inclined to accept that at least as not too progressive, but at least I have seen no indication that there is a tendency to go back from that progressiveness or progressivisms. The real issue here, and it was stated in the Majority report from the House, was that it was to relieve the wartime impact: and we look at this bill to see how it relieves the wartime impact, and the inevitable answer is that it leaves the impact of the wartime taxes proportionately speaking on the low-income groups substantially at their wartime peak.

That is really all I wanted to say on the question of the inequitable incidence of this reduction. I know you had a long discussion with Mr. Ruttenberg. There is no point in going over it here.

I want to make, really, two points through about this tax consideration. It seems to me that the most important fact in America today is the growing economic hardship in millions of American families. This is not an agitational statement. It is a very realistic fact, that we are finding in our organizations today, day by day, as the people are really squeezed between their weekly incomes which have lagged from the wartime peak, and the rising prices.

This means that for a tremendous proportion of our people the decisions you make on whether to increase taxes on low-income groups, whether to maintain taxes on low-income groups, how much to take them from low-income groups, you are deciding for millions of people whether they have more milk, whether they have more food and more clothing and more medical care.

In connection with our wage case, we have had occasion to make some analysis of what the people are doing as they have to reduce their expenditures, let us say due to a 5-, 10-percent rise in the cost of living, and we are finding for a great proportion of our people that these are reflected in the marginal purchases of the necessities of life. So when you are dealing with this question of the incidence of taxes, of whether to leave, let us say, a $60 or $70 tax on a man with a wife and two children and $2,500-a-year income, you are deciding upon his purchases of milk, whether to cut down on his purchases of clothing.

This, it seems to me, is an extraordinarily important question. I wonder, for example, whether or not the members of this committee really know what you are doing in terms of family living when you make a decision about the incidence of taxation in the low-income brackets. I have followed the hearings and participated in them for many years, since 1941 here, and I have seen very little evidence come before the tax committees, either here or in the House, which tell what you are doing in terms of human livelihood when you impose a certain tax impact on the low-income people. It would be a very easy thing for this committee by reference to governmental research agencies, the Department of Commerce or the Department of Agriculture, to find out what you are saying when you say that you will leave $67 for the worker with two children and an income of $2,500; or you will take it from him or will leave it with him. What is the decision that you are making? Of course, the decision you are making is this——

Senator HAWKES. May I interrupt there without bothering you? What plan have you for the millions of people who do not come within the income bracket at all, in regard to milk and all of these things?

Mr. NIXON. They are worse off really than the ones that come in the lower brackets.

Senator HAWKES. Are you going to talk about them?

Mr. NIXON. That is not directly relevant. I will be delighted to talk about them.

Senator HAWKES. The chairman cited two or three times today that certainly there is some relief in what is being done, and whether or not that is the bill to decide upon, there is certainly some relief that runs to millions, $3 billion I think it is over-all; but I was just thinking when you talked about the milk and the various other things, that these other people are a problem, that cannot be handled by taxation.

Mr. NIXON. We do not propose to handle it all by taxation.

Senator HAWKES. All right.

Mr. NIXON. We have a position on the wage-and-hour law. We have a position on the school-lunch program for children. We have a position for bringing organization and higher working and living standards in the sweatshops of America. We have a program for all of these people. I only happen now to be talking about the incidence of the tax program on this question.

Senator HAWKES. Pardon me, I do not want to take your mind off that.

Mr. NIXON. I am glad to talk about it at any time.

I wanted to emphasize this, because I feel that the basic human material of your deliberations has not adequately been presented here. We in the CIO do not know all of the data of what this actually means, because we do not have the budget data. We do not have the consumption data that I think we should have, that I think that the Government should have, too; and that should be the basic consideration of this committee as it decides whether to take a little bit more milk, a little bit more clothing, more medical care from a man with a family and two children, and an income of $2,500.

The CHAIRMAN. We are not taking anything away from anybody. H. R. 1 has the purpose all the way along the line of increasing the spending income of all income taxpayers in this country.

Mr. NIXON. In this sense, that you are now considering the rates of income tax on personal incomes, you have the whole subject before you. When you bring out a schedule, that is the responsibility of this committee, not that it existed before, but what you have brought out is the responsibility of this committee. The fact that it may be a little less than it was before may well be to your credit, but the fact that you are still taking a certain amount from certain income levels is also your decision. I mean, it works both ways.

The CHAIRMAN. We would love to reduce these taxes still further. We would love to increase the exemptions still further, but that has a realistic relationship to expenditures in the Government. It has a realistic relationship to contemplated income.

Mr. NIXON. I will talk about that when I come to that part of my testimony. I am only making the point now that you have to make—and there is no way that the committee can avoid it—you have to make a decision about the marginal consumption of people who are really below what you and I would agree are American standards of decency and health.

The CHAIRMAN. I think you may be sure that we are not oblivious to that. We took 12,000,000 people the last time we worked on a tax bill here, and you gentlemen strongly urged it, and we did it.

Mr. NIXON. We are urging others now. I realize that. I make two suggestions. One, I underlined this point because when the NAM comes here, they do not talk in those terms. They never mention it. So I underlined the point.

Secondly, I suggest that this committee get some information on this question, because I do not think you know now what you are actually doing in terms of consumption, in terms of the standard of living of families, when you make a decision about income taxes on levels of $2,400 and $2,500 for a family of four in America today at existing price levels. I do not think you know.

I do not blame you for that, sir, because I can understand how you may not have gotten to that point yet, but I think this is the basic human ingredient of your decision at this level, and in addition to some of the financial questions which you get into, which you talked about with Mr. Ruttenberg.

The CHAIRMAN. It all comes to the basic human ingredient. It all does, all the way along the line.

Mr. NIXON. All right; this is the basic human ingredient. This is the most direct aspect of it. This is the immediate aspect of it.

The CHAIRMAN. No one challenges that.

Mr. NIXON. Well, I think, if I am speaking to a committee that is fully aware and has this on their hearts and minds to the degree that I think they should, then I do not need to say my words, but I would like to emphasize them to you; and from what I know of the data that have been brought before this committee, I think that the data that should be here to guide you in terms of this aspect of your deliberations have never been adequately developed. I suggest you get it. I suggest that you ask it from other Government agencies that I am sure could tell you, as to what this impact means in the low-income levels, in terms of consumption. That is my first point.

Senator HAWKES. May I just say in there that the thought that I had in mind a few moments ago, as to that, I do not want to enlarge on it, but I do want to bring it in right here, because I think it fits in here. As to these programs that you have got, you said for all of these people that are not earning enough to be making any payments on income tax, these programs are going to cost a lot more money, if they are adopted. On the other hand, you are talking about raising the exemptions and removing the taxation which will lessen the Government revenue which it must have to do these things.

Where would you put the load to get that money to do these increased things if you release more people from these other brackets?

Mr. NIXON. I think you will get that when I come to that part of my discussion.

Senator HAWKES. I know of only this, that if you kill all of the incentive and initiative, then you have in this country the same things you have in all of these other countries, that I do not believe you want to emulate, do you?

Mr. NIXON. Of course not; I will come to the question of incentives and full operation of economy in the next point. I think the real issue that you and I would have is not about the statistics of our economy, but about the dynamics of our economy, and that is the way I would want to answer your question basically.

I think there is an important failure on the part of Government and on the part of the Congress to judge adequately the danger of depression which lies over this country today. This is a most serious question, because I think that the biggest issue we have and every action by Government in the fields of economics should be rooted in the question of its effect, whether we are going to return to the unliquidated crisis of 1929 to 1941. I say "unliquidated crisis" because it was not liquidated, and we had mass unemployment in the year of 1941 of around 8,000,000 people, in January of 1941 in this country.

The CHAIRMAN. And a debt of $50 billion or $60 billion?

Mr. NIXON. Yes, sir; of course. We will soon have to answer the question of the American people as to what safeguards Government and the Congress took to ward off coming economic collapse.

In our judgment, the issue of mass unemployment is the issue of high mass markets in America. We feel that H. R. 1 moves us toward unemployment because it undercuts the mass market of our country, and I hasten to address myself to your point. Here, I mean, it does not sustain the mass market to the degree that tax reduction could, if you adopted a different schedule of reductions. To the degree that it makes a contribution of $3 billion, that is, I think, all to the good.

I would disagree with Mr. Ruttenberg on this question. I would favor this bill, H. R. 1, rather than nothing, because I think it is so crucially urgent that we do something to improve the mass purchasing power of our people at this time; and if I was told that I had a gun held to my head in the form of certain concessions in the high brackets, high-income brackets, and I have to therefore make a concession in those brackets in order to get $3 billion for the low-income brackets, I would say, "Yes, give it to us, even at that cost."

The CHAIRMAN. Is not the gun-at-your-head theory rather fantastic? That is, when you are considering a question between increasing something "X" number of points, increasing a benefit "X" number of points, or on your theory "X"-plus number of points?

Mr. NIXON. If you can think of a different figure of speech, which would indicate where we have no choice of getting anything, unless we concede this, that we do not want, I will accept your figure of speech. The point is perfectly clear.

The CHAIRMAN. I am glad to hear you say what you said, and I think Mr. Ruttenberg, on further reflection, will come to the same conclusion.

Mr. NIXON. I assume that what I have said would not detract in any degree from the scandalous concession that we would be forced to make in order to get some improvements for the small-income people if that were the real alternative that we face.

Here I want to talk about the question that Senator Hawkes raises, and that is in the center of many of these discussions. That is the question of whether or not we do not need these concessions in the high-income brackets, whether or not we need to be increasingly conservative in our corporate tax program and increasingly conservative in our tax rates as far as estate and gift taxes are concerned, in order to maintain what is called venture capital. Here we run into the issue of whether what we are faced with in this country is a shortage of venture capital and operation with venture capital or whether we are faced with a problem of lack of mass purchasing power.

I understand the interrelationship between these two things. I understand that you cannot talk about one without the other. There are many simple economic remarks we can make on both sides about these things, and I hope I do not make them on either side, but there is such a thing as a realistic evaluation in a given economic situation of what is the problem, and our feeling is that the problem today is not a lack of venture capital or even a disinclination to use venture capital, but it is the overriding threat that the investment that we have already made, that the tremendous productive equipment that we have built up, will not be met with a mass purchasing power market which will permit it to keep running.

The CHAIRMAN. Mr. Nixon, I think it is perfectly obvious from what you have said that you take sharp difference with Secretary of the Treasury Snyder, who does not anticipate any important recession during the fiscal year 1948?

Mr. NIXON. Just as sharp a difference as it is possible to take. I have no hesitation in taking it.

The CHAIRMAN. It follows from that that you favor some way of buttressing mass purchasing power and that you believe that your way is a better way than the way that is proposed by H. R. 1.

Mr. NIXON. I believe in many ways of buttressing of mass purchasing power. I happen now to be speaking about one that does it, more or less.

The CHAIRMAN. It buttresses about $3 billion?

Mr. NIXON. Yes, sir; it could buttress it $5½ billion.

The CHAIRMAN. I think we cut it a little thin. The people from $5,000 up also contribute to mass purchasing power.

Mr. NIXON. That is correct. Of course, that is, in limited extent compared to those under $5,000.

The CHAIRMAN. I would say less as you go up.

Mr. NIXON. Yes, of course.

The CHAIRMAN. Relatively.

Mr. NIXON. Yes. I wanted to say another word about the question of venture capital.

We have never had the liquid assets in this country that we have today. The liquid assets of business in January 1947 totaled around $70 billion, in contrast with liquid assets in 1939 of around $20 billion.

The CHAIRMAN. What is your production today as compared to 1939?

Mr. NIXON. About double.

The CHAIRMAN. Your capacity for production?

Mr. NIXON. Capacity, physical production, around 50 percent above. The liquidity of our economy on any ratio you want to choose has rarely been equaled in our country. There is no question of the availability of liquid assets. We have been using, through the year 1946, in which we have had a rate of investment, $32 billion that you talked of this morning; a plow-back that is rarely equaled; a tremendously large rate of investment.

The CHAIRMAN. Does it not show the need for very substantial reploughing back into our economy of investment money?

Mr. NIXON. There can be no question about the need of it. But it shows, too, that given your tax rates, and even before the Republicans took over the Congress, they had enough of an optimistic attitude about this country, to go ahead under the so-called punitive tax rates, that we are now talking about, to go ahead and have an investment of $32 billion in this country.

The CHAIRMAN. We joined in these so-called punitive tax rates because of war necessity, and now we are trying to leave them because we hope the war is over.

Mr. NIXON. You see, the point I make is that there is plenty of liquid capital waiting around available for investment. There is no shortage of liquidity of assets in this country. We have finished a year of extremely high investment under existing tax rates. We have no basis for the argument that because of the existing tax structure, business is being driven into the hole and it will not have the incentive to invest, because the facts are all against us.

My point is this: How, then, do we raise in a crisis fashion the point that it is the lack of venture capital and the lack of the incentive to invest which is the danger to our economy? I contrast that with the readily known fact that what is really disturbing people today and disturbing industry and business is the growing likelihood of a lack of markets. There is an indication daily in the financial press of the country of what they talk about as consumer resistance, the question of running out of their markets. I think that every indication is that our real problem is one of sustaining the mass purchasing power of our people.

There is an extremely important need for every responsible leader in America to become aroused about this question of the return of mass unemployment. There has been what I call a new semantics that has been developed around this subject. We talk about recession, because we do not want to use the nasty word "depression," and we want somehow or other to cover up the possibility that we may go really deep into economic collapse again. We use the term "economic shake-out," when we mean a real business collapse. We speak of "consumer resistance" because we remember something in the papers about consumer strikes, and we think this is a mere whim of consumers and neglect the fact that what it is is a basic inability of the masses of the people to buy the products at the price, because they do not have the money and not because they do not have the whim to purchase.

The CHAIRMAN. So far, you have asserted there is an abundance of investment capital available to sustain our economic machine at its present rate, and I hope at an increasing rate, but you have not demonstrated it.

Mr. NIXON. I refer to the two aspects of this question. One is the supply of savings and the supply of liquid assets. That is the question of availability, potential availability. The other question is the decision to use it. You can have a problem on either one of these fronts. On the problem of the first there can be no question about it. We have more savings.

The CHAIRMAN. Do you have much incentive to use it and to take the chances under the high rates of income taxes that the investing class has to pay?

Mr. NIXON. I have already indicated my answer on that, but I am glad to indicate it again. I indicate there are two points. One is the supply; one is the inclination to use. On the first question, there can be no question, because the supply is here. The figures tell us that obviously. On the second question of the inclination——

The CHAIRMAN. That is not a static supply. That is something that has to be replenished, does it not?

Mr. NIXON. Oh, yes, everything in the economy is dynamic. That is the situation.

The CHAIRMAN. H. R. 1 proposes to expand the investment power. If you can conceive that all of the upper bracket benefits of H. R. 1, are going to be put into investment which, of course, it is not, amounting to $5,800,000,000 per year, that is rather a drop in the bucket compared to the investment requirements of this country, is it not?

Mr. NIXON. I think you made an error. You must have meant $2 billion, your total.

The CHAIRMAN. Yes; I did make an error. That would only be a drop in the bucket compared to the total investment requirement to keep our machine going.

Mr. NIXON. Well, my point is that without handing it back, without making the change that you intend to for those income levels, you have a tremendous supply waiting here unused, available.

The CHAIRMAN. That brings you to the incentive.

Mr. NIXON. Now, we come to the second question, the question of incentive. Here we can get into a more lengthy discussion then I presume we want to get into at this point, but let me make this observation. We just finished a year, 3 months away from it, in which we attained the highest level of investment without H. R. 1 giving them the benefit. As I said before, before the Republicans won the election in 1946 which gave new courage, even under those disadvantages, we had seen an investment of $32 billion; so in terms of immediate past history, there is no indication to give foundation to the fear that we have capital available but a disinclination to invest it. Everything on the books, on the record, points in the other direction, and that is why, when the NAM talks about this question, they talk in generalities and do not refer specifically to inclinations to invest, because the records point in the opposite direction.

Senator HAWKES. I would like to say this, that I have talked with a dozen very able men who have money available to invest and instead of investing it in venture capital and doing these things that are necessary to build up employment, they are putting it away and saying, "What is the use of doing it if you are running a chance of losing it all, and if you win, then so much is taken by the Government that it makes it hardly worth while." That is the opinion I get.

Our friend on the stand here thinks that everybody is ready and willing to use the money they have to invest and do these things that are necessary to give full employment. I am sure you did it unintentionally. I believe you must have. You said that all venture capital needed was to know that there was a mass market.

Mr. NIXON. I did not say "all." I do not think I would have used quite as uncautious a phrase as that.

Senator HAWKES. I think you said that, the one very important thing, and if you ever get to have any substantial amount of venture capital——

Mr. NIXON. I never will.

Senator HAWKES. You may.

Mr. NIXON. I am in the labor movement. That categorically is out.

Senator HAWKES. If you ever get to have any capital, you will understand that you need more than a mass market and a good demand. You need an opportunity to make something out of the venture and an opportunity to keep something out of the venture, and that is the thing that we have before us whether anybody likes it or not. It is not a case of whether we like it or not. That is America, and when that thing goes out of the picture, then you have something else.

Mr. NIXON. It is very difficult for me——

The CHAIRMAN. A man is a mere jackass to venture his money, to go into a real risk venture, if half or more of the profits, if any, are taken away from him in taxes.

Mr. NIXON. You are talking about the existing tax rates?

The CHAIRMAN. Yes.

Mr. NIXON. How about the $32 billion investment in 1946? Does it explain that?

The CHAIRMAN. That was partly by tax reduction in 1945.

Senator HAWKES. And hope for the future.

Mr. NIXON. Well, you see, it is very difficult for me to get into the area of speculation about this. We have certain things that are clear. One was done under an existing tax structure. I mean that we cannot argue.

Senator HAWKES. Were you here this morning when the NAM man was here?

Mr. NIXON. Yes, sir.

Senator HAWKES. As I recall it, Mr. Chairman, you correct me if I am wrong, he said that the demand on the banks now for money to invest was becoming substantially large. Is that correct, or am I wrong?

The CHAIRMAN. I thought that was what he said.

Mr. NIXON. He said in some instances, I think.

Senator HAWKES. I thought he felt that the requirement of funds was getting so great to do the things that were necessary in expansion to build up these things for employment that the people were forced to go to the banks.

The CHAIRMAN. Everyone knows that bank loans have been increasing substantially.

Senator HAWKES. That is the point. They have been increasing. You are leaving the impression, if I get it, that there is all kinds of venture capital available without going to the banks, that is perfectly willing to go into the market if there is a demand for the product; and then you are leaving out the factor if there is a chance to make a profit and keep some of it.

Mr. NIXON. All right. On the first point, I am only quoting the figures from the Federal Reserve Board which tells us that we have $70 billion worth of liquid assets, currency, time deposits, demand deposits, United States Government securities, and so forth, in American business today.

Senator HAWKES. You do think all of that is ready and willing to go into, or any substantial part of it, into investment?

Mr. NIXON. Ready to go into it, yes, I think so.

Senator HAWKES. Why are these people having to go to the banks to borrow this money and refinancing it?

Mr. NIXON. It is so needed, other than their actual assets. Others have an excess of it. I mean, the whole economic system comes together in this particular respect. I think it is a spottiness in the situation. I know some corporations are borrowing money, very wealthy corporations; they do not happen to be in quite as liquid a situation. Others are in an extraordinarily liquid situation, and the ones that are not borrow from the ones that are, but the total picture is perfectly clear.

The CHAIRMAN. Let us get some exact figures in the record. Commercial, industrial, and agricultural loans, weekly reporting member banks of the Federal Reserve, in January 1946, $7,272,000,000. During the rest of that year, that ran at $7 billion plus until August when it went up to $8,336,000,000. It remained $8 billion plus in September and until October when it went up to $9 billion plus. It remained $9 billion plus and rising until November, when it started with $9 billion plus and went up by the end of November to $10 billion plus.

In December of 1946, it ran through that month at $10 billion plus. In January of 1947, it started at $10 billion plus, ran down until March of 1947 when it ran up to $11 billion plus, where it was at the last reported figure in March. In other words, running from $7 billion plus in 1946 to $11 billion plus in March of 1947.

Mr. NIXON. I appreciate that because I now add my third pragmatic point. In spite of the fears that you have mentioned, in spite of the tax rates, in spite of all of the disadvantages that seem to arise as paramount considerations in some minds, the inclination to borrow and to use money has been increasing. They have had no difficulty in getting this money and evidently they have not had a fear to do this.

I do not want now to say there is not a problem here. I am saying that there is a responsibility to judge what is the really serious problem, what is the more serious problem. Is the problem one of venture capital in a situation where all of your actual data bear out an optimistic situation? Is that the problem? Or is it a problem where practically every observer now is indicating a serious and growing concern about mass purchasing power, which I think even Senator Hawkes would have to admit, has a basic relationship to this outlook for the future and the incentive to invest?

The CHAIRMAN. What effect would that have on men going to borrow money?

Senator HAWKES. Might I answer his question there, because I do not want it to look as though I am failing to answer that question. He said, "even Mr. Hawkes would have." I wish he would not use the word "even," because I recognize very definitely that you have to have decently distributed buying power in the United States, and I have always been working toward that end.

Mr. NIXON. I will say, "especially Senator Hawkes."

The CHAIRMAN. If the country became generally conscious of your thesis of depression, would that borrowing increase or decrease?

Mr. NIXON. That is going to decrease. Let me finish my answer. That borrowing is going to decrease when orders begin to be cancelled, when the shelves begin to have unmoved articles, and that now is a problem of people not having money to buy the product.

The CHAIRMAN. Will that situation decrease the flow of incentive capital into your economy?

Mr. NIXON. That is depression.

The CHAIRMAN. Or increase it?

Mr. NIXON. That is decreasing the flow of incentive capital. That is the real creation of crisis.

The CHAIRMAN. Let me suggest that you are pointing to the necessity for ploughing back money all the way along the line not only for incentive capital, but to increase mass production.

Mr. NIXON. That is what I am talking about.

The CHAIRMAN. Purchasing power; is that right?

Mr. NIXON. Of course.

The CHAIRMAN. You have a two-barreled problem.

Mr. NIXON. That is the way I started my discussion.

The CHAIRMAN. H. R. 1 does both, but not in the proportions that you would like to see it done; is that not correct?

Mr. NIXON. May I phrase my position myself?

The CHAIRMAN. Certainly.

Mr. NIXON. As I started my discussion on this point, I indicated agreement that both of these sides are necessary in any healthy functioning economy that is indicated. What we have now, and what you have as responsible economic legislators of the country, is to make an evaluation of which of these two things presents a greater problem to our economic stability.

Granted you might say the real problem is one of lack of inclination to invest because of punitive tax rates; in that case you would give no reductions down below and give it all on one side. You might say that both of these things are equally balanced or roughly balanced and give some assistance to both sides. Or you might take the position that I take, at this point, that all of the evidence is that no serious problem on the investment side is indicated today. The problem that is growing week by week is a problem of mass purchasing power, and we must hasten not only by our tax bill but by other measures, to take the steps to sustain the mass purchasing power; because if we do not, the whole other side of the picture investment will collapse, and the picture of income from taxes will also collapse along with it.

The CHAIRMAN. When you reach that point you will then require combined incentive capital and increased mass purchasing power.

Mr. NIXON. You will always need that, but I think you will get the major incentive at this point out of the continuation of the mass purchasing power, and the real danger is the decline of that.

The CHAIRMAN. Looking forward to the condition that you predict, recession or depression, we need to give consideration to both. You have one way of doing it. H. R. 1 is another way of doing it, but they, neither of those two angles, can be neglected, can it?

Mr. NIXON. I want to make a much sharper point than I seem to have been making. My point is that there is today no problem that arises from the tax rates that is withholding investment as a factor in employment or unemployment. That has not been demonstrated to me or to the country, in my judgment. There is a very real problem arising out of the decline and the lack of mass purchasing power.

My saying that you should now most urgently give your attention to the mass purchasing power issue does not mean that we ignore this other question. It merely means that we evaluate that the question of incentive to investment now, rather to invest now, is really a question of the condition of the mass market.

The CHAIRMAN. But from the committee standpoint, if we should reach a conclusion, contrary to that which you are advocating, there is need for incentive capital against the very condition that you are predicting and also that there is need for increasing mass purchasing power against the very condition that you are predicting, then H. R. 1 would aim itself at meeting both of those situations. It might not meet it the way you would like to have it meet it, but it would aim itself at meeting both of those needs.

Mr. NIXON. I think, as I started out, that we have a serious problem of distortion of income in this country, that this would aggravate the distortion, that it does not go back to the prewar tax load, it stays at the wartime tax load. It stays at a wartime proportionate tax load, which was based upon bringing in the low-income people, millions of new taxpayers. The proportionate load of the under $5,000 group is as much or more than before. What we need is a real shift the other way.

The CHAIRMAN. Mr. Ruttenberg's program would increase the total tax burden by a billion dollars. Is that a constructive approach to a projected depression?

Mr. NIXON. Yes; I think so, because it would permit you to take your assets from where they are not really vitally needed and to put them where they are so vitally needed, if we are not going to just collapse in this country.

The CHAIRMAN. You have a billion less of available assets for any purpose for which you wish to apply it.

Mr. NIXON. Not to any purpose to which I wish to apply it.

The CHAIRMAN. Ruttenberg's thesis increases the tax burden of the Nation a billion dollars. Do you think that your wage earners will escape the burden of that?

Mr. NIXON. They might benefit from it. It depends entirely where the tax burden comes from and where the benefit goes.

The CHAIRMAN. Then your theory is that the tax burdens do not pass to the consumer?

Mr. NIXON. Well, not all of them, of course. I mean there is such a thing as the incidence of taxes, you know. You have something to decide here. It is not just an immaterial thing because it is all going to be passed to the consumers.

The CHAIRMAN. I just wanted that much of a concession from you that we have a real problem to decide.

Mr. NIXON. I would not be here unless I thought you had.

Senator HAWKES. Might I say this, because I am very much interested in what we are hearing. As I recall it, the tax bill that puts so many millions more on in the lower brackets was enacted along in 1939, 1940.

The CHAIRMAN. It started in 1940.

Senator HAWKES. All right. Now, you had at that time, a Democratic Congress and a Democratic Administration, did you not?

The CHAIRMAN. Yes.

Senator HAWKES. And very substantially so?

The CHAIRMAN. Yes.

Senator HAWKES. We heard this morning about the greedy and the needy, and can anybody assume that that Congress under President Roosevelt would have put those millions of people on the tax rolls if he had felt that he could have taken more money out of the so-called rich or the greedy and taken more out of the corporations and have avoided doing that thing?

Mr. NIXON. You are just asking a question of historical fact.

Senator HAWKES. I am asking you. In other words, do you feel that if that Congress and the President had not felt at that time that there was only one way to raise that revenue——

Mr. NIXON. The president and Congress did not agree on the tax question in those years. The proposals of the administration, submitted by Mr. Morgenthau and Mr. Paul, were uniformly ignored in most of the controversial aspects.

The CHAIRMAN. The President did not veto any tax bills.

Mr. NIXON. One tax bill.

The CHAIRMAN. Which one?

Mr. NIXON. One during the war; was it 1943? That is where the phrase "tax bill for the greedy and not for the needy" came from.

Senator HAWKES. Who recommended decreasing exemptions? Did not the President and Mr. Paul, the two people you are talking about, recommend the decreasing of exemptions?

Mr. NIXON. Yes.

Senator HAWKES. Now, then, do you think that they were unfriendly to the poor man or the man so-called in the lower brackets?

Mr. NIXON. No. No; I do not think that.

Senator HAWKES. Why did they do that?

Mr. NIXON. We were at war, Senator.

Senator HAWKES. Nevertheless, you had these rich men that you are talking about, you had these big corporations and they were beginning to steam up their industry; and I am asking you if you think that those people, if they felt that they could safely put any heavier load of taxation on the upper brackets at that time, whether they would have gone into the lower brackets and decreased exemptions?

Mr. NIXON. They came and argued for a 55-percent rate on corporations. They argued for doing away with all community property returns. They came and argued for the point we made here on the estate and gift taxes. They came and argued for excess-profits taxes, more than they got. They came and argued, especially President Roosevelt, for limitation on incomes to $25,000. He felt so strongly on the failure to adopt progressive tax bills that he issued the famous veto message which was overridden in which the phrase "tax bill for the greedy and not the needy" was initiated.

Senator HAWKES. At the same time, the party that went along with him, that was in power, certainly was not the Republican Party. You cannot say that the Republican Party did this thing.

Mr. NIXON. Oh, no; you were working together with the Democrats. There was only one majority here. It was the Republican-Democratic majority.

The CHAIRMAN. All of the Members of Congress, the gentleman says, set out to oppress the lower-bracket people.

Mr. NIXON. No, sir; that is not fair, Senator. I did not say that. I acknowledged that the President favored the decline in the income-tax exemptions. I think the wartime was a very different period, very different period in many respects.

Senator HAWKES. But you are missing my point, or else I am not making it clear. I am saying to you that Mr. Roosevelt recommended to the Congress decreasing the exemption.

Mr. NIXON. Yes, sir.

Senator HAWKES. Then, I am saying to you that if he had felt there was any way to get that money for war purposes or any other purposes from the people in the high-income brackets, any further than he had without crushing the spirit of the Nation, I do not believe he would have gone and done what he did.

Mr. NIXON. He did both. The only thing that the Congress took was the cut in the exemptions. The other part of it, of his program, they did not take.

Senator HAWKES. I think you will find that they took quite a substantial part of it.

Mr. NIXON. I know this subject fairly well in a general way. They did not. They neither in the House or Senate did that.

The CHAIRMAN. Perhaps the reason they did not was because your rates in the upper brackets in 1939 were already extermination rates and were intended to be. They were the so-called sock-the-rich rates. They were at their top limits. You cannot take these rates that we have been discussing here today and raise them without confiscation.

So the taxes were gotten at the only place where there was a remaining source for getting them.

Mr. NIXON. There was a division in the country on that. The President felt one way and the majority in the Congress felt another way. On this particular question, I do not have to get into argument. It is just a question of legislative history that I think you, particularly who were on the committee at that time, would know about.

I want to come on a bit beyond this particular point.

Senator HAWKES. May I say one more thing? I am trying to learn something. I do not want to get into an argument. See if I am looking at the thing wrong. Do not you realize that there must have been a reason why they did not go further? Certainly, the Republicans did not do this thing because they only had about 16 or 18 Senators in the whole Senate, and they had to have a substantial number of Democrats to do anything that was contrary to the wish of the President of the United States.

Mr. NIXON. They had President Truman then voting against Roosevelt on that issue, voting to override his veto.

Senator HAWKES. I did not know that. My point is that, and I am sure that you must appreciate it, if you want to preserve the American system of doing things, and I think you do——

Mr. NIXON. Of course.

Senator HAWKES. I think you are very much interested in it. I am sure that you must realize that in considering this bill, which is a very difficult thing, there is no question about that, there are many phases involved in it, that in considering it, we have got to, in the interest of the working man who gets his employment, millions of them, from corporations, we have to consider doing this thing in such a way that when this difficult time that you forecast comes, these corporations will not succumb and have to give up and shut their doors and put those men, thousands of men, out of work. That would be much worse than not giving them a little further income reduction.

Mr. NIXON. Our difference is not in purpose, but how you do it.

Senator HAWKES. Our difference is not in objective. I agree with you.

The CHAIRMAN. What is your theory as to debt retirement?

Mr. NIXON. I want to say one other word on this question of full employment. I have the feeling that the Congress and President Truman and his Council of Economic Advisers have been attempting to be all things to all men in this field. The Council of Economic Advisers writes a report where labor gets one sentence that they like, and management gets another sentence that they like. When you talk with them, they will read the one sentence to us; when the manufacturers talk to them they will read the other sentence; and this is an extraordinarily serious thing, because we are in real danger on this question. If there is an issue as to the correct policy, it needs to be sharply set and needs to be discussed and decided in this country rather than attempting to be all things to all men, which is the present tendency.

I appreciate the fact that I have talked with some heat on this question, but we are beginning to feel it in terms of human experience in our organization, and we are mightily afraid of beginning to experience it for 4 million or 5 million people in the country; and when we have 6 million unemployed, we have 18 million to 20 million Americans, counting their families, who are economically insecure, and that is not a thing that can be contemplated with any quietude on my part.

On debt reduction, it is my feeling and that of my organization, that the questions we have discussed are overwhelmingly more important than the question of debt reduction. That the inclination in some parts to oppose any reduction in taxes in order merely to reduce debts is to ignore the two main points that I have made: One, some kind of surcease for the economic hardship of our people; and secondly, to ignore the need of doing something about mass purchasing power in the country today.

I think, if you analyze the question of debt reduction a little more closely, there will be an inclination to agree. The present interest charge on the United States debt of $5 billion is only 2¼ percent of our total national expenditure. We would be saving a little more than $100 million in interest by the debt reduction contemplated here of $3.8 billion. It is $100 million a year in the Budget. I think that we are on the threshold of economic difficulties in which we will begin to talk in terms of a decline of $10 billion, $20 billion, and $30 billion of national income, and if that is true, it is an entire distortion of the important features before us to talk as a matter of primacy about the question of reducing our interest burden by $100 million a year.

The real issue of debt reduction in this country is not going to be settled by static economic calculations, but is going to be determined upon the issue of whether or not we maintain a high income in this country, a high national income in this country; and the only justification that a man can take to talk about debt reduction now, instead of meeting these other problems, is for him to say that these other problems really do not exist, and that even from the venture capital point of view or the purchasing power point of view we have no problem, but that our problem is one of debt reduction.

For that reason, I disagree with the position taken by Mr. Snyder, for example, that this is the real issue.

The CHAIRMAN. He is going to make a billion and a quarter in this fiscal year, and the same in the next fiscal year, without any tax reduction of any kind to anybody; and surplus accumulated at that rate would take 200 years to pay the national debt.

Mr. NIXON. I do not think the question of debt reduction is the economic question that is before the Congress in April 1947. I think there is another question that is before the Congress, and it overwhelms the debt-reduction question.

The CHAIRMAN. I think you have an interesting slant there. I imagine that you will find that in the end that Congress will conclude that both should be done, that there should be tax reduction and debt reduction, and that the debt reduction should be done more substantially than the administration is advocating.

Mr. NIXON. There is a tendency to exaggerate the implications of public debt. The real implication is how much of your national income goes to pay the rate of interest. In this country it is only 2¼ percent of the national income at the present time. That is not a heavy burden.

That is about all I wanted to say on this question of reducing the debt.

Senator HAWKES. May I say a word in there. I think there are more implications to a national debt than just the question of paying the interest on it. Suppose the bonds that have been sold to the citizens fall due, and the Government defaults, and you have not any citizens to buy any more? Then, what have you?

Mr. NIXON. So long as they pay the interest that problem is not realistic, it does not arise realistically.

Senator HAWKES. It might arise.

Mr. NIXON. Did it ever arise in history? I know of no occasion in history that it ever arose.

Senator HAWKES. In foreign countries?

Mr. NIXON. Not in this one.

Senator HAWKES. There is always a first time in any country. This country never had a debt of $258 billion.

Mr. NIXON. Other countries have had and have managed.

Senator HAWKES. Things that never happened in this country yet may happen if we do not use good judgment.

Mr. NIXON. Sound economic judgment tells you that you can handle this question of national problems. I say it is not our major problem.

Senator HAWKES. I must differ with you, that there is not any other implication in the national debt except paying the interest on it.

Mr. NIXON. That is a more general phrase than I would want to use, if I said that. I would rather have said that the major problem before us is not the question of debt reduction, and that the important implications of the question of what we are going to do here do not run to the question of reducing the debt. Of course, there are other aspects of the problem, and I accept that correction.

There is just one other word that I would like to say. I know how long you have been at work today. I am especially appreciative of being able to come before this committee, because we were not afforded the opportunity to do so on the other side of the Capitol.

I do not want to override propriety here, but I think you cannot fail to be interested in the procedures followed by the House in sending the bill to you, and I think it is not irrelevant.

The CHAIRMAN. Why would we be interested in that? We are not having a hearing on the House, but on a bill.

Mr. NIXON. You are holding a hearing on the bill that is sent to you from the House. What is in it has a certain implication for you. You evaluate, give it a certain credence because it comes from that side of the Capitol which initiates the revenue bills. I am sure this must be in your consideration. I think it must be pointed out to you that in the evolution of that legislation in the House, there was a most extraordinary procedure followed in which open hearings were not permitted, in which people who represented consumer groups and labor groups and citizens' groups were not permitted to testify.

There was a further situation in which, because too long a gag rule procedure was followed in the House, no amendments were permitted, and a very restrictive legislative procedure was followed. I mention this because this issue which so vitally affects our people is being most unfortunately treated on the other side in a nondemocratic manner. I do not want to say undemocratic manner. At least, we did not get what I think most Senators take pride in as the democratic aspects of their procedure over there. We were not permitted to testify. We were not permitted to come before the committee and tell what we thought about this, in spite of applications far in advance of the hearings; and in addition to that, the obvious complications of the bill are used as an excuse to prevent effective division on the floor of the Congress. I could say more, but I am not going to, because it tests your permission to me to talk about it.

The CHAIRMAN. We are not permitted, and I think for very good reasons, to voice criticism of the House of Representatives. We have been delighted to have you here and to hear you. You will have free speech as long as you are here. There will not be any limitation put upon that, so far as any reason for doing so can be anticipated.

I think it might not be quite fair if you were to put Senators who are according you the right of free speech in the embarrassing position of hearing criticisms, in their official capacities, of the House, when they are not at liberty to criticize that body.

Mr. NIXON. I am not asking you to criticize them, and of course, you have already heard criticism of this particular matter in the minority report which you have on this bill. It is not a new issue that I raise with you.

The CHAIRMAN. It would be superfluous to go into it again.

Mr. NIXON. Not superfluous in the sense, that in addition to the official representations of the minority, those of us who represented the public in a sense there, when we come to you, have to indicate our concern about this problem.

The CHAIRMAN. The minority is represented here, and the information that you mention is available here both to the minority and to the majority, and I am not suggesting that you do or do not say anything. I am just asking you to bear in mind all of the circumstances that exist and show a decent regard for them.

Mr. NIXON. That is why I tried to be so circumspect on this question, because I felt I had to mention it.

That is all I will have to say on this subject.

I have not gone at length into the question of the general tax revision, because I have preferred to talk about the issue that you are immediately concerned with, which is H. R. 1 and income tax reduction.

Generally speaking, of course, we subscribe to the general program that was outlined by Mr. Ruttenberg to you; and I do not propose now to repeat what he said to you.

That is all.

Senator HAWKES. Have you any part of your report left that you want to file?

Mr. NIXON. I have filed the entire report. The chairman gave me permission at the beginning of the hearings.

The CHAIRMAN. Have you finished?

Mr. NIXON. Yes, sir.

The CHAIRMAN. Thank you very much for coming.

(The report is as follows:)

STATEMENT OF RUSS NIXON, WASHINGTON REPRESENTATIVE, UNITED ELECTRICAL, RADIO AND MACHINE WORKERS OF AMERICA, CIO, BEFORE THE SENATE FINANCE COMMITTEE APRIL 25, 1947, ON INDIVIDUAL INCOME TAX REDUCTION ACT OF 1947

The coming economic crisis in America provides the significant setting for the congressional consideration of taxes in 1947. Virtually all economic forecasters, with only variations in mode of expression and candor, foresee mass unemployment in the not distant future. It is because of the devastating consequences this development will hold for our 600,000 members that the United Electrical, Radio and Machine Workers of America, CIO, comes before the Senate Finance Committee to talk about the tax bill.

Already we have begun to experience unemployment in our industry. Every indication tells us that within a matter of months many thousands more of our members will lose their jobs. What is done with regard to taxes has a very realistic and highly significant impact upon the economic future of America. The tax measure has to do not only with the welfare of our membership in the most immediate terms, but also vitally affects their more long range economic security.

In a recent issue of the conservative magazine, United States News, which analyzed the question "Will there be a recession?" unemployment of as much as six million was foreseen beginning in 1947. This source mentioned as an important "unfavorable factor * * * income distortion * * * that puts a squeeze on buying power, forces consumers to retrench." The Bureau of Agricultural Economics pointed out recently that the share of wages and salaries in national income has fallen from 70 percent at the end of the war to 59 percent last December. H. R. 1, passed by the House of Representatives and now before the Senate Finance Committee, would deeply and flagrantly aggravate this dislocation of income. The philosophy of H. R. 1 and the practical impact of the measure fly in the face of the most generally recognized economic need of the times, which is to safeguard the mass purchasing power of our people. In so doing, it moves to speed up and deepen the serious impact of depression. In immediate terms the provisions of H. R. 1 ignore the extreme current economic hardships of the mass of American families in the low income groups, lower the general standard of American living, and gravely increase the problems of the workingman and his family.

Inequitable distribution of tax relief under H. R. 1

That H. R. 1 has a grossly inequitable impact in its tax-reduction provisions is merely a matter of fact, subject to irrefutable statistical representation.

H. R. 1 provides relief in reverse ratio to the order in which the burden was extended in wartime. Under the false slogan of getting rid of the wartime tax burden, it leaves the small-income receivers carrying practically their full wartime share of the tax burden. In 1939 incomes under $5,000 paid less than 10 percent of the total income-tax bill. In 1946 they paid 55.7 percent. Under H. R. 1 the burden of those having less than $5,000 income still remains equal to 54.2 percent of total tax collections. When the extreme increase in the price level is considered, it is an irrefutable fact that under H. R. 1 the lower-income citizens would be carrying even more than their full wartime proportionate share of the total tax bill. (See table 1.)

This increase in the share of taxes paid by small incomes was brought about primarily by lowering exemptions and adding tens of millions of low wage and salary earners to the tax rolls. From 1939 to 1946 the tax rolls increased by 39 million. Twenty-one million, or 54 percent of the increase, was in the bracket under $2,000. Seventeen million, or 43 percent, was in the bracket $2,000–$5,000. Altogether 38 million, or 97 percent of the total increase in the tax rolls, fell in the bracket below $5,000. That is how the main burden of wartime taxes was put on the backs of those least able to pay. (See table 2.)

Of the 38 million added to the rolls in the low-income brackets to finance the war, H. R. 1 proposes to drop a mere 1.4 million individuals who happen to be over 65 and therefore qualify for the extra exemption of $500. These are not even necessarily the most needy among the aged, as H. R. 1 gives the $500 extra exemption to each spouse only where both have gross incomes over $500. Thus an old couple with a total income of $2,000 would go tax-free if each had over $500; whereas another old couple where the husband made $1,800 and the wife made nothing would pay a tax of $51 (17 percent of surtax net income of $300) because the wife could not claim the special exemption.

Far and away the greatest increase in tax rates compared with 1939 is left by H. R. 1 on the backs of the low-income taxpayers. In 1939, a married couple paid no tax on incomes up through $2,500. H. R. 1 takes $67 from a $1,500 income, $133 from a $2,000 income, and $228 from a $2,500 income for a married couple. Percentagewise, these low income brackets are left with an infinite increase in taxes over 1939, whereas at the top bracket the increase over 1939 dwindles down to a mere nine-tenths of 1 percent. (See table 3.)

For a couple making $2,000 a year, which is rock-bottom income for health and decency, 1946 taxes took away $190 of the spendable income which they had under the 1939 tax law; H. R. 1 restores only $57 of that cut. In contrast, for the corporation executive and his wife struggling along on $100,000 a year, 1946 taxes took $30,658 of the spendable income they had under the 1939 law; H. R. 1 restores $12,626 of that wartime cut. In even sharper contrast, for the man and wife with a $300,000 income, 1946 taxes took $73,000 of their 1939 spendable income; H. R. 1 restores $47,000 of that reduction.

To put this in another way, the spendable income remaining after taxes of the $2,000 couple is increased 3.1 percent over the wartime level. The spendable income of the $100,000 corporate executive is increased 34 percent over 1946. And the spendable income of the $300,000 wealthy citizen is increased 72 percent over 1946. (See table 3.)

The inequity of H. R. 1 is further illustrated by comparing the average tax relief given in each bracket with a real dollar-and-cents across-the-board tax cut. Across the board, 3.8 billion total tax relief would give $82 to each taxpayer. Under H. R. 1's so-called percentage across-the-board scheme, 96 percent of the taxpayers will average $50, or $32 less than this amount. The average tax relief under H. R. 1 ranges from $16 in the bracket under $1,000 to $163,000 at $1,000,000 and over. (See table 4.)

In considering these proposed reductions it should not be forgotten that substantial relief from the high wartime rates for the high-income brackets was already granted during 1946 through the 5 percent across-the-board tax cut of the 1945 Revenue Act. In addition, surtax rates were cut 3 percentage points in each bracket. These facts, of course, have gained little publicity. The top bracket, taxed in 1944 and 1945 at 94 percent, was lowered in 1946 to 91 percent through reduction in surtax and was further decreased by the general 5-percent reduction in rates to 86.4 percent. Thus a person with a million dollar income in 1944 and 1945 had about $100,000 left after taxes. In 1946 he had $160,000, and under H. R. 1 he would have $271,000, or nearly three times his wartime spendable income.

To sum up, as the former General Counsel of the Treasury Department and outstanding tax expert, Randolph Paul, wrote a few days ago in the Washington Post, "The House bill would leave taxes substantially above 1939 levels for low-income taxpayers; it would leave a proportionately heavier burden on the middle brackets, and it would bring taxes for persons in the high brackets back nearly to 1939 levels." The people of the United States may well ask if this is the Republican evaluation of the specific obligations they undertook in winning the election in 1946.

Fortunately, at least the incidence of taxation can be brought beyond the bounds of debate. The members of the Senate Finance Committee are certainly aware of the incidence of the proposed tax reduction, and the relationship it bears to the relative tax burdens of the wealthy and the poor in America. The significant questions are what this proposal means to the standard of living of the people as they meet today's high prices and what this bill means as we stand on the threshhold of depression in America.

The current tax impact on standards of living of American people

The most important economic fact in America today is that many millions of American families are having difficulty making ends meet due to the high cost of living. Caught between soaring prices and lagging wages, the people have had to dissipate their wartime savings, go into debt, and many millions of families have had to cut down on their purchase of even the barest essentials of food and clothing and medical care. Nearly 25,000,000 taxpayers, 53 percent of the total have $2,000 or less in income. More or less taxes for these groups means more or less milk, more or less meat, more or less clothing, more or less medical care. It is in these real human terms that the issue of how the tax cut will be distributed should be considered.

One of the things about which the men and women of this Union are most proud is their deeply held conviction that the health and welfare of the people are the most important consideration facing any member of this Congress or any official of this Government. It is a plain fact that the cost of decent standard of living, at today's prices, is at least $3,500 a year for a family of four. The budget of the Heller committee of the University of California cost $3,770 in March this year. Yet the Report on H. R. 1 shows that 80 percent of the Nation's taxpayers fall below $3,000 in income. Average weekly wages in manufacturing would total only about $2,500 or $2,600 for a full year's work, if the worker was lucky enough to get a full year's work. It is obvious that the vast majority of American families are living below minimum standards of health and welfare.

Under these circumstances, every penny earned and spent is a marginal penny. If it is spent on one thing, it means some other necessity of life cannot be bought. Every rise in prices consumes more marginal pennies, and cuts down on purchases of essentials. That is the real truth behind the euphemistic slogan of "consumer resistance" to high prices. That is why the physical volume of retail sales reached its peak in February 1946 and has been on the down-trend ever since, falling in January this year to 7 percent below February 1946.

When Congress takes $67 from the income of a worker who has to support a family of four on an income of $2,500, you are taking bread and milk and butter and clothing from that family just as surely as the manufacturer has taken those things away by price rises. And that is not all. You are taking away that $67 from millions of little taxpayers so that you can afford to give an average of $12,000 in tax benefits ot each of a few thousand wealthy executives and stock speculators in the $100,000 bracket, or $38,000 and more to the Girdlers, Sloans, and Wilsons in the brackets around $250,000 and up.

That is the way to perpetuate the situation we found ourselves in during the last war, when 40 percent of our draftees had to be rejected for military service because of physical unfitness.

That is the way to perpetuate the situation we face every year in American industry, where upwards of 600,000,000 man-days per year are lost through ill health—about 20 times the average number of days lost through strikes in all the years from 1940 through 1946.

That is the way to perpetuate and aggravate the growing imbalance between the incomes of the few and the wages and salaries of the many, an imbalance which is demonstrated by the decline in wages and salaries from 70 percent of national income in July 1945 to only 59 percent in December 1946 and to a still lower figure today.

That is the way to run this country smack into a depression of 1929–33 proportions.

You cannot run the Nation's economic machine indefinitely without adequate supplies of the lifeblood of commerce, full and expanding purchasing power in the hands of the people who do 80 or 90 percent of the work and make 80 or 90 percent of the purchases of the products of American industry and agriculture.

I wonder if the members of the Senate Finance Committee actually know what the imposition of the existing tax burden on the low-income groups actually means in terms of standards of living. This is information that should be scientifically available from existing Government research agencies if it were only requested. I cannot understand why this, the most basic human material of your deliberations, is so noticeably lacking in the evidence upon which you are to base your conclusions. It is high time that what we so often refer to as "the American standard of living" and which I am sure we would all insist should be at least a minimum level of health and decency should be really integrated into our tax considerations. H. R. 1 gives us a most fortunate opportunity to do just this because it moves in the very opposite direction—to flout and prevent realization of the American standard of living.

Tax reduction and the coming depression

Every act of the Congress in the field of economics must be judged today for its effect upon whether or not America is to return to the unliquidated crisis of 1929-41 with mass unemployment in even greater numbers than that which we now experience. The Congress will soon have to answer the American people's query as to the safeguards they took to ward off economic collapse. It is in this connection that the tax bill with its impact upon the distribution of income in America, its impact upon the mass purchasing ability of our citizens, achieves its highest importance. The issue of full employment is the issue of high mass markets in America. H. R. 1 drives us toward unemployment because it undercuts the mass market in our country.

In connection with full employment it is argued by some that H. R. 1 will encourage "venture capital" and therefore promote jobs. The majority report is crudely frank in stating that "new investments are believed to come primarily from income of more than $10,000 to $15,000. Those with smaller incomes can save little. * * *" It is on this basis that the House majority rationalized its excessive concern for the high-income receivers in America and ignored the needs of the masses of people for income-tax reduction. The majority outlook ignores the fact that no investment in the world can be profitable if it is not based on an assured flow of consumer spending for the goods produced by that investment.

Actually, there is no lack of "venture capital" apparent in America today. Liquid assets in the hands of the wealthy are three times greater than before the war, and working capital held by corporations is more than double prewar levels. During 1946, under the present so-called punitive tax rate, we had the largest investment in productive plant and equipment in our history. These funds came, as they must in these days of tremendous concentration of capital, predominantly from corporation reserves, banks and insurance companies, and wealthy individuals.

The danger this Nation faces today is that investment has far exceeded the long-run capacities of the market in which the vast majority of consumers are finding themselves unable to buy because of outrageous prices and their own low incomes. Capital in this country has enjoyed a high degree of security in recent years, with a rate of return on net worth for all corporations averaging 6.4 percent since 1939. The rate of return for all corporations in highly prosperous 1929 was only 5.2 percent. In 1946, according to the National City Bank, 2,900 leading corporations earned nine and a half percent on their net worth and the trend this year is still upward. Dividends are, of course, sharing in these lush profits. Clearly neither the supply of capital nor minimum security of investment income is the important threat to full employment today.

As Mr. Randolph Paul said in his recent discussion of the 1947 tax cut: "If we are to use the vast production potential we developed during the war, we must distribute our tax burden in a way that will permit mass consumption. A stabilized market for mass consumption is a prime requisite for productive activity. We can have neither mass consumption nor an expansion of productive capacity activity if our taxes drain off too much purchasing power from the low incomes." It is precisely this draining off of purchasing power from the mass of consumers that makes H. R. 1 a depression-breeding bill.

There is the gravest need for every responsible force in America immediately to become aroused and active about the threatening return to mass unemployment. We must put an end to much of the wishful thinking and shallow analysis which is preventing effective action to keep our economy from going again into the abyss of depression. Today we have a new semantics to cover up the old familiar facts of joblessness, bankruptcies, economic hardships. Instead of depression, we say, "recession," without any real reasons for our hope that the down-swing will not be serious. We refer to economic "shake-out" when we mean a real business collapse. Instead of admitting that people lack money to buy the products of our factories, we speak of "consumer resistance" as if the lag in purchases were mere whims of consumers. We tend to gloss over the tragic implication of six or seven million unemployed and its actual consequent economic insecurity for almost 20,000,000 American citizens, and tend to look at this as a normal or inevitable feature of our situation. We abandon the phrase "full employment" and speak instead of "high level of employment" as if mere changes of words could hide the over-all inefficiency and waste of all joblessness.

It must be recalled that the depression and mass unemployment that spread from 1929 for 12 long years to the beginning of the war was never liquidated. There were 8,000,000 jobless in January 1941. The economic developments of the war period are such as to aggravate rather than to alleviate the unliquidated characteristics of the crisis that still plagued the American economy as war came to the world.

So far, the Congress, President Truman, and his Council of Economic Advisers have attempted to be "all things to all men" in the field of economic policy affecting full employment. It is about time that American leadership got off the fence on this issue because if they don't they will be knocked off by the very realistic and relentless impact of unemployment. The tax bill passed by the Congress should check depression, not feed it.

Debt reduction

It is our view that the problems already discussed are overwhelmingly more important than the objective of debt reduction which has led many to oppose any tax reduction at this time. To apply the 3.8 billion dollars for debt reduction rather than for tax reduction does nothing to solve the really urgent economic problems facing us. Even worse, it perpetuates the evils of the present tax system.

For one thing, it leaves us with the present unbalanced tax structure built up during the war on top of an already regressive peacetime system. This is neither equitable nor conducive to sustained purchasing power.

In the second place, application of the money to debt reduction would accomplish a minute reduction of the debt burden at the expense of the urgent need to bolster consumer purchasing power and correct the distortions in national income which are leading to collapse.

The real burden of the public debt is measured by the interest charge, and specifically by the proportion of total national expenditures required to pay this interest charge. The present interest charge on the United States debt of $5 billion is only 2.5 percent of our total national expenditures. Since 1919, we have had a 900-percent increase in the debt with only an 80-percent increase in the proportion of national expenditures going to interest on the debt.

Reduction of debt by $3.8 billion would decrease the interest charge by little more than $100 million (assuming an average interest rate on the debt of 3 percent). Such a reduction would hardly be noticed and would certainly do nothing to bolster up falling retail sales. But $3.8 billion in tax relief to low incomes would have an important stabilizing effect on retail sales, production, and employment. With regard to the durable-goods industries in which the membership of this Union is most vitally concerned, I would call your attention to the fact that $3.8 billion would cover the annual average consumer purchases of radios, refrigerators, washing machines, vacuum cleaners, sewing machines, and other houshold furnishings and equipment for the period 1939–41.

The essence of the debt problem is to maintain an expanding national income. At present levels of debt and national income, according to a Federal Reserve Board authority, we could borrow $8 to $10 billion and more a year for the next 50 years without raising interest charges to more than 4 or 5 percent of national income—provided national income continued to grow at the same rate—3.3 percent—as over the period 1879–1941. As the Reserve Board authority concludes:

"The economy will hardly be impeded from effective functioning by a debt service equal to some 4 or 6 percent of its national income. * * * Repayment of the debt is not the only available method of reducing the debt burden. This aim can also be achieved, and in a much safer way, by promoting a more rapid growth of income" (Board of Governors of the Federal Reserve System, Public Finance and Full Employment, Postwar Economic Studies No. 3, pp. 59–60).

Since 1929, practically every industrial nation in the world has found itself obliged to go heavily into debt in order to make expenditures for maintaining national income and purchasing power. This had to be done to save business from the effects of income distortions brought about by high profits and low wages. In our own country the core of the opposition to New Deal recovery measures was an attack upon "deficit spending" and an "unbalanced budget." It is obvious from our experience in 1930–32, and from the carefully documented studies of the Federal Reserve Board and other experts in the field, that the economic dangers of such fiscal measures are remote, whereas the consequences of failing to take such measures to conserve human resources are immediate and disastrous.

Undemocratic procedure followed in passage of H. R. 1 in House of Representatives

I am particularly appreciative of the courtesy and consideration of the Senate Finance Committee in being permitted to testify today because it contrasts so significantly with the treatment accorded opponents of H. R. 1 by the House Ways and Means Committee. While I realize that this question of procedure is, of course, the business of the House and not of the Senate, it cannot be irrelevant and lacking in interest to the members of this committee in the Senate to know the circumstances under which H. R. 1 was sent over from the House of Representatives.

H. R. 1 comes to the Senate without open hearings having been held by the House Ways and Means Committee and without significant debate or any amendments being permitted on the floor of the House of Representatives because of a gag rule. Normal legislative procedures were cast aside in treating this matter.

Initial hearings on H. R. 1 were set by the House Ways and Means Committee for February 18 and 19. It was announced that these hearings were to be restricted to technical experts from the Treasury, the Bureau of Internal Revenue, and the Congressional Joint Committee on Internal Revenue Taxation. As a result of public protests against this particular gag procedure, the hearings were postponed. President Fitzgerald, of my union, was among those protesting to the committee and to congressional leaders. As a result, we received letters from Speaker Martin and Floor Leader Halleck, assuring us that no definite decision to exclude the public from hearings had been made, and that the whole matter was being reviewed.

But these assurances came to naught. On March 13 and 14 the Ways and Means Committee held a two-day "quickie hearing." In the words of the minority report of the Ways and Means Committee, "a full and free discussion of H. R. 1 as introduced was denied the public by high-handed and unprecedented tactics. The hearings lasted but 2 days and only two witnesses other than Government officials were called. These witnesses, whose views were already known, were hand-picked."

These hand-picked witnesses were ex-Treasury officials, John W. Hanes and Roswell McGill. They were picked because they have made themselves notorious as opponents of progressive tax legislation and as the proponents of the type of tax bill being urged by the National Association of Manufacturers and the United States Chamber of Commerce. You can infer what these officials told the committee from what Mr. Hanes told the Young Republican Club of New York a week later. He said that tax relief for wage earners was "poppycock and claptrap." Mr. Hanes advocated raising a third of the Government's budget by the most reactionary tax measure of all—a national sales tax. "The budget," he said, "can only be balanced by the sweat of the brow of the people who work in this country."

The request of the CIO, requests of many different international unions, the requests of citizens and consumer groups interested in tax legislation, that they be given an opportunity to be heard before the committee, were all denied. The minority members of the Ways and Means Committee were forced to complain that they learned of the decisions of the committee only by reading the newspapers, and had to protest the "railroading" of this bill by the committee majority, led by Chairman Knutson. The specific motion in the committee to permit witnesses to be heard was overwhelmingly defeated by the majority.

After listening to this selected testimony, the committee, on March 21, voted 16 to 9 to adopt the Knutson bill with a few sugar-coating amendments. The New York Times described the purpose of these amendments as "to soften opposition to the originally proposed 20 percent across-the-board reduction as a 'help the rich bill.' " Of course, the adjustments in no sense changed the basic character of the legislation and served only to create, for those who wished it, political confusion and the illusion that adjustments had been made to reestablish the equity of the tax-reduction schedules.

The bill then went before the House on March 26 and 27 under a rule limiting debate to 6 hours with no amendments. Representative Sabath, whose experience in Congress runs back 40 years, called this procedure "the most vicious gag rule ever brought to this floor."

As passed by the House, the bill actually constitutes "taxation without representation," a principle wholly alien to the American political tradition.

The debate brought out some charges which have never been answered by the sponsors of this bill. Representative Forand (D, Rhode Island) charged "they want to make good, of course, in the higher brackets, because that is where their slush fund for the election comes from."

Representative Eberharter (D, Pennsylvania) pointed out that the bill gives a higher tax benefit to Members of Congress than to the 45 million taxpayers with incomes under $5,000, all of whom would receive less than a 4 percent increase in take-home pay.

Republican Representative Engel (Michigan) charged that "the Knutson bill gives a man who made the biggest profits during the war the biggest tax relief, while the individual who had little or no increase in income, such as teachers and other white-collar groups, is now asked to continue to accept increasingly low living standards because of such increased costs." Mr. Engel told of pressure by wealthy banking, oil, and steel interests, as well as a Republican national committeeman, to get him to change his vote. Congressman Engel further charged the GOP with attempting to get the Townsend vote, and asked to whom the promise of a 20 percent tax cut had been made: "Was it to the workers in U. S. Steel, Weirton Steel, or other steel corporations? Or was it to the financiers behind those steel companies to whom this promise was made?"

Representative Madden (D, Indiana) called it "special privilege legislation for which the Republican Party has long been famous."

Representative Sadowski (Democrat, Michigan) summed it up by saying: "This tax bill that is before us now represents a revival of the old Mellon-Hoover policy of siphoning off millions of dollars to the rich on top of the pyramid in the hope that some little bit will dribble down to the masses of people. This policy will create a lot of millionaires and then another depression, as we had under Hoover. The only way that we can have continued prosperity is to see that the purchasing power of the masses of people is maintained. A good many people are already wondering whether this bill is not really a big sledge hammer to smash the labor unions. They feel that this bill will fill the pockets of the wealthy with millions of dollars, and then they will close the factories and tell labor to wait in the bread lines until they are ready to come to work at slave-labor wages." Mr. Sadowski charged that under the bill, 9 million taxpayers willl get nothing, 25 million taxpayers will get an average of $34, and the rest goes to the rich. "This bill," he concluded, "should be called the Knutson-Republican swindle bill."

For too long now, taxes have been initiated in the House without the real democratic practice of free debate, amendment, and record voting being followed. The obvious and undeniable technicalities of tax legislation have been used as a phony excuse to prevent effective discussion and voting in thé House on even committee minority proposals. This was true under the Democratic majority as well as under the present Republican majority. The practice in essence has been for a majority of 13 committee members, in practical effect, to write the tax legislation for the 495 Members of the House. Their main decisions have been made in secret executive sessions and are not known to the people. The House Rules Committee has consistently issued rules utterly restricting the area of discussion and votes on the tax measures. The present situation is only a particularly flagrant example of this procedure. It is entirely out of place in legislation which has such an immediate and intimate effect upon the livelihood of all American people. It seems to my union that the sober and fair members of the Senate Finance Committee cannot fail to take this into consideration as they judge H. R. 1 in 1947.

The UE-CIO tax program

The full and detailed program of the CIO for general tax revision has already been made known to the Senate Finance Committee. We fully support those proposals. They need only be summarised here very briefly.

1. Personal-income-tax exemptions should be increased to $3,500 for a family of four, with exemptions of $2,500 for a married person, $1,250 for a single person, and $500 for each dependent.

2. Excise taxes should be eliminated particularly upon all commodities of daily consumption.

3. The present corporate tax rate of 38 percent should be retained with a graduated corporate tax for those corporations earning less than $25,000 which

starts at 10 percent on the first $5,000 of corporate income and reaches 38 percent on all income above $25,000. This we urge for purposes of relief and assistance to small business.

4. An adequate tax on the undistributed profits of all corporations should be levied.

5. The excess-profits tax should be reenacted on a similar basis as during the war, with modification to reduce the rate of tax on excess profits from 95 to 75 percent and to increase the exemptions from this tax from $10,000 to $25,000 as a relief to small corporations.

6. Effective and immediate action should be taken to close the many loopholes which exist in the tax laws today and which uniformly aid high-income individuals alone: (A) We propose the mandatory filing of a single return for a man and his wife instead of the highly regressive privilege of reducing taxes by filing separate returns as is practiced in nine states at the present time; (B) We urge effective taxation on capital gains; (C) We urge the abolition of tax-exempt securities.

7. State and gift tax exemptions should be combined with the total exemption reduced to $25,000.

These proposals would significantly increase the income of our tax laws and would introduce equity in the tax burden where it is now so noticeably lacking. The progressive redistribution of the tax burden involved would be a significant contribution both to the well-being of the great masses of the American people and to the security of the American economy.

TABLE 1.—*Distribution of tax burden by income class*

Net income class	Percentage of total tax liability		
	1939	1946	H. R. 1
	Percent	*Percent*	*Percent*
Under $2,000	2.4	17.3	15.5
$2,000 to $5,000	7.4	38.4	38.7
Under $5,000	9.8	55.7	54.2
$5,000 to $10,000	9.0	8.3	8.5
$10,000 to $25,000	17.0	12.0	12.4
$25,000 and over	64.2	24.0	24.9
$5,000 and over	90.2	44.3	45.8

Sources: U. S. Treasury Department, Statistics of Income for 1942, pt. 1, p. 239; report to accompany H. R. 1, p. 23.

TABLE 2.—*Increase in taxpayers by income class*

[In thousands]

Net income class	1939	1946 and H. R. 1	Increase
Under $2,000	3,410.7	24,596.3	21,185.6
$2,000 to $5,000	3,528.9	20,221.1	16,692.2
Under $5,000	6,939.6	44,817.4	37,877.8
$5,000 to $10,000	484.7	1,213.5	728.8
$10,000 to $25,000	164.7	506.9	342.2
$25,000 and over	126.6	146.0	19.4
$5,000 and over	776.0	1,866.4	1,090.4
Total	7,715.6	[1] 46,683.8	38,968.2

[1] Including some 1.4 million taxpayers over 65 who would be dropped under H. R. 1.

Sources: U. S. Treasury Department, Statistics of Income for 1942, pt. 1, p. 235; report to accompany H. R. 1, p. 23.

TABLE 3.—*Effects of H. R. 1*

[Married person—no dependents]

Net income	Increase in spendable income over 1946	Increase in tax burden over 1939	Net income	Increase in spendable income over 1946	Increase in tax burden over 1939
	Percent	*Percent*		*Percent*	*Percent*
$1,000			$25,000	11.4	191.9
$1,500	2.0	(1)	$50,000	19.7	123.7
$2,000	3.1	(1)	$100,000	34.2	55.5
$2,500	2.6	(1)	300,000	72.0	16.0
$3,000	2.9	3,700.0	$500,000	70.7	12.5
$4,000	3.5	970.5	$1,000,000	69.2	7.3
$5,000	3.8	697.5	$5,000,000	62.4	.9
$10,000	5.6	321.2			

[1] Percentage increase under H. R. 1 is infinite because no tax was levied in 1939. Tax under H. R. 1 $1,500–$67; $2,000–$133; $2,500–$228.

Sources: Report to accompany H. R. 1, pp. 38, 40, 18, Congressional Record, Mar. 27, 1947, p. 2785.

TABLE 4.—*Average tax reduction under H. R. 1 by income class*

Net income class (in thousands)	Percent of taxpayers	Average reduction	Net income class (in thousands)	Percent of taxpayers	Average reduction
Under $1	14.1	$16	$25 to $50	0.2	$2,780
$1 to $2	38.6	43	$50 to $100	.1	7,350
$2 to $5	43.3	68	$100 to $300	(1)	19,800
			$300 to $500	(1)	50,500
Total under $5	96.0	50	$500 to $1,000	(1)	66,400
			$1,000 and over	(1)	163,000
$5 to $10	2.6	230			
$10 to $25	1.1	795	Total, $25 and over	.3	5,200
Total, $5 to $25	3.7	396			

[1] Less than 0.05 percent.

Source: Report to accompany H. R. 1, p. 23.

The CHAIRMAN. We will now recess until Monday at 10:30 o'clock.

(Whereupon, at 6:00 p. m., Friday, April 25, 1947, the committee recessed until 10:30 a. m., Monday, April 28, 1947.)

INDIVIDUAL INCOME-TAX REDUCTION

MONDAY, APRIL 28, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin (chairman) presiding.

Present: Senators Millikin (chairman), Taft, Butler, Brewster, Bushfield, Hawkes, Martin, George, Byrd, Johnson of Colorado, and Lucas.

The CHAIRMAN. The hearing will come to order, please.

The first witness is Mr. Ellsworth C. Alvord, of the United States Chamber of Commerce.

Will you state your full name and your business?

STATEMENT OF ELLSWORTH C. ALVORD, CHAIRMAN, COMMITTEE ON FEDERAL FINANCE, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY JOHN J. O'CONNOR, MANAGER, FINANCE DEPARTMENT, AND ARTHUR W. CRAWFORD, CHAMBER OF COMMERCE OF THE UNITED STATES, WASHINGTON, D. C.

Mr. ALVORD. Mr. Chairman and gentlemen of the committee, I would like if I may to proceed as I usually do, that is, to file a prepared statement with the clerk to be incorporated in the hearings, and then proceed more or less extemporaneously.

The CHAIRMAN. That is agreeable.

(The statement referred to is as follows:)

STATEMENT OF ELLSWORTH C. ALVORD, CHAIRMAN, COMMITTEE ON FEDERAL FINANCE, CHAMBER OF COMMERCE OF THE UNITED STATES, WASHINGTON, D. C., PRESENTED TO THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE, AT HEARINGS ON H. R. 1, APRIL 28, 1947

Mr. CHAIRMAN, gentlemen; I am Ellsworth C. Alvord, an attorney, of Washington, D. C. I appear as Chairman of the Committee on Federal Finance of the Chamber of Commerce of the United States.

Certain assumptions are basic to our statement concerning H. R. 1. These have to do with (1) expenditures, (2) receipts, and (3) tax reduction now.

I. AS TO EXPENDITURES

1. *Total for 1948.*—Expenditures must be brought below the 37.5 billion dollars proposed for fiscal 1948 in the general budget message; the House has proposed $6,000,000,000 reduction, the Senate 4.5 billion dollars.

It appears basic to reduce the expenditures for 1948, as a means of providing both tax relief and substantial debt curtailment. We hope the ceiling will be fixed at 31.5 billion dollars, at any rate below $33,000,000,000. We regret that circumstances have not permitted adequate exploration of a figure below $30,000,000,000.

2. *Budget message.*—The nature of the budget message of last January, and much of the discussion of it, have tended to distort appraisal of the fiscal situation.

(*a*) The budget message of last January, proposing expenditures of 37.5 billion dollars, was in reality a recommendation to continue deficit financing into the third postwar fiscal year, in the face of revenues five and one-half times as great as those of the last prewar fiscal year, 1941.

(*b*) It was a recommendation still maintained, to continue into the postwar period the high level of wartime taxes.

(*c*) It was a recommendation, still maintained, to lower the expenditures, as compared to those then expected for the current year, by only about $5,000,000,000 and under present estimates only by $4,000,000,000—a reduction which would not equal the total of nonrecurring expenditures.

(*d*) It was a failure to recognize that it is the level at which the budget is balanced which is now of prime importance, and that few plaudits are due for balancing a budget by applying high war rates of taxes to peacetime incomes and transactions.

(*e*) It was a failure to comprehend the urgent necessity of reducing confiscatory wartime taxes; that a lightening of the tax burden will be more conductive to stable and high revenues than excessive taxes; that reduction of such taxes, within a balanced budget permitting debt retirement, is prudent insurance against depression, unemployment and unstable revenues.

(*f*) The budget estimates of last January covering the current year have proved to be short-lived. Those with regard to next year are now under challenge.

3. *Total for 1949.*—Expenditures for fiscal 1949 should be planned much below those for fiscal 1948. We recommend action, before the summer recess, by the appropriate committees of Congress, using the powers vested in them by the Budget Act, to notify the Bureau of the Budget that in preparing the estimates next fall, for fiscal 1949, they will expect tables showing the make-up, in some detail, of expenditures aggregating $25,000,000,000 or less. These estimates should be available to the appropriation and revenue committees in time to permit of adequate appraisal before the Joint Budget Committee makes its recommendations February 15 next as to a new ceiling and probable receipts, which will again be significant with regard to tax and debt reduction.

4. *Transfer to 1947.*—There should be analysis of those expenditures now proposed for fiscal 1948, which properly can be made in fiscal 1947. Fiscal 1948 might also be relieved by any proper deferments of expenditures to later years or by exclusion, as charges against current receipts, of contemplated reimbursable loans which by statute are made public debt transactions.

5. *Annual balance.*—There should be no temporizing with a basic policy that a balanced budget, with definite provision for curtailment of debt, should be the normal procedure. This should be the objective for each year and not some go-as-you-please theory of functional finance.

It is not too early for the Congress to provide for a Commission on National Debt to recommend orderly procedure for handling the debt; the minimum amount which should be retired each year; whether or not an accumulative sinking fund should be established; the proper proportion of short- and long-term debt; problems relating to interest, bank holdings and accumulations by government trust funds, etc. From a revenue aspect, the main problem which should be analyzed by the Congress is determination of a proper, annual, minimum charge on current revenues for debt purposes.

6. *Ceiling process.*—We expect that with more experience the ceiling process, provided in the Legislative Reorganization Act, will be improved and will work more smoothly. When methods of improving this process are under examination we will be pleased to make recommendations to the appropriate bodies. We state now our conviction that the ceiling process is justifiable philosophically and practically.

7. *Improved controls.*—Better congressional controls of expenditures of the regular Government agencies and Government corporations can and should be instituted. This may or may not be a part of the ceiling process. An examination by the Congress of numerous continuing commitments to spend is essential to control of expenditures.

It is apparent that much remains to be done to enforce economy and efficiency, but there is reasonable prospect now of expenditures being kept to a total of between $31.5 billion and $33 billion for fiscal 1948.

II. AS TO RECEIPTS

1. *Amount of 1947 surplus.*—According to the latest official estimate for fiscal 1947, the surplus will be 1.25 billion dollars (revenues of 42.5 billion dollars less expenditures of 41.25 billion dollars).

2. *Amount of 1948 surplus.*—The official estimate in the budget message, provided certain laws, mainly renewal of the lapsing excises, were passed, was 1.8 billion dollars of surplus for fiscal 1948 (revenue of 38.9 billion dollars less expenditures of 37.1 billion dollars). Secretary Snyder, however, has recently used an estimate of surplus of 1.3 billion dollars (revenues of 38.8 billion dollars less expenditures of 37.5 billion dollars), apparently disregarding elimination of a $400,000,000 postal deficit.

Secretary Snyder has stated that the Treasury's revenue estimate for fiscal 1948 was based last December on national income payments of $168,000,000,000 and he has been standing on that figure, although the current estimate by the Department of Commerce is that for the first quarter of this year national income payments are running at the rate of about $177,000,000,000 (or $180,000,000,000 of national income.)

Secretary Snyder also is reported by the press (New York Times, April 23, 1947) to have testified here that if national income payments continue at an estimated present level of about $176,000,000,000, the receipts for 1948 would be $3,000,000,000 higher than the 38.8 billion dollars he used, making total receipts of 41.8 billion dollars.

The Ways and Means Committee report on H. R. 1 states that with continuance of the present volume of employment the revenues for 1948 might be expected to produce receipts of at least $43,000,000,000.

If expenditures are kept to the House ceiling and receipts run $42,000,000,000, the surplus would be 10.5 billion dollars; under the Senate ceiling $9,000,000,000, and at a half-way point 9.75 billion dollars.

From any approach, there would now appear to be a reasonable prospect of a surplus in excess of $9,000,000,000.

III. AS TO TAX REDUCTION NOW

1. *Cost.*—For fiscal 1948, the Treasury estimates that the effect of H. R. 1, would be to reduce receipts by about $4,000,000,000 (3.994 billion dollars) and to increase refunds to be made after July 1, 1947 by an additional $751,000,000, a total difference of about 4.7 billion dollars.

Such estimates presumably take little account of the probability that the proposed reductions of rates would not result in such a decrease of receipts. Experience with tax cuts, in recent years, and earlier, has demonstrated that receipts have exceeded the prior estimates of effects of the tax reduction. Tax reductions may pay for themselves, as they did after World War I, when reductions of rates were followed by increasing tax yields.

2. *Both tax and debt reduction.*—It should be emphasized that both tax reduction now and debt reduction are feasible. Furthermore, with continuing pressure to reduce expenditures for 1949, and thereafter, future tax and debt reductions will be possible.

If we should concede that passage of H. R. 1 would mean a reduction of 4.7 billion dollars in receipts, prospects indicate at least an equivalent amount of debt reduction. This is to be contrasted with a January 1947 official forecast of a deficit of 2.3 billion dollars this year and, with renewal of lapsing excises and avoidance of postal deficit, a surplus of 1.8 billion dollars next year. More recently, the official forecast has been changed to a surplus of about 1.2 billion dollars this year while continuing the estimate of 1.8 billion dollars next year. The prospects under review by your committee now suggest a surplus this year of at least what is officially forecast and, as earlier indicated, $9,000,000,000 or more next year.

We make no suggestion that tax reduction now be made at the expense of reasonable debt reduction.

Furthermore, as recently stated by W. Randolph Burgess (chairman of an able committee on public debt policy, also chairman of the economic policy commission of the American Bankers Association and formerly president of that association), who naturally favors substantial reduction of debt, the excessive taxes are now the most important brake on our economy and surely the easiest to release (April 17, 1947).

A stable program of debt retirement will be aided by tax reduction which will help to sustain a high level of economic activity. Keeping taxes so high as to impair incentive is striking at a dynamic and vigorous economy and endangering the establishment of a supportable debt retirement program.

3. *Inflation.*—Perhaps enough testimony has been presented concerning the inconsistencies of maintaining, on the one hand, taxes to deprive citizens of purchasing power (and, fully as important, of saving power) and, on the other hand, of advocating actions which while temporarily raising purchasing power for some will soon raise prices and decrease purchasing power of all.

A few observations on this situation, however, are important. A tax decrease would result in more take-home pay, more saving and purchasing power, without the concomitant of increased prices which must result from increased costs of production and distribution and of services auxiliary thereto.

Our citizens, should they decide, could mobilize enormous purchasing power by turning their present savings into spending. This could be forced, as it has been upon many, by high taxes. Our citizens surely can be trusted with their savings and current incomes fully as much as public officials can be entrusted with excessive revenues and power to spend them.

Tax cut now is anti-inflationary in its encouragement to production, savings and investment and in reducing the pressure to expand bank and other sources of credit.

4. *Timing tax cuts.*—Reasons, besides inflationary possibilities and the need of debt reduction, are advanced to delay tax cuts.

One is that we should await revision of the whole tax structure. It is our position that we can and must have both—that is, reduction now and a thorough revision next year. The complexities of a general revision are great, the task a huge one. A cut in the individual income tax now could still be measured against subsequent necessary adjustment of this and other taxes. This bill should be but the beginning.

Another suggestion is that the expenditure situation and the revenue situation are not sufficiently clear. Official statements and proposals certainly have not contributed much to clarity. Tax revisions have proceeded, historically, in the light of the judgment of the Congress as to revenue and expenditure prospects. Tax reduction would not be made in any year if it were required to await definitive budget results in a current year. This suggestion has some of the aspects of a stall to support postponement.

5. *Recession or depression.*—The Secretary of the Treasury has stated here that: "Under these favorable economic conditions present taxes do not impose an excessive hardship on the American people." That is a matter of opinion. The contrary view is supported on every hand. There is an excessive hardship, in our judgment. The present taxes contribute to demands for wage and salary increases, to living on capital, to reduced incentive to earn and save and invest.

Beyond this, they are a hardship upon the country. Shortages are decreasing, inventories are at record high levels, orders are leveling off, prices are wobbling, costs are increasing, earning forecasts are less bright, and the entire economy is vulnerable to a variety of unfavorable influences.

We cannot await further development of these influences unfavorable to the continuance of a high level of national income and of a dynamic and progressive economy. We should buy insurance now, through encouragement to incentive and by tax reduction. We should replace the transitory and artificial stimulus of wartime shortages by the stimulus and insurance of tax reduction now. We should continue to work for urgently needed tax reforms to provide further stimulus, and not wait until harder and harder times are upon us.

6. *The bill.*—The Chamber's Committee on Federal Finance, under existing policies of the chamber, has advocated a flat-rate and across-the-board reduction in individual income taxes payable for 1947. It had hoped the reduction would be at least 25 percent.

The bill approximates this proposal and we urge its prompt enactment. Under the existing circumstances there is no merit to the arguments:

(*a*) That passage of the bill reduces the progressivity of the income tax; in fact, it increases it.

(*b*) That there is a wide differential between individuals in the matter of the tax benefits conferred; this disregards the differentials in the proportions of taxes which still would remain.

(*c*) That exemptions should be increased, even to the point of absorbing practically all of the available tax relief; this disregards both need and practicability.

(*d*) That consumption precedes production, and must be maintained at all costs, when in fact production must precede consumption and the process is dependent upon fair treatment of its essential requirements.

(*e*) That we have sufficient productive capacity, invested capital, and new venture capital when the reverse is the case.

Finally, everyone knows that it is easy for our Government to spend every penny the taxpayers produce.

We conclude, in urging the approval of H. R. 1, that just as there is basis for nonpartisanship, in and out of Congress, in relation to foreign affairs, so too, there is a basis for nonpartisanship in reduction of Federal expenditures, taxes, and debt. The bill is constructive and statesmanlike.

Mr. ALVORD. My name is Ellsworth C. Alvord, an attorney, Washington, D. C., and I appear as chairman of the Committee on Federal Finance of the Chamber of Commerce of the United States.

The CHAIRMAN. Did you have a former connection with the Federal Government?

Mr. ALVORD. Yes sir.

The CHAIRMAN. What was that, please?

Mr. ALVORD. For several years, from 1926 until the end of 1930, I held a position which was given the title by Congress of Special Assistant to the Secretary of the Treasury.

The CHAIRMAN. Proceed, Mr. Alvord.

Mr. ALVORD. As each of you gentlemen appreciates fully there are three very closely related problems. One, is the matter of expenditures; two, the matter of public debt; and three, the matter of taxes.

Fortunately we do not have to take a position at this time with respect to any one of these problems independent of the other two.

Taking the facts as they exist, and on the basis of the present estimates, there is ample opportunity to reduce expenditures; there is ample opportunity to reduce taxes; and there is ample opportunity to reduce the public debt.

With respect to expenditures, our committee has taken the position from early days, certainly from the end of the war, that it was essential that our expenditure program be placed under control. I think Congress has taken a very commendable and very substantial step to that end.

Roughly, our expenditures for the fiscal year 1948 are in a very satisfactory position. I am not one of those who criticize the failure of the Senate side and the House side to reach an agreement as yet with respect to the total ceiling appropriations for 1948. The Senate has said there should be a ceiling of \$4½ billion less than the President's January budget estimates of expenditures for fiscal 1948, and the House Members have said there should be a \$6 billion reduction.

So that I think we are perfectly safe in predicting that an agreement will be reached somewhere between the \$4½ billion of the Senate and the \$6 billion of the House. Just when that agreement can be reached is probably conditioned upon factors other than the aggregate amount of the reductions.

But even should there be no agreement, we have the House definitely on record for a \$6 billion cut, and its Committee on Appropriations can, and I understand is, proceeding accordingly. Even if there is no agreement, we have the Senate Committee on Appropriations proceeding on the basis of \$4.5 billion, or more if possible.

So the result of the Legislative Budget Committee which has functioned for the first time this year is that of guiding the Appropriations Committees of the House and the Senate. Actual appropriations, of course, must await the final enactment of appropriations bills.

I merely point out to you in passing that appropriations do not necessarily result in expenditures, and I am discussing expenditures during the fiscal year 1948.

For fiscal 1947 we are about to witness a surplus of receipts over expenditures, for the first time in 16 years. It is presently estimated by the Secretary of the Treasury at a billion and a quarter dollars.

For fiscal 1948, we have official estimates again of a surplus of a billion two hundred million dollars.

Senator BYRD. That is assuming that you continue the present taxes.

Mr. ALVORD. That is based on the present taxes, plus the reenactment of the excise taxes, which have been done.

Senator TAFT. That allowance, however, is for the increased sum which the present taxes will bring.

Mr. ALVORD. That is very true.

The Treasury proceeds in making its estimates on a double basis. You will note they have changed a little bit on their current estimates. Their estimates in recent years have almost invariably been based upon the assumption that existing conditions will continue, and that on that assumption receipts will be so much.

As I understood the Secretary of the Treasury last week, he abandoned that assumption somewhat for fiscal 1948. A second basis of their estimates is that they have also, during the last few years, based their estimates with respect to tax reductions on current circumstances. So that they always tell us that tax reductions will cost so much; each change in the revenue law will cost so much.

Now, such estimates, experience has proved, are not sound. A change in the revenue laws may cost much less than the Treasury estimates. A change in the revenue laws may actually produce more revenues. If I were to take one single position this morning, I would say that you can well afford to purchase insurance, in the form of tax reduction, to be applied over the course of the next 2 or 3 or 4 years. The maximum cost of that insurance can be fairly well estimated. The insurance, perhaps may cost you nothing, and there is a further possibility that you may receive refunds on the premiums you pay greatly in excess of the cost of your insurance.

If I were to state simply what I conceive everyone to believe and to insist upon, as our one objective at the present time, I would say it is to keep America strong. I do not think that I could express the relationship between military strength and other strength more ably than Mr. Baruch stated it just a few days ago. I do not have his exact language, but he said that the people of the country realize and the military must know that our military strength is no greater than our economic or our productive strength behind the military.

Looking at expenditures again, I would make one suggestion. I hoped that it could be met this year, but time is not available. When we come to expenditures for 1949, on which the Bureau of the Budget is probably now working, and will concentrate particularly in the fall of this year, I suggest that the appropriate committees of the Congress, which include this committee and the Committee on Ways and Means and the Legislative Budget Committee, insist that the Director of the Budget submit to them the make-up of a budget based upon expenditures not in excess of $25 billion, regardless of what the administration budget may prove to be. You gentlemen are entitled to the work of the Budget Bureau directed toward the amount of the budget which you think 1949 can afford.

The CHAIRMAN. We cannot tell that yet.

Mr. ALVORD. It is too early to tell that, but I think the request should be made before next fall.

The CHAIRMAN. So I do not think we can set any definite figure yet. You have a lot of variables, and you also have some features that are pretty hard to get away from over the reasonably near future.

You start with the 1939 level of expenditures, as I recall, $9 billion, and you add to that $5 billion for interest, which I hope will be a decreasing item.

Mr. ALVORD. You would not have the entire five.

The CHAIRMAN. You now have 14. If you add to that, veterans' expenses, which will be cut somewhat, but even after being cut they will be very substantial, running into the billions, you are up to about $20 billion right there. I think it would be unrealistic to assume that we are not going to have some heavier expenditures for a period of time for foreign affairs.

So far as we have gone, we are getting very close to $25 billion, and we have not allowed a penny for our military establishments.

So I believe a necessary premise to your hope is that we can substantially reduce our military, and going with that is the proposition that we get this world postured for peace; is that not correct?

Mr. ALVORD. That is certainly correct, sir.

If I were picking a figure, not entirely out of the air, however, I would certainly hope that I could predict a 1949 budget of expenditures not in excess of $25 billion.

The CHAIRMAN. It certainly is clear that if we can get this world postured for peace, we can get these expenditures of our budget substantially reduced, by a number of billions of dollars below what we are thinking about for 1948. Is that not correct?

Mr. ALVORD. That certainly is very true.

The CHAIRMAN. Until we do get the world postured for peace, we just cannot reach all of the expenditure objectives that we would like to reach, as fast as we would like to reach them.

Mr. ALVORD. With respect to current 1947, for example, I think there are probably expenditures which could be made in 1947 which otherwise might be deferred until 1948. There are also such nonrecurring items as loans to foreign countries, which under the statutes authorizing them are to be treated as public-debt transactions but are now charged against current receipts.

This merely illustrates the difficulty, and I know of no solution for it, of attempting to base our estimates of receipts and expenditures and our estimates of the effect of tax reductions on one fiscal year.

For example, it does not make any difference so far as the fiscal condition of your Treasury is concerned what the particular figures are at the end of 1947, if we can see for a period of many months, 6 months or 12 months or 18 months, a satisfactory economic condition. We can base our estimates accordingly.

Senator LUCAS. What does the chamber of commerce suggest that we substitute for that method?

Mr. ALVORD. The procedure that this Congress has always followed, and that I think you are following now. In other words, that this committee, and also the Committee on Ways and Means, sit down and review all of the applicable factors.

Senator LUCAS. That is all it can do.

Mr. ALVORD. That is, or course, true. Then you determine just what effect tax reduction might have, what effect it might have on fiscal 1947, what effect it might have on fiscal 1948.

Senator BYRD. What provision do you propose to make to pay on the debt?

Mr. ALVORD. I would like to make a general recommendation with respect to the public debt.

I think the time is now appropriate for the creation of what I would call a Public Debt Commission, to report to the Congress its recommendations with respect to all of the items involved in handling the public debt. Certainly, Senator, we do not now have to choose between tax reduction and debt reduction because on all of the figures which I see, we can have both, and we should very properly have both.

I do not think that we can justify carrying on further into the postwar period the confiscatory tax rates necessary during the war period. I do not for a moment suggest that the present bill is the final solution.

The present bill is merely a step in the right direction. For example, I just do not agree with the Secretary of the Treasury that we should have no tax reduction until we can do a thorough job of tax revision.

As you gentlemen know, we have been advocating a thorough job of tax revision for many, many years, and we have not gotten it. It is a tremendous job. It involves not only problems of rates, appropriate normal rates, appropriate surtax rates, appropriate capital-gains rates, appropriate excise taxes, the matters of earned income, community property, joint returns, but almost an infinite number of so-called administrative changes, amendments which have been necessary for years.

I think the Committee on Ways and Means has proposed the proper procedure looking toward a general tax revision. According to the chairman's announcement they will begin next month hearings on the so-called administrative and technical provisions so as to get the recommendations of the public into print. Then the experts can consider them and be prepared to recommend to the Committee on Ways and Means presumably sometime next fall, and the committee concurrently will begin its consideration of changes in our basic tax system.

The CHAIRMAN. I believe that it ought to be emphasized that the lack of a general revision is not just the lack of time to sit down and write a general revision bill. There are perhaps 20 subjects that are highly controversial.

Mr. ALVORD. True.

The CHAIRMAN. No one can sit here now and say what the decision will be as to those 20 controversial subjects.

Mr. ALVORD. That is very true. That is why I stated that it is an enormous, a huge task.

The CHAIRMAN. I think that goes partially to the fallacy of Mr. Snyder's position that with one sweep you can have a general revision of our whole tax system that will do complete equity for everybody, and that this can be accomplished within a very short period of time.

Mr. ALVORD. Well, I think probably the easiest answer is to refer to history. I think you will find that every general tax revision bill has been under consideration by the Congress many, many months before it became enacted, with many, many months of prior work by the experts in getting ready for it.

The CHAIRMAN. All of these subjects that Mr. Snyder referred to have been under consideration by joint committee and by Treasury experts for longer than 8 months.

Mr. ALVORD. That is true.

The CHAIRMAN. The other day the Secretary was not prepared to tell us that they had reached any decision as to anything.

Mr. ALVORD. That is very true, sir. But I would add presumably because the time has not yet come for them to reach a decision and make a specific recommendation.

I think that the Treasury, if they were called upon today or tomorrow for a definite recommendation, would have it. With respect to many of these problems, I do not think the Treasury is dodging, just as you and I do not reach a decision until we have to.

The CHAIRMAN. No; I was not implying that they were dodging. I was talking to the inherent difficulty of the subject.

Mr. ALVORD. Yes, sir. Looking at the budget situation again, it becomes very clear that whether or not this bill passes, we will have, I say for the first time in 16 years, a surplus for the current fiscal year, and we will have a very substantial surplus for the fiscal year ending June 30, 1948.

Senator BYRD. What is your estimate of that surplus?

Mr. ALVORD. Well, there are various estimates. I would say the surplus for 1948 will be at least $9,000,000,000. It will depend to a great extent upon the amount by which you reduce expenditures, and it will likewise depend to a great extent on whether the insurance that I suggest you buy is actually purchased, and actually works.

Senator BYRD. Give a break-down of that $9 billion. The Treasury estimates how much?

Mr. ALVORD. The Treasury estimates $1.3 billion, after the enactment of the excise taxes, and without the elimination of $400 million postal deficit.

Senator BYRD. Build up from that point and see where you come out on your $9 billion estimate.

Mr. ALVORD. I would suppose that as good a job af estimating, probably a better job than I can do, is found in the House committee reports. The estimates in there, I have no doubt, were prepared by your own congressional experts. Roughly, we can start about like this, leaving tax reduction and the effect of this bill out: For a good many years one of the starting points in estimating receipts has been national income payments. That is not the same figure as national income.

Senator BYRD. There is not much difference, though, is there?

Mr. ALVORD. Yes.

Senator BYRD. I mean the total.

Mr. ALVORD. Several billion dollars, normally.

Senator LUCAS. Billion?

Mr. ALVORD. Yes, sir.

The CHAIRMAN. They have a relationship to each other?

Mr. ALVORD. Oh, yes; but in any event, when we begin to talk national income, let us make sure whether we are talking national income payments or talking national income. I have not done this recently, but at one time I found nine different methods of computing national income, so you always want to be certain as to which one is being used. The figures that I am using for this are the Department of Commerce table of national income payments.

Senator BYRD. Income payments; by that you mean what each person receives?

Mr. ALVORD. That is the aggregate of the amounts of national income paid out to individuals.

Senator BYRD. That all persons, 140,000,000 people, receive?

Mr. ALVORD. Yes, sir. The essential difference between the national-income figure of the Department of Commerce—which I think is released only annually and quarterly, whereas their income payments are released monthly—the essential difference is that the national income payments do not of course include amounts earned which are not paid out, such as corporate accumulations, and the savings of unincorporated businesses.

Senator BYRD. Those other items, the corporations have got to pay income tax on them.

Mr. ALVORD. Yes; the corporation will pay an income tax.

Senator BYRD. I am speaking of that.

Mr. ALVORD. These are the amounts.

Senator BYRD. You say this is the best index to determine tax receipts, the total gross income of all of the citizens.

Mr. ALVORD. The figure called national income payments is a customary starting point. From that, of course, the first thing you must decide is how mch of that income is going to be subject to tax, so that you gradually work down to what we call the base individual income for tax purposes, and corporate incomes subject to corporate tax, which gets you down to a very low figure, compared to the total of national income payments, because you have all of your exempt income and various deductions. But the starting point normally has been income payments—payments out to individuals.

Senator LUCAS. Is your $9,000,000,000 based upon national income payments?

Mr. ALVORD. It is based on the Secretary's estimates as they have been revised by the experts of the Committee on Ways and Means. I have reviewed them and think they are perfectly sound.

You have several alternatives. Maybe the simplest thing is for me to give you the maximum and minimum. They are worked out on the various bases.

Senator LUCAS. Why discuss national income and national income payment if your $9 billion is based upon the Treasury estimates?

Mr. ALVORD. Because their estimates are based on the same thing.

Senator LUCAS. The same thing?

Mr. ALVORD. Yes.

Senator LUCAS. You say there is a difference of some two to four billion dollars in the two of them.

Mr. ALVORD. Yes.

Senator BYRD. Not in receipts.

Mr. ALVORD. Let me give——

Senator BYRD. You do not mean there is two to four billion dollars difference in the tax receipts.

Mr. ALVORD. No.

Senator BYRD. You mean two to four billion in the different ways of computing national income.

Mr. ALVORD. I misunderstood Senator Lucas. There are several billions difference in my conclusions as to probable tax yields and those of the Secretary.

Senator BYRD. In view of the fact that the national income is running $180 billion, there is only 1 or 2 percent difference in these different methods?

Mr. ALVORD. That is right.

Senator BYRD. There is not much difference, as I said awhile ago, in the different methods.

Mr. ALVORD. That is right, generally. As I understand the situation, the original budget figures were put in based on estimates last December of income payments running $165 billion. There was a recent revision upward by the Secretary of the Treasury to $168 billion. That accounts in part for the resulting surplus he estimates for this current year, fiscal 1947.

As I understood him, he originally used the $165 billion basis also for fiscal 1948 receipts. I have seen no present reestimate of 1948 receipts, but I think he testified that in estimating 1948, he had used the revised 168 billion figure.

Senator BYRD. I think you are correct. I think he stated that they had not made any reestimate for 1948.

Mr. ALVORD. That is what I understood, although there seemed to be some discrepancy between the figures, I am quite sure he said 1948 figures of receipts were based on 168 billion of national income payments.

The figure that we hear currently is 180 billion of national income. That, however, is the national income figure, not income payments, which correspond to the figure which the Secretary used of 168 billion, are now running about 177 billion annually. The figure is based on income payments for the first quarter of 1947.

Senator BYRD. There is no assurance, though, that that will continue.

Mr. ALVORD. That is very true.

Senator BYRD. That is only for 2 or 3 months that you have gotten that income.

Mr. ALVORD. That is very true, sir, and my suggestion of insurance is made in an effort to maintain the same degree of productivity if we possibly can. The only way we are going to pay this debt and get ourselves strong is by tremendously high national income. If it falls, you know what happens. Individuals were paying about a billion dollars of Federal income taxes before the depression. Along comes the depression and the collections dropped to $350 million in 1933. That is one of the reasons why I think it is precarious to rely too much upon income taxes.

Senator BYRD. You are right about that.

Mr. ALVORD. And particularly with the income-tax burden as it now falls, principally on individuals. For example, we used to rely largely on corporate income taxes.

Senator BYRD. If the national income would fall 10 percent from its present level, which would be about $18 billion, we would lose about $6 billion in national tax revenue; would we not?

Mr. ALVORD. Eventually, yes, sir; if it stayed there.

Senator BYRD. If it continues on that basis.

Mr. ALVORD. That is very true.

Senator BYRD. We would lose about one-third in taxes of the reduction in national income.

Mr. ALVORD. That is very true. That is why I think it is highly desirable for the Congress to do all it conceivably can to assure the country that they are behind a strong America, and that they are behind free enterprise and behind the idea that individuals should have something left after taxes, and for the idea that corporations can make profits, and for the idea that we are going ahead on a sound, constructive basis.

Senator BYRD. The danger of the national income going down is the greatest menace today, as I see it, that we have to our future economy.

Mr. ALVORD. That is very true, Senator, and that is again one of the strongest arguments for putting our financial house in order, particularly with respect to expenditures. You must get your expenditures down to where a lesser degree of activity can still support them.

Senator BYRD. I think reducing the expenditures is far more important than estimating continued increases in the national income. You recall that the average national income for 10 years prior to the war was only $68 billion, and now you have it up to three times that much. It can easily go down to 125 billion annually or even less.

Mr. ALVORD. I might point out to you, however, that we have had some strange developments in America. Bear in mind we had a 40 percent devaluation of the dollar, which at that time had substantially no effect. We now have a public debt of $257 billion plus, a debt of a size which has never been known before, with all of the effects such a debt has. We have people's savings at figures never before known. We have wages and costs far above the prewar level. It is not safe for us to compare present activity on an equal dollar basis with prewar activity. The factors are new and the economic effect of many of them is just beginning to be felt.

Senator BYRD. It is not safe to assume that this present trend will continue indefinitely. We believed that in 1929, and we found out that it did not.

Mr. ALVORD. That is very true. I would do my very best to avoid 1929 or anything like it.

Senator LUCAS. Your $37 billion budget based on a 40-cent dollar is only about a $14 billion budget.

Mr. ALVORD. Of course, you should not take the 40-cent figure. You have to compare corresponding costs and prices.

Senator LUCAS. If you take it on the national income.

Mr. ALVORD. That is very, very true. The $257 billion debt is not to be feared nearly so much today as perhaps a $100 billion debt would have been feared before the war.

Senator BREWSTER. When you say a 40-cent dollar, is it not a 60-cent dollar?

Mr. ALVORD. A 40-percent reduction in the price of gold.

Senator BREWSTER. That is an important difference.

Mr. ALVORD. I misspoke.

Senator BYRD. I want to take issue with the statement that the national debt is not to be feared. Suppose it has to be paid with a 100-cent dollar instead of the present-day 60-cent dollar. We cannot assume that this deflated dollar is going to continue indefinitely in its purchasing power. It may be that when we start to pay off this debt in substantial amounts we will be paying with a 100-cent dollar.

Mr. ALVORD. That is very possible. I do not think that will happen. It might.

Senator BYRD. It happened in 1929.

Mr. ALVORD. Present prices have to take a tremendous fall before that happens.

Senator BYRD. That happened, then, as you know.

Mr. ALVORD. Let me assure you that I did not say that a debt of $257 billion is not a very serious matter. I was stating a relative seriousness.

Senator BYRD. You are arguing on the other side, because the time to pay the debt off is with inflated or cheap dollars, is it not? That is the time to pay your debt off.

Mr. ALVORD. You cannot as a practical matter pay off this public debt at any accelerated rate per year.

Senator BYRD. The time to make substantial payments is when the money is cheaper. That is what you would do in your own business, is that not true?

Mr. ALVORD. That is true. The important thing with respect to the public debt, and the economy generally, is to first put an end to deficit financing. That is the most important thing that the Congress can do, and it must be done. If you are not going out to the public to borrow more money, no one is going to worry too much about the service charges on your outstanding debt. No. 1 is to stop deficit financing.

No. 2 is adopt and maintain a sound program for servicing and retiring your public debt. That I think is very essential, and that is what a public debt commission would recommend, among other things.

Senator BYRD. We have had that in the law for a long time—that you have to pay so much on the public debt. We had it when we had deficit financing.

Mr. ALVORD. That is true.

Senator BYRD. What they did was to carry the item in the appropriation bill and then borrow the money to pay it.

Mr. ALVORD. That is the very situation that I am talking about. A statutory debt retirement is not effective unless you stop deficit financing.

Senator BYRD. Just to say that we will pay so much on the debt then does not mean anything unless we actually make the payment out of current revenue.

For 14 years we had it in the appropriation bill, left it there, and did not repeal it, and then borrowed the money to get the money to make the debt.

Mr. ALVORD. I think we have not used the sinking fund provisions of the 1918 Act since 1931 to retire debt.

Senator LUCAS. You would not take the position that there would not come a time when you would have to have deficit financing.

Mr. ALVORD. Well, Senator, I do not suppose anyone can ever take that position. Suppose we have another war some day. Certainly you will have it then.

Senator LUCAS. Suppose we had another depression like that of 1932.

Mr. ALVORD. That is one of the things that I am very glad that you mentioned, because what the depression does is to have a double effect upon your budget. No. 1, it reduces your receipts tremendously, and No. 2, it increases tremendously not only your demands for expenditures, but the amount which you must spend. You can well afford to take steps to miss a depression, if possible.

Senator LUCAS. We all want to avoid a depression, if possible.

Mr. ALVORD. Of that I am certain.

Senator LUCAS. Your argument is based primarily upon the premise that for the next 2 years, everything is going along just as it is now.

Mr. ALVORD. Oh, no, Senator. You know I do not suppose anyone would ever think of buying insurance if he were assured of longevity of life or sure that the barn would not burn. I am suggesting insurance because I think there is a necessity for it.

Senator LUCAS. You are suggesting insurance that is not going to cost anything. I do not quite follow that.

Mr. ALVORD. Suppose it does cost you? Suppose it costs you the $4 billion estimated in this bill. I think it is pretty much worth it; if it does the trick, even in part, it is worth it.

Senator LUCAS. I just make the point that you never get any insurance without having it cost you something.

Mr. ALVORD. I am offering you a new type of insurance. I think you will profit by this insurance really; that is my personal opinion. I think it will cost you nothing. You will profit by it.

Senator LUCAS. That may be so.

Mr. ALVORD. That is only an estimate.

The CHAIRMAN. Let us get back to this national income business for a moment. You start with a basis which is called individual income payments. Is that correct?

Mr. ALVORD. Yes, sir.

The CHAIRMAN. The rate of national income in the fourth quarter of 1946 was 177.5 billion. For the same quarter of 1946 individual income payments ran at the rate of 173.4 billion.

In February of 1947 individual income payments ran at the rate of 177 billion dollars. Is that correct?

Mr. ALVORD. In February, I have 176.6; 177.1 in January.

The CHAIRMAN. Assuming that the increase in the rate of national income between the last quarter of 1946 and February of 1947 was not less than the rate of increase in the total individual income payments of those two periods, and adding this increase, to wit, 3.6 billion dollars, to the rate of national income for the last quarter of 1946, we have a February 1947 rate of national income of 181.1 billion dollars. On the assumption that the rate of income payments has not declined since February of this year, and that certain adjusting items which must be considered will wash themselves in the first quarter of 1947, we have a present rate of national income of not less than 181 billion.

Mr. ALVORD. That is right, sir.

The CHAIRMAN. Proceed.

Senator BYRD. Let us start over again. You start with the Treasury estimate of surplus in '48 of 1.2 billion.

Mr. ALVORD. Yes.

Senator BYRD. Then you say it will be $9 billion. Break down the individual items that bring it up to $9 billion.

Mr. ALVORD. I wonder if it would not help you more if I gave you you the maximum figures, and the minimum figures that I have prepared, and show you how they are computed.

Senator BYRD. I want you to give them in some way. You say there will be a $9 billion surplus, and the Treasury says $1.2 billion, and I want to know where the difference is.

Mr. ALVORD. The difference basically is in the use by the Treasury of national income paid-out figure of 168 billion—which was about what it was last———

Senator BYRD. What do you estimate or what does the Chamber of Commerce estimate the national income to be for fiscal '48?

Mr. ALVORD. We see no reason to dispute the Secretary of the Treasury in his testimony that there will be no decrease.

Senator BYRD. All right. Then you do not allow anything extra on the income.

Mr. ALVORD. Oh, yes.

Senator BYRD. Tax income.

Mr. ALVORD. Yes. We are running now at the rate of 177 billion only a month ago.

Senator BYRD. I asked you what the Chamber of Commerce estimated on the national income for fiscal '48.

Mr. ALVORD. 177 billion. We see no reason to change that figure.

Senator BYRD. The Secretary of the Treasury did not estimate that for '48.

Mr. ALVORD. He did not use it for estimates.

Senator BYRD. He said for 1 month we had reached that figure, but was not willing to project his judgment into fiscal '48.

Mr. ALVORD. He refused to base any estimates on that figure. He concurrently said that he saw nothing to indicate any lessening of that figure.

Senator BYRD. I do not think he intended———

Mr. ALVORD. That was in the testimony before the House.

Senator BYRD. He did not intend to say that 177 figure would prevail all through fiscal '48. That is $9 billion then. You estimate a $9 billion larger national income than the Treasury estimates for '48.

Mr. ALVORD. That is true, sir.

Senator BYRD. How much tax revenue do you get out of that, $3 billion?

Mr. ALVORD. It ought to increase by at least $3 billion which would give you a surplus of about $10 billion on our figures.

Senator BYRD. Wait. You are going too fast. We have a surplus of $1.2 billion, which the Treasury estimates, and now you say that national income is going to be $9 billion or more out of which you will get $3 billion extra taxes.

Mr. ALVORD. That is true.

Senator BYRD. That brings the surplus up to $4.2 billion. Where is the balance of it?

Mr. ALVORD. It brings my estimated receipts up to about $42.5 billion.

Senator BYRD. That is what I stated.

Mr. ALVORD. Now, I go on the assumption that your expenditures for 1948 will not exceed the figure at least which the Senate and the House would very likely agree on of about 32.5, which is halfway between the House and the Senate action. So you get your expenditures down to 32.5 billion. You have income of 42.5; you have about $10 billion surplus.

Senator LUCAS. You think they are going to cut the expenditures roughly $5 billion?

Mr. ALVORD. Yes, a little bit more than that.

Senator LUCAS. More than $5 billion, based upon the President's budget?

Mr. ALVORD. Yes, sir.

Senator BYRD. Of course, you have the $400 million item there for Greece and Turkey that was not considered, and then there are other foreign expenditures in '48.

Mr. ALVORD. That is true.

Senator BYRD. Those will have to come off that $5 billion, will they not?

Mr. ALVORD. I think you can make them and still save $5 billion.

Senator BYRD. You are optimistic.

Mr. ALVORD. I must be.

Senator BYRD. You say they will cut the budget $6 billion. There has been no indication yet.

Senator LUCAS. Have you been following the Appropriations Committee work in the House?

Mr. ALVORD. Well, I follow the newspapers. I read in the papers what we always expect to see when somebody is about to lose a job; we are "wrecking" the Government.

Senator LUCAS. That is not the point at all. You followed it pretty closely. You are the financial exper tof the chamber of commerce, Mr. Alvord, and you follow those appropriations hearings over there pretty carefully.

Have they made any, and I am serious about this, has the Appropriations Committee in the House made any serious deductions on the respective appropriation bills which up to this point which would justify your belief that they will be able to cut the budget $5.5 billion?

Mr. ALVORD. The answer is that the real appropriation bills where the opportunities arise have not yet been considered by the House, so far as I know.

Senator LUCAS. When they are considered, you and I know they will have to go into that armed services appropriation pretty heavily in order to reduce by $6 billion.

Mr. ALVORD. Let me give you another approach to the budget. After all, in your current budget there are nonrecurring items. There might be some dispute as to what are nonrecurring, but in the current budget there are about $9 billion worth of expenditures that should not recur in the future.

So if I am starting on the preparation of the budget, that is the first amount to lop off. If they are nonrecurring, they just do not recur again.

Then I would start back, as the chairman has indicated, on the basis of about your 1939 expenditures for the normal affairs of the Government, excluding, of course, the public debt and veterans.

Senator LUCAS. Have you a break-down of the $9 billion nonrecurring items?

Mr. ALVORD. Yes, sir.

Senator LUCAS. For '48?

Mr. ALVORD. For '47.

Senator LUCAS. '47?

Mr. ALVORD. Yes, sir.

Senator BYRD. I did not think it was that much.

Mr. ALVORD. There is some dispute as to what are nonrecurring items. I gave the maximum figure. We might come out with about $6 billion.

Senator BYRD. Some of those nonrecurring items, not all will be spent in fiscal '47 but some of them go over to '48.

Mr. ALVORD. You do not have Bretton Woods, Internationl Bank, or the Monetary Fund, for example.

Also, I might again point out to you that under the British Loan Act, it is specifically provided that the British loan be handled as a public debt transaction, which to me means that it cannot be charged against current receipts.

Senator BYRD. I agree with you, absolutely, that the budget can be cut $6 billion, and it ought to be cut by a bipartisan action, Democrats and Republicans.

Mr. ALVORD. That is our conclusion, which I was going to emphasize.

Senator BYRD. We have a bipartisan foreign policy and we ought to have it here at home for economy to enable us to carry out our foreign policy.

Mr. ALVORD. That is my most urgent recommendation.

Senator BYRD. We should cut out the waste and extravagance in every department. This permeates every single activity of this Government that I have come in contact with.

Mr. ALVORD. That happens to be the conclusion that I reached.

Senator BYRD. This can be cut out and expenditures greatly reduced.

Mr. ALVORD. I think so. You will have to be a little hardboiled, but I think it can be done.

Senator BYRD. Where the executive branch and the departments of this Government are willing to cooperate in a reduction—and that situation does not exist today—so then Congress will have to do the best it can. I hope that your estimate will be arrived at.

Mr. ALVORD. I would be very hardboiled about it. It has to be done. Again I say that is only the begining. I think the '49 budget has to get down to $25 billion.

Senator BYRD. For 14 years we had to balance the budget but did not and had yearly deficits.

Mr. ALVORD. You might remember Senator, that some of us stood before your committee and predicted what might happen if these years of deficit financing continued.

Senator BYRD. You have a situation here now that where the Congress reduces any of the employees of these agencies, there is a great propaganda that is conducted at Government expense over the radio, using the mailing privileges protesting such reductions and some bureaus have even gone so far as to dismiss the employees before the Senate had a chance to act on the bill.

Mr. ALVORD. That is very true.

Senator BYRD. Before it became law.

Mr. ALVORD. That is to be expected.

Senator BYRD. I have a hundred telegrams from Norfolk, one of the customs areas of this country, protesting against dismissals, and all that had happened was that the House had passed the bill. Dismissal notices were sent to those employees on the basis of the House action.

Senator BREWSTER. A year ago even his suggestion that we could ever balance the budget was ridiculed in all quarters. It was said that it was farcial to suggest that it could ever be balanced. That was in the press and in all of the critics of this policy around here. So I think we have made some progress now. They at least admit the possibility, and it is only a question of how far it can go. So I think we are making progress.

Senator BYRD. We are making progress; but we are making it on a tax revenue of 38 or 40 billion; when, prior to the war we had 7 or 8 billion tax revenue. We are not doing it by actual economy. That is what I mean. That is what strikes me. We want economy. We want to cut these expenditures. That is far better than basing an estimate on some future inflated revenue. That is what we are apparently doing in calculating this tax bill now, to put it on a national income of 177 billion, and next month we will say it is 188, and next 190 billion, and you have no certainty that the figure will be maintained for any length of time.

Mr. ALVORD. The figures that I have given you are based upon expenditures for fiscal '48 of 32.5 billions.

Senator BYRD. My contention is that this country is not going to stay on this high standard of national income.

Mr. ALVORD. As a matter of fact, referring to Senator Brewster's comment, I would guess that Senator Byrd and myself were the only ones who, pretty nearly a year ago, estimated a surplus for this fiscal year. I made an estimate sometime after the close of fiscal '46 that we ought to have a surplus of about a billion and a half. We may exceed that now. The Treasury now estimates a billion and a quarter.

It is possible and it can be done. We are urging Congress to insist upon it.

Senator BYRD. In 1929 you had only $80 billion, and you were in an inflated condition, and now you have an income of 180 billion, and then the estimate is made that it will be a continuing income whereby we get a certain amount of increased taxes out of it.

Mr. ALVORD. I have said I think it should continue, and I think with appropriate action by Congress in the very things that we are considering, it will continue. It should continue throughout 1948. How much longer no one knows.

Senator LUCAS. That would depend upon amiable conditions between management and labor in the country. A coal strike called by Lewis, in July, for 35, or 45, or 60 days, could knock 10 or 15 billion dollars off the national income next year.

Senator BYRD. Yes.

Mr. ALVORD. Certainly it would knock income down. But let me point out to you, if I remember correctly, that there were strikes, some of national importance in 1946, in 1945, and even in 1947, and the figures still stand notwithstanding the strikes. Of course, these figures do not take into consideration the recent wage increase program that seems to be adopted——

Senator LUCAS. I am talking about one that would really paralyze the economy.

Mr. ALVORD. That is true; and one way I would suppose to insure against a strike, but only one of many ways would be to give the miner, for example, a little more money after taxes than he makes now, without increasing his wages.

Senator LUCAS. I doubt that.

The CHAIRMAN. Those crises are to be assumed as a part of our future life, are they not?

Mr. ALVORD. Yes, sir; we are constantly facing crises.

The CHAIRMAN. If we do nothing on the ground that we may have crises, we will neither reduce the national debt nor the national taxes, will we?

Mr. ALVORD. We could throw up our hands and say we will do nothing.

The CHAIRMAN. That is right. I invite attention to the fact that your figures could be discounted very substantially and still permit a substantial payment on the debt.

Mr. ALVORD. Yes.

The CHAIRMAN. And substantial reduction in taxes, and still leave a substantial cushion for possible increased foreign affairs expenditures.

Mr. ALVORD. Yes.

Senator BREWSTER. We have apparently adopted somewhat of a pattern of 15 cents an hour increase that is widely distributed. What is the effect of that on the national income figure?

Mr. ALVORD. Necessarily it is to increase it.

Senator BREWSTER. By a very material amount?

Mr. ALVORD. That I do not know, Senator Brewster. It depends.

Senator BREWSTER. It depends on how widespread it is.

Mr. ALVORD. Yes, sir; and what the present average rate is. That I do not know.

Senator BYRD. That is going to add to the cost of things.

Mr. ALVORD. It might very well, unless increased production and efficiencies can keep those costs down.

Senator BYRD. Therefore, it makes it more difficult to reduce the budget, because if the Government has to pay more, for each item that it buys, then it is going to be that much harder to reduce the budget; is it not?

Mr. ALVORD. Somewhat, but the amount by which purchases enter into the budget, I do not know.

Senator BYRD. With this $37 billion budget, purchases have to enter into it.

Mr. ALVORD. The ratio of purchases to other expenditures, I do not know, but I would suppose the purchases were small in proportion to total expenditure.

Senator BYRD. You can take the two big items that are not purchases; first would be the salaries of the Government employees.

Mr. ALVORD. And public debt and veterans.

Senator BYRD. You still have 2.3 million employees compared to less than a million before the war. They will average $3,000 apiece, counting housing, and so forth. That is about $7 billion. And $5 billion on the public debt, that is $12 billion, and your budget is $37 billion.

There must be a great many items in that budget; of materials of one kind or another.

Mr. ALVORD. I do not know how much.

Senator BYRD. Those two items are only one-third. How much does the Chamber of Commerce advocate paying on the debt?

Mr. ALVORD. Our committee has worked out a sinking fund, accumulative, with a base figure of a minimum of a billion and a half each year to be paid on the debt, plus the amount saved in interest and such other savings as there are. But we think the important thing is to stop deficit financing, and the only way to do that is to cut the expenditures.

We think next that the important thing to do is to make a start toward relieving from admittedly confiscatory rates of taxation. They were designed to confiscate.*

Senator BYRD. When you speak of increasing the price of labor and getting more taxes, what is the cost of labor in the average article that is manufactured?

Mr. ALVORD. It depends entirely on the article. It will run from 80 percent on some articles to 10 percent on others.

Senator BYRD. Therefore, these increases in labor are bound to be reflected in the cost of materials.

Mr. ALVORD. With respect to some item it will be very burdensome, and on others it will not appear.

Senator HAWKES. I might give Senator Byrd a little more specific answer. I saw an article the other day showing that the over-all labor cost was between 60 and 65 percent. You remember I stated here in the committee the other day that in the last war we took 30 of the main products used by the American people, and for war purposes, and the average labor cost in those was 85 percent. But the average over-all—taking these things that Mr. Alvord has said, some of them go down as low as 10 percent labor cost, and the average over-all is between 60 and 65, I am informed.

Senator JOHNSON of Colorado. May I ask Mr. Alvord a question?

The CHAIRMAN. Senator Johnson.

Senator JOHNSON of Colorado. How much do you suggest or recommend that the military budget of the United States be reduced?

Mr. ALVORD. One approach to that is the approach which I cannot make. That is the approach which only the administration can make. That is the immence or the fear of hostilities. That I know nothing about.

Senator JOHNSON. Whatever estimate you would make, you have not checked with the State Department.

Mr. ALVORD. I have no means of knowing. I do not think anybody outside of the highest officials does. So that I would go on the assumption that we are really embarked upon a program of peace.

On that basis, well, let me throw out some figures to you. The 1948 military budget, as I recall it, the President's budget message was—combined Army and Navy—about $11.2 billion.

Atomic energy is in addition to that, plus some other semimilitary activities which are not included in that figure.

As I understand the Director of the Budget in his testimony last week, the expenditures for the War Department are down about $420 million this year and for the Navy about 120 million.

Those economies—and I think I would be much more ready to go on a basis of future commitment than the Secretary of the Treasury was—must continue into the next year. They just must continue into the next year. You cannot put temporary economies into effect, unless you do it arbitrarily, and then jump right back up again in 2 or 3 months. I merely point that out to you as proof that economies are very possible. The extent of them, Senator, I have to confess to you I do not know. I am not familiar with the details of the military budget.

Senator JOHNSON of Colorado. How can you talk about reducing expenditures of the Government, if you are coming in here without information? What value can we place on your testimony if you have no knowledge of these things. We cannot make very great reductions in expenditures unless we do cut into the military. I think that point has been made crystal clear to everybody in the country.

You know, certainly, that we have launched now or we are about to launch—the Congress is about to approve a new foreign policy of military diplomacy with tremendous costs, and certainly we are going to have to take that into consideration before we can talk about reducing our military expenditures.

I am very sure that none of us wants to have the State Department waving any kind of pistol, but certainly we do not want them to be waving an empty pistol, and that is what they would be doing if we are going to go in here now and drastically cut expenditures, in view of this new military policy, this new military diplomacy.

So I do not see how we can talk about reducing expenditures if when we get down to the details you say, "Well, I do not know. I do not know about that. I am not advised." None of us are advised. I doubt if any Members of Congress are advised.

I do not know what was told last night to the chairmen of the Appropriations Committees, and the other Members of the Senate and House, but from the newspaper rumors in regard to those conferences, it would seem that this new policy is going to cost some money. How much, we do have to know before we can be making any estimates.

So it may be very pleasant to be making calculations, but in view of the uncertainties, they must in the end prove to be idle.

Mr. ALVORD. I do not think so, Senator, because the power to appropriate lies with Congress. I would make a guess that Congress is not going to embark on too costly a program of what you call pistol diplomacy.

But the point I make is that certainly, if the Military Establishment, with an economy program beginning admittedly, shortly after the November elections, can save roughly $600,000,000 in 6 months, I would suppose they could save a billion or two in a year.

Senator JOHNSON of Colorado. Starting from what figure? Where did you start from where you make that saving? You did not start at 11.2 billion.

Mr. Alvord. About $12,000,000,000. That is all there is in the 1947 Budget for the military, if you put it on a comparable basis with the 1948 Budget. The calculations vary somewhat, say from 12 to 14 billion.

Senator Johnson of Colorado. After you make quite a few sizable deductions, of course, you get it down to 12.

Mr. Alvord. No. I think it is perfectly simple to reach the 12 billion figure of the current budget. All you have to do is to take the items that were transferred out of the 1946 budget into another item, and you will come to your 12 billion figure.

Senator Byrd. Is not the 1948 budget figure one that reflects some of the economies that you mention?

Mr. Alvord. Roughly from 12 billion to 11.2 billion. We are going from 11.2 billion down. Neither figure included this $600,000,000 of savings in the course of about 6 months. Neither figure included that, Senator. But you have watched the military appropriations much more closely than I have. I do not have the power to subpena, I do not have the power even to question. But the gossip I get is that those who made the military budgets, who know about them, admit there is padding of at least a billion there, maybe 2 billion. I would find that padding.

Senator Lucas. That is just gossip.

Mr. Alvord. That is only gossip. I have no power to question or subpena.

Senator Lucas. We get enough of that here without getting a billion dollars more of it.

Mr. Alvord. I have seen budgets and budget making for a good many years, and I have not seen one yet that did not have some padding, and I think you will appreciate that.

Senator Lucas. That is true.

Senator Johnson of Colorado. If we had not launched this new policy of shotgun diplomacy, why, I would agree with you, that we could reduce the military appropriations maybe 3 or 4 billion dollars, but I certainly hope that no Member of Congress is going to vote for an empty-pistol diplomacy. It is bad enough to have shotgun diplomacy without having the old gun unloaded.

Senator Brewster. $10,000,000,000 is quite a lot of loading. I think, and not an empty gun.

Senator Byrd. They can cut some because they have an item of a million civilian employees in the Army and Navy. They are getting $3,000,000,000 a year.

Senator Brewster. They do not do much shooting.

Mr. Alvord. I have no doubt the civilian acitivities of the War Department can be reduced substantially.

Senator Byrd. They are scattered all over.

Mr. Alvord. I think you have heard that statement from officials of the War Department.

Senator Brewster. The Senator from Virginia, in speaking about the salary thing there is another item of 7.5 billion in veterans' service and benefits, and 3.5 billion international affairs and finance, which would be in addition to those other figures you mentioned of the salary schedule, and there is also 2 billion in the refunds and receipts. All of those items would be outside of this, the effect of this wage increase. So they do mount up quite materially as not being affected.

I got it altogether around 22 billion about that that would be outside any apparent immediate effect of it.

Mr. ALVORD. I think your expenditures for veterans, for example, is running behind the estimate by about $200,000,000, since the beginning of this economy program.

I have suggested that there may be no justification—I do not think it is necessary to take a position on this—but there may be no justification for charging against your current receipts the loan to Great Britain, for example.

The CHAIRMAN. Mr. Alvord, in a rising economy, do we not have experience that indicates that reduction in taxes aids the rise in income?

Mr. ALVORD. Yes, sir.

The CHAIRMAN. And in a rising economy, do we not have the experience that reduction in prices aids the total volume?

Mr. ALVORD. Yes, sir.

The CHAIRMAN. And would you say there is a rising economy?

Mr. ALVORD. I would have no hesitancy in saying that.

Senator BYRD. What is it, inflated economy or rising economy?

The CHAIRMAN. Both.

Mr. ALVORD. Of course, this word "inflation" is much overplayed. It depends upon what you are talking about.

Inflation might well mean merely a normal rise in prices, and an economy that is expanding a little more than it did in the preceding period.

The inflation that I usually mean is the monetary inflation that gives me a great deal of worry, the type of inflation witnessed in Germany and France and other countries.

Senator BYRD. Have you compared these prices to 1939 on individual items?

Mr. ALVORD. Not on individual items; no, sir. I think the record shows the percentage of increases.

Mr. Chairman and gentlemen, it is not necessary to refer to the other items I have discussed in the written statement. We endorse the bill as it is. We think it is the fairest way for prompt action. We do not think it is the ultimate solution for relief from wartime tax burdens, but we think it is a step in the right direction. We think the fiscal condition of your Treasury will be much better with a bill of this kind becoming law than it would otherwise. We heartily endorse Senator Byrd's recommendation that the fiscal affairs of the Government should be approached in a nonpartisan spirit. There should be no room for politics in handling the fiscal affairs of the Government. That is much too treacherous. We think if there is that bipartisan approach, the solutions are there, and we trust that they will be forthcoming.

Thank you, sir.

Senator HAWKES. May I ask Mr. Alvord if he has any hope, even though you think that is the desirable way to do it, have you any hope that such a thing can happen?

Mr. ALVORD. Yes.

Senator HAWKES. As a bipartisan or nonpartisan approach to this subject.

Mr. ALVORD. Senator, I always have hope, and let me say that hope is the thing that keeps our private enterprise machine running. It is not actual profits. It is hope for——

Senator HAWKES. You agree with Alexander Pope that hope springs eternal in the human breast?

Mr. ALVORD. And I would hope we would keep it there.

The CHAIRMAN. Do you think that hope too long deferred makes the heart lose faith?

Mr. ALVORD. That is likewise true, and I hope that we do not defer it too long.

The CHAIRMAN. Thank you, Mr. Alvord.

Mr. ALVORD. Thank you.

The CHAIRMAN. Mr. Schutzer, will you be seated, please, and state your name, your occupation, and whom you represent?

STATEMENT OF ARTHUR SCHUTZER, AMERICAN LABOR PARTY, NEW YORK, N. Y.

Mr. SCHUTZER. My name is Arthur Schutzer, and I am here in behalf of the State committee of the American Labor Party.

At the very outset, I should like to commend this committee, Mr. Chairman, for the refreshing contrast in procedure which it has used in comparison with the procedure employed when this bill was being considered in the House. I want to thank you for the opportunity to come here today, along with other organizations, so that unlike the star-chamber proceedings in the House, we can get a full and complete discussion of this very vital subject.

The CHAIRMAN. We are very glad to have you, Mr. Schutzer, and you shall have complete free speech, so far as the business of the committee is concerned. We are not trying the House of Representatives nor are we having a hearing on it. Therefore I hope you will confine yourself to the business of the committee.

Mr. SCHUTZER. I will, sir.

The CHAIRMAN. Thank you.

Mr. SCHUTZER. The American Labor Party believes that H. R. 1, the bill now under consideration by this committee, is so clearly designed for the unconscionable advantage of a small group of upper-bracket taxpayers at the expense of the great masses of American people that it ought, in all honesty, to be introduced as a private rather than a public bill.

In that way H. R. 1 would stand exposed for what it is, a pink-ribboned present for the rich and a shoelace for the poor.

The Republican proponents of H. R. 1 have sought to camouflage the true intent and effect of this measure. Officially, I note, they have designed this bill as "A bill to reduce individual income taxes." The American Labor Party asks the simple question: Whose taxes will be reduced by how much.

The answer is not hard to find. It does not reside in that vague and deceptive catchword used by H. R. 1's supporters, namely, "a 20 to 30 percent across the board tax cut for all." That, it is true, sounds very fair and very reasonable. But the cold truth of plain figures shows how unfair, undemocratic and dangerous to our national welfare this bill actually is.

Here is a table showing how the relief granted under H. R. 1 to a $2,000-a-year man compares with the relief granted under H. R. 1 to taxpayers in higher income groups.

Senator LUCAS. Is your $2,000 table based upon the income of one individual without dependents?

Mr. SCHUTZER. No, sir. On page 2, if I may direct your attention, sir, to the top of the page, I indicate this refers to a married person, no dependents, net income before personal exemptions.

Senator LUCAS. All right; I see.

Mr. SCHUTZER. Comparison of Knutson tax-relief measure by yardstick of relief given $2,000 per year-man.

$5,000 per year man makes 2.5 times as much as $2,000 man; gets 2.8 times as much tax relief.

$10,000 per year man makes 5 times as much as $2,000 man; gets 7.6 times as much tax relief.

$15,000 per year man makes 7.5 times as much as a $2,000 man; gets 14.2 times as much tax relief.

$25,000 per year man makes 12.5 times as much as $2,000 per year man; gets 31.8 times as much tax relief.

$50,000 per year man makes 25 times as much as $2,000 man; gets 87 times as much tax relief.

$75,000 per year man makes 37.5 times as much as $2,000 man; gets 151 times as much tax relief.

$100,000 per year man makes 50 times as much as $2,000 man; gets 281 times as much tax relief.

$250,000 per year man makes 125 times as much as $2,000 man; gets 671 times as much tax relief.

$500,000 per year man makes 250 times as much as $2,000 man; gets 1,174 times as much tax relief.

$1,000,000 per year man makes 500 times as much as $2,000 man; gets 1,945 times as much tax relief.

(Married person, no dependents, net income before personal exemptions. Source, Treasury Department report.)

The CHAIRMAN. I believe it would be well to put in the record at this point the following table:

Married, no dependents

AMOUNT OF TAX

Gross income	Present law	H. R. 1
$2,000	$154.00	$123.00
$5,000	689.00	551.00
$10,000	2,023.50	1,618.80
$15,000	3,842.75	3,074.20
$25,000	8,801.75	7,041.40
$50,000	24,453.00	19,562.40
$75,000	42,707.25	34,165.60
$100,000	62,714.25	50,171.40
$250,000	190,907.25	152,725.80
$500,000	407,032.25	341,686.75
$1,000,000	839,282.25	728,436.75

NUMBER TIMES TAX IS TO TAX ON $2,000

$5,000	$4.47	$4.48
$10,000	13.14	13.16
$15,000	24.95	24.99
$25,000	57.15	57.25
$50,000	158.79	159.04
$75,000	277.32	277.77
$100,000	407.24	407.90
$250,000	1,239.66	1,241.67
$500,000	2,643.07	2,777.94
$1,000,000	5,449.88	5,922.28

Mr. SCHUTZER. Yes, sir. I assume of course that every one of the figures you have read, sir, is absolutely correct. Yet I respectfully submit that these, none of these figures denies or contradicts in any way the point that I am making. I am emphasizing what amount of tax relief is given to these particular categories.

The CHAIRMAN. Of the total amount of taxes reduced.

Mr. SCHUTZER. I have the figures here. I would like to read them.

The CHAIRMAN. What amount goes to the $5,000 and under man?

Mr. SCHUTZER. I would like to read at this point in answer to your question, sir.

The CHAIRMAN. Do you have that figure?

Mr. SCHUTZER. I have it. I am quoting from Congressman Dingell, March 26, when he said concerning H. R. 1, that of an estimated total of 46,683,799 taxpayers estimated in 1947, 44,817,360, or 96 percent of all taxpayers, will get only 54.2 percent of the benefits provided under H. R. 1, whereas 1,866,439, or only 4 percent of all taxpayers will get 45.8 percent of benefits under H. R. 1, according to this Congressional Record statement by Congressman Dingell.

The CHAIRMAN. Putting that in terms of money, how much will go to taxpayers with under $5,000 income, and how much to those above?

Mr. SCHUTZER. I do not have those figures before me, and I just have the figures which I have read, sir.

The CHAIRMAN. For the purpose of the record I will give you the figures: $2,255,000,000 will go to taxpayers with net incomes of under $5,000, and $1,441,000,000 will go to taxpayers of over $5,000. Then $140,000,000 goes to taxpayers of 65 years of age and over.

Mr. SCHUTZER. I respectfully submit that in no way contradicts the figures that I read.

The CHAIRMAN. I am putting those in to bring the subject into perspective.

Mr. SCHUTZER. Moreover, of the total of 46,683,799 estimated taxpayers in 1947, here is how the benefits of tax reduction under H. R. 1 will be distributed: 44,817,360, or 96 percent of all taxpayers, will get only 54.2 percent of benefits under H. R. 1; 1,866,439, or 4 percent of all taxpayers, will get 45.8 percent of benefits under H. R. 1.

The Republican trinity of high prices for consumers, high profits for big business, and high tax reductions for the wealthy is well served by H. R. 1. This bill bestows tax relief upon the greedy few who need it least and withholds it from the burdened many who need it most.

The CHAIRMAN. How many taxpayers will receive that $2,255,000,000 reduction that I have referred to?

Mr. SCHUTZER. My figures show, sir, that 96 percent of all taxpayers under this bill get only 54.2 percent of the benefits, and only 4 percent of all taxpayers will get 45.8 percent of the benefits.

The CHAIRMAN. How many taxpayers will receive the benefit of the $2,255,000,000 reduction in taxes.

Mr. SCHUTZER. I believe I have answered the question. I have tried to. I am breaking it down into percentages.

The CHAIRMAN. How many?

Mr. SCHUTZER. 44,817,360, which represents 96 percent of all taxpayers, will get only 54.2 percent of the benefits under H. R. 1.

The CHAIRMAN. Do you classify those who receive the greater part of the benefit as the "greedy few"?

Mr. SCHUTZER. Well, considering the terms of the bill, yes, sir; definitely. I just want to continue——

The CHAIRMAN. Those under $5,000 who get the bulk of the income tax reduction are the "greedy few."

Mr. SCHUTZER. No, sir; that is not true. May I go along for a minute and present my point?

Let us examine those "poor hardship cases" which are the principal beneficiaries of H. R. 1, the individuals in the income tax group with net income over $100,000. Between the war year 1942 and this year of 1947, the number of individuals in the $100,000 to $300,000 net income group will show an increase from 5,570 to 8,096. In the same period the number of individuals in the $300,000 to $500,000 net income group will show an increase from 415 to 555; in the $500,000 to $1,000,000 net income group, an increase from 199 to 287.

And the number of individuals in the net income group of 1 million dollars or over has doubled from 40 in 1942 to an estimated 80 in 1947.

By any fair and democratic method of taxation, these individuals should be called upon to bear a proper share of the cost of the war. Their tax rates should be commensurate with this obligation. Instead, H. R. 1 makes it possible for the high-bracket taxpayers, who reaped rich gains from wartime levels of business activity and highest profits in our history, to transfer their share of the war debt to the shoulders of the little fellows, veterans, workers, individuals in the low-income group, who did the fighting and the sacrificing to insure victory against fascism. It reduces the tax in the highest brackets to below prewar levels, but maintains substantially above prewar levels the tax rates for the lower income groups.

It is significant during the recent debate in the House, Congressman Knutson referred to Governor Dewey's tax program in New York State as a precedent for H. R. 1. Governor Dewey is surely the most qualified source of authority that could be utilized for support of so undemocratic and regressive a tax measure. He, as titular Republican leader, has ignored the needs of the people of New York State, has refused to use a huge State surplus of the people's money for their welfare, and has at the same time insisted upon a tax cut primarily benefiting upper-bracket taxpayers. Congressman Knutson could not have selected a more fitting precedent for what his bill attempts to do.

H. R. 1 ignores the plight of the 92 percent of the families in the United States with total family income of less than $5,000. It ignores the fact that more than half the families in the country are still living today on less than $2,000 a year. Why not grant urgently needed tax relief to those groups, whose standard of living has been drastically hit because of price rises? According to the Bureau of Labor Statistics, 40 percent of the income of the families in this latter group must go for food, in which retail prices have increased 31 percent in a 10-month period; coffee, 49 percent; bread, 25 percent; meat, 60 percent; milk, 32 percent; lard, 72 percent; oleomargarine, 73 percent. Drug and pharmaceutical products now cost 67 percent more than they did in June 1946; soap, 62 percent more; cotton goods, 39 percent more; household paint, 60 percent more; leather, 63 percent more.

The American Labor Party calls for a tax bill based on the democratic principle of ability to pay, a tax bill which will strengthen the purchasing power of the masses of the people, a tax bill which will recapture some of the swollen profits being reaped by industry as a result of the postwar inflation.

The CHAIRMAN. Let me ask you whether the principle of ability to pay is reflected in these facts:

At the present time the spendable income of a man who receives net income before personal exemption of $2,000 is 100 percent, a married man with two dependents. The $2,500 man is 96.20. I am skipping into the higher income brackets. The $10,000 man is 81.38. The $20,000 man is 70.55. The $50,000 man is 51.78. The $100,000 man is 37.70. The $200,000 man is 26.37.

I am talking about what he has left to spend.

The $300,000 man is 22.10; the $500,000 man is 18.68; the $750,000 man is 16.97; the $2,000,000 man is 14.83; the $5,000,000 man is 14.5.

Would you not say that reflects the principle of ability to pay?

Mr. SCHUTZER. It is a question of degree. I am not saying that this bill completely ignores the basic principle which is required in connection with any income tax bill, but, sir, when you consider——

The CHAIRMAN. Obviously when you run from complete control of your pocketbook, so far as Federal taxes are concerned, and from there gradually up to where the man only retains 14.5 dollars out of his 100, are you not having a good stiff application of the principle of ability to pay?

Mr. SCHUTZER. I am sorry I cannot go along with you. As I mentioned before, I can hardly be induced to shed tears for these so-called hardship cases.

The CHAIRMAN. That is not stiff enough for you, in other words.

Mr. SCHUTZER. That is right. Unquestionably in view of the highest profits in the history of our country, and in view of the continuing profits war-induced, and in view of the fall in mass purchasing power, I say that this bill does not anywhere near go as far as is required for the national economic welfare.

The CHAIRMAN. The facts that you have mentioned give a pretty good springboard for higher wages.

Mr. SCHUTZER. Sir?

The CHAIRMAN. The facts you have mentioned there give a good springboard for higher wages.

Mr. SCHUTZER. We certainly approve of that. We certainly believe that is another method. We believe higher wages and reduction of income tax for the lower groups are certainly necessary for the economic health. I think that is the only way you will get mass purchasing power.

The CHAIRMAN. I am only making the point that the things that you mentioned are your best springboard for increases in wages, so you are not entirely critical, are you?

Mr. SCHUTZER. Well, no. We say that the way to economic health today is to both increase the wages, and also give adequate tax reduction in the lower brackets, both of which steps we say are very necessary to produce that sustained mass purchasing power which alone can prevent the recession or a depression.

May I read here a very brief program of the American Labor Party for 1 minute.

We urge Congress to reject the 20–30 percent across the board cuts, and instead:

A. Raise personal income tax exemptions from the present level of $500 per person to $1,250 for a single person and $2,500 for a married couple. In this way with the retention of the $500 credit for each dependent, a married couple with two children would thus have $3,500 free of income tax. The authoritative budget studies of the Heller committee, adjusted for recent price rises, show that at least $3,500 is required to keep a family of four at a minimum standard of decent living.

B. Repeal all Federal excise taxes, whether enacted during the war or before the war on necessities. Sales taxes hit the neediest the hardest. We have Federal excises on sugar, electrical appliances, films, beer, cosmetics, handbags, and other commodities all of which should be repealed. There is no place in a democractic fiscal system for regressive taxes on necessities.

I am aware that Congress has acted on this, but we make this as part of an over-all program.

C. Restore for the year 1947 the excess profits tax on corporations, without any carry-back. Events have made it perfectly clear that the repeal of the corporate excess profits tax as of the beginning of 1946 was a collossal fiscal blunder. Corporate profits have skyrocketed to their highest peak; unprecedented billions are being made by big business out of the postwar inflation. As an anti-inflationary measure, as a means of siphoning off huge savings of a small group of corporations and individuals which may plunge us headlong into depression, as a source of billions badly needed for housing, education, public works, and tax reductions in the lower brackets, the excess profits tax should be restored for the year 1947 at wartime rates, without a carry-back provision.

Such an immediate tax program will contribute to the economic health of the Nation and will help maintain a decent standard of living for millions of Americans.

In conclusion, if I may take another half minute, I would like to point out that the remarks by the Senator a moment ago high-light the basic approach which the American Labor Party feels must be taken in connection with any tax bill. We do not believe that a tax bill can be written in a kind of vacuum where only the figures relating to the tax provisions are concerned. We believe, as Senator Johnson pointed out, that a tax bill is part of the entire policy. It is tied up, linked directly and interrelated to the foreign policy, to the domestic policy, to labor legislation, to wages, control of prices.

I would urge upon this committee that all of those factors be regarded in connection with your final draft.

The CHAIRMAN. What does your organization estimate will be the national income for fiscal 1948?

Mr. SCHUTZER. We have made no estimates, sir, except that I would like to say again that we do not worship at the altar of a balanced budget. We would like to see one, but we would like to see it balanced in terms of human beings.

For example, it is very shocking to see the purse strings being pulled very tight and choking off progressive New Deal legislation and New Deal agencies. For example, the 43 percent cut suggested for the United States Department of Labor, wiping out the Division of Labor Standards, cutting down on school lunches, cutting down on the Division of Wages and Hours, so that adequate inspections cannot be made, cutting down on the appropriations for the Department of the Interior, which would lead to a wastage of our national heritage in forests.

These are some of the factors that lead me to suggest again that we do not worship, we do not say, that a balanced budget is the end-all at the expense of the American people. If we can balance it and perform those functions for which democratic government exists, by all means we would be very happy to do so.

The CHAIRMAN. You have had an unbalanced budget for about 13 or 14 years.

Mr. SCHUTZER. That is correct, sir, technically; yes.

The CHAIRMAN. Now you are paying $5 billion a year interest on it, which must be collected in part from your people.

Mr. SCHUTZER. That is correct.

The CHAIRMAN. Does that suggest to you that an unbalanced budget can perhaps be carried too far?

Mr. SCHUTZER. I think every good thing can be carried too far. I will say this, sir, I trust you remember what was the situation when the first of the 13 years came onto the American calendar. I need not to recall to you the conditions in this country back in 1932.

The CHAIRMAN. After you got through with 6 or 7 or 8 years of further and increasing unbalanced budgets, you still had 8,000,000 unemployed.

Mr. SCHUTZER. At the same time millions were kept from absolute despair; millions were rehabilitated. The country is full of magnificent buildings and libraries and roads and hospitals which we would not otherwise have had.

The CHAIRMAN. Are they helping you to pay the taxes that you are complaining of?

Mr. SCHUTZER. The way to help me is to revise this bill and put the burden where it belongs.

The CHAIRMAN. Are you unhappy over a budget system that leaves you 8,000,000 unemployed after 6 or 8 years experimenting with it?

Mr. SCHUTZER. I am not satisfied. I do not think it could be related to only the budgetary practices.

The CHAIRMAN. Is it your theory that the problem would have been solved had we unbalanced it still more?

Mr. SCHUTZER. I say if we had been able to go further or to have given more help to people, thatwould have been a proper function of democratic government.

The CHAIRMAN. You are now commencing to feel very substantially the cost of unbalanced budgets. You are paying $5 billion a year interest which is almost as much in that single item as used to be required to run the whole Federal Government.

Mr. SCHUTZER. That is just it. We are beginning to feel it. I am here to plead to make the proper group feel it—the ones who can best afford to feel it.

The CHAIRMAN. I hoped that I could draw you on the side of stopping the progression.

Mr. SCHUTZER. I hope I can draw you on the side of transferring that financial ache to the shoulders of the people who can bear it.

The CHAIRMAN. To where will you transfer it?

Mr. SCHUTZER. How about an effective undistributed profits tax? How about restoring the wartime excess profits tax without carry-back? How about withholding tax exemption on Federal securities? I think those are three specific measures which, if carried out, would more than give the Government the revenue they might lose by the income-tax reduction in the lower brackets.

The CHAIRMAN. Let us touch on those a little bit.

Are you proposing raising the personal exemptions, and how much?

Mr. SCHUTZER. For single persons, to $1,250, and $2,500 for married people.

The CHAIRMAN. How much would that involve in lost revenue?

Mr. SCHUTZER. I think roughly about $6 billion, but that is a rough figure.

The CHAIRMAN. About $7 billion?

Mr. SCHUTZER. All right.

The CHAIRMAN. And you propose to get that, then, by restoring excess-profits tax.

Mr. SCHUTZER. Yes; correct; closing all of the loopholes that now exist.

The CHAIRMAN. How much would you get out of that?

Mr. SCHUTZER. I do not know exactly, but I believe that the total of the three measures which I have advocated would not something close to $7 billion, or over that.

The CHAIRMAN. You have no break-downs?

Mr. SCHUTZER. I do not have it, sir, but I believe Mr. Ruttenberg, who testified here the other day before your committee for the national CIO, gave you explicit figures on that subject, which we heartily endorse.

The CHAIRMAN. You accept those figures?

Mr. SCHUTZER. We do, sir.

The CHAIRMAN. If you restore the excess-profits taxes, tell me what percentage of them will be borne by the consumers, and what percentage of them will be borne by the wage earners, and what percentage of them will be borne by the shareholders.

Mr. SCHUTZER. Sir, I am glad that you asked that question. That again brings out my point that you cannot isolate tax legislation and have it really effective. If we saw to it that price control was reinstituted, we would not have all of that passing on to the consumer immediately after a democratic tax bill is passed.

The CHAIRMAN. That runs you into a lot of control theories of government; does it not?

Mr. SCHUTZER. Well, sir, I would rather control than have disaster. I think there is nothing to be ashamed about when you plan and control. I think we are not ashamed of bridling a wild horse or controlling an automobile. We put in all sorts of brakes and mechanisms. I think it is a sign of rational civilization to have as many controls as necessary to make that civilization work.

The CHAIRMAN. By controls can you prevent the operation of the fact that an excess-profits tax is a cost element that reflects itself to the consumer and everybody else?

Mr. SCHUTZER. Well, sir, I do believe in trying. I do not believe we tried hard enough. I think we are simply working under a theory of passing it on to the consumer. But that does not have to be so, if we had effective price control.

The CHAIRMAN. Will you agree with me that under the private enterprise system, an excess-profits tax is an item of cost which in most instances is passed on to the consumer?

Mr. SCHUTZER. That is true, sir.

The CHAIRMAN. So your proposal is to restore the excess-profits tax, but submit industry to a state of control where that would not reflect to the consumer. Is that your proposal?

Mr. SCHUTZER. In this critical period now of inflationary prices and in accordance with the President's demand and the demand from all sections of the people, I believe that unless we do something like that, we are going to have a runaway inflation with the usual results—with decrease in our purchasing power followed by depression and unemployment.

The CHAIRMAN. Then to make your excess-profits tax theory work, you would have to restore control over prices; would you not?

Mr. SCHUTZER. In this period.

The CHAIRMAN. You favor that?

Mr. SCHUTZER. Yes, sir.

The CHAIRMAN. And without that, you will admit that restoring excess-profits taxes would increase costs to the consumers.

Mr. SCHUTZER. They would undoubtedly be passed on very, very quickly—within 24 hours after being enacted.

The CHAIRMAN. I think that is an honest answer. While I differ with your political philosophy, I like to see an honest answer.

Mr. SCHUTZER. Thank you.

The CHAIRMAN. Thank you very much.

Mr. SCHUTZER. Thank you for the opportunity to appear here.

The CHAIRMAN. Is Mr. Parker here?

Mr. Parker, will you please be seated. Give your full name to the reporter, and tell us your occupation and those qualifications which you have which you think bear on the problems before us.

STATEMENT OF LOVELL H. PARKER, COLORADO BUILDING, WASHINGTON, D. C.

Mr. PARKER. Mr. Chairman and gentlemen of the committee, my name is Lovell H. Parker, Colorado Building, Washington, D. C. I appear in behalf of myself as a citizen of the United States, without compensation or inducement from any source. I have made a study of the individual tax reduction bill now under consideration by this committee and as a result of such study feel in duty bound to submit to the committee certain observations in regard thereto. This is because for 30 years I have studied tax legislation, and because for 12 of those years I had the honor of being a nonpartisan tax adviser to this committee in the capacity of chief of staff of the Joint Committee on Taxation.

In my opinion, tax reduction is of major importance at this time. The main question is how much tax reduction can be given in view of the magnitude of the public debt. I consider H. R. 1 a good bill, but if the revenue loss is too great, my observations, which I now submit, include a suggested plan of tax reduction which I believe will retain the major incentive features of H. R. 1 with a saving of approximately one billion dollars in revenue.

My observations on the Individual Income Tax Reduction Act of 1947 are as follows:

If the committee wishes to conserve time, I might abbreviate this statement somewhat.

The CHAIRMAN. I believe it would be advisable to file the statement for the record, and give us your own summary of it.

Mr. PARKER. I will omit here from my statement any description of the present situation which you gentlemen certainly know by this time, and the description of how H. R. 1 operates.

I have here some pages as to the need of tax reduction. The previous witnesses have covered that subject very well, and I think I can probably summarize that by simply saying that history shows that the need of tax reduction at this time is of the greatest importance, if the incentive of the individual to produce is to be maintained.

Wise tax reduction now will result in greater incentive, greater national income, and, in the long run, in larger revenues.

Summarizing some pages that I have in my statement as to the need of a balanced budget——

Senator HAWKES. Mr. Parker, may I interrupt there?

In other words, what you are saying is that a fair rate of taxation is something to show that the Government is trying to let the individual keep some of the reward he gains, as an incentive to accomplishment, is likely to maintain a better level in the economy, and therefore in the finality, I take it you mean might very easily produce as much or more revenue than a higher rate which was stifling.

Mr. PARKER. That proposition is covered rather fully here, and I will quote what Secretary Mellon said one time in regard to it:

> It seems difficult for some to understand that high rates of taxation do not necessarily mean large revenue to the Government, and that more revenue may often be obtained by lower rates.

That was his conclusion back in 1921, and the reduction of rates constantly increased revenue and brought in revenue much in excess of the estimates. The estimates in each budget were exceeded by the actual results.

As to the need of the balanced budget, merely summarizing, it is important to balance the budget now but not by methods which will lead to deficits in future years. It would be better to have a deficit for 1948, and a surplus for 1949 and 1950, than to have a surplus for 1948 and a deficit for 1949 and 1950.

In other words, I believe your program should look ahead just as far as possible, because the things that you do now in making tax cuts or in making cuts in the budget may very vitally affect the 1949 and the 1950 budgets much more so than they do the 1948 budget.

Then I come to the paragraph about what to do about tax reduction, and you will recall that I said at the start that one of my purposes was to suggest another plan in case you found the cost of H. R. 1 too great.

I believe H. R. 1 is a good bill and would give the necessary incentive at this time. However, I thought that I would put this suggestion before the committee.

In view of what has been said, in the writer's opinion, tax reduction now is of supreme importance. Without such tax reduction it is believed that a balance budget continuing over the next 3 to 5 years cannot be maintained.

If we had a Nation-wide poll on the question, "Would you try to make more money if taxes were not so high?", I believe 90 percent of the answers would be in the affirmative, if asked of producers of income. Those producers of income must be given incentive.

On the other hand, we must be practical and limit tax reduction so that any substantial increase in the present amount of our national debt will be avoided.

H. R. 1 will give individuals more incentive and it is doubtful, therefore, if it would result in a reduction in the Government's revenue of the 3¾ billion dollars which has been estimated in many quarters.

A flat 20 percent reduction in the tax burden across the board would be perfectly equitable if present tax rates were equitable on varying amounts of net income. Unfortunately this is not the case. Our present graduated rate schedule has been developed in recent years not so much with regard to ability to pay or to give incentive as to the proposition of "Where can we increase the rates so as to get the most revenue."

However, if the budget situation is such that the cost of the bill H. R. 1 can be taken care of, this bill should meet present requirements and, being simple in form, it is capable of speedy enactment into law.

On the other hand, if the cost of H. R. 1 cannot be taken care of in the writer's opinion, tax reduction will still be possible on a reduced scale. It is believed that it is possible to devise a plan on such reduced scale on a basis that will retain the incentives which would flow from H. R. 1.

The writer has studied such a plan, and after considering the probable effects of a flat 10 percent reduction across the board, instead of a 20 percent reduction, has concluded that it would be better to design a plan which, by its distribution of tax relief, would give incentive where most needed.

Therefore, the writer has the temerity to suggest the consideration of the following tax reduction plan.

The suggested tax reduction plan. The main features of the plan may be briefly stated as follows without argument or reasons at this point.

1. Earned income relief. It is proposed that there shall be allowed as a deduction from net income before applying the normal tax and surtax, an amount equal to 10 percent of the net income of the taxpayer. Net income up to $5,000 is to be recognized as earned whether earned or not, but earned net income in excess of the net income will not be recognized.

2. Double taxation relief. A tax credit of 2 percent of the amount of dividends in excess of $5,000 received from domestic corporations will be allowed in determining the final tax liability.

3. Relief in case of joint returns of husband and wife. The present provision which provides for a reduction of 5 percent in the amount of normal tax and surtax computed under the schedules in present law will be changed so as to provide for the retention of the 5 percent reduction for separate returns, but will allow of a 10 percent reduction in the case where husband and wife file a joint return.

And on considering the matter further, after writing this statement, that joint return should be allowed in the case of a widower or widow with dependent children. There would be no trouble in drafting such a provision.

4. Present rate schedules retained. The present normal tax rate and the present surtax rate schedule will be retained at this time. The present personal exemptions and credit for dependents will also be retained.

Principles.—The principles underlying the plan for limited tax relief under present conditions may be briefly stated as follows:

1. Earned income relief. It is believed that our income tax law should recognize the principle that earned income should be taxed less heavily than investment income.

This principle was recognized in our tax laws for 1924 to 1943. In proposing that the principle should be again recognized, the writer cannot make a brief or more convincing statement that was made in the House report accompanying the Revenue Act of 1924. The statement is quoted in part as follows:

> The fairness of taxing more lightly the income received as personal compensation for services rendered than income from investments has long been recognized, and seems to be generally admitted without regard to political divisions. Such a distinction has been made for many years in the income-tax laws of Great Britain, but at a much lower rate. The soundness of such a distinction is shown by testing it under the principle of ability to pay, which is the principle underlying the entire system of progressive income taxation in effect in this country. The taxpayer who receives salaries, wages, and other earned income must each year save and set aside a portion of his income in order to protect him in case of sickness and in his old age, and in order to provide for his family upon his death. On the other hand, the person whose income is derived from investments already has his capital and is relieved of the necessity of saving to establish it. He may spend each year his entire income, and at the same time have sufficient capital to protect him in his old age and to provide for his family upon his death. In most cases the person whose income is derived from investments is able to pay a greater tax than the one whose income is the result of personal effort.

The Joint Committee on Internal Revenue Taxation published a 55-page report on the subject of earned income on June 20, 1930. This report would seem to completely establish the proposition that earned income relief is justifiable. The House and Senate reports accompanying the Revenue Act of 1943 fail to contain any reason for the repeal of the earned income provision. It is to be assumed revenue was the main objective. It is to be noted, however, that in spite of the need for revenue, Great Britain retained earned income tax relief during the war period and seems likely to retain this principle indefinitely.

The amount of earned income tax relief that can be given is of course a matter of judgment which must be decided in the light of existing conditions. The method of giving relief is not difficult as such methods have already been tried out successfully under prior laws.

The writer has suggested that 10 percent of the amount of the earned net income be allowed as a deduction from net income before applying the normal and surtax rates. Because in the case of small incomes necessary living expenditures require the expenditure of nearly all of the income no matter from what source derived, it is recommended that all incomes up to $5,000 be recognized as earned whether earned or not. This is in accordance with past provisions of law. However no limit is set on the amount of income which can be recognized as earned. Formerly such limits have been set.

The reasonableness of the suggestion made by the writer can only be determined after the tables submitted with this statement have been examined. It has been the writer's objective, for practical reasons, to confine all tax reductions, except in the case of very small incomes to less than 20 percent.

Finally, the writer believes that the earned income tax relief proposed will give incentive to all earners of income to produce more income. If more income is produced, the Government will have more income to tax and will lose little by this relief provision. Incentive increases as the tax rates increase; if a man only pays——.

The CHAIRMAN. You mean it does it as that decreases.

Mr. PARKER. Yes, Senator. In the case of the man who pays a small amount, he will work anyway. Tax reduction will not increase his incentive as much as it will the incentive of the man who has to pay 50 or 60 cents on the dollar to the Government out of his earnings. Such a man thinks "what is the use to make any more money."

2. Double taxation relief. The fact that corporate earnings are now doubly taxed is generally recognized. They are taxed once, and heavily, when earned by the corporation and then taxed again, and heavily, to the stockholder when he receives such earnings in the form of dividends. There is no double taxation in the case of interest on corporate bonds because, while such interest is taxed to the bondholder, the interest payment is allowed as a deduction from the net income of the corporation.

For many years we recognized this fact at least in part and exempted corporate dividends from normal tax, but we took this exemption away in our greed for revenue. Great Britain has always credited the taxpayer with the amount of tax paid at the source by the corporation.

Our present double taxation of corporate earnings tends to encourage corporations to issue bonds instead of stock on account of the fact that bond interest is allowed as a deduction from income. This is often not a wise policy from business standpoints.

In the present financial situation of the Government it is obviously impossible to adequately correct this situation without losing too much revenue. It is believed stockholders—people with capital—can afford to wait for tax relief longer than the man with earned income and no capital.

However, the writer proposes limited relief from double taxation and the establishment of the principle on which such relief may be based.

It is proposed that a taxpayer be allowed a tax credit of 2 percent of the amount of his domestic dividend income in excess of $5,000. The reason for the $5,000 amount is that since the writer proposes to recognize income up to $5,000 as earned whether earned or not, it would be a duplication to allow the 2-percent credit on the first $5,000 of dividends which have already been given more adequate relief by being recognized as earned income.

The small amount of relief given may be visualized by the following example.

A single man with no dependents and $50,000 net income, all derived from domestic dividends under the writer's plan would pay a tax of $23,895. If his income was all from interest he would pay a tax of $24,795. Therefore, this 2 percent tax credit reduces his tax by $900. It is obvious that this tax credit will not result, therefore, in much loss of revenue, and it should be remembered that when a man received $50,000 in dividends the corporation declaring such dividends has already paid a tax on the earnings represented thereby in the amount of $30,645. Stated in another way, if a corporation earns $80,645, it will pay $30,645 in tax and the stockholder will receive $50,000. On this $50,000 under the present law he will pay a tax of $25,137, and under the writer's plan $23,895. Thus out of $80,645 earned by the corporation, the shareholder has left after taxes only $24,863 under the present law and $26,115 under the writer's plan.

The recognition of the fact that double taxation should be reduced is perhaps more important at this time than the matter of dollars and cents tax relief on this account.

3. Relief in case of joint return of husband and wife. Under the present law, a man and wife both of whom have net income, by filing separate returns, will pay substantially less tax, in most cases, than a married couple having the same income all earned by, or belonging to one spouse.

For example, if a man has $30,000 of net income and his wife has no income, the present tax on the man and wife is $11,970. On the other hand, if a man has $15,000 of net income and the wife also has $15,000 of net income and they file separate returns, the combined tax will be only $8,540, or $3,430 less.

The question is raised, "Is this tax differential of $3,430 justifiable?" At first sight it would appear that the ability to pay of the two married couples above mentioned would be exactly the same, since both have net incomes of $30,000 and that, therefore, that tax should be the same. From a financial angle this may be true, but there are certain practical arguments on the other side of the question. If the wife owns one-half the property it cannot be disposed of by the husband either by will or otherwise. In case of divorce the wife has her property and does not have to depend on alimony. The husband does not necessarily have the management or control of his wife's property.

The next question is, "If there should be a tax differential how much should it be?" In 1936, the tax differential in the $30,000 case just mentioned was only $1,362. Now as above pointed out this tax differential is $3,430. In the writer's judgment this latter differential is entirely too much and the practical arguments for such differential do not support such an increase.

The writer proposes therefore to reduce this tax differential without eliminating it by permitting a tax credit of 10 percent of the tax otherwise computed in the case of joint returns and by retaining the present 5-percent tax credit in the case of separate returns. In the $30,000 case cited as an example under the writer's plan, in the case of earned income, the differential would be reduced from the present $3,430 to $2,389. Under H. R. 1, the differential would be $2,744.

Under the writer's plan the differential would be greater in case of investment income. In this case the differential proposed would be $2,867. But this is fair because in the case of investment income, a man has it in his power to split the income by giving half of his stock and bonds to his wife, thus putting himself in the same position as the man whose wife already owns half the couple's income-producing property.

The writer does not suggest this joint return relief in order to attack the community-property system, but it must be frankly admitted that it would operate to give somewhat less relief in the nine community-property States in the case of married couples than would be given under H. R. 1.

For over 20 years the Congress has been in tax controversies because a married man having a certain amount of income in a community-property State pays substantially less tax than a man having a like amount of income in all the other 39 States. There are arguments on both sides of the question, and it would appear proper to make some compromise in the matter. This might well be of advantage to the community-property States in defeating a complete repeal of the present tax differential.

The tax relief for a joint return is believed sound, however, in all States whether or not on the community-property system. There is no discrimination or lack of uniformity since the residents of community-property States will have the same right to file joint returns as is permitted in the other States. Joint returns are much more convenient for the Bureau of Internal Revenue in checking income tax returns.

Finally, the ability to pay of a married couple can be better measured by joint returns than by separate returns. Great Britain has recognized this fact for years and computes the tax on the combined income of husband and wife, without allowing for the tax differential we suggest for practical reasons.

Merits claimed for the writer's plan. The following claims are made with respect to the operation and effect of the writer's plan:

1. The loss of revenue to the Government under the plan should be nearly 1 billion dollars less than under H. R. 1.
2. The incentive given taxpayers to produce more income should be nearly as great under the plan as H. R. 1.
3. The very small taxpayers are given more relief under the plan than under H. R. 1; no other taxpayers are given more than is given by H. R. 1.
4. The tax reduction in the case of earned income is nearly as great as is given by H. R. 1.
5. Investment income is accorded less relief than under H. R. 1 but the relief is still substantial in most cases.
6. The principle of double taxation is recognized by the plan.
7. Present discrimination in the taxation of married couples is reduced.

In conclusion, no fair conception of the results of the writer's plan can be obtained without a comparative study of the taxes which are imposed under present law and would be imposed under H. R. 1 or under the writer's plan on various amounts of net income.

I have submitted rather voluminous tables and examples on this subject. I would like to call the attention of the committee to the table which I have numbered table No. 2-C. This is for a married man with no dependents, and with all earned income. Under the plan that I suggest you will note that there will be no tax at all on a married couple with a net income of $1,111.11.

Under H. R. 1, that group would pay some tax. That is due to the operation of this 10-percent earned-income credit.

And then up to net incomes of $1,600, taxpayers will get a little bit more relief under my plan than under H. R. 1.

From that point on, relief becomes less, because you now run into the 30-percent reduction under H. R. 1, but if you will follow that line down, you will see that after getting down to 21 percent, at $3,000, the percent reduction goes on down until it becomes only 15 percent on very large incomes.

Please note that the combination of the joint-return relief and the 10 percent earned-income relief will bring about a result very comparable with H. R. 1 on earned incomes.

I think when we talk with percentages sometimes we do not realize just what the situation is. I will spend a couple of minutes on the charts which I have submitted:

On a man and wife with no dependents and a net income of $1,200, the present tax is $38. Well, that is about a week and a half salary, and it is a burden. At present prices, with 60 percent of our population living in the cities, it is very questionable if a man making anything under $100 a month can really afford to pay any tax.

You will notice that under the writer's plan, the tax was reduced from $38 to $14.40.

That revenue loss is not very great, though. We soon run out of the brackets where this plan gives more relief than H. R. 1.

On the next page is the $3,000 case and you can visualize from this chart the fact that this tax is about 13 percent of his net income. He pays a tax of $380 under the present law, whether he files a joint return or separate returns, but under H. R. 1, due to the operation of the notch provision, on the joint return, he pays $304, but on the separate returns, only $266.

Of course, that operates in all of the community-property States automatically so that in cases where the man makes all of the income in the 39 States he pays a tax of $304, but in the community-property States his tax will be only $266.

Now, under the plan that I have suggested in this case, the tax could be the same in both cases, $306, which is practically the same tax as under H. R. 1, in the case of a joint return.

The CHAIRMAN. You may file the charts along with the other exhibits.

Mr. PARKER. My main purpose is to give you this data which I hope you will find worth considering.

The CHAIRMAN. I think the charts are very clear and in aid of your thesis, and I think we can follow them all right.

Mr. PARKER. I think you can follow those charts easier than you can percentages sometimes.

Senator GEORGE. Yes.

The CHAIRMAN. Thank you very much.

Mr. PARKER. Thank you very much.

(The statement and charts are as follows:)

STATEMENT OF LOVELL H. PARKER BEFORE THE COMMITTEE ON FINANCE, SENATE OF THE UNITED STATES, APRIL 28, 1947

Mr. Chairman and gentlemen of the committee, my name is Lovell H. Parker, Colorado Building, Washington, D. C. I appear in behalf of myself as a citizen of the United States, without compensation or inducement from any source. I have made a study of the individual tax reduction bill now under consideration by this committee and as a result of such study feel in duty bound to submit to the committee certain observations in regard thereto. This is because for 30 years, I have studied tax legislation, and because for 12 of those years I had the honor of being a nonpartisan tax adviser to this committee, in the capacity of chief of staff of the Joint Committee on Taxation.

In my opinion tax reduction is of major importance at this time. The main question is how much tax reduction can be given in view of the magnitude of the public debt. I consider H. R. 1 a good bill, but if the revenue loss is too great, my observations, which I now submit, include a suggested plan of tax reduction which I believe will retain the major incentive features of H. R. 1 with a saving of approximately 1 billion dollars in revenue.

My observations on the Individual Income Tax Reduction Act of 1947 are as follows:

THE PRESENT SITUATION

On March 27, 1947, the Individual Income Tax Reduction Act of 1947 (H. R. 1) was passed by the House of Representatives of the United States and transmitted to the Senate, where, in accordance with the usual procedure, it was referred to the Committee on Finance. At this time the Committee on Finance has this bill under consideration. Briefly and nontechnically stated, H. R. 1 provides in effect that, for the year 1947, and for subsequent years until amended, the present combined normal tax and surtax burden on individuals will be reduced by 20 percent in the great majority of cases. There are, however, the following two exceptions to this general statement which can be stated as follows:

Exception No. 1—Case of very small taxpayers

(*a*) Individuals with taxable net incomes (i. e., net income less personal exemption and credit for dependents) of $1,000 or less are given a reduction of 30 percent in their present combined normal and surtax burden.

(*b*) Individuals with taxable net incomes between $1,000 and $1,395.83 are given a reduction in their tax burden decreasing from 30 percent at $1,000 to 20 percent at $1,395.83.

Exception No. 2—Case of very large taxpayers

(*a*) Individuals with taxable net incomes in excess of $302,395.60 are given the 20-percent reduction in the present tax attaching to this amount of taxable net income, but on any amount of taxable net income in excess of $302,395.60 they are only given a reduction of 10.52 percent in the present tax attaching to such excess.

THE NEED FOR TAX REDUCTION

It is believed that few will deny (except those who think everyone should have the same amount of expendable income after taxes) that the present rates of taxation on individuals are excessive and seriously affect the standard of living in the case of individuals with small incomes and seriously affect the incentive to produce in the case of individuals with modest or large incomes. It is evident we are now in a period of readjustment of our national economy. The fears of a wild inflationary period, worrying many during the last year have been allayed. On the other hand, many are now worrying about deflation and a depression more or less substantial in magnitude. History indicates that these fears of deflation and depression are not unfounded. On this point the economic history of Europe after the Napoleonic wars is especially illuminating.

It is now estimated that the national income is nearly 160 billion dollars annually. If this national income should drop by 50 percent or to 80 billion (which was approximately the amount of the national income in 1929), the writer's experience with past depressions, convinces him that the tax revenues of the Government would be reduced, not by only 50 percent, but by a larger amount, probably by 65 to 70 percent. It is, therefore, of supreme importance at this time, if we have any desire to achieve a balanced budget and to enter on a period of reduction in the national debt, to avoid a depression. If a depression occurs, a balanced budget and debt reduction will become impossible.

We need tax reduction to maintain our present or a greater national income by giving individuals a fair reward for their labor, in other words, by giving them an incentive to produce more income. Reduction in rates of tax does not necessarily mean less revenue to the Government. The amount of income available for tax is more important than the rates of tax. A 100-percent tax rate returns no revenue if there is no income to tax. A 1-percent rate returns revenue if taxable income exists.

Much should be learned from experience. After World War I we had the depression of 1920–21, we then had tax reduction, and that tax reduction proved most beneficial to our Government and citizens alike.

Secretary of the Treasury Houston and later Secretary of the Treasury Glass, both serving under President Wilson recommended decreases in the surtax rates on individuals which rates were then excessive but much less so than at present. Secretary of the Treasury Mellon, serving under Presidents Harding and Coolidge, renewed these recommendations. Mr. Mellon's book, entitled "Taxation: The People's Business," ably sets forth, in a nonpartisan way, the situation after World War I in connection with taxation and financing. A few quotations from the book referred to are especially pertinent to our present situation, and are as follows:

"A sound tax policy must take into consideration three factors. It must produce sufficient revenue for the Government; it must lessen, so far as possible, the burden of taxation on those least able to bear it; and it must also remove those influences which might retard the continued steady development of business and industry on which, in the last analysis, so much of our prosperity depends. * * *"

"Tax revision should never be made the football either of partisan or class politics but should be worked out by those who have made a careful study of the subject in its larger aspects and are prepared to recommend the course which, in the end, will prove for the country's best interest. * * *"

"It seems difficult for some to understand that high rates of taxation do not necessarily mean large revenue to the Government, and that more revenue may often be obtained by lower rates. * * *"

"The principle that a man should pay taxes in accordance with his 'ability to pay' is sound but, like all other general statements, has its practical limitations and qualifications, and when, as a result of an excessive or unusual basis of taxation, it becomes evident that the source of taxation is drying up and wealth is being diverted into unproductive channels, yielding neither revenue to the Government nor profit to the people, then it is time to readjust our basis of taxation upon sound principles."

As a result of the tax-reduction program adopted by Congress in the Revenue Acts of 1921, 1924, and 1926, we achieved not only a balanced budget, but also reduced the national debt by almost 10 billion dollars. The fact that a wave of wild speculation in 1929 threw us into a depression is not a factor detracting from the wisdom of the tax-reduction program.

In the opinion of the writer need of tax reduction now is even greater than it was in 1921, and it is believed such reduction might save the country from a disastrous depression. There is no reason why, with past experiences to judge from, we should not even be more farsighted now than were Secretaries Houston, Glass, and Mellon after World War I. It would be far better to prevent a depression than to try to check it after it has started. The events from 1930 to 1940 are ample evidence of the difficulties encountered in checking a depression.

THE NEED OF A BALANCED BUDGET

It is not the purpose of the writer to enter into a discussion of how much the budget can be reduced. It is assumed that the Congress will provide for reducing the budget as much as may be consistent with the national welfare and security.

It is believed, however, that the slogan, "balance the budget," has been overworked. Of course, we must eventually balance the budget and the sooner the better, but not by throwing every other consideration to the four winds. For example, if, by unsound tax measures or by the absence of sound tax measures and by unwise cuts in expenditures, we succeed in balancing the budget for the fiscal year ending June 30, 1948, but if the economic effects of such unsound measures and unwise cuts creates a deficit of 5 billion in 1949 and 10 billion in 1950, it is obvious that a grievous mistake has been made. It would be far better to have a deficit of 5 billion in 1948 and a surplus of 5 billion in 1949 and 10 billion in 1950 which might well result from sound tax measures and wise cuts in the budget.

Budget-balancing programs should not look merely to the immediately ensuing year, but should look ahead 3 to 5 years. One year is too short a period in which to estimate the economic effects of tax measures and in which to estimate ultimate revenues.

WHAT TO DO ABOUT TAX REDUCTION

In view of what has been said, in the writer's opinion tax reduction now is of supreme importance. Without such tax reduction, it is believed that a balanced budget continuing over the next 3 to 5 years cannot be maintained. If we had a Nation-wide poll on the question, "Would you try to make more money if taxes were not so high?" I believe 90 percent of the answers would be in the affirmative if asked of producers of income. Those producers of income must be given incentive.

On the other hand, we must be practical and limit tax reduction so that any substantial increase in the present amount of our national debt will be avoided.

H. R. 1 will give individuals more incentive, and it is doubtful, therefore, if it would result in a reduction in the Government's revenue of the 3½ billion dollars which has been estimated in some quarters.

A flat 20-percent reduction in the tax burden across the board would be perfectly equitable if present tax rates were equitable on varying amounts of net income. Unfortunately this is not the case; our present graduated rate schedule has been developed in recent years, not so much with regard to ability to pay or to giving incentive, as to the proposition of "where can we increase the rates so as to get the most revenue?"

However, if the budget situation is such that the cost of the bill H. R. 1 can be taken care of, this bill should meet present requirements, and, being simple in form, it is capable of speedy enactment into law.

On the other hand, if the cost of H. R. 1 cannot be taken care of, in the writer's opinion tax reduction will still be possible on a reduced scale. It is believed that it is possible to devise a plan on such reduced scale on a basis that will retain the incentives which would flow from H. R. 1.

The writer has studied such a plan, and after considering the probable effects of a flat 10-percent tax reduction across the board, instead of a 20 percent reduction, has concluded that it would be better to design a plan which, by its distribution of tax relief, would give incentive where most needed. Therefore, the writer has the temerity to suggest the consideration of the following tax-reduction plan.

SUGGESTED TAX-REDUCTION PLAN

The main features of the plan may be briefly stated as follows (without argument or reasons at this point):

1. *Earned income relief.*—It is proposed that there shall be allowed as a deduction from net income before applying the normal tax and surtax, an amount equal to 10 percent of the earned net income of the taxpayer. Net income up to $5,000 is to be recognized as earned whether earned or not, but earned net income in excess of the net income will not be recognized.

2. *Double taxation relief.*—A tax credit of 2 percent of the amount of dividends in excess of $5,000 received from domestic corporations will be allowed in determining the final tax liability.

3. *Relief in case of joint returns of husband and wife.*—The present provision which provides for a reduction of 5 percent in the amount of normal tax and surtax computed under the schedules in present law will be changed so as to provide for the retention of the 5 percent reduction for separate returns but will allow of a 10 percent reduction in the case where husband and wife file a joint return.

4. *Present rate schedules retained.*—The present normal tax rate and the present surtax-rate schedule will be retained at this time. The present personal exemptions and credit for dependents will also be retained.

PRINCIPLES

The principles underlying the writer's plan for limited tax relief under present conditions may be briefly stated as follows:

1. *Earned-income relief.*—It is believed that our income tax law should recognize the principle that earned income should be taxed less heavily than investment income.

This principle was recognized in our tax laws for 1924 to 1943. In proposing that the principle should be again recognized the writer cannot make a briefer or more convincing statement than was made in the House report accompanying the Revenue Act of 1924 (Rept. No. 179, 68th Cong., 1st sess.). The statement is quoted in part as follows:

"The fairness of taxing more lightly the income received as personal compensation for services rendered than income from investments has long been recognized, and seems to be generally admitted without regard to political divisions. Such a distinction has been made for many years in the income-tax laws of Great Britain, but at a much lower rate. The soundness of such a distinction is shown by testing it under the principle of ability to pay, which is the principle underlying the entire system of progressive income taxation in effect in this country. The taxpayer who receives salaries, wages, and other earned income must each year save and set aside a portion of his income in order to protect him in case of sickness and in his old age, and in order to provide for his family upon his death. On the other hand, the person whose income is derived from investments already has his capital and is relieved of the necessity of saving to establish it. He may spend each year his entire income, and at the same time have sufficient capital to protect him in his old age and to privide for his family upon his death. In most cases the person whose income is derived from investments is able to pay a greater tax than the one whose income is the result of personal effort."

The Joint Committee on Internal Revenue Taxation published a 55-page report on the subject of earned income on June 20, 1930. This report would seem to completely establish the proposition that earned-income relief is justifiable. The House and Senate reports accompanying the Revenue Act of 1943 fail to contain any reason for the repeal of the earned-income relief provision. It is to be assumed revenue was the main objective. It is to be noted, however, that in spite of the need for revenue, Great Britain retained earned-income tax relief during the war period and seems likely to retain this principle indefinitely.

The amount of earned-income tax relief that can be given is of course a matter of judgment which must be decided in the light of existing conditions. The method of giving relief is not difficult, as such methods have already been tried out successfully under prior laws.

The writer has suggested that 10 percent of the amount of the earned net income be allowed as a deduction from net income before applying the normal and surtax rates. Because in the case of small incomes necessary living expenses require the expenditure of nearly all of the income no matter from what source derived, it is recommended that all incomes up to $5,000 be recognized as earned whether earned or not. This is in accordance with past provisions of law. However, no limit is set on the amount of income which can be recognized as earned. Formerly such limits have been set.

The reasonableness of the suggestion made by the writer can only be determined after the tables submitted with this statement have been examined. It has been the writer's objective, for practical reasons, to confine all tax reduction, except in the case of very small incomes, to less than 20 percent.

Finally, the writer believes that the earned-income tax relief proposed will give incentive to all earners of income to produce more income. If more income is produced, the Government will have more income to tax and will lose little by this relief provision.

2. *Double-taxation relief.*—The fact that corporate earnings are now doubly taxed is generally recognized. They are taxed once, and heavily, when earned by the corporation and then taxed again, and heavily, to the stockholder when he receives such earnings in the form of dividends. There is no double taxation in the case of interest on corporate bonds because, while such interest is taxed to the bondholder, the interest payment is allowed as a deduction from the net income of the corporation.

For many years we recognized this fact at least in part and exempted corporate dividends from normal tax, but we took this exemption away in our greed for revenue. Great Britain has always credited the taxpayer with the amount of tax paid at the source by the corporation.

Our present double taxation of corporate earnings tends to encourage corporations to issue bonds instead of stock on account of the fact that bond interest is allowed as a deduction from income. This is often not a wise policy from business standpoints.

In the present financial situation of the Government it is obviously impossible to adequately correct this situation without losing too much revenue. It is believed stockholders (people with capital) can afford to wait for tax relief longer than the man with earned income and no capital.

However, the writer proposes limited relief from double taxation and the establishment of the principle on which such relief may be based.

It is proposed that a taxpayer be allowed a tax credit of 2 percent of the amount of his domestic dividend income in excess of $5,000. The reason for the $5,000 amount is that since the writer proposes to recognize income up to $5,000 as earned, whether earned or not, it would be a duplication to allow the 2 percent tax credit on the first $5,000 of dividends which have already been given more adequate relief by being recognized as earned income.

The small amount of relief given may be visualized by the following example: A single man with no dependents and $50,000 of net income, all derived from domestic dividends, under the writer's plan would pay a tax of $23,895. If his income was all from interest he would pay a tax of $24,795. Therefore this 2 percent tax credit reduces his tax by $900. It is obvious that this tax credit will not result, therefore, in much loss of revenue, and it should be remembered that when a man receives $50,000 in dividends, the corporation declaring such dividends has already paid a tax on the earnings represented thereby in the amount of $30,645. Stated in another way, if a corporation earns $80,645 it will pay $30,645 in tax and the stockholder will receive $50,000. On this $50,000 under the present law he will pay a tax of $25,137, and under the writer's plan, $23,895. Thus out of $80,645 earned by the corporation, the shareholder has left, after taxes, only $24,863 under present law and $26,115 under the writer's plan.

The recognition of the fact that double taxation should be reduced is perhaps more important at this time than the matter of dollars-and-cents tax relief on this account.

3. *Relief in case of joint return of husband and wife.*—Under present law, a man and wife, both of whom have net income, by filing separate returns will pay substantially less tax, in most cases, than a married couple having the same income all earned by, or belonging to, one spouse.

For example, if a man has $30,000 of net income and his wife has no income, the present tax on the man and wife is $11,970. On the other hand, if a man has $15,000 of net income and the wife also has $15,000 of net income and they file separate returns, the combined tax will only be $8,540, or $3,430 less.

The question is raised, "Is this tax differential of $3,430 justifiable?" At first sight it would appear that the ability to pay of the two married couples above mentioned would be exactly the same, since both have net incomes of $30,000, and that, therefore, the tax should be the same. From a financial angle this may be true, but there are certain practical arguments on the other side of the question. If the wife owns one-half the property it cannot be disposed of by the husband either by will or otherwise. In case of divorce the wife has her property and does not have to depend on alimony. The husband does not necessarily have the management or control of his wife's property.

The next question is, "If there should be a tax differential how much should it be?" In 1936, the tax differential in the $30,000 case just mentioned was only $1,362. Now, as above pointed out, this tax differential is $3,430. In the writer's judgment this latter differential is entirely too much and the practical arguments for such differential do not support such an increase.

The writer proposes, therefore, to reduce this tax differential without eliminating it by permitting a tax credit of 10 percent of the tax otherwise computed in the case of joint returns and by retaining the present 5 percent tax credit in the case of separate returns. In the $30,000 case cited as an example under the writer's plan, in the case of earned income, the differential would be reduced from the present $3,430 to $2,389. Under H. R. 1 the differential would be $2,744.

Under the writer's plan the differential would be greater in case of investment income. In this case the differential proposed would be $2,867. But this is fair because in the case of investment income a man has it in his power to split the income by giving one-half of his stock and bonds to his wife, thus putting himself in the same position as is the man whose wife already owns one-half the couple's income producing property.

The writer does not suggest this joint-return relief in order to attack the community-property system, but it must be frankly admitted that it would operate to give somewhat less relief in the nine community-property States in the case of married couples than would be given under H. R. 1.

For over 20 years the Congress has been in tax controversies because a married man having a certain amount of income in a community-property State pays substantially less tax than a man having a like amount of income in all the other 39 States. There are arguments on both sides of the question, and it would appear proper to make some compromise in the matter. This might well be of advantage to the community-property States in defeating a complete repeal of the present tax differential.

The tax relief for a joint return is believed sound, however, in all States whether or not on the community-property system. There is no discrimination or lack of uniformity, since the residents of community-property States will have the same right to file joint returns as is permitted in the other States. Joint returns are much more convenient for the Bureau of Internal Revenue in checking income-tax returns.

Finally, the ability to pay of a married couple can be better measured by joint returns than by separate returns. Great Britain has recognized this fact for years and computes the tax on the combined income of husband and wife, without allowing for the tax differential we suggest for practical reasons.

THE MERITS CLAIMED FOR THE WRITER'S PLAN

The following claims are made with respect to the operation and effect of the writer's plan:

(1) The loss of revenue to the Government under the plan should be nearly one billion dollars less than under H. R. 1.

(2) The incentive given taxpayers to produce more income should be nearly as great under the plan as under H. R. 1.

(3) The very small taxpayers are given more relief under the plan than under H. R. 1; no other taxpayers are given more than is given by H. R. 1.

(4) The tax reduction in the case of earned income is nearly as great as is given by H. R. 1.

(5) Investment income is accorded less relief than under H. R. 1, but the relief is still substantial in most cases.

(6) The principle of double taxation is recognized by the plan.

(7) Present discrimination in the taxation of married couples is reduced.

CONCLUSION

No fair conception of the results of the writer's plan can be obtained without a comparative study of the taxes which are imposed under present law and would be imposed under H. R. 1 or under the writer's plan on various amounts of net income.

Therefore, this statement will be concluded with an earnest request that the reader study the attached exhibit and tables, which are as follows:

Exhibit A.—Some Typical Examples of the Tax Results of the Writers' Plan Compared With Such Results Under Present Law and H. R. 1

Table No. 1–A: Tax burden on net incomes of $1,100.
Table No. 1–B: Tax burden on net incomes of $2,000.
Table No. 1–C: Tax burden on net incomes of $3,000.
Table No. 1–D: Tax burden on net incomes of $5,000.
Table No. 1–E: Tax burden on net incomes of $10,000.
Table No. 1–F: Tax burden on net incomes of $20,000.
Table No. 1–G: Tax burden on net incomes of $30,000.
Table No. 1–H: Tax burden on net incomes of $50,000.
Table No. 1–I: Tax burden on net incomes of $100,000.
Table No. 2–A: Tax burden on married man (with no dependents) under present law.
Table No. 2–B: Tax burden on married man (with no dependents) under H. R. 1.
Table No. 2–C: Tax burden on married man (with no dependents) under writer's plan.
Table No. 3: Tax burden on single man (with no dependents) under present law, H. R. 1, and writer's plan.

Lovell H. Parker.

Exhibit A. Some Typical Examples of the Tax Results of the Writers' Plan Compared With the Results Under Present Law and H. R. 1

(1) The writer's plan will automatically operate without change in present personal exemptions so as to give somewhat more relief to the very small taxpayer than H. R. 1. For example:

(a) A single person with no dependents and with a net income of less than $555.56 will pay no tax under the writer's plan. Under present law a single person with the amount of income stated pays a tax of $10.55. Under H. R. 1 he would pay a tax of $7.30.

Comment: Regardless of the desirability of making our citizens tax-conscious, it is not believed that a man making less than $10.75 a week can afford to pay an annual tax of even $7.30. Under present conditions such a taxpayer's standard of living is too low even if no tax is imposed.

(b) A single person with no dependents and with a net income of $650 will pay a tax of $16.15 under the writer's plan, compared with a tax of $28.50 under present law, and of $19.95 under H. R. 1.

Comment: It is believed a tax of $16.15 is a maximum annual tax burden for a single person earning $12.50 per week.

(c) A single person with no dependents and with a net income of $1,000 under the writer's plan will pay a tax of $76 compared with a tax of $95 under present law and of $66.50 under H. R. 1.

Comment: It should be noted that in this case the tax relief given under the writer's plan is $9.50 less than under H. R. 1. However, such an individual would still receive a tax reduction of 20 percent ($19) with respect to the present tax burden and is certainly able to pay a higher rate of tax than a single man only making $650 a year.

(d) A man and wife with no dependents and with a net income of less than $1,111.11 will pay no tax under the writer's plan. Under present law this married couple on the amount stated pay a tax of $21.11 and under H. R. 1 would pay $14.78.

Comment: Regardless of the desirability of making our citizens tax-conscious, it is not believed that a man earning only $21.50 a week and supporting a wife can afford to pay an annual tax of even $14.78 as would be required under H. R. 1. Under present conditions such a married couple's standard of living is too low in practically all parts of the country even if no tax is imposed.

(e) A man and wife with no dependents and with a net income of $1,500 would pay a tax of $63 under the writer's plan. Under present law this married couple pay a tax of $95 and under H. R. 1 they would pay a tax of $66.50.

Comment: This couple have an income of only $28.85 per week. In the writer's judgment an annual tax equal to more than 2 weeks' income represents a maximum burden and the $3.50 of relief proposed in excess of that under H. R. 1 would be amply justified.

(f) A man and wife with no dependents and with a net income of $2,500 would pay a tax of $225 under the writer's plan. Under present law this couple pay $285 and would pay $228 under H. R. 1 if the income all belonged to the man but only $199.50 if the income belonged one-half to the wife. The writer's plan gives a 21.1-percent reduction in the present tax in this case no matter how the income is divided between man and wife. H. R. 1 on the other than gives a 20-percent reduction where the income all belongs to the man, but gives a 30-percent reduction where the income is equally divided between husband and wife. In the community-property States this division of income is created by law regardless of the management and control thereof.

Comment: It should be noted that in this case the tax relief given under the writer's plan is $3 more than under H. R. 1 in the usual case where the income belongs to the husband. However, H. R. 1 gives a 30-percent reduction in the present tax where the income is divided between husband and wife. H. R. 1, therefore, extends the application of the community-property system to the smaller incomes.

It can be seen from the above that the writer's plan does somewhat more for the very small taxpayer than is proposed by H. R. 1. The cost of such reasonable relief will not be excessive and will be made up for and much more than made up for by the smaller relief given to the larger taxpayers.

(2) Under the writer's plan persons with modest or large amounts of net income would receive tax relief but somewhat less relief than would be given under H. R. 1. For example—

(a) A single man with no dependents and with a net income of $3,000—

Under present law pays a tax of	$484.50
Under H. R. 1 would pay a tax of	387.60
Under the writer's plan would pay	421.80

Comment: It is believed that a single man with no dependents can maintain a reasonable standard of living on the $2,578.20 he would have left after paying the tax proposed by the writer's plan. He would be given tax relief amounting to $62.70 over present law, which seems justifiable.

(b) A single man with no dependents and with a net income of $5,000—

Under present law pays a tax of	$921.50
Under H. R. 1 he would pay a tax of	737.20
Under the writer's plan would pay	798.00

Comment: H. R. 1 gives a tax reduction of 20 percent, the writer's plan gives a reduction of 13.4 percent, but in the present financial situation of the Government, it is believed that the latter reduction is sufficient for a single man at this time.

(c) A single man with no dependents and with a net income of $10,000—

Under present law pays a tax of	$2,346.50
Under H. R. 1 would pay a tax of	1,877.20
Under the writer's plan would pay—	
If his income was all earned income	2,023.50
If his income was all from domestic dividends	2,085.00
If his income was all from interest, etc	2,185.00

Comment: It will be recalled that under the writer's plan, as previously briefly described, it is proposed to give a deduction from net income equal to 10 percent of the amount of the earned net income. All income up to $5,000 is recognized as earned whether earned or not. It would, therefore, result under this plan that the tax on an income of over $10,000, all earned, will be less than the tax on an income all from investments. In the case of investments the tax will be slightly less in the case the income comes from the dividends of domestic corporations rather than from interest. This is because dividend income has already been taxed at the source, while interest has not been taxed at the source.

It is important to compare briefly the situation of Mr. X who has a salary of $10,000 a year, of Mr. Y who has an income from dividends of $10,000 per year, and of Mr. Z who has an income of $10,000 per year from interest on bonds.

In the normal case, evidently—

Mr. X has no capital since he has no investment income.

Mr. Y has a capital investment which can be reasonably estimated at $200,000.

Mr. Z has a capital investment which can be reasonably estimated at $250,000.

Both Mr. Y and Mr. Z have a competence for life even without saving $1 of their annual income. On the other hand, Mr. X has to provide for his old age. His earnings will cease when he becomes incapacitated. The income of Mr. Y and Mr. Z will not cease. Mr. X should be given the incentive to produce by giving him a chance to accumulate a reasonable capital. Mr. X will have necessary expenses in connection with his work not deductible for tax purposes. Mr. Y and Mr. Z will have no such expenses. The percent of tax reduction over present law given to Mr. X would be 13.8 percent; to Mr. Y, 11.2 percent; and to Mr. Z, 6.9 percent. It appears this differential on these classes of income is fair. As before stated the man with dividend income should be taxed somewhat less than a man with interest income, because the dividends have already been taxed in the hands of the corporation.

(*d*) A single man with no dependents and with a net income of $100,000—

Under present law pays a tax of	$63, 541
Under H. R. 1 would pay a tax of	50, 833
Under the writer's plan would pay—	
If his income was all earned income	55, 290
If his income was all from domestic dividends	61, 228
If his income was all from interest	63, 128

Comment: It should be borne in mind that taxpayers with net incomes of over $60,000 from dividends or interest generally have a capital of over $1,000,000. They certainly need less tax relief than an individual with no capital earning the same amount of income. However, reasonable tax reduction is proper for the investment group in order to give them incentive to invest and keep the wheels of industry turning.

(*e*) A man and wife with no dependents and with a combined net income of $3,000 and filing joint returns or filing separate returns—

Under present law pay a tax of	$380
Under H. R. 1 would pay (joint return)	304
Under H. R. 1 would pay (separate returns—income equally divided)	266
Under the writer's plan would pay	306

Comment: The tax relief under the writer's plan in this case is only $2 less than the relief given under H. R. 1, except in the case of separate returns where the income is divided equally between man and wife. It makes no difference in the total tax burden on man and wife under present law or the writer's plan whether joint or separate returns are filed, but it does make a substantial difference under H. R. 1. This extends the present tax differential in favor of the community-property States.

(*f*) A man and wife with no dependents and with a combined net income of $10,000 (all consisting of earned income) and filing joint returns—

Under present law pay a tax of	$2, 185
Under H. R. 1 would pay	1, 748
Under the writer's plan would pay	1, 764

but, if the income is earned one-half by the man and one-half by the wife and they file separate returns—

Under present law the combined tax is	$1, 843
Under H. R. 1	1, 474
Under the writer's plan	1, 596

Comment: This example raises the question of how much the tax differential should be between the case where the man earns all the income and the case where he earns one-half and his wife earns one-half.

For many years, England, the pioneer country in the income-tax field, has imposed the same tax on the man and wife regardless of whether one has all the income or whether it is divided between them. However, if a man's wife works it is undoubtedly true that their living expenses are higher on account of domestic help or the necessity of eating out more frequently. Under present law in the case of $10,000 of income equally divided the tax on the basis of separate returns is the same as the tax on a married man filing a joint return having a net income of only about $9,000. It is believed this income differential is somewhat excessive and the writer's plan reduces the present tax differential from $342 to $168.

(g) A man and wife with no dependents and with a combined net income of $50,000 (all consisting of earned income) and filing a joint return—

Under present law pay a tax of	$24, 705
Under H. R. 1 would pay	19, 836
Under the writer's plan would pay	20, 250

but, if the income is earned one-half by the man and one-half by the wife, and they file separate returns—

Under present law the combined tax is	$18, 725
Under H. R. 1	14, 080
Under the writer's plan	15, 922

Comment: It can be observed that a man and wife with a combined net income of $50,000, each earning one-half, on the basis of separate returns pay $6,070 less income tax than is paid by a man and wife where the man earns all the income. This tax differential is too great and not in accordance with the principle of ability to pay. Under the writer's plan a tax differential of $4,328 would exist, an amount probably too high but perhaps sustainable from practical considerations.

(h) A man and wife with no dependents with a combined net income of $100,000 (all derived from domestic dividends) and filing a joint return—

Under present law pay a tax of	$63, 128
Under H. R. 1 would pay	50, 502
Under the writer's plan would pay	57, 514

but, if the dividends belong one-half to the man and one-half to the wife, and separate returns are filed—

Under present law the combined tax is	$50, 274
Under H. R. 1	40, 219
Under the writer's plan	47, 790

Comment: It is to be noted in this case of investment income that the tax relief proposed under the writer's plan is about $7,000 less than the relief proposed under H. R. 1, although a relief of $3,000 to $5,000 is still provided for. In view of the fact that married couples with this amount of investment income must be worth over $1,000,000, it is believed the relief proposed by the writer is reasonable under present conditions.

It should also be noted that the tax differential between joint and separate returns under H. R. 1 and the writer's plan is about the same ($10,000). It is believed this is reasonable because a man can always give one-half of his corporate stock to his wife and put himself in the position of the man whose wife already owns one-half the stock owned by the couple.

Many more examples could be given, but the above would seem to be sufficient to indicate some of the effects of the writer's plan.

TABLE No. 1-A.—*Tax burden on net incomes of $1,100*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present Law: (1) Income from any source	$114.00	$10.36	
(b) Under H. R. 1: (1) Income from any source	79.80	7.25	30.0
(c) Underwriter's plan:			
(1) All earned income	93.10	8.46	18.3
(2) All domestic dividend income	93.10	8.46	18.3
(3) All interest income	93.10	8.46	18.3
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	19.00	1.73	
(2) Income from any source, including ½ man's, ½ wife's separate returns	19.00	1.73	
(b) Under H. R. 1:			
(1) Income from any source, joint return	13.30	1.21	30.0
(2) Income from any source, including ½ man's, ½ wife's separate returns	13.30	1.21	30.0
(c) Underwriter's plan:			
(1) All earned income, joint return	0	0	100.0
(2) All earned income, including ½ man's, ½ wife's, separate returns	0	0	100.0
(3) All domestic dividend, income, joint return	0	0	100.0
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	0	0	100.0
(5) All interest income, joint return	0	0	100.0
(6) All interest income, including ½ man's, ½ wife's, separate returns	0	0	100.0

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $1,100 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	0	$10.36	$10.36
Case II. Man and wife (with no dependents):			
Joint return	0	1.73	1.73
Separate returns, including ½ man's, ½ wife's	0	1.73	1.73

TABLE No. 1-B.—*Tax burden on net incomes of $2,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$285	$14.25	....
(b) Under H. R. 1: (1) Income from any source	228	11.40	20.0
(c) Under writer's plan:			
(1) All earned income	247	12.35	13.3
(2) All domestic dividend income	247	12.35	13.3
(3) All interest income	247	12.35	13.3
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	190	9.50	....
(2) Income from any source, including ½ man's, ½ wife's, separate returns	190	9.50	....
(b) Under H. R. 1:			
(1) Income from any source, joint return	133	6.65	30.0
(2) Income from any source, including ½ man's, ½ wife's, separate returns	133	6.65	30.0
(c) Under writer's plan:			
(1) All earned income, joint return	144	7.20	24.2
(2) All earned income, including ½ man's, ½ wife's, separate returns	[1] 152	[2] 7.20	[2] 24.2
(3) All domestic dividend income, joint return	144	7.20	24.2
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	[1] 152	[2] 7.20	[2] 24.2
(5) All interest income, joint return	144	7.20	24.2
(6) All interest income, including ½ man's, ½ wife's, separate returns	[1] 152	[2] 7.20	[2] 24.2

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $2,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$1.60	$14.25	$12.65
Case II. Man and wife (with no dependents):			
Joint return	0	9.50	9.50
Separate returns, including ½ man's, ½ wife's	0	9.50	9.50

[1] This theoretical tax avoided by filing joint return.
[2] Percent tax per $100 and percent tax reduction if joint return is filed as is permissible.

TABLE No. 1-C—*Tax burden on net incomes of $3,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$484.50	$16.15	....
(b) Under H. R. 1: (1) Income from any source	387.00	12.92	20.0
(c) Under writer's plan:			
(1) All earned income	421.80	14.06	13.0
(2) All domestic dividend income	421.80	14.06	13.0
(3) All interest income	421.80	14.06	13.0
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	....	....	....
(2) Income from any source, including ½ man's, ½ wife's, separate returns	380.00	12.67	....
(b) Under H. R. 1:			
(1) Income from any source, joint return	304.00	10.13	20.0
(2) Income from any source, including ½ man's, ½ wife's, separate returns	266.00	8.87	30.0
(c) Under writer's plan:			
(1) All earned income, joint return	306.00	10.20	19.5
(2) All earned income, including ½ man's, ½ wife's, separate returns	[1] 323.00	[2] 10.20	[2] 19.5
(3) All domestic dividend income, joint return	306.00	10.20	19.5
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	[1] 323.00	[2] 10.20	[2] 19.5
(5) All interest income, joint return	306.00	10.20	19.5
(6) All interest income, including ½ man's, ½ wife's, separate returns	[1] 323.00	[2] 10.20	[2] 19.5

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $3,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$2.27	$16.15	$13.88
Case II. Man and wife (with no dependents):			
Joint return	.27	12.67	12.40
Separate returns, including ½ man's, ½ wife's	.27	12.67	12.40

[1] This theoretical tax avoided by filing joint return.
[2] Percent tax per $100 and percent tax reduction if joint return is filed as is permissible.

TABLE No. 1-D.—*Tax burden on net incomes of $5,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$922	$18.43	
(b) Under H. R. 1: (1) Income from any source	737	14.74	20.0
(c) Under writer's plan:			
(1) All earned income	798	15.96	13.4
(2) All domestic dividend income	798	15.96	13.4
(3) All interest income	798	15.96	13.4
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	798	15.96	
(2) Income from any source, including ½ man's, ½ wife's, separate returns	760	15.20	
(b) Under H. R. 1:			
(1) Income from any source, joint return	638	12.77	20.0
(2) Income from any source, including ½ man's, ½ wife's, separate returns	608	12.16	20.0
(c) Under writer's plan:			
(1) All earned income, joint return	657	13.14	17.8
(2) All earned income, including ½ man's, ½ wife's, separate returns	[1] 665	[2] 13.14	[2] 13.6
(3) All domestic dividend income, joint return	657	13.14	17.8
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	[1] 665	[2] 13.14	[2] 13.6
(5) All interest income, joint return	657	13.14	17.8
(6) All interest income, including ½ man's, ½ wife's, separate returns	[1] 665	[2] 13.14	[2] 13.6

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $5,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$2.80	$18.43	$15.63
Case II. Man and wife (with no dependents):			
Joint return	1.60	15.96	14.36
Separate returns, including ½ man's, ½ wife's	1.60	15.20	13.60

[1] This theoretical tax avoided by filing joint return.
[2] Percent tax per $100 and percent tax reduction if joint return is filed as is permissible.

TABLE No. 1-E.—*Tax burden on net incomes of $10,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$2,347	$23.47	....
(b) Under H. R. 1: (1) Income from any source	1,877	18.77	20.0
(c) Under writer's plan:			
(1) All earned income	2,024	20.24	13.8
(2) All domestic dividend income	2,085	20.85	11.2
(3) All interest income	2,185	21.85	6.9
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	2,185	21.85	....
(2) Income from any source, including ½ man's, ½ wife's, separate returns	1,843	18.43	....
(b) Under H. R. 1:			
(1) Income from any source, joint return	1,748	17.48	20.0
(2) Income from any source, including ½ man's, ½ wife's, separate returns	1,474	14.74	20.0
(c) Under writer's plan:			
(1) All earned income, joint return	1,764	17.64	19.3
(2) All earned income, including ½ man's, ½ wife's, separate returns	1,596	15.96	13.4
(3) All domestic dividend income, joint return	1,817	18.17	16.8
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	1,596	15.96	13.4
(5) All interest income, joint return	1,917	19.17	12.3
(6) All interest income, including ½ man's, ½ wife's, separate returns	1,596	15.96	13.4

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $10,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$5.60	$23.47	$17.87
Case II. Man and wife (with no dependents):			
Joint return	4.15	21.85	17.70
Separate returns, including ½ man's, ½ wife's	2.60	18.43	15.83

TABLE No. 1-F.—*Tax burden on net incomes of $20,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$6,645	$33.23	....
(b) Under H. R. 1: (1) Income from any source	5,316	26.58	20.0
(c) Under writer's plan:			
(1) All earned income	5,653	28.26	14.9
(2) All domestic dividend income	6,094	30.47	8.3
(3) All interest income	6,394	31.97	3.8
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	6,394	31.97	....
(2) Income from any source, including ½ man's, ½ wife's, separate returns	4,693	23.47	....
(b) Under H. R. 1:			
(1) Income from any source, joint return	5,115	25.57	20.0
(2) Income from any source, including ½ man's, ½ wife's, separate returns	3,754	18.77	20.0
(c) Under writer's plan:			
(1) All earned income, joint return	5,130	25.65	19.8
(2) All earned income, including ½ man's, ½ wife's, separate returns	4,047	20.24	13.8
(3) All domestic dividend income, joint return	5,519	27.59	13.7
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	4,170	25.65	11.1
(5) All interest income, joint return	5,819	29.09	9.0
(6) All interest income, including ½ man's, ½ wife's, separate returns	4,370	21.85	6.9

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $20,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$9.17	$33.23	$24.06
Case II. Man and wife (with no dependents):			
Joint return	6.16	31.97	25.81
Separate returns, including ½ man's, ½ wife's	5.35	23.47	18.12

TABLE No. 1-G.—*Tax burden on net incomes of $30,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$12,265	$40.88	....
(b) Under H. R. 1: (1) Income from any source	9,811	32.71	20.0
(c) Under writer's plan:			
(1) All earned income	10,498	34.99	14.4
(2) All domestic dividend income	11,470	38.23	6.5
(3) All interest income	11,970	39.90	2.4
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	11,970	39.90	....
(2) Income from any source, including ½ man's, ½ wife's, separate returns	8,540	28.47	....
(b) Under H. R. 1:			
(1) Income from any source, joint return	9,576	31.92	20.0
(2) Income from any source, including ½ man's, ½ wife's, separate returns	6,832	22.77	20.0
(c) Under writer's plan:			
(1) All earned income, joint return	9,666	32.22	19.3
(2) All earned income, including ½ man's, ½ wife's, separate returns	7,277	24.26	14.8
(3) All domestic dividend income, joint return	10,561	35.20	11.8
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	7,694	25.65	9.4
(5) All interest income, joint return	11,061	36.87	7.6
(6) All interest income, including ½ man's, ½ wife's, separate returns	8,094	26.98	5.2

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $30,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$13.05	$40.75	$27.70
Case II. Man and wife (with no dependents):			
Joint return	11.90	39.90	28.00
Separate returns, including ½ man's, ½ wife's	7.36	28.47	21.11

TABLE No. 1-H.—*Tax burden on net incomes of $50,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$25,137	$50.27	....
(b) Under H. R. 1: (1) Income from any source	20,110	40.22	20.0
(c) Under writer's plan:			
(1) All earned income	21,717	43.43	13.6
(2) All domestic dividend income	23,895	47.79	4.9
(3) All interest income	24,795	49.59	1.4
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	24,795	49.59	....
(2) Income from any source, including ½ man's, ½ wife's, separate returns	18,725	37.45	....
(b) Under H. R. 1:			
(1) Income from any source, joint return	19,836	39.67	20.
(2) Income from any source, including ½ man's, ½ wife's, separate returns	14,980	29.96	20.
(c) Under writer's plan:			
(1) All earned income, joint return	20,250	40.50	18.
(2) Income from any source, including ½ man's, ½ wife's, separate returns	15,922	31.84	14.
(3) All domestic dividend income, joint return	22,266	44.53	10.
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	17,364	34.73	7.3
(5) All interest income, joint return	23,166	46.33	6.5
(6) Al interest income, including ½ man's, ½ wife's, separate returns	18,164	36.3	3.0

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME ON $50,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$18.67	$50.27	$31.60
Case II. Man and wife (with no dependents):			
Joint return	17.74	49.59	31.85
Separate returns, including ½ man's, ½ wife's	11.01	37.45	26.44

TABLE No. 1-I.—*Tax burden on net incomes of $100,000*

	Tax in dollars	Tax in dollars per $100 of net income	Percent tax reduction over present law
Case I. Single man (with no dependents):			
(a) Under present law: (1) Income from any source	$63,541	$63.54	....
(b) Under H. R. 1: (1) Income from any source	50,833	50.83	20.0
(c) Underwriter's plan:			
(1) All earned income	55,290	55.29	13.0
(2) All domestic dividend income	61,228	61.23	3.6
(3) All interest income	63,128	63.13	.7
Case II. Man and wife (with no dependents):			
(a) Under present law:			
(1) Income from any source, joint return	63,128	63.13	....
(2) Income from any source, including ½ man's, ½ wife's, separate returns	50,274	50.27	....
(b) Under H. R. 1:			
(1) Income from any source, joint return	50,502	50.50	20.0
(2) Income from any source, including ½ man's, ½ wife's, separate returns	40,219	40.22	20.0
(c) Underwriter's plan:			
(1) All earned income, joint return	52,002	52.00	17.6
(2) All earned income, including ½ man's, ½ wife's, separate returns	43,434	43.43	13.6
(3) All domestic dividend income, joint return	57,514	57.51	8.9
(4) All domestic dividend income, including ½ man's, ½ wife's, separate returns	47,790	47.79	4.9
(5) All interest income, joint return	59,414	59.41	5.9
(6) All interest income, including ½ man's, ½ wife's, separate returns	49,590	49.59	1.4

TAX INCREASE IN LAST 10 YEARS IN TAX PER $100 OF NET INCOME IN $100,000 NET INCOME CLASS

[All earned income]

	Tax per $100, 1936	Tax per $100, 1946	Increase per $100 in 10 years
Case I. Single man (with no dependents)	$33.35	$63.54	$30.19
Case II. Man and wife (with no dependents):			
Joint return	32.47	63.13	30.66
Separate returns, including ½ man's, ½ wife's	17.97	50.27	32.30

TABLE No. 2–A.—*Tax burden on specific amounts of net income, before personal exemptions, present law (for 1946)*

MAN AND WIFE WITH NO DEPENDENTS

[Income from any source, except capital gains]

Net income (before exemptions)	Tax, joint return	Tax, separate returns (income one-half man's and one-half wife's)	Percent tax to net income (joint return)	Percent tax to net income (separate returns)
$1,000	0	0	0	0
$1,050	$9.50	$9.50	.90	.90
$1,100	19.00	19.00	1.73	1.73
$1,111.11	21.11	21.11	1.90	1.90
$1,150	28.50	28.50	2.48	2.48
$1,200	38.00	38.00	3.17	3.17
$1,300	57.00	57.00	4.38	4.38
$1,400	76.00	76.00	5.43	5.43
$1,500	95.00	95.00	6.33	6.33
$1,600	114.00	114.00	7.13	7.13
$1,700	133.00	133.00	7.82	7.82
$1,800	152.00	152.00	8.44	8.44
$1,900	171.00	171.00	9.00	9.00
$2,000	190.00	190.00	9.50	9.50
$2,100	209.00	209.00	9.95	9.95
$2,200	228.00	228.00	10.36	10.36
$2,300	247.00	247.00	10.74	10.74
$2,395.83	265.21	265.21	11.07	11.07
$2,500	285.00	285.00	11.40	11.40
$3,000	380.00	380.00	12.67	12.67
$3,500	484.50	475.00	13.84	13.57
$4,000	589.00	570.00	14.73	14.25
$4,500	693.50	665.00	15.41	14.78
$5,000	798.00	760.00	15.96	15.20
$5,500	921.50	864.50	16.75	15.72
$6,000	1,045.00	969.00	17.42	16.15
$7,000	1,292.00	1,178.00	18.47	16.83
$8,000	1,577.00	1,387.00	19.71	17.34
$9,000	1,862.00	1,596.00	20.69	17.73
$10,000	2,185.00	1,843.00	21.85	18.43
$12,000	2,869.00	2,337.00	23.91	19.47
$15,000	4,047.00	3,154.00	26.98	21.03
$20,000	6,393.50	4,693.00	31.97	23.47
$25,000	9,082.00	6,460.00	36.33	25.84
$30,000	11,970.00	8,540.50	39.90	28.47
$35,000	14,972.00	10,830.00	42.78	30.94
$40,000	18,097.50	13,290.50	45.24	33.23
$50,000	24,795.00	18,724.50	49.59	37.45
$60,000	31,891.50	24,529.00	53.15	40.88
$70,000	39,273.00	30,561.50	56.10	43.66
$80,000	46,939.50	36,850.50	58.67	46.06
$90,000	54,891.00	43,434.00	60.99	48.26
$100,000	63,127.50	50,274.00	63.13	50.27
$250,000	191,339.50	169,337.50	76.54	67.74
$500,000	407,404.50	383,543.50	81.48	76.71
$1,000,000	839,714.50	815,793.50	83.97	81.58

TABLE No. 2-B.—*Tax burden on specific amounts of net income, before personal exemptions, proposed for 1947 under H. R. 1*

MAN AND WIFE WITH NO DEPENDENTS

[Income from any source, except capital gains]

Net income (before exemptions)	Tax, joint return	Tax, separate returns (income ½ man's and ½ wife's)	Percent tax to net income (joint return)	Percent tax to net income (separate returns)	Percent reduction in present tax	
					Joint return	Separate returns
$1,000	0	0	0	0	0	0
$1,050	$6.65	$6.65	.63	.63	30.0	30.0
$1,100	13.30	13.30	1.21	1.21	30.0	30.0
$1,111.11	14.78	14.78	1.33	1.33	30.0	30.0
$1,150	19.95	19.95	1.73	1.73	30.0	30.0
$1,200	26.60	26.60	2.22	2.22	30.0	30.0
$1,300	39.90	39.90	3.07	3.07	30.0	30.0
$1,400	53.20	53.20	3.80	3.80	30.0	30.0
$1,500	66.50	66.50	4.43	4.43	30.0	30.0
$1,600	79.80	79.80	4.99	4.99	30.0	30.0
$1,700	93.10	93.10	5.48	5.48	30.0	30.0
$1,800	106.40	106.40	5.91	5.91	30.0	30.0
$1,900	119.70	119.70	6.30	6.30	30.0	30.0
$2,000	133.00	133.00	6.65	6.65	30.0	30.0
$2,100	153.00	146.30	7.29	6.97	26.8	30.0
$2,200	173.00	159.60	7.86	7.25	24.1	30.0
$2,300	193.00	172.90	8.39	7.52	21.9	30.0
$2,395.83	212.17	185.65	8.86	7.75	20.0	30.0
$2,500	228.00	199.50	9.12	7.98	20.0	30.0
$3,000	304.00	266.00	10.13	8.87	20.0	30.0
$3,500	387.60	366.00	11.07	10.46	20.0	30.0
$3,791.66	436.37	424.34	11.51	11.19	20.0	22.9
$4,000	471.20	456.00	11.78	11.15	20.0	20.0
$4,500	554.60	532.00	12.32	11.82	20.0	20.0
$5,000	638.40	608.00	12.77	12.16	20.0	20.0
$5,500	737.20	691.60	13.40	12.57	20.0	20.0
$6,000	836.00	775.20	13.93	12.92	20.0	20.0
$7,000	1,033.60	942.40	14.77	13.46	20.0	20.0
$8,000	1,261.60	1,109.60	15.77	13.87	20.0	20.0
$9,000	1,489.60	1,276.80	16.55	14.19	20.0	20.0
$10,000	1,748.00	1,474.40	17.48	14.74	20.0	20.0
$12,000	2,295.20	1,869.60	19.13	15.58	20.0	20.0
$15,000	3,237.60	2,523.20	21.58	16.82	20.0	20.0
$20,000	5,114.80	3,754.40	25.57	18.77	20.0	20.0
$25,000	7,265.60	5,168.00	29.06	20.68	20.0	20.0
$30,000	9,576.00	6,832.40	31.92	22.77	20.0	20.0
$35,000	11,977.60	8,664.00	34.22	24.75	20.0	20.0
$40,000	14,478.00	10,632.40	36.20	26.58	20.0	20.0
$50,000	19,836.00	14,979.60	39.67	29.96	20.0	20.0
$60,000	25,513.20	19,623.20	42.52	32.71	20.0	20.0
$70,000	31,418.40	24,449.20	44.88	34.93	20.0	20.0
$80,000	37,550.00	29,480.40	46.94	36.85	20.0	20.0
$90,000	43,912.80	34,747.20	48.79	38.61	20.0	20.0
$100,000	50,502.00	40,219.20	50.50	40.22	20.0	20.0
$250,000	153,071.60	135,470.00	61.23	54.19	20.0	20.0
$500,000	342,033.50	306,834.80	68.41	61.37	16.0	20.0
$1,000,000	728,823.50	684,020.50	72.88	68.40	13.2	16.0

Table No. 2-C.—*Tax burden on specific amounts of net income, before personal exemptions, suggested for 1947 by writer*

MAN AND WIFE WITH NO DEPENDENTS

[Income assumed to be all earned income]

Plan: 10 percent deduction on earned income. All income recognized as earned to $5,000, 10 percent tax credit on joint return, 5 percent on other returns, 2 percent tax credit on domestic dividends

Net income (before exemptions)	Tax, joint returns	Tax, separate returns (income ½ man's and ½ wife's)	Percent tax to net income (joint returns)	Percent tax to net income (separate returns)	Percent reduction in present tax	
					Joint return	Separate returns
$1,000	0	0	...	...	...	...
$1,050	0	0	...	...	100.0	100.0
$1,100	0	0	...	...	100.0	100.0
$1,111.11	0	0	...	...	100.0	100.0
$1,150	$6.30	[1] $6.65	0.55	[2] 0.55	77.9	[2] 77.9
$1,200	14.40	[1] 15.20	1.20	[2] 1.20	62.1	[2] 62.1
$1,300	30.60	[1] 32.30	2.35	[2] 2.35	46.3	[2] 46.3
$1,400	46.80	[1] 59.40	3.34	[2] 3.34	38.4	[2] 38.4
$1,500	63.00	[1] 66.50	4.20	[2] 4.20	33.7	[2] 33.7
$1,600	79.20	[1] 83.60	4.95	[2] 4.95	30.5	[2] 30.5
$1,700	95.40	[1] 101.70	5.61	[2] 5.61	28.3	[2] 28.3
$1,800	111.60	[1] 117.80	6.20	[2] 6.20	26.6	[2] 26.6
$1,900	127.80	[1] 134.90	6.73	[2] 6.73	25.3	[2] 25.3
$2,000	144.00	[1] 152.00	7.20	[2] 7.20	24.2	[2] 24.2
$2,100	160.20	[1] 169.10	7.63	[2] 7.63	23.3	[2] 23.3
$2,200	176.40	[1] 186.20	8.02	[2] 8.02	22.6	[2] 22.6
$2,300	192.60	[1] 203.30	8.37	[2] 8.37	22.0	[2] 22.0
$2,395.83	208.13	[1] 219.69	8.69	[2] 8.69	21.5	[2] 21.5
$2,500	225.00	[1] 237.50	9.00	[2] 9.00	21.1	[2] 21.1
$3,000	306.00	[1] 323.00	10.20	[2] 10.20	19.5	[2] 19.5
$3,500	389.70	[1] 408.50	11.13	[2] 11.13	19.5	[2] 18.0
$3,791.66	441.67	[1] 458.38	11.65	[2] 11.65	19.0	[2] 16.7
$4,000	478.80	[1] 494.00	11.97	[2] 11.97	18.7	[2] 16.0
$4,500	567.90	[1] 579.50	12.62	[2] 12.62	18.1	[2] 14.6
$5,000	657.00	[1] 665.00	13.14	[2] 13.14	17.8	[2] 13.6
$5,500	746.10	[1] 750.50	13.57	[2] 13.67	18.9	[2] 13.7
$6,000	849.00	843.00	14.16	14.06	18.7	13.0
$7,000	1,060.20	1,031.70	15.15	14.74	17.9	12.4
$8,000	1,278.00	1,219.80	15.98	15.25	18.9	12.1
$9,000	1,521.00	1,407.90	16.90	15.74	18.8	11.8
$10,000	1,764.00	1,596.00	17.64	15.96	19.3	13.4
$12,000	2,314.80	2,040.00	19.29	17.01	19.3	12.7
$15,000	3,253.50	2,726.50	21.69	18.18	19.6	13.5
$20,000	5,130.00	4,047.00	25.65	20.24	19.8	13.8
$25,000	7,290.00	5,557.50	29.16	22.23	19.1	14.0
$30,000	9,666.00	7,277.00	32.22	24.26	19.3	14.8
$35,000	12,177.00	9,210.25	34.79	26.32	18.7	14.9
$40,000	14,769.00	11,305.00	36.92	28.26	18.7	14.9
$50,000	20,250.00	15,922.00	40.50	31.84	18.5	14.9
$60,000	26,173.00	20,995.00	43.62	34.99	18.0	14.4
$70,000	32,292.00	26,296.00	46.13	37.57	17.8	14.0
$80,000	38,637.00	31,796.50	48.29	39.75	17.7	13.7
$90,000	45,198.00	37,506.00	50.22	41.67	17.7	13.6
$100,000	52,002.00	43,434.00	52.00	43.43	17.6	13.6
$250,000	160,794.00	148,200.00	64.39	59.28	15.9	12.5
$500,000	345,069.00	340,318.50	69.01	68.06	15.8	11.3
$1,000,000	713,619.00	[1] 720,343.00	71.36	[2] 71.36	15.0	[2] 12.5

[1] The excess of this tax over the tax shown in column next preceding can be avoided by filing joint returns.
[2] Percent tax to net income and percent reduction in tax if joint returns are filed as will be permissible.

ABLE No. 3.—*Tax burden on specific amounts of net income, before personal exemptions, single man with no dependents*

[All earned income]

UNDER PRESENT LAW

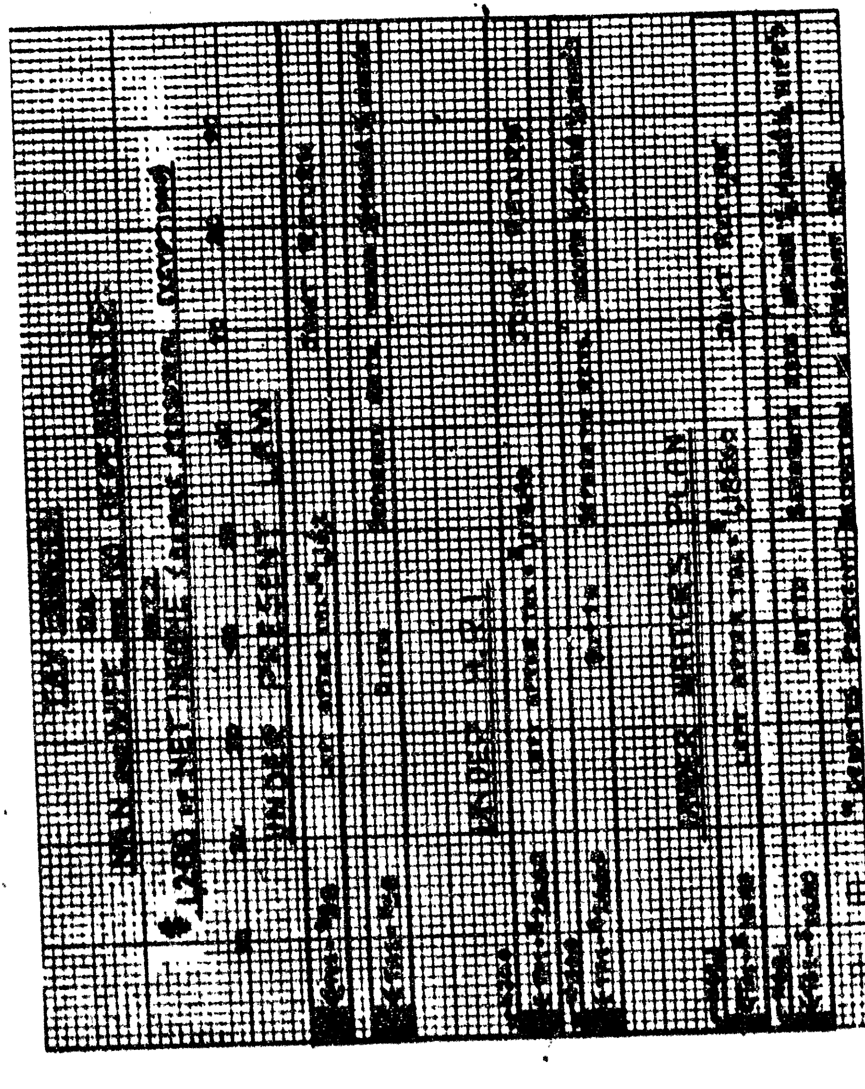
Net income (before exemption)	Tax	Percent tax to net income	Percent reduction in present tax
$500	0		
$555.56	$10.56	1.90	
$600	19.00	3.17	
$650	28.50	4.38	
$700	38.00	5.43	
$800	57.00	7.12	
$1,000	95.00	9.50	
$1,200	133.00	11.08	
$1,500	190.00	12.67	
$1,700	128.00	13.41	
$1,895.83	265.21	13.99	
$2,000	285.00	14.25	
$3,000	484.50	16.15	
$5,000	921.50	18.43	
$10,000	2,346.50	23.47	
$20,000	6,645.25	33.23	
$30,000	12,264.50	40.88	
$50,000	25,137.00	50.27	
$100,000	63,540.75	63.54	
$250,000	191,771.75	76.71	

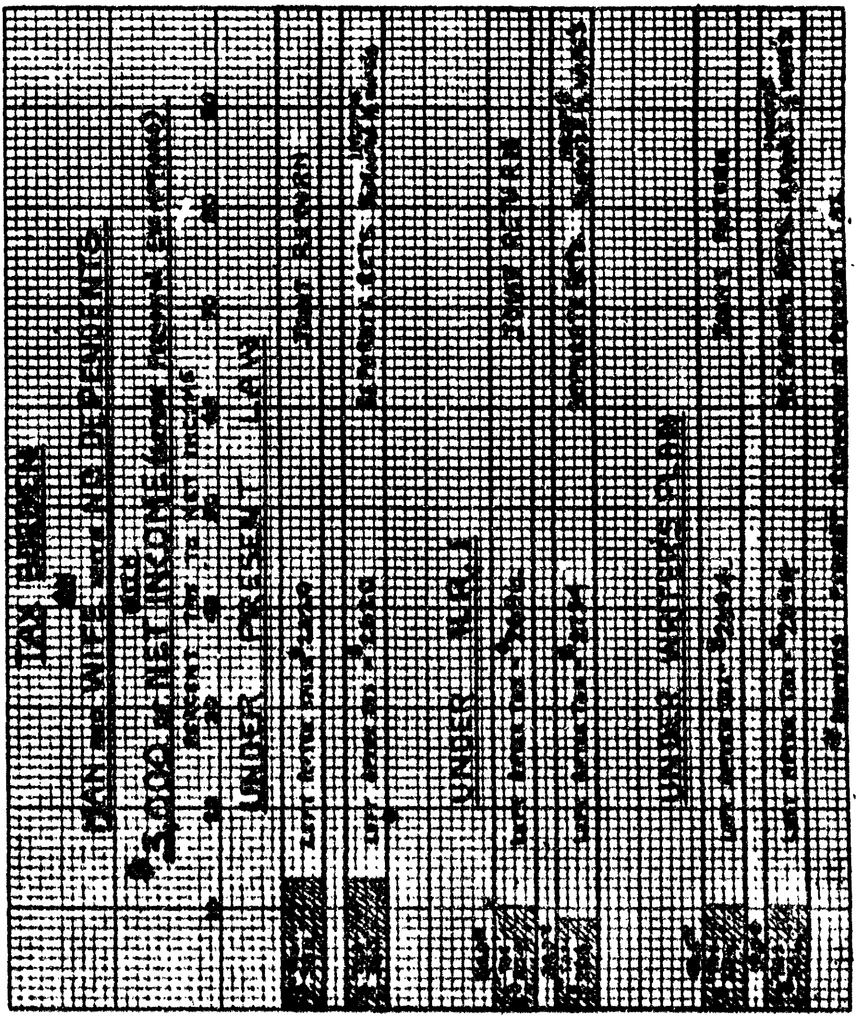
AS PROPOSED BY H. R. 1—1947

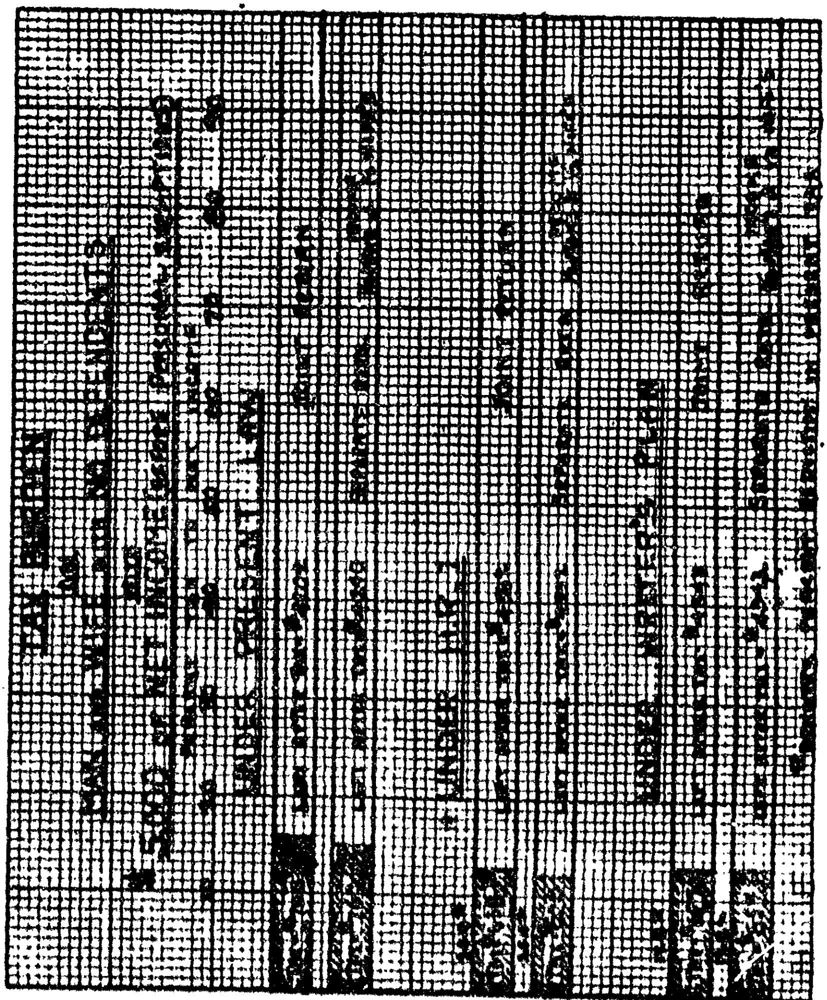
Net income (before exemption)	Tax	Percent tax to net income	Percent reduction in present tax
$500	0		
$555.56	$7.39	1.33	30.0
$600	13.30	2.22	30.0
$650	19.95	3.07	30.0
$700	26.60	3.80	30.0
$800	39.90	4.99	30.0
$1,000	66.50	6.65	30.0
$1,200	93.10	7.70	30.0
$1,500	133.00	8.87	30.0
$1,700	173.00	10.18	24.1
$1,895.83	212.17	11.19	20.0
$2,000	228.00	11.40	20.0
$3,000	387.60	12.92	20.0
$5,000	737.20	14.74	20.0
$10,000	1,877.20	18.77	20.0
$20,000	5,316.20	26.58	20.0
$30,000	9,811.60	32.71	20.0
$50,000	20,109.60	40.22	20.0
$100,000	5[illegible], 832.60	50.83	20.0
$250,000	153,417.40	61.37	20.0

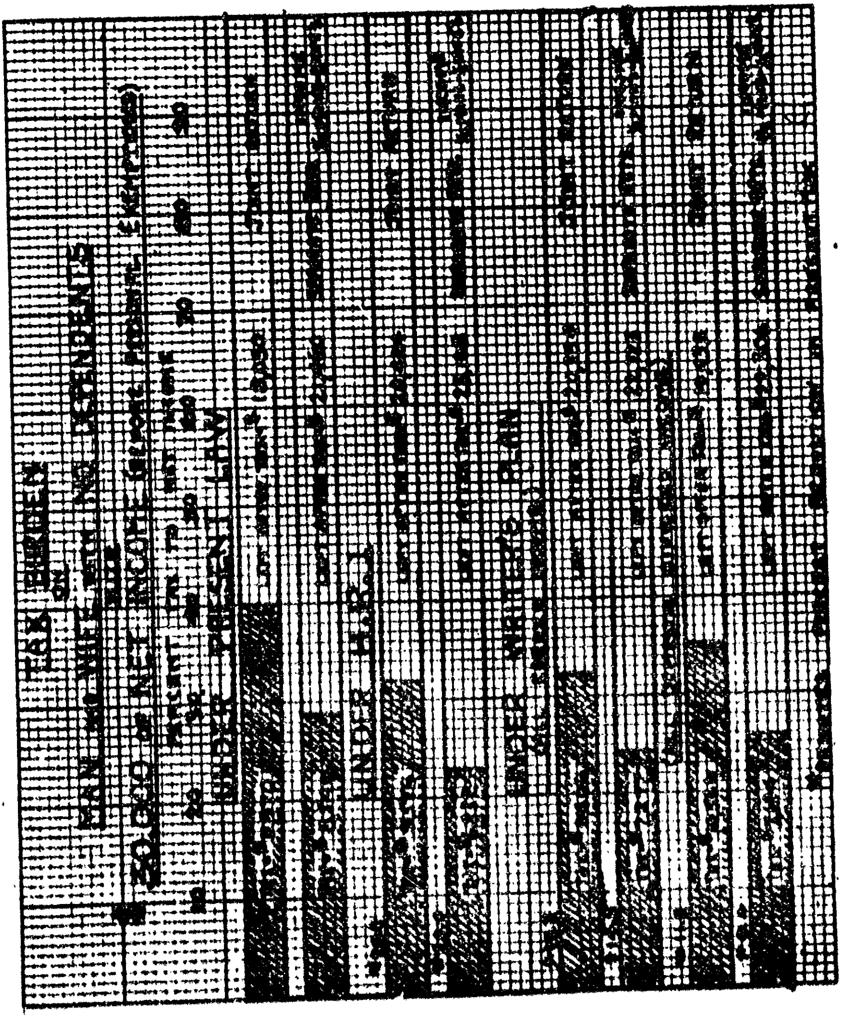
AS PROPOSED BY WRITER—1947

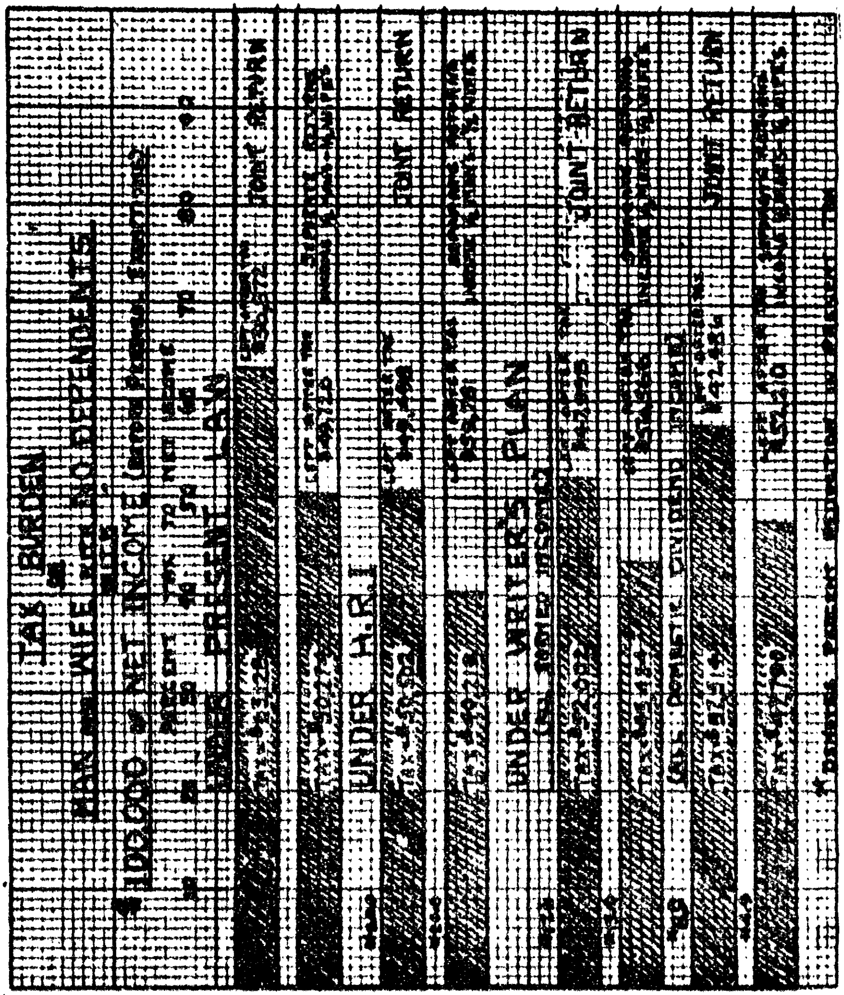
Net income (before exemption)	Tax	Percent tax to net income	Percent reduction in present tax
$500	0		
$555.56	0		$100.0
$600	$7.60	$1.27	60.0
$650	16.15	2.48	43.3
$700	24.70	3.53	34.0
$800	41.80	5.23	26.7
$1,000	76.00	7.60	20.0
$1,200	110.20	9.18	17.2
$1,500	161.50	10.76	15.0
$1,700	195.70	11.51	14.2
$1,895.83	229.1[illegible]	12.09	13.6
$2,000	247.[illegible]	12.35	13.3
$3,000	421.80	14.06	13.0
$5,000	798.00	15.96	13.4
$10,000	2,029.50	20.24	13.5
$20,000	5,652.50	28.26	14.9
$30,000	10,497.50	34.99	14.4
$50,000	21,717.00	43.43	13.6
$100,000	55,290.00	55.29	13.0
$250,000	170,150.25	68.06	11.2


UNDER PRESENT LAW
UNDER H.R. 1
UNDER WRITERS PLAN




TAX BURDEN
UNDER PRESENT LAW
UNDER H.R. 1




TAX BURDEN
UNDER PRESENT LAW
JOINT RETURN
UNDER H.R. 1
JOINT RETURN
UNDER WRITER'S PLAN
JOINT RETURN
JOINT RETURN

The CHAIRMAN. Give your full name, and the capacity in which you appear here.

STATEMENT OF C. B. BALDWIN, PROGRESSIVE CITIZENS OF AMERICA, WASHINGTON, D. C.

Mr. BALDWIN. Mr. Chairman, my name is C. B. Baldwin. I am the executive vice chairman of the Progressive Citizens of America.

I have a short statement which I would like to present to the committee which deals entirely with H. R. 1. We have other tax proposals we would like to make, but as I understand it, the only thing under consideration is amendments to H. R. 1.

The CHAIRMAN. We will be very glad to have for the record anything additional you would like to insert.

Mr. BALDWIN. Thank you, sir.

The Progressive Citizens of America, on behalf of its thousands of members in every corner of the United States, is unalterably opposed to H. R. 1 or to any other plan of tax reduction which fails to give effective relief to the vast majority of the people in the lower income brackets.

The average American family of four, with an income of approximately $47 a week, confronted by sharply increasing living costs, finds it absolutely impossible to purchase the food, clothing, and other necessaries of life which are required for a minimum standard of health and decency.

The amount required for such a standard, as determined by the Heller committee of the University of California last September, is approximately $70 a week. Every cent of tax reduction, therefore, which can be afforded persons in these lower income groups will be immediately used to purchase additional commodities and services and so contribute not only to raising the general standard of living but also to the maintenance of consumer demand and high levels of production and employment.

Any tax reduction measure, therefore, which provides for an across-the-board cut is grossly inequitable because it cannot give effective relief to persons in the lower income groups. While H. R. 1 provides for slightly varying percentage cuts, it is essentially a bill designed to give a tax cut across the board. That H. R. 1 does not provide effective relief to persons in the lower income groups is adequately demonstrated over and over again in the tables prepared by the staff of the Joint Committee on Internal Revenue Taxation and included in the House Committee Report.

For a family of four with a net income of $2,500 a year, H. R. 1 provides a tax reduction of $28 a year, slightly more than 50 cents a week.

For a similar family with an income of $3,000 a year it provides a tax reduction of $57 a year, slightly more than $1 a week.

If the family has an income of $4,000 a year, an amount clearly beyond the reach of the average American worker's family, the bill provides a tax reduction of $76 a year, slightly less than $1.50 a week.

Contrast these wholly inadequate tax reductions with the "relief" afforded to taxpayers in the higher income groups. There are approximately 80 taxpayers in the United States who have net incomes in excess of $1 million. H. R. 1 would give to each one of these 80 taxpayers as much reduction as it would give to 10,000 taxpayers in the lowest-income group, those earning under $1,000. It would give to each one of these 80 taxpayers as much reduction as it would give to 3,000 taxpayers in the group earning between $2,000 and $3,000.

H. R. 1 would eliminate 22 percent of the difference between present taxes and 1939 taxes for a married person with an income of $5,000 a year. It would eliminate 69 percent of the difference for a married person with an income of $1 million a year.

The Progressive Citizens of America maintain that H. R. 1 cannot be justified either on the basis of equality of treatment or on the basis of economic necessity of the country.

In June 1946, according to the Federal Reserve Bulletin, a survey of liquid assets revealed that the bottom 50 percent of the spending units in the United States (that means family units), those with the lowest incomes, held only 3 percent of the liquid assets while 70 percent of the spending units with the lowest incomes held only 13 percent of the liquid assets.

By contrast, it was reported that the 10 percent of the spending units in the top income brackets held 60 percent of the liquid assets. During 1946, according to the Department of Commerce figures, there was a drop in savings of almost 50 percent, $33 billion to $19 billion. Over-all holdings of U. S. war bonds declined by $500 million, but F and G bonds, which are held by larger investors increased by $2 billion.

We do not have to look far for the reasons for the disappearance of the little savings which persons in the lower income groups were able to accumulate. The retail cost of living essentials as compiled by the BLS on March 15, 1947, were 19.8 percent higher than in March 1946. And they were 58 percent higher than in August 1939. It is the position of PCA that any tax-reduction measure should be designed to give the greatest per unit relief to these persons in the bottom 70 percent of the income units, which includes all families earning less than $3,000 a year.

Not only have these persons in the lower-income group been hardest hit by increasing prices, but, at the same time, they have been subjected to an appalling number of regressive taxes which have been imposed on the consuming public by States and localities, with no reference whatever to ability to pay. Hundreds of cities in the United States now collect sales taxes, taxes on public utility bills, taxes on cigarettes, and so forth.

Unless effective tax relief is given to the vast majority of persons in the lower-income groups without further delay, the enforced buyers' strikes which have already begun can very quickly spiral into a full-scale depression. Effective tax relief alone will not, of course, cure all the economic ills of the country, but it will go a long way toward solving the difficulties of those who must spend all they can earn and more in order to live and who no longer have savings to which they can resort.

The bill introduced by Senator Lucas, while it embodies some objectionable features, is superior to H. R. 1, both from the standpoint of equality of treatment of taxpayers and of bolstering the purchasing power of the majority of persons in the lower tax brackets. The

Lucas bill would reduce the tax burden on a family of four with net income of $2,500 by $78 a year. It would give a tax reduction of $88 a year to such a family earning $3,000. However, the Lucas bill would grant a tax reduction of over $44,000 a year to a family of four with an income of $1 million. And this bill would delay all tax relief until 1948.

The most objectionable feature of the Lucas bill is the provision that husbands and wives may divide their income for tax purposes. This is one of the tax loopholes which provides unjustifiable benefits to taxpayers in the upper-income groups and which PCA believes should be closed by requiring all taxpayers, even those in community-property States, to file joint returns.

Another objectionable feature of the Lucas bill is the provision that it become effective in 1948. If confidence is to be restored in American business by workers and investors alike, the purchasing power of the millions of taxpayers in the lower-income groups must be increased now. By 1948 the seeds of depression may be too firmly implanted. By that time much more drastic action may be required to accomplish the same ends.

There are two bills before this committee which have none of the objectionable features embodied in either H. R. 1 or the Lucas bill. The McClellan bill and the Murray bill both provide for personal exemptions of $3,000 for a family of four. Either one of these bills would give immediate and effective relief to all income-tax payers. Either one of these bills would grant considerably more reduction to a taxpayer in the higher-income groups, but there would be sufficient relief to those in the lower-income groups to permit them immediately to increase their purchasing power and thus to help maintain the high volume of business to which the American economic machine is geared.

The Progressive Citizens of America, therefore, urges the Finance Committee to report out either the Murray bill or the McClellan bill as the most effective application of the democratic principle of taxation in accordance with ability to pay.

Mr. Chairman, there is one other thing that I would like to add to my testimony. Our committee is on record as favoring the reimposition of the excess-profits tax. I did not have it in my prepared text, because I thought that you would probably limit your deliberations to H. R. 1.

We think it highly desirable that the excess-profits tax be reinstituted. We agree that the budget should be balanced. We feel, however, that it should not be balanced at the expense of our social service agencies of Government; at the expense of agriculture or irrigation and reclamation, at the expense of the ordinary machinery of Government, which has been built up to a new effectiveness for the people in the course of the last 14 years.

The CHAIRMAN. Thank you very much for coming.

Mr. BALDWIN. Thank you.

The CHAIRMAN. Is Mr. Marsh here? Mr. Marsh does not seem to be here. He has requested that the following statement be put in the record, and we will do that.

(The statement referred to is as follows:)

STATEMENT TO SENATE FINANCE COMMITTEE BY BENJAMIN C. MARSH, EXECUTIVE SECRETARY, PEOPLE'S LOBBY, INC.

This revenue bill must be drafted with recognition of the fact that most industry, farmers, and wage earners, as well as the aged and unemployed, rely upon Congress through its powers of taxation to redress the inequities of our economic system.

As long as we keep that economic system, which most major nations are abandoning such redressing is of vital importance, for it effects a redistribution of the Nation's income, whether adequate or not, and the distribution is clearly inequitable before taxation.

The fact Federal, State, and local government expenditures are around $50 billion a year, or close to a third of the national income, emphasizes the significance of taxation.

Four principles should govern the drafting of this postwar tax bill:

1. No tax should be levied on any income not adequate to maintain a health standard; for if kept up, the payer is apt to become a charge on some Government agency.

This means there should be at least a 20-percent decrease in the tax levied on net incomes of around $1,500, and this should be more where there are two or more dependents in a family. When the cost of living is reduced 20 to 25 percent, rates might be increased slightly.

2. Taxes must increase the purchasing power of the masses, out of current income, since we have gone the limit on passing current costs to the next generation through interest-bearing bonds.

3. The national income being at a very high level, at least a tenth of the national debt should be paid before there is any reduction in tax rates on incomes over $25,000.

The high prices from which profits have been derived mean that consumers have paid part of the national debt already, and the real question is whether Congress will recover those profits through taxation, or tax consumers, a second time.

Corporate profits after taxes were last year about $12 billion and will be this year probably at least $13 billion, while corporate surpluses and undivided profits are at least $85 billion.

Unincorporated business and big-landed farmers have also made high profits.

Before Congress opens the sluice gates of the Treasury to the world, and we will have to pay much for war's devastation, Congress should, by special taxes, collect $25 billion above present plans, of war and postwar excess earnings, to reduce the debt.

This would save nearly $500 million a year in interest charges.

4. Since land values, farm and city, have increased some $24 billion during the war, Congress should levy a small tax on the value of land, exclusive of improvements, with an exemption to exclude small-farm and city home owners.

Landowners have been heavily subsidized during the war, and speculation in land is the first step in increasing prices.

Congress should now tax for benefits received from Government, in underwriting farm prices.

The CHAIRMAN. We will meet at 10:30 tomorrow morning.

(Thereupon, at 1 p. m., the committee recessed, to reconvene Tuesday, April 29, 1947, at 10:30 a. m.)

INDIVIDUAL INCOME-TAX REDUCTION

TUESDAY, APRIL 29, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin (chairman) presiding.

Present: Senators Millikin (chairman), Taft, Bushfield, Hawkes, Martin, George, Johnson, and Lucas.

The CHAIRMAN. The hearing will come to order.

I must apologize for being late. Senator George and I were working on another matter which took longer than we expected.

The first witness today is Mr. A. R. Kaiser.

STATEMENT OF ARTHUR R. KAISER, ON BEHALF OF THE TAXATION COMMITTEE OF THE NATIONAL RETAIL DRY GOODS ASSOCIATION, CHICAGO, ILL.

The CHAIRMAN. Will you be seated please, Mr. Kaiser, and give the reporter your name and your occupation?

Mr. KAISER. My name is Arthur R. Kaiser. I am employed by Sears, Roebuck & Co. in Chicago.

The CHAIRMAN. Are you connected with the National Retail Dry Goods Association?

Mr. KAISER. I am a member of the taxation committee of the National Retail Dry Goods Association.

The CHAIRMAN. Proceed, please.

Mr. KAISER. I have been asked to present the views of this committee—that is, the taxation committee—to your honorable body. We appreciate the opportunity.

The National Retail Dry Goods Association is a trade organization which was formed some 37 years ago and which includes in its membership over 7,000 stores in every State of the Union. The sales of those stores represent about $10 billion. The stores embrace department stores, some chain stores, specialty shops, and variety stores.

The taxation committee of the association has functioned for more than 27 years, with unusual continuity in its membership. It has maintained contact with the Treasury and with members of the congressional committees charged with the responsibility for tax laws. Irrespective of the special interest of retailers, the committee has sought to study fiscal problems in the interest of the whole economy.

Our committee has a keen appreciation of the necessity for a large amount of revenue in the postwar period and of the enormous difficulties and responsibilities which rest so heavily upon your very important committee of Congress. We have kept these constantly in mind in our deliberations and in the drafting of our recommendations.

I want first to present the fiscal policy that we have adopted; and although you have heard this before, I want to present it in a short and concise form.

We have recognized that any consideration of Federal taxation, and any expectation of reduced taxes, must be based upon the following four fundamentals:

(1) The essential functions of the Government must be provided for. By "essential functions" we mean necessary functions of Government. Government expenditures should be confined to the "bread and butter" items. The "sweets" should be cut out. Government should not exist for the purpose of creating jobs for the supporters of any political party.

(2) A strong and adequate national defense must be assured; but wastage must be eliminated. In these times of peace we should be able to run the national defense on a businesslike basis.

(3) The Federal budget must be brought into balance. The Government has long been entirely too prodigal in expenditures, both directly and through subsidies. In 1887 President Cleveland vetoed an appropriation of $10,000 for relief and, at the same time, denounced subsidies in these words:

> Though the people support the Government, the Government should not support the people. Federal aid in such cases encourages the expectation of paternal care on the part of the Government and weakens the sturdiness of our national character.

(4) Provision must be made in each annual budget for debt amortization as rapidly as is consistent with a sound economy. George Washington said in his Farewell Address of September 1796:

> As a very important source of strength and security cherish public credit. * * * Avoid the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions in time of peace to discharge the debts which unavoidable wars may have occasioned, not ungenerously throwing upon posterity the burdens which we ourselves ought to bear.

This fiscal policy of George Washington is just as sound today as it was then, even if George Washington did live in the "horse and buggy" days.

It is the conviction of our committee that these important provisions can be met, and in addition thereto, substantial relief can be provided for the taxpayers if Congress insists on a policy of rigid economy in Government expenditures at a greatly reduced level. It is of crucial importance that Congress curtail Government expenditures which are the key to lower taxes, reduced debt, and free enterprise. There should be an abandonment of all activities no longer needed, rapid reduction in the number of Government employees, and deferment of all capital expenditures not now urgent.

If the budget cannot be balanced with substantial provision for amortization of the debt, and reduction of taxes be made at this time, when the Nation is enjoying the highest income and the greatest degree of prosperity ever known, it is absurd to contend that these necessary objectives can be attained in an era of recession or depression.

It is generally believed by the public that a large percentage of governmental employees feel that they are entitled to "spoils."

Government should not see how much it can spend—it should strive to determine what expenses can be eliminated.

Government costs too much and goes into debt too much and taxes too much. Now, I would like to present a short-range program which our committee adopted early in January. I want to say that at that time it was considered that probably there would be legislation on taxation earlier and for that reason I will want to make some further remarks after I have read the statement.

With a policy of rigid economy it will be possible, in the immediate future—that is, this year—to reduce income taxes, thus benefiting the greatest number of taxpayers, and strengthening the national economy. Therefore, we believe that for the immediate future it is most important that tax reduction be in the field of income tax. We believe that the Federal Government must continue to rely upon individual, as well as corporate income taxes, for a major share of its revenue. We further believe that to continue the present rates would be unwise and harmful to the economic welfare of the country. A substantial downward revision of the surtax rates is necessary.

At that time, gentlemen, the committee felt that a straight percentage across the board was desirable and if the budget would permit, a 20-percent flat across the board.

Time has been spent and the bill cannot be passed before probably some time in May at the earliest, perhaps June, and for that reason we are doubtful about one proposition. We feel that a 20 percent reduction in taxes should be made, effectively 20 percent, the H. R. 1, if you like, with certain changes possible, but it should be effective on July 1, and for this reason: if it is made retroactive to January 1, then it becomes necessary to either refund to about 46 million taxpayers overpaid taxes. That, in itself, is an expensive job and it should be eliminated. If that is not done then it becomes necessary to reduce the present withholding rates to about 60 percent of the present, in order to equalize for the over-withheld for the first 6 months of the year.

Senator HAWKES. Mr. Chairman, may I ask Mr. Kaiser a question?

The CHAIRMAN. Senator Hawkes.

Senator HAWKES. I have had a great number of letters saying that if the tax were reduced as of July 1 instead of January 1 it will necessitate the closing of the books of the corporations and the businesses twice during the year 1947. What have you to say about that?

Mr. KAISER. I do not see that there is any point to it.

Senator HAWKES. How will they know how to separate the two tax rates without making a closing? I have that from a number of important men, that is why I am asking. Do you feel that is an objection?

Mr. KAISER. If I understood you right, you said the tax rate would go into effect on July 1?

Senator HAWKES. Yes.

Mr. KAISER. If your corporation was on a calendar-year basis, it is nothing more nor less than halving the rate for the full year. If the company is on a fiscal-year basis——

Senator HAWKES. You never know what your tax is until you finally close your books, do you?

Senator TAFT. It has nothing to do with corporations?

Mr. KAISER. What do you mean? For individuals.

Senator TAFT. It is all individual. We are not talking about corporation taxes.

Mr. KAISER. There is no point to it in individuals that I can see.

Senator HAWKES. That is what I wanted—to get your judgment on it. If there is no point to it, that is all there is to it.

Senator GEORGE. Is there not this point, that if you make a rate reduction effective in the middle of the calendar year, speaking of individual income taxes, you have got the taxpayer whose income most of which may fall to him in the first 6 months of the year, paying at a high rate and conversely you have got the taxpayer who may get the most of his income in the last half of the calendar year, getting a lower rate, and would it not be very much more equitable to make your tax effective at the beginning of the calendar year, even if you have to cut the rate?

Mr. KAISER. Well, Senator George, if you——

Senator GEORGE. Where would there be any great difficulty in administration?

Mr. KAISER. In order to correct that complication it would be necessary it seems to me for Congress to say that the income up to the end of June is taxable at the present rates, the income from July 1 on is taxable at the reduced rates.

Senator GEORGE. I know, but I say, that seems to me to be objectionable.

Now, for the sake of the revenue you may have to do substantially that but why would it not be very much better to say that the rate cut shall become effective January 1, say 1947, if this committee determines that, but have the rate—that is, in place of 30 percent in the first brackets, and 20 percent, just make it half of that for '47?

Mr. KAISER. That is the way I would interpret a flat 20 percent across the board. Effective July 1 it would be equivalent to 10 percent for the calendar year because individuals are on a calendar basis.

Senator GEORGE. Most of them are.

Mr. KAISER. Yes, most of them.

Senator HAWKES. What Senator George has said brings back to mind what is in a number of these letters. There are corporations in the United States who will make three-fourths of their profit, and individuals too, in the first 3 months of the year. I think Senator George has forgotten that point but it is in letters that are coming to me.

Senator GEORGE. All your divident payments will come in one half of '47. They will not be equally distributed in '47. They will either be payable in January or in the latter half of the year and to have a rate different in the latter half of the year from July 1 on, from the rate prevailing from January 1 up until July 1 seems to me would create an unnecessary inequity between the taxpayers.

I cannot see the necessity of it when the same thing can be accomplished, if it is a question of protecting the revenue and not cutting too deeply into it, by simply halving that tax.

Mr. KAISER. That is really the point I am making, Senator George: That if the 20 percent rate were effective July 1 it would be the equivalent of 10 percent for the calendar year.

Senator TAFT. What was your objection to the refunds, that is what I could not understand?

Mr. KAISER. My objection to the refunds—if the rate were made effective—let us suppose it were a 20 percent rate made effective back to January 1—there has been a great amount of over-withheld tax. Nearly every taxpayer has been over-withheld, and then you would have to, if you continued at the same withholding rates or if you reduced the withholding rates even the 20 percent you would still have a great amount of withholding taxes over-withheld and you would have to refund to the taxpayers which is an expensive job in itself.

Senator TAFT. You are proposing what: that we in effect make the 20 percent reduction effective on the 1st of July but based on 10 pbrcent of the entire year's income?

Mr. KAISER. That is right. A 20 percent withholding reduction on July 1 and a continuation of that withholding through 1948 when the rate will be reduced also 20 percent so that that would make it unnecessary to make any substantial refunds.

Senator TAFT. Could you not do this: We will say a 20 percent cut, instead of a 20 percent cut in '47 you make a 10 percent cut in '47, but you begin to give a 20 percent reduction the 1st of July on withholdings and a 20 percent reduction on the September and December installments?

Mr. KAISER. That is right.

Senator TAFT. Then you ought to come out at the end of the year approximately where you are?

Mr. KAISER. Approximately right. That is correct.

Senator TAFT. Is that correct?

Mr. KAISER. My objection to going back to January 1 with a 20 percent reduction and carrying that through in 1948 is that either you have got to do one of two things: You have got to make refunds to about 40 million taxpayers, or you would have to cut the withholding rate for the balance of the year to 60 percent of the present rate and then the first of 1948 go back to 80 percent, and most taxpayers would think their taxes are increased.

Senator TAFT. Exactly.

Mr. KAISER. I think that would be unsound.

The CHAIRMAN. Are you proposing any more than that we start the tax act as of July 1?

Mr. KAISER. No.

The CHAIRMAN. In effect?

Mr. KAISER. In effect that is what it would be, a 20 percent rate as of July 1 which would be 10 percent for the year '47 but 20 percent for '48.

The CHAIRMAN. It would be 20 percent on the rest of the year 1947.

Mr. KAISER. That is right.

The CHAIRMAN: That is right.

Mr. KAISER. And you cut the withholding rate 20 percent and that would eliminate anything more than routine refunds.

The CHAIRMAN. Mathematically, if one is thinking in terms of calendar year it is just half of that for the whole year?

Mr. KAISER. That is right.

Senator LUCAS. You say routine refunds. It might be substantial, would it not?

Mr. KAISER. No, Senator Lucas. If your rate were effective July 1 at 20 percent reduction which would be the equivalent of 10 percent for the year and you reduce your withholding rates by 20 percent on July 1, you will have rectified the over-withholding for the first half of the year, approximately so, because you see your rate is 10 percent throughout the year. You have withheld too much in the first half of the year and now if you reduce that by 20 percent in the last half of the year you will correct the 10 percent over-withholding in the first half of the year.

Senator LUCAS. Would you not agree with me that there would be a substantial amount of confusion and personnel work in connection with any tax that goes into effect either on January 1 or July 1 of this year, in the middle of the calendar year?

Mr. KAISER. No. Not very much, Senator.

Senator LUCAS. You said that if it went into effect on July 1 you would have to deal with 47 million tax returns in refunding taxes to those individuals?

Mr. KAISER. I said, Senator Lucas that if you made the 20 percent rate effective back to January 1.

Senator LUCAS. That is what H. R. 1 does.

Mr. KAISER. Well, I am not advocating that feature of it, in other words.

The CHAIRMAN. You are advocating that the bill start July 1?

Mr. KAISER. That is right.

The CHAIRMAN. In its effectiveness?

Mr. KAISER. That is right, effective July 1 and carry on through in '48 at the same reduction of 20 percent, approximately 20 percent.

Senator TAFT. Do you not think that a large cash refund also has a more inflationary effect if people are handed a check that they had not expected to get, cash, that they are likely to go out and spend it right away?

Mr. KAISER. Most people do.

The CHAIRMAN. You are also carrying into 1948 the burden of fiscal 1947?

Mr. KAISER. That is right.

The CHAIRMAN. Proceed please.

Mr. KAISER. I would like to come now, gentlemen, to a longer range taxation program. These points were adopted—this policy was adopted—by our committee in January, and it is still sound.

First, as a long-range program the total income tax levied on any individual should, in no case, exceed 50 percent of his taxable income. This, of course, assumes that proper revision of the rates will be made in the lower brackets.

I am not advocating that this is possible at the moment. We are looking at that from the longer range point of view.

The CHAIRMAN. Why 50 percent? Why not 40 or 30 or 60? How do you arrive at 50?

Mr. KAISER. Well, it is more or less my own judgment, Senator. I think that if I were having more than 50 percent of my income taken from me, I would not like it; 40 percent I would not cry so much about it; 60 percent I would cry harder, but I think, also, it destroys incentive. When you tax income at the high excessive rates of 75, 80, or 85 percent you are doing nothing but driving income out of productive channels into nonproductive channels.

The CHAIRMAN. Is that not the end point you are driving at—do not have a tax rate that destroys incentive?

Mr. KAISER. That is right.

The CHAIRMAN. Whether it is 50 or 30 or 40 or 60?

Mr. KAISER. That is right. And that is why I think that 50 is the breaking point. It may not be.

Two—we adhere strongly to our traditional attitude of opposition to taxes on consumption, and we recommend that at the earliest possible moment the excise taxes on merchandise be removed, and that such removal take effect immediately upon the passage of the act. There should be as little lag in the effective date as possible.

Three—this statement I want to say, gentlemen, is put in here so that nobody will be able to say that the National Retail Dry Goods Association is advocating a sales tax.

As a war measure we did recommend a general sales tax. The war being over, we revert to our traditional opposition to a general Federal sales tax at any step in the economic process. Twenty-four States, the districts of Hawaii and Alaska, and many cities now have a sales tax in one form or another. The Federal Government should stay out of this field of taxation.

The CHAIRMAN. You have the equivalent of that in an excise tax; do you not?

Mr. KAISER. That is true. They are kindred.

Senator MARTIN. Might I ask a question? While this does not apply to our tax program here——

Mr. KAISER. That is right, Senator Martin.

Senator MARTIN. Do you have an objection to a sales tax by the State on the State level?

Mr. KAISER. I do not.

Fourth, we recommend repeal of the transportation tax on property. It produced only $220,000,000 in revenue in the fiscal year 1946. It retards industry by pyramiding costs of all commodities.

Fifth, we recommend abolition of the 2 percent penalty for filing consolidated returns. There should not be a penalty for an integrated business filing one return, whether or not the separate units are different corporations or only different plants owned by the one corporation. This tax is economically unsound.

I want to say here that this is not a plug for my own company because we do not fill consolidated returns. I still contend, however, that it is economically unsound. We have many plants and we consolidate the income of all of them in one return but if they were different corporations we would be penalized by 2 percent for doing it. It is not sound economics in my estimation.

No. 6, there should not be a penalty tax on any portion of a dividend paid by one domestic corporation to another domestic corporation. A tax has already been paid on the income of the paying corporation, and, to the extent of the penalty tax, it is double taxation. And when the dividends are paid to stockholders, triple taxation results. Furthermore, if the corporations are an integrated group, there is no more reason for assessing a penalty tax on the payment of income from a subsidiary corporation to its parent than there would be for the payment of income from an unincorporated branch to the home office.

The CHAIRMAN. There are certain evasion possibilities there but there is no point in going into that now.

Mr. KAISER. No; it is not a point at issue. I think in the year 1948 some of these matters which are more or less minor should be cleared up—clarified.

Seven, the social-security program should be completely separated from the general tax structure and general expenditures of the Federal Government. This program should be self-supporting, as any private insurance program must be self-supporting. Funds of the General Treasury should not be used for this purpose.

Senator TAFT. You favor an increase in the social-security tax then?

Mr. KAISER. If and when it is needed.

Senator TAFT. Well, it is not needed for—I mean it will be needed in time. I mean if we maintain the present rate of social-security tax the time will come soon when we will have—we are not building up any reserve. In fact, the policy is not to build up any reserve today.

Mr. KAISER. We have an old-age reserve of 8½ million.

Senator TAFT. That is wholly insufficient from an actuarial standpoint.

Mr. KAISER. I grant you that. I think the rate will have to be increased.

Senator TAFT. Is it not a question of policy to determine whether you are going to run on an actuarial basis or current appropriation basis or somewhere in between?

Mr. KAISER. There is a policy question, of course.

The eighth point I have, gentlemen, is that the 2-year net loss carry-back provision should be continued for 2 years after the excess-profits tax is repealed; that is, to the end of 1947. Thereafter this provision should be discontinued, and the net loss carry-forward provision should be extended to 5 years. This would tend to eliminate refunds by the Treasury Department, and thus help stabilize our national economy.

After considerable thought by our committee, we believe that the fiscal policy outlined above, the immediate short-term program and the longer-term program, are sound and in the interest of our national economy. We trust that your honorable body will give this matter your sympathetic consideration.

The CHAIRMAN. What is the estimate of the National Retail Dry Goods Association of business during fiscal 1948?

Mr. KAISER. I do not know, Senator Millikin, that I can answer for the National Retail Dry Goods Association.

The CHAIRMAN. What is the estimate of the company for which you work?

Mr. KAISER. We think there is going to be some—for the year '48 did you say?

The CHAIRMAN. Fiscal '48.

Mr. KAISER. Fiscal '48?

The CHAIRMAN. Yes.

Mr. KAISER. We think there is likely to be some recession at the latter part of this year and the first part of next year.

The CHAIRMAN. Substantial?

Mr. KAISER. We think not very substantial.

The CHAIRMAN. Have you reduced that to terms of figures?

Mr. KAISER. No, sir; we have not. Our company has not. Frankly, we think our company is going to be affected less than many other companies because of our broad base of operations.

The CHAIRMAN. Recess in terms of volume or price?

Mr. KAISER. Both.

The CHAIRMAN. Both?

Mr. KAISER. Yes, sir.

The CHAIRMAN. And you figure that for the latter part of this year?

Mr. KAISER. And carrying over into some part of next year, probably with an upturn sometime in 1948, the latter part of '48, probably.

The CHAIRMAN. Would an income-tax-reduction bill tend to buttress an undue recession?

Mr. KAISER. Yes, I think so, Senator Millikin, because at the present time the people in the lower class brackets, lower income brackets, are really having a struggle to provide the wherewithal for a decent living and a reduction in income tax would give them a little more play, a little more opportunity to provide some of the things which are not in the luxury class but in the class of needs.

The CHAIRMAN. The President pointed out in his recent speech that there is quite an increase in installment credit, his point being that it indicates that people are running out of ready cash and have to borrow to get the things they want. Have you contacted very much of that?

Mr. KAISER. Yes; there is an indication. The installment business is increasing in volume which, of course, is an indication, as you intimated, that ready cash is not as plentiful, and to carry on your thought that the reduction in tax, of course, would increase the spending power of the masses and, of course, to that extent improve business, because they spend most of what they have.

Senator GEORGE. Does the Dry Goods Association have many businesses with large inventories?

Mr. KAISER. I think that is true.

Senator GEORGE. Have they got much cash reserves?

Mr. KAISER. I think most businesses have large cash reserves. That is true of practically all retailers, they have large reserves at this time. There are exceptions, I grant you, but in general that is so.

Senator GEORGE. Large reserves and pretty heavy inventories?

Mr. KAISER. Yes, sir.

The CHAIRMAN. Do they set up reserves against inventory loss?

Mr. KAISER. I do not think there is any uniformity about it, but——

The CHAIRMAN. The stronger companies do?

Mr. KAISER. The stronger companies have set up reserves for inventory losses. The larger companies have. Most companies I think are doing it.

The CHAIRMAN. Are not the smaller people more or less buying hand to mouth?

Mr. KAISER. I suspect that is true. They probably generally have; and they probably always will. A certain class of business.

Senator TAFT. Do you not think that installment buying is part a habit? Do you not think that there are a good many people who have bond savings put away who nevertheless rather than go out and sell those bonds, go out and buy on the installment plan?

Mr. KAISER. I do not know, Senator Taft. I would rather question that. We happen to have a bank in our building in Chicago, and it is amazing to see how many people are cashing their E bonds all the time, and it would be my guess—now I have not any definite information to base it on, it is only a guess—that most of them will sell those rather than buy on credit.

Senator TAFT. I was thinking of automobiles. It would seem to me that most people are likely to buy automobiles on installments.

Mr. KAISER. There you are probably right because the people who would be buying an automobile on an installment basis generally do not have enough in bonds to buy the automobile at any rate, and they are more likely to—they would have to buy some of it on the installment basis and they would probably be more likely to buy all of it that way rather than sell the bonds.

Senator HAWKES. Mr. Chairman, may I ask Mr. Kaiser this question?

The CHAIRMAN. Senator Hawkes.

Senator HAWKES. How does your installment buying now compare with the installment buying in effect in 1939 and '40?

Mr. KAISER. It is not as great, but I, frankly, have not got the figures in front of me.

Senator HAWKES. You have told me something that I have been told in many cases, that it is not as great and, of course, as long as you have not the figures you cannot give me what I was going to ask you. I was going to ask you: Compared with volume, rather than price compared with price, because your price situation today is higher than it was in 1939.

Mr. KAISER. Yes; very mich more so. Volume, of course, is considerably less than it was in 1939.

Senator HAWKES. Volume buying on installment?

Mr. KAISER. Yes; the dollar volume in our case is less, therefore our volume buying must be considerably less.

Senator HAWKES. Have you noticed any marked increase in installment buying? You said you noticed an increase. Is it a marked increase and when did it start to occur?

Mr. KAISER. Well, it did not take a quick jump. It was a gradual thing, starting well—I think that we noticed it—in fact, we noticed it some before VJ-day. That is, our installment buying was on the increase some for a few months before VJ-day, particularly after VE-day.

Senator HAWKES. It has not gotten to a point where it is worrying you, has it, yet?

Mr. KAISER. No; not in our case.

Senator LUCAS. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Lucas.

Senator LUCAS. Are you familiar with the bill that I introduced in the Senate in lieu of H. R. 1, known as the Lucas bill?

Mr. KAISER. I have read it, Senator Lucas, and frankly, I must confess that I have forgotten what it is. I am sorry.

Senator LUCAS. It apparently did not impress you very much.

Mr. KAISER. Well, I have read so many. That is the reason.

Senator LUCAS. I will accept that. You spoke rather sympathetically for the folks in the lower income brackets.

Mr. KAISER. I remember now what the bill was.

Senator LUCAS. That is the reason I wanted to direct your attention to that phase of it, because as you know, under H. R. 1, no taxpayer comes off the tax rolls.

Mr. KAISER. That is right.

Senator LUCAS. 47,500,000 taxpayers, and under the Knutson bill they are all going to stay on the tax rolls. I am wondering if you are an advocate of that school of thought, keeping everyone on the tax rolls regardless of the amount of tax he pays, whether it is 10 cents or a dollar or $5 or $10?

Mr. KAISER. I have wrestled with that question many times and I have come to the conclusion that the more people we have on the tax rolls the better for the national economy.

Senator LUCAS. Why do you say that? What is your basis for that?

Mr. KAISER. To make more people conscious of Government, and make them more responsible and not make them so apt and eager to feed at the public trough.

Senator LUCAS. Do you think that those little fellows who have to pay a dollar or $2 income tax will often have to go to see a lawyer about that $2 income tax?

Mr. KAISER. I do not think that is necessary.

Senator LUCAS. You do not think that is necessary because you are a brilliant man, but I am talking about the average fellow out in the country who does not know anything about the income tax returns. If you saw some of the letters the Senators get about the forms they have to fill out—and we have tried to simplify them as much as we can—I think probably you would change your mind about that.

I am talking about this little fellow that you are trying to make a good citizen. Do you know that in my community and in Chicago that little fellow is annoyed by the revenue man and annoyed by the fact that he is compelled to fill out a return? My contention is that you do not make a good citizen out of that man by compelling him to go through the filing of an income tax return on a dollar basis or compelling that man to get somebody to help him fill that out or to confer with the revenue man or to find the revenue man is conferring with him for failure to file an income tax return. I just disagree with that theory. Now, from '39 up to the present time we decreased these exemptions.

Mr. KAISER. That is right.

Senator LUCAS. Do you not believe that until we can write an over-all tax bill, in making any reduction in taxes now we ought to move back in the manner that we went up, and give these smaller income people an opportunity to enjoy some of the privileges that they are entitled to from the standpoint of taxation by taking them completely off the rolls, by moving up their exemption, say from $500 to $600—that is what my bill does—$500 to $600.

Mr. KAISER. That is right.

Senator LUCAS. And from $1,000 to $1,200 for married people.

Mr. KAISER. Yes, sir.

Senator LUCAS. Is that doing any violence to your school of thought—taking off about 4 million of the 47 million people on the tax rolls, through that one little increase in exemption?

Mr. KAISER. Well, I look at it, Senator Lucas, from two points of view. First of all it is a privilege to be a citizen of the United States. These citizens should all contribute something toward the upkeep of the Federal Government, even though it is a small amount.

Senator LUCAS. They do indirectly if they do not directly.

Mr. KAISER. Well, perhaps so, but if they do it indirectly they are not conscious of it. If they do it directly they are conscious of it.

Secondly, if they are receiving salaries, they get these forms W-2 and it tells them right on there all they have to do is to send that into the collector's office. That is all the return that is needed and if they can read, they have got the information right there before them and they have not got the problem of seeking a lawyer to make up an income-tax return. There are exceptions to the rules, I will grant you that, but we have to work on the theory of the greatest good for the greatest number, and personally, it is my philosophy, it is not for the greatest good of the greatest number to exempt a large group of people from the Federal income tax since we have to collect such high income taxes.

If we could get down to where we are collecting a billion or two billion dollars for Federal income taxes then the expense for the Federal Government would not be worth what they get out of it in those cases.

Senator LUCAS. If I understand you correctly, you believe that regardless of how much money it takes to run this Government, whether it is 15 billion or 35 billion, we ought to continue to keep these 47 million people on the tax rolls of this country?

Mr. KAISER. I think it is good economics to do so.

Senator LUCAS. You think that is good economics?

Mr. KAISER. And a good social policy.

Senator LUCAS. I just do not agree with you.

Mr. KAISER. That is your privilege, Senator.

Senator LUCAS. In other words, you were talking a moment ago about the cost of making refunds. Do you give any consideration to the fact that taking 4 million people off of the tax rolls would decrease the employees in the Treasury Department?

Mr. KAISER. That would be a good thing to do. I would not say so much about the Treasury Department because I think the Treasury Department is one department which is operating pretty well in general. We ought to take lots of employees off of other departments.

Senator LUCAS. You have to have people in the Treasury Department to audit every one of these dollar returns, you have to audit them all to see whether or not they are correct, and auditing 4 million returns certainly takes a considerable amount of time. When this committee knows, that the Department is far behind in the auditing of these returns, and the examination of them, it does seem it would be pretty good business at this particular time, to get 4 million people off the tax rolls, and relieve the Treasury Department of the burden of examining and auditing these returns.

Mr. KAISER. I suppose you are aware, Senator Lucas, that in the smaller-income brackets, that only about 1 out of about 15 returns are actually audited. They are all gone over for mathematical calculation but the auditing is confined to about 1 out of 15 as a test.

Senator LUCAS. They have to handle them all?

Mr. KAISER. That is right.

Senator LUCAS. They have to look at them at least. Maybe it is a hand-to-hand proposition.

Mr. KAISER. I think they get more out of it than the cost nevertheless.

Senator LUCAS. I doubt it.

Mr. KAISER. Even if we did not, I would still think it is good philosophy.

Senator LUCAS. As long as you want to keep these 47 million people on the tax rolls I would like to ask you about your theory on the splitting of family incomes.

In the second part of my measure, in this bill——

Mr. KAISER. I think it is good.

Senator LUCAS. You agree that there are certain glaring inequities in the present tax law, in that the citizens of some nine States of this Union are dividing income between husband and wife, for Federal income-tax purposes, and thereby obtaining a tremendous advantage over the other folks who live in the States which do not have community-property laws.

Mr. KAISER. There is no reason why they should in my estimation. I agree with you heartily, 100 percent on that theory.

Senator LUCAS. Do you think we ought to include that in a tax bill at this time?

Mr. KAISER. I would not try to do it in 1947. But I certainly would in 1948.

Senator LUCAS. Why not in '47?

Mr. KAISER. I think it is important that a tax bill and a simple bill get through in 1947.

Senator LUCAS. There is nothing very complicated about splitting family incomes.

Mr. KAISER. If it can go through I would be in favor of it very decidedly. There is no reason why some nine Western States should have a subsidy on their income taxes and the rest of us not have.

Senator LUCAS. It is no use for me to ask you about point No. 3 in my bill which seeks simply a 2-percent reduction in the surtax in each and every bracket. With the three proposals the bill would cost the Government about $3,800,000,000 which is practically what H. R. 1 would cost the Government. You do not agree with that at this time?

Mr. KAISER. I am going further than the 2 percent.

Senator LUCAS. Yes; you are going all the way. You are going to 20 percent.

Mr. KAISER. That is right.

Senator LUCAS. I think that is all.

The CHAIRMAN. As I understand it, the second proposal of Senator Lucas would cost the Government about $1 billion?

Senator LUCAS. That is correct.

The CHAIRMAN. Which route would you choose if you had to choose between cutting income taxes a billion dollars and reducing taxes a billion dollars by Senator Lucas' method?

Mr. KAISER. I do not believe I got your question.

The CHAIRMAN. Senator Lucas' second point would cost a billion dollars.

Mr. KAISER. That is upping the exemption to——

The CHAIRMAN. Splitting income.

Mr. KAISER. That is the second point.

The CHAIRMAN. If you had to choose between cutting taxes a billion dollars by that route or cutting it a billion dollars at this time by income-tax reduction which route would you choose?

Mr. KAISER. I would take the income-tax reduction, the rate at this time, and come back to the other when a number of other matters should be ironed out in the tax law.

The CHAIRMAN. Any questions?

Senator LUCAS. There is one other observation I would like to make. We have been trying to do this for a long time, and every time we get this bill before the Senate, competent and expert witnesses like yourself come out and say, "Yes, we are for it, but this is not the time to do it."

Mr. KAISER. I hope you understand my feeling on it. I am very heartily in favor of it but I can understand that if that goes into the hopper and some other things are thrown into the hopper on the income tax bill we will not have an income tax bill until the end of the year.

Senator LUCAS. If we could substitute this provision, the second provision of mine for something else in connection with the reduction of income tax, and still get a fair and equitable tax bill through, you would not object to that?

Mr. KAISER. I am not against it.

STATEMENT OF ARNOLD J. WILSON, FIRST VICE PRESIDENT, ILLINOIS MANUFACTURERS' ASSOCIATION, AND PRESIDENT, GENERAL TIME INSTRUMENTS CORP., LASALLE, ILL. [Unrevised]

The CHAIRMAN. Mr. Wilson, will you be seated please. Give your full name to the reporter and your business.

Mr. WILSON. My name is Arnold J. Wilson, representing the Illinois Manufacturers' Association, president of the General Time Instruments Corp., of La Salle, Ill.

First I want to express my appreciation, both personally and on behalf of the association for the privilege of appearing here.

The Illinois Manufacturers' Association, on whose behalf I submit this statement, embraces 4,300 manufacturing firms—large, small, and middle-size—engaged in a wide variety of industrial production in Illinois.

We believe the Federal budget can be balanced, Federal debt reduced, and tax rate reductions made.

The Illinois Manufacturers' Association submits that by the adoption of real and justifiable economies, through adequate retrenchment in expenditures, through proper curtailment in swollen Federal pay rolls, subsidies, loans, and grants, the Federal budget can be balanced, payments begun on the national debt during the current fiscal year and, at the same time, substantial reductions made in existing tax rates.

We recommend an immediate reduction in individual tax rates.

The Illinois Manufacturers' Association recommends an immediate reduction of 20 percent in all Federal individual income tax rates applicable to 1947 income. Now this recommendation also has been made sometime since. The same rate of reduction should be applied to individual taxpayers in all brackets.

The Illinois Manufacturers' Association submits that the present high individual wartime tax rates represent a genuine obstacle to thrift, progress and the maintenance of a high standard of living and that, with the elimination of the tremendous wartime expenditures, a substantial reduction in the present excessive Federal tax burden is clearly warranted.

Senator LUCAS. May I ask a question right there?

The CHAIRMAN. Mr. Lucas.

Senator LUCAS. You say the present tax rates represent a genuine obstacle to thrift, progress, and the maintenance of a high standard of living.

I wonder how you reached that conclusion when we have at this particular time an all-time high in corporation profits, an all-time high in individual profits, an all-time high in the national income, and a standard of living at this moment which is the best that the world has ever seen.

Mr. WILSON. My answer to that, Senator Lucas, would be partly this: That it is highly desirable to maintain it that way and if we do not—we are living now—this prosperity we are reading about, a great deal of it is quite synthetic, a great deal of the profits that appear will not be profits when the final tale is told, when your equipment is replaced. All established businesses are operating with equipment, machinery, plant, at half replacement value and yet apparently they are making profits that seem sizable.

At the same time the profits on industry, when compared with past periods, and considering the fact that in most industries—in our own, for example—we have—and it is a relatively small company—we have some $5 million or $6 million of stockholders' money invested in our business, over what we had 7 or 8 years ago because of very conservative dividend policies.

Yet, on a comparative figure they would say, well, your company is doing all right. It would seem to me that additional millions put in an existing company or to start a new company justify some return. Unless our return is completely unwarranted it seems to me we ought to have some reason to believe there will be a reduction or tapering off. It is evident in some lines now.

I do not think this fine high income is going to continue unless——

Senator LUCAS. That is the next question I was going to ask.

Mr. WILSON. Unless there is incentive to do so. That is my honest opinion.

Senator LUCAS. Do you agree with the previous witness that there may be some recession or slight depression during the next year?

Mr. WILSON. Yes, sir. I hope I am wrong.

Senator LUCAS. I hope you are wrong, too. I know about your concern in my State, and I know the kind of management and the kind of executives that you have, and I want to congratulate you for carrying on a very successful business.

The CHAIRMAN. Will you state for the record what your own business is?

Mr. WILSON. General Time Instruments Corp. If I may be permitted, what might sound like a commercial, Westclox, Seth Thomas, and so forth.

Senator HAWKES. Do you think that all Americans should keep in mind the thing which I have accentuated here several times, that these profits they are talking about have got to be considered in the same kind of dollars that wages are considered in? In other words, you have got a reduced dollar. To my mind there cannot be any argument, if the company of which I used to be president were to make two-thirds more than they made before they would only be getting the same return on the old dollars invested in the business that they were getting before.

Mr. WILSON. That is right.

Senator HAWKES. Do you agree with me that that must be kept in mind?

Mr. WILSON. I do. We are on an entirely different level of dollar figures.

Senator HAWKES. On the other hand, if you are going to keep it in mind in connection with wages you have got to keep it in mind in connection with corporation earnings and the earnings of business throughout.

Mr. WILSON. Of course, Senator Hawkes, I might add this comment, which we are all undoubtedly conscious of, namely that essentially a tax on a corporation is a tax on an individual. It is only a collection of individuals that form a corporation. There is no mysterious thing about a corporation. It is only some people who get together and put some money in. It is a corporation in corporate form.

The CHAIRMAN. It is a conduit for distributing wages and profits if any, it was said the other day.

Mr. WILSON. That is right.

Senator HAWKES. I want to say that in connection with your statement here—high individual wartime tax rates represent a genuine obstacle to thrift, progress and the maintenance of a high standard of living, I would assume that you meant by that that we are through with the war and we have not got the pressure of production and the overtime and the extension of employment hours and all those things and therefore you felt that the tax rate should be applied against a peacetime economy rather than a wartime economy in order to encourage thrift and the investment of venture capital in doing those things.

Mr. WILSON. That is right, sir, and adding this fact: That the 20-percent reduction which we propose still leaves a terrifically high tax rate. We are not talking about low taxes. We are talking about the continuation of enormously high taxes.

Senator HAWKES. I realize that and I agree with what you are saying.

The CHAIRMAN. Proceed, please.

Mr. WILSON. We believe the tax reduction will stimulate private investment. The importance from the standpoint of our entire economy of an immediate and substantial reduction in individual income-tax rates is particularly clear when the relationship between high taxes on individual incomes and investment in new, productive enterprise is examined.

It is a matter of common knowledge that the high tax rates which have obtained on individual incomes in recent years greatly diminished the volume of available venture capital. The possibility of a reasonable return on the investment, after the payment of Federal taxes, has been so remote that investors generally have been unwilling to risk their funds in new business undertakings.

Those relatively few fortunate individuals who have had any funds left to invest after the payment of existing high taxes generally have invested their funds in Government securities or in existing established businesses. New and productive private business undertakings, and particularly small business enterprises, have suffered accordingly.

The relationship between high taxes and venture capital was well demonstrated during the 10-year period prior to World War II, when only a relatively small amount of private funds were available for new and productive private enterprises. Many new business firms were launched during the period of synthetic prosperity which prevailed during the war period.

However, with the return of normal competitive markets the assumption is unwarranted that the drying-up process in the venture capital market, which was at work in the prewar period, will resume with increasing momentum unless proper inducements are offered for investment in new and productive enterprise.

The CHAIRMAN. Would you say this is true: That there may be a large source of liquid capital in the country at this time but that it takes incentive to put it to work.

Mr. WILSON. Yes, sir.

The CHAIRMAN. May I say this as a preliminary to the question: One of the witnesses the other day pointed out that there is a very substantial amount of liquid capital in our banks but he was honest enough in the exposition of his whole theory to say that there has to be an incentive to put that to work in risk ventures. Would you say that is correct?

Mr. WILSON. I think that is true.

The CHAIRMAN. In other words, it is not a complete answer so say that we do not need incentive tax reductions because we have a lot of liquid capital available in the country.

Mr. WILSON. Well, there is no—it is a matter of arithmetic. If the people in this room are going to form a new corporation today, and we will say that a person who is in—well, take the 50-percent bracket, which I think is pretty high, and then 40 percent comes off the earnings of the corporation, and then he leaves half of what is left in the corporation to build it up and for replacements, and so forth, and then on the other half that he gets, he pays up to 50-percent taxes on it, he ought to have his head examined if he starts in a new business.

The CHAIRMAN. Exactly.

Mr. WILSON. I mean your net gets down to practically nil.

The relationship between investment in private productive enterprise and production and wages, is so well understood that a detailed recital of the inter-dependence of capital investment in private enterprise and the welfare of the individual worker and of our general standard of living is not necessary here.

The fact has been frequently portrayed that the output of American factories is many times more per man-hour than is the output of other countries; that the capital investment per worker in American factories is far greater than is the capital investment per worker in other countries; that the gross value of industrial production and hourly wages in this country has generally increased as the value of investment in tools and equipment per worker—now estimated at over $6,000—has gone up and that, accordingly, there is a direct and vital relationship between the volume of private investment capital available for industry and the maintenance of high wages and high living standards.

Any tax program which destroys incentives for risk capital available for new and productive business enterprises, and which unduly impairs private investment in established business enterprises is clearly calculated to injure all elements in our economy, and particularly the wage earners and the small business firms.

The CHAIRMAN. Did I gather correctly the impression a while ago that a large part of our business is now running on worn-out equipment?

Mr. WILSON. I would not go so far as to say that a large portion of it is. I think a very substantial portion is, because there is a terrific wearing out of equipment under pressure of the war. We had our screw machines running 24 hours a day making fuses. So they wear out a lot faster, and their life is considerably less than it normally would have been otherwise.

The CHAIRMAN. Something like the old one-horse shay. It keeps going until it collapses altogether.

Mr. WILSON. Then the replacement problem becomes real. That is why I say some of these profits are quite synthetic. The tax-rate reduction may mean more revenue for the Federal Government. The proposed reduction of 20 percent in individual tax rates does not necessarily involve a reduction in the tax income of the Federal Government. The assumption is warranted that the stimulant to individual initiative, the encouragement to private investment, and the increased purchasing power resulting from this proposed reduction in tax rates will so increase the volume of business activity that the total tax income of the Federal Government may be increased.

It is significant that following World War I, and during the period from 1921 to 1930, when tax rates on individual incomes were substantially reduced, the aggregate Federal tax collections on individual incomes were either maintained or, during the latter part of that period materially increased. There is an exhibit A attached that I will not take the time to read.

The conclusion is inescapable that the tax reduction on individual incomes contributed materially to the production of a steadily expanding volume of national income during that period.

We believe that tax reduction is the most effective way to encourage price reduction.

The Federal administration has recently requested industry to reduce prices. Illinois industry is fully conscious of the importance of low prices.

The CHAIRMAN. But we have had no suggestion from the administration for reducing the price of Government.

Mr. WILSON. I should be very glad to supply that suggestion if it is in order.

Illinois industry will, in the future, as it has in the past, conform to the policy of producing the largest possible volume of goods in the shortest possible time at the lowest possible cost, and incidentally, we would like to make a profit out of it. However, it should be understood that one of the principal obstacles to continuity of high consumer demand—an essential to maximum production and low prices—is the existing high tax burden. Tax reduction, reduction of governmental expenditures, and price reduction are inseparable. The most effective way for the Federal administration to encourage price reduction is through reduction of governmental expenditures, with accompanying tax reductions. Taxes are an extremely important factor of costs, and if inflation is to be prevented the only thing that will prevent inflation is goods and production, and the only thing that will increase that is encouraging production, and the only thing that will get those products out at low cost is having all costs as low as possible, consistent with proper wage and living standards.

The benefits of tax reduction will be universal.

The proposed tax reduction will benefit the wage earner, the salaried worker, the farmer, the owners of small business enterprises, annuitants, and other fixed-income recipients.

The proposed reduction will stimulate business activity and tend to cushion or moderate any possible business recession or adjustment.

The Illinois Manufacturers' Association accordingly expresses the earnest hope that the Senate Committee on Finance may recommend to the United States Senate the adoption of a tax program which will contemplate an immediate reduction of 20 percent in individual income tax rates.

(Exhibit A, above referred to, is as follows:)

EXHIBIT A.—*National income and Federal income taxes on individuals, estates and trusts reflecting reductions in tax rates, 1921–1929, inclusive*

Year	National income payments to individuals [1]	Total annual income tax liabilities of individuals reported in tax returns filed with U. S. Treasury [2]	Principal changes in income taxes by Congress	
			In act of—	Principal provisions
	Millions	*Millions*		
1921..	$57,700	$719	....	
1922..	59,600	861	Nov. 23, 1921	Surtax rates were reduced from those applying to 1921 income; including reduction of top rate to 50 percent; personal exemptions for married persons were increased from $2,000 to $2,500 (except for those with net incomes of over $5,000) and for dependents from $200 to $400; and taxpayers were permitted to be taxed at 12½ percent on net capital gains if total tax on total net income was not less than 12½ percent. Total income tax revenue increased.
1923..	69,000	662	June 2, 1924	Provided for a 25 percent credit or refund on all income taxes paid on 1923 income.
1924..	70,000	704	.....do.......	Normal tax rates sharply reduced; surtax rates cut in all income brackets; top rate lowered to 40 percent; tax credit allowed on earned income; and a moderate liber l zation with respect to capital net gains and net losses. Income tax revenue increased.
1925	73,600	735	Feb. 26, 1926	Increased personal exemptions for married persons from $2,500 to $3,500 and for single persons from $1,000 to $1,500; reduced normal tax rate; reduced surtax rates on incomes above $26,000 to a maximum of 20 percent; and liberalized the amount of earned income for purpose of earned income tax credits. Income tax revenue increased.
1926	77,100	732	.....do.......	Do.
1927	77,200	831	.....do.......	Do.
1928	78,900	1,164	May 29, 1928	Further liberalized the amount of income on which earned income tax credit could be claimed.
1929	83,500	1,002	Dec. 16, 1929	Normal tax rates applicable to the year 1929 reduced by joint resolution of Congress.

[1] National Income and Its Composition, vol. 1, p. 137 (By National Bureau of Economic Research, New York).
[2] Statistics of Income, pt. I, Historical Summaries, 1938 (U. S. Bureau of Internal Revenue).

Notwithstanding these successive and sharp reductions in individual income tax rates from 1921 through 1929, Federal tax collections on individual incomes were substantially maintained (actually increasing in the latter part) due to the stimulation and incentives they gave to a producing a larger national income, which steadily expanded throughout the period.

Mr. WILSON. Now, there was some discussion by the previous witness on the subject of when they should or should not be applicable. It seems to me that there are administrative problems involved there that are for Congress to decide.

I think it is thoroughly sound to have a 20-percent reduction as of January 1, 1947.

Now, whether administratively it is wiser to make that effective July 1—it is a matter of administration not a matter of propriety of the reduction.

The CHAIRMAN. I suggest there is a double element involved there. It is not only a question of administration, which perhaps is a secondary consideration, but it is also a question of cost. If you make your tax retroactive you are carrying forward through fiscal 1948 the cost of the retroactive 1947 payments.

Mr. WILSON. That is right.

The CHAIRMAN. So you have got to consider that in connection with your budget for 1948?

Mr. WILSON. That is right.

The CHAIRMAN. Of course, if in the exercise of sound judgment or the exercise of the best judgment you can exercise under the circumstances, we can make it retroactive, consistent with your budget for 1948, that might be more desirable.

On the other hand, there might be a more cautious approach which would lead to the conclusion that it should not be made retroactive so as to preserve a sounder fiscal situation for 1948.

Senator JOHNSON. Is there not one other point, Mr. Chairman, and that is this: As the witness has testified, taxes go into the cost and have to be figured in the cost.

Now, they are figured in the cost, they have been figured in the cost. Sales of goods have been based on the present schedule of taxation. If you go back and change that, why, of course, the price that the articles sold for will mean just simply money in the pocket, because the consumer has paid his price already. He has paid that tax. We forget oftentimes, when we think that the manufacturer pays the tax, we are entirely mistaken, but the consumer is the fellow that pays all the tax bills.

Of course, I know this bill deals with individual taxes but it is all a part of the same picture.

Mr. WILSON. That is right.

Senator JOHNSON. There is a direct connection, and the consumer has paid this tax.

Now, if we rebate it to January 1 we are rebating it to the manufacturer but not to the fellow who paid the bill, so there ought to be a very serious objection to any retroactive tax levy.

Mr. WILSON. Of course, that would apply only from the standpoint of—when you speak of the manufacturer, by and large, most industries are corporate in form.

Senator JOHNSON. That is right.

Mr. WILSON. So that particular change is not as I understand it under discussion today. It is the individual rates.

Now, it would be true that an individual owning stock in a corporation might indirectly benefit because of the fact that his prices were based on a tax level that turned out to be higher than actually was in effect.

Senator JOHNSON. Yes. Well, he is the fellow that I am talking about.

Mr. WILSON. I think there is a great deal in what you say.

Senator JOHNSON. If we are going on the theory that everyone is going to benefit from lower prices—and of course that is true; we cannot escape that, it will be of tremendous benefit, and a lift to everyone—if we are going on that basis in lowering our taxes we ought not to be doing it retroactively with the high prices back of us.

Mr. WILSON. I am going to put up a big argument about the retroactive feature. I certainly am highly in favor—and I think it is absolutely sound—to do something and do it very quickly. That is more important than making it retroactive.

Senator JOHNSON. Yes. As I understand your testimony, it is all directed to that. Your testimony is not directed to a retroactive——

Mr. WILSON. I am taking the position that it is a thoroughly sound economic thing financially for us to go on the basis of 20 percent effective as of January 1, but I am not saying that that necessarily should be the date.

The CHAIRMAN. Has your organization made any estimates as to national income for fiscal 1948?

Mr. WILSON. No, sir, we have not, other than what we might get through various services. These figures run into billions, and when I was trying to make a few notes to appear here I started writing out for the first time in my life a billion dollars and I had to look at it two or three times to see whether I had enough ciphers on it. The story was $168 billion or $170 billion. We have not endeavored to do that.

The CHAIRMAN. You have not made any estimates on that?

Mr. WILSON. No, sir.

The CHAIRMAN. I believe you did say earlier in your testimony that your organization thinks there will be some recession the latter part of this year and possibly early next year?

Mr. WILSON. I think I would agree with the previous witness on that point. In fact, our particular industry has been somewhat fortunate and is in a fortunate position because it is what we call durable consumer goods and during the war period our entire output was in war equipment, fuses, marine clocks, and things of that sort, with a very small amount of clocks that later were required for war workers, so that in our own individual picture I am inclined to think that we probably will suffer less than some other industries will.

The CHAIRMAN. Is your forecast attached to your personal business or on behalf of the manufacturers?

Mr. WILSON. No, sir. I am talking about my own personal business. I would say that some of my fellow manufacturers are facing plenty of trouble pretty soon. You begin to see things back on the shelves and price cuts, and so forth, which have been appearing now for 2 or 3 or 4 months.

The CHAIRMAN. Do you anticipate a recession of depression magnitude?

Mr. WILSON. I think it could be, because it snowballs. It is a dangerous thing if it gets started, and everyone gets afraid. They say, "Oh, prices are coming down so we will not buy," so it rolls up—and I think it is awfully important to take care of the patient while the temperature is low.

The CHAIRMAN. You think plowing back some of the income taxes that we are now taking would help to prevent the extremes of a depression?

Mr. WILSON. I definitely do, sir.

The CHAIRMAN. Thank you very much for coming.

Mr. WILSON. Thank you, sir.

The CHAIRMAN. Mr. Harry Silverson?

STATEMENT OF HARRY SILVERSON, PARTNER, FIRM OF J. K. LASSER & CO., NEW YORK CITY, N. Y.

The CHAIRMAN. State your full name and business to the reporter.

Mr. SILVERSON. Harry Silverson. I am a tax consultant and member of the New York bar and a partner in the firm of J. K. Lasser & Co., New York City.

The CHAIRMAN. Will you proceed, please.

Mr. SILVERSON. I wish to thank the committee for affording me this opportunity to appear.

I am a partner in the New York firm of J. K. Lasser & Co. I have been a tax consultant for many years, and until recently I was a member of the Committee on Taxation of the Association of the Bar of the City of New York. I have also lectured frequently on tax subjects before bar groups and accountants' associations.

While I appear only on my own behalf as a taxpayer, I am confident that the statement I am about to make has the endorsement of the many persons like myself whose earnings are derived exclusively or primarily from professional fees, salaries, or other forms of so-called earned income.

I make this seemingly presumptuous statement because of the response to an article which I wrote, appearing in the March issue of the American Mercury, in which I set forth the proposal I wish to lay before you today. The response to that article, considering the modest circulation of the Mercury and the complete absence of any concerted publicity efforts, was literally overwhelming.

I will merely mention the fact that the New York Herald Tribune, on March 31, characterized my proposal as, and I quote, "A Realistic Income Tax Plan." And the financial editor of the New York Post, which newspaper is at the opposite end of the political spectrum, devoted her entire column of March 12 to an endorsement of my efforts to correct what she called, and again I quote, "A Raw Tax Deal."

H. R. 1 is designed to provide the individual taxpayer with some relief. I heartily approve of this. In line with this purpose I have come here to urge, as earnestly as I am able, that this is the time to allocate some reasonable portion of this relief for the specific benefit of the earned income group of individual taxpayers. Mr. Andrew Mellon, who was certainly not prejudiced against investment income, stated the case of the earned income taxpayer most forcefully in the following language:

> The fairness of taxing more lightly incomes from wages, salaries, and professional services than the incomes from business or from investments is beyond question. In the first case, the income is uncertain and limited in duration; sickness or death destroys it and old age diminishes it. In the other, the source of the income continues; the income may be disposed of during a man's life and it descends to his heirs.

Mr. Mellon was writing in 1924. Under the then prevailing rates, it was still possible for the successful physician, lawyer, writer, artist, salaried business executive, and salaried and professional people generally, to set aside enough in peak years of earning to take care of a well-earned retirement.

Therefore, the wiser among that group would and could lay aside some of their earnings in the years of plenty for the foreseeable lean years. This building up of a nest-egg was possible in those days because the income-tax exaction left enough in the pocket of the professional or salaried taxpayer.

Today this is extremely difficult and in many cases utterly impossible. The increased period of preparation for a profession or vocation, together with the quickened tempo of modern life, have cut down the span of the income-producing years of the salaried or professional man. Physical longevity may have increased but that has merely accentuated the gap between the number of years of economic productivity as against the number of nonproductive years. Our surtax schedules ignore these facts of life completely by measuring ability to pay entirely by reference to 12-month periods of earnings.

Let us consider for a moment the position of a man who chooses a business career rather than a professional or salaried career. Despite the present steep surtax rates, it is still possible for the businessman, operating through a corporation, to set aside enough in his years of productive activity to meet his requirements in the closing years of his life.

In most cases, he need only draw enough from the business to cover his personal living expenses plus personal income tax thereon. The rest of the business earnings are subject to a maximum tax of 38 percent. And this maximum sets in only if the earnings of his corporation in excess of his salary are $50,000 or over. Up to $25,000 the maximum rate is 25 percent.

If the business is successful, it can expand and increase in net worth over the years. If the expansion is not of such proportions as to remove the challenge of section 102, the impact of the individual tax on any dividends paid can be minimized by gifts of stock within the family circle. Such a shift of the incidence of the tax in the case of earned income has been impossible under Supreme Court decisions long antedating the recent family partnership cases.

When our hypothetical businessman dies, his family can either continue to operate the business through hired management or sell it and reinvest the proceeds. Upon a sale the estate may realize many times the original investment of the deceased founder of the business, particularly if salable good will has been built up. But no income tax need be paid on that difference since the basis of the stock in the hands of the executor is equal to its value at date of death.

Furthermore, during his productive period, our businessman can establish a pension trust for all the employees of the corporation, including himself. As the corporation pays moneys into the pension fund each year, it receives a deduction. But neither he nor any other employee need include such amounts in his taxable income at that time.

When he retires and begins to draw down his pension money, only then does he report the income of former years as taxable income.

At that time, particularly if the owership of the stock of the corporation is not all in his hands, the impact of the surtax rates on the amount coming out of the pension trust is not too severe. But irrespective of the tax bracket, he has the income when he needs it most—when he is no longer an income-producer, when he is ill or advanced in years.

These measures of protection available to the businessman are now denied to the earned income groups except for those relatively few who happen to be employees of a concern with an established pension fund.

The existing pension-fund provisions of our tax law recognize the patent injustice of taxing earned income entirely in the year when earned. They therefore project some portion of such earnings forward to a period of retirement and require the tax to be paid at that time.

Is there any reason why this very sound principle should not be extended to all earned-income groups? Are not the professional and self-employed groups, and those employees not covered by a pension plan, equally entitled to look forward to a period of retirement?

As one newspaper columnist of national reputation wrote me, and I quote:

> The social-security laws assume I will be on the shelf at the age of 65; the income-tax laws, that I will go on forever.

After long study I have come to the conclusion that the following easily administered provisions would correct this basic inequity in our present tax structure.

Permit every taxpayer to form what amounts to his own little pension fund. Let him take up a fixed percentage of his earned net income—I suggest a maximum of 25 percent but no more than $10,000 in any one year—and invest such amount in a special type of nonassignable, low, or no-interest-bearing United States Government bond. The amount so invested, within the maximum permitted, would constitute an exclusion from gross income.

When the taxpayer decides to cash a bond in some later year, the proceeds would be includible in income at that time. Any bonds still on hand at date of death could be cashed by a named beneficiary or other successor who would be required to pay the tax.

This latter treatment is not novel. Section 126 of the Internal Revenue Code requires the recipient from a decedent of previously untaxed income to pay the tax. And the present pension trust provisions similarly require the employee's beneficiary to pay the tax on amounts received after the employee's death.

To guard against avoidance by the deliverate cashing of bonds in a year of large losses, it is simple enough to provide that losses cannot be offset against proceeds of these bonds.

That, gentlemen, is the substance of my proposal. It corrects an obvious and long-standing inequity by a method which entails no undue administrative difficulties. In addition, I maintain that, if adopted, it would also achieve the following results:

1. Stimulate the incentive to work—particularly among the managerial and professional groups of our economy.
2. Encourage reasonably early retirement and thereby keep fresh blood coursing through the main arteries of our economy.
3. Provide a much more realistic social security than we have at present, and do so by means of a privately operated mechanism.
4. Reduce the amount required annually for interest charges on the public debt, and at the same time spread the ownership of such debt amongst a wider segment of the population than is presently the case.
5. Stabilize receipts from the individual income tax by shifting some portion of collections from years of peak prosperity to years of depressed economic activity.

6. Supply a reservoir of purchasing power which could be tapped in years of declining employment, while tending to absorb excess purchasing power in inflationary periods.

7. Correct the unfair impact of our present surtax rates on earned income without involving us in a loss of revenue incident to the granting of a straight earned income credit.

8. Make available more risk capital for job-creating enterprises by releasing funds for that purpose in the middle- and upper-bracket groups otherwise earmarked for retirement purposes.

9. Give the lower-income groups what will amount, in many cases, to an unused exemption and dependency credit carry-over.

10. Afford a moderate averaging device for individuals with fluctuating incomes without involving us in the administrative problems connected with all such devices which have been advanced to date.

In 1943 Congress adopted a pay-as-you-go plan. Gentlemen, I urge the adoption in 1947 of this save-as-you-go plan.

The CHAIRMAN. Any questions?

(No response.)

The CHAIRMAN. Thank you very much for coming, Mr. Silverson.

Mr. SILVERSON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. B. A. Javits?

STATEMENT OF B. A. JAVITS, VICE PRESIDENT AND GENERAL COUNSEL OF THE INVESTORS LEAGUE, NEW YORK, N. Y.

The CHAIRMAN. Mr. Javits, will you be seated please. Give the reporter your full name and your business.

Mr. JAVITS. Benjamin A. Javits, a lawyer, I am also vice president and general counsel of the Investors League.

The CHAIRMAN. Proceed.

Mr. JAVITS. I want to thank the committee for permitting me to appear here on behalf of millions of men and women who are the forgotten men and women of this day—the little investors. There are about 50,000,000 of these and about 20,000,000 of them own industrial stocks and bonds, over half of whom are women.

We also represent men and women on Main Street, who are the voters in American industry. American industry represents about 80 percent of our way of life.

We want to lower the price of government, we want to better it, we want to increase the value of citizenship, and we want to provide more income to the people and to the Government by the proposals we are about to make. The Investors League is in thorough accord with the necessity for having a Federal tax program which would accomplish the two things so essential to our security and progress—(1) sufficient income to carry the increasing burdens of our national responsibilities; (2) to provide a tax program which would not unduly burden the small earner and which, at the same time would provide sufficient incentive for the drive that made this country the greatest industrial power the world has ever seen so that we can effectuate the national and international commitments already made and which may be made.

It would seem to me that the initiative, ingenuity, and the intensive work for which our industrial leaders are famous could be best capitalized by providing incentives for these leaders to create more and more wealth for all and by their efforts increase the earning power, especially in the lower brackets of workers.

It is this whole scheme of providing incentive taxation with which we can fire the ambitions of thousands upon thousands of Americans, especially ex-GI's, who are now in our schools and colleges getting ready to participate in our free enterprise system when their education is completed.

We can only have one President of the United States but we can have many, many thousands of people successful in business.

It is also all too easily forgotten that it requires over $6,500 of investment capital to put one industrial worker to work.

The Investors League has the following specific recommendations to make:

(1) A 10 percent reduction of individual income taxes across the board, effective January 1, 1947. In the present state of world uncertainty we must not only be exceedingly productive but we must also be exceedingly strong, both financially and physically.

(2) We propose limiting the top bracket of combined normal and surtaxes on individual income to 66⅔ percent of individual earnings. No bracket should be more than two-thirds of a man's earnings. This would leave the present tax against invested earnings as you have it or as it may be modified.

We believe that although this might in the first instance cost the Government a loss of taxes, it would succeed in bringing increased revenues into the Treasury from taxes on additional thousands of new workers and on increased earnings of old workers. The young man who is successful is tempted to pause in his tracks under the present tax structure when he has reached an earning base of somewhere between ten and thirty thousand dollars instead of going on as he should and give us hundreds of new Henry Fords, of Thomas Edisons, and Charles Ketterings.

The tax on large incomes is too great to provide any real incentive. The strength of this country lies in its productive power which springs from its industrial leadership. The latter are being destroyed by taxing brains, initiative, and that industrial genius which has made us what we are and of which I have just spoken.

We must also remember that the personal wealth of anybody today also adds to the total wealth of the Nation, so that even if we were permitted to retain it we would still have it in the common pool.

Whether we invest our money in stocks or bonds or leave it in the bank, it goes to make jobs and prosperity where the climate for free enterprise is healthy. Penalty taxation on brains and initiative should not be the policy of this Government. In any event there is no hurry about it because the Government is always a senior partner when death comes, as far as taxes are concerned.

We recommend also that all single individual earnings from $500 up to $1,000 pay a flat rate of $25 as a tax to the Federal Government. For married people who earn above $1,000 to $2,000 we recommend a total flat rate of $50. We believe that above $2,000 for married people and above $1,000 for single individuals, the tax rates should apply consistent with the above as they may be worked out by Congress.

We believe that people in the lower-income brackets should participate in paying a small share of the Government expense, but that they should not be penalized in these days of high living costs. It should be the purpose of our tax structure to provide these people in the lower-income groups with more money to spend. People in these lower income tax brackets have a sufficiently hard time getting along as it is and should be asked to pay only a Federal tax which will make them conscious of their participation and their obligations, taxwise.

Although these next items are not perhaps strictly within the purview of these hearings, they nevertheless have a relationship to the taxes of the individual.

We recommend the reduction of capital gains from 25 percent net to 12½ percent immediately. The whole theory of taxation on capital gains is unsound and unrealistic.

During the war there was some reason for these taxes, but there certainly is no real reason to continue them. If they are to be continued on the basis of 12½ percent, the holding period should be eliminated after January 1, 1948. Certainly it is an unfair principle of taxation to penalize an owner of property when he wishes or can make a switch from one form of property to another. We believe that the capital-gains tax should be eliminated entirely as soon as possible.

(5) We favor a continued reduction in the combined normal and surtaxes on corporations. We believe that present taxation on the property of corporations is essentially unsound. These are the makers and creators of American wealth, and they should be induced to invest and reinvest more and more in making the whole country a wealthier and more productive entity. Thus greater security would be provided to workers.

We believe, with many others, that corporations are the instrumentalities which should receive encouragement to greater and greater earnings; that these earnings, however, when they come to the individual, should be taxed.

We have no specific recommendations as to how much the combined normal and surtaxes on corporations should be reduced, but we favor gradual reduction until the burden is principally transferred to the individual beneficiaries of our corporate activity, who are the stockholders, the workers, and the executives.

(6) We favor relief from double taxation on corporate earnings beginning January 1, 1948. We believe that such moneys as are paid out of corporate funds for divends should not be taxed to the corporation, but taxed as incomes to the individuals. It may interest this body to know that we have received in our Washington office petitions signed by over 100,000 individuals requesting us to petition you for relief from this tax.

Other nations have learned that their industrial leaders and industrial leadership must be encouraged by providing incentives so that they enjoy a relatively substantial part of their earnings. For instance, in Russia, as you know, the average industrial head is much more prosperous than he is here as far as income is concerned.

We can have only one President of the United States, but we can have tens of thousands of successful businessmen and business executives. This is the great strength of this Nation, and we must do everything in our power, especially through a sensible tax plan, to swell and improve the ranks of leaders.

These tax suggestions we make are principally for the purpose of encouraging investment capital. In the words of the former great Chief Justice we repeat, "The power to tax is the power to destroy," and I am sure you men are very conscious of that. We have a few suggestions as to how we might save some money in operating the Government agencies, and if you are interested in those I should be glad to give them to you. That is the end of my statement.

The CHAIRMAN. Will you file them for the record, please.

Mr. JAVITS. Yes.

The CHAIRMAN. Thank you for coming, Mr. Javits.

(The statement referred to is as follows:)

The following suggestions are made by me as an individual and not as attorney for the Investors League, although I believe that the Investors League is interested in helping economy in government.

First, it is essential that a great many Federal employees now on the pay roll, which I understand is double the number we had in 1939, be taken off.

Second, there should be the same incentive for employment in Government set-up as there is in private industry. Every Government department, including the Army and Navy, should, therefore, have a Civilian Award Board. This civilian board, membership of which should be changed from time to time, should make awards to every Government employee for what he is able to save the Government in time, money, and in other directions. It would seem to me that this would be especially effective in the tax department and in the Army and Navy Departments. In the tax department there is no real incentive for the employees, especially the investigators, to get the many millions and possibly billions to which the Government is entitled. As far as the Army and Navy Departments are concerned, there, too, there should be greater incentive to practicing economy and doing a better job.

I would also recommend that all awards be tax free. I believe that this suggestion, together with modification of the tax laws, as above, would first take off the premium on dishonesty on the part of taxpayers which the present laws now create and, second, would give us a spirit in the ranks of Government employees that would substantially reduce our cost of government.

BENJAMIN A. JAVITS.

The CHAIRMAN. Henry H. Wolf.

STATEMENT OF HENRY H. WOLF, NATIONAL LAWYERS GUILD COMMITTEE ON TAXATION

The CHAIRMAN. Mr. Wolf, will you give the reporter your full name and your business?

Mr. WOLF. Henry H. Wolf, attorney, practicing in New York. I am here representing the national committee on taxation of the National Lawyers Guild.

Mr. Chairman, on behalf of the national taxation committee of the National Lawyers Guild I want to thank the Committee on Finance for this opportunity to present our views on taxation to the Senate. Your concept of open hearings is in direct contrast to that of the House Ways and Means Committee.

The major problem which our country faces is the spiraling inflation of prices. The emasculation of price-control legislation by Congress and the subsequent elimination of price control by administrative action have brought in their wake skyrocketing rises in the cost of living. Notwithstanding the promises of the National Association of Manufacturers that the death of price controls would result in prices which the American people "can afford to pay," prices have not declined. Instead, they have steadily increased. For example, the consumer is faced with housefurnishing prices which are at least 25 percent above the 1945 average. He pays at least 24 percent more for clothing and 36 percent more for food. According to the Bureau of Labor Statistics, the consumer price index advanced to a greater degree during 1946 than in any year since the first World War and is now at an all-time high.

In his speech last week, the President warned that "the economic skies are not clear." This is a mild description of a cr. al situation. The vast majority of the economists in our country are predicting an economic casualty in terms ranging from recession to depression. As the influential financial publication, Barrons, put it recently, "The 1947 depression, recession, or shake-out, whichever one calls it, has advanced in rank from a fear to a fad."

The Nation faces the calamity of boom and bust, through the danger that prices will outrun the ability of our people to buy back the goods produced by our economic machine.

Two widely disparate facts stand out strikingly in the economic picture. The repeal of the excess-profits tax, coupled with high prices, has made 1946 corporate profits after taxes the highest in American history. Inflated prices have confronted the average American family with a struggle to provide food, clothing, rent, and other necessaries of life out of the rapidly shrinking dollar. Real take-home pay has dropped substantially while prices and profits soar. We face a precipitous economic collapse, after a short-lived boom, because of this disparity.

We must focus our attention on this fact because it is the key to the formulation of our fiscal policy.

Fiscal policy can be an effective tool in staving off a depression. It is, however, only one tool in the fight against depression and unemployment. Neither fiscal policy nor any other single measure can insure maximum employment. But we do know that depression and unemployment are not inevitable; solutions are at hand, and we must employ every weapon, one of which is the implementation of a sound fiscal policy—the Government's policy for raising and spending money.

Taxes and public expenditures have a vital role in maintaining consumer demand and full employment.

Our fiscal policy must be planned to maintain a growing capacity production and a level of consumption which will, year after year, absorb this expanded production. The gap between production and consumption has been a major factor in producing the periodic depressions which have caused much ill to our people. That gap, which is produced by inadequate purchases of consumer goods and insufficient investment of savings in capital goods in expanded and new industry, must be closed. Our fiscal policy must assist the great bulk of the American people constantly to increase their purchasing power and investors to pour back savings and excess funds into expanding production to a point which will close the gap between production and consumption. The best incentive for investors is expanding industry, which is possible only if purchasing power is maintained at the highest levels.

Presumably to assist the Nation in meeting the crisis of an impending depression, the House of Representatives has passed and this committee is considering the Individual Income Tax Reduction Act of 1947, H. R. 1.

This bill would reduce by 30 percent the tax of individuals with surtax net income of $1,000 or less; by 20 to 30 percent the tax on surtax net incomes between $1,000 and $14,000; by 20 percent the tax on surtax net incomes between $14,000 and $302,000. It also proposes an additional exemption of $500 for taxpayers of 65 years of age and over, deducting therefrom, however, such pensions or annuities as are paid under the Social Security Act, the Railroad Retirement Act, and others of this nature.

H. R. 1 was presented to the House of Representatives as a measure, the sponsors of which had considered the tremendous rise in the cost of living since 1939. It is cited as containing a "cost-of-living reduction." It is presumed to contemplate the "special need for tax reduction in the lower income group." Chairman Knutson of the Ways and Means Committee of the House referred to H. R. 1 in the House debate as "a fair bill because it recognizes that the little fellow is having a hard time."

The alleged fairness of H. R. 1 is illusory. Its "equality" is spurious. It is a discriminatory tax bill which favors the wealthy while providing for substantial taxation of those whose incomes are below that required for bare subsistence. Analysis of the bill will support the foregoing description.

H. R. 1 permits a married person with two dependents with a net income of $2,500 annually to secure an annual tax reduction of $28, the equivalent of less than 3 days' earnings. But a taxpayer with an annual net income of $25,000 would have his taxes reduced by $1,704, a saving of almost 4 weeks' income. If his net income were $300,000 the taxpayer would save $46,746, equivalent to almost 8 weeks' income.

The CHAIRMAN. At that point, Mr. Wolf: The $2,500 man works how many days for the Government to pay his present tax?

Mr. WOLF. I would say approximately a week and a half.

The CHAIRMAN. What percentage of his income is payable in taxes?

Mr. WOLF. First, I would revise the previous figure to about 2 weeks and then say that that would be roughly about one twenty-fifth of his income.

The CHAIRMAN. A man with a net income before personal exemption of $2,000 does not pay anything at the present time.

Mr. WOLF. That is right, a married man with two dependents.

The CHAIRMAN. A man with a net income of $2,500 before personal exemption retains 97.34 percent of his income, does he not?

Mr. WOLF. That is quite right, under H. R. 1.

The CHAIRMAN. Let us put that in relation to the $25,000 man. The $25,000 man, after paying his taxes, retains 72.73 percent of his income as spendable, is that right?

Mr. WOLF. Yes, sir, under H. R. 1.

The CHAIRMAN. Proceed, please.

Mr. WOLF. Under H. R. 1 the effective rate of reduction to income for married persons with two dependents with incomes between $2,500 and $10,000 varies from 1.1 percent to 3.7 percent. However, the effective rate of reduction to income for similar persons with incomes in the higher brackets jumps from 6.8 percent for incomes of $25,000 to 15.6 percent for incomes of $300,000.

Incidentally, I would like to interrupt to say that with respect to the figures you quoted a moment ago, Mr. Chairman, that this statement will later develop the position of retained income in relation to taxes paid. The bill before the committee will give to a married man with two dependents——

The CHAIRMAN. The figures I gave you are in terms of spendable income after payment of taxes.

Mr. WOLF. Yes. That is quite right.

The CHAIRMAN. And that will apply directly to retained income, will it not?

Mr. WOLF. Indeed. However, it must be noted that these percentages have changed very, very considerably since 1939, which, I assume, would be considered a much more normal year than 1946 has been.

The CHAIRMAN. 1939 would produce 5 or 6 billion dollars' worth of income taxes and now you are producing $19 billion worth of income taxes.

Mr. WOLF. With a very substantial increase in national income.

The CHAIRMAN. Yes.

Mr. WOLF. The bill before the committee will give to a married man with two dependents earning $2,500 a year additional take-home pay of 1.1 percent. With annual earnings of $5,000 his take-home pay will be increased by 2.7 percent; and if he earns $10,000 he will receive additional take-home pay of 4.6 percent; but the $25,000 a year man increases his take-home pay by 10.3 percent; and the man with a $300,000 net income, under the guise of equity, and to "compensate" for the increased cost of living, will be taking home an additional 70.5 percent.

The Ways and Means Committee reported to the House of Representatives that H. R. 1 will decrease tax liabilities in the calendar year 1947 by approximately 3.8 billion dollars. Of this tax saving, 39 percent would go to 4 percent of the taxpayers, those in the net-income class of $5,000 or more. Three-tenths of 1 percent of taxpayers, in the net income class above $25,000, would secure, under H. R. 1, more than 20 percent of the total tax savings provided by the bill, approximately the same amount of tax savings as that provided for the 52.7 percent of the taxpayers who are in the net-income class under $2,000. The inequity of H. R. 1 will be apparent to anyone who reads these figures.

The CHAIRMAN. The larger amount of the tax reduction contemplated in H. R. 1 goes to persons of $5,000 or less per year, does it not?

Mr. WOLF. The slightly larger amount. I would still, however, maintain that there is little equity in giving to three-tenths of 1 percent of the taxpayers approximately the same tax reduction as that given to 52.7 percent of the taxpayers.

The CHAIRMAN. So that is premised on your theory that there is equity in the rates of taxation on the incomes above $5,000?

Mr. WOLF. That is predicated on the theory that the tax rates at the present time maintain the principle of the ability to pay. We believe that the head of the family of four——

The CHAIRMAN. On the principle of ability to pay, when you get to the tax-reduction period, is not the 5-percent reduction in tax a sufficient reduction to support the principle of ability to pay?

Mr. WOLF. That does not necessarily obtain because the ability to pay is based to a large degree on the means of livelihood of a large bulk of the people in the United States.

The CHAIRMAN. That is the reason why the man we discussed only pays about 3 percent of his income, and that is the reason why the fellow in the highest bracket pays 85 or 87 percent of his income.

Mr. WOLF. That is quite true.

The CHAIRMAN. That is precisely the illustration of ability to pay, is it not?

Mr. WOLF. I would say ability to pay would be more precisely illustrated if you first determine what the minimum necessity for a standard of living was and then started to predicate your rates from that basis upward.

The CHAIRMAN. Do you not think that the rate that exists in the present law is a recognition of that?

Mr. WOLF. To a degree; yes.

The CHAIRMAN. Why, certainly. The man with the low income would not be getting off with a 2½ or 3-percent tax rate if he were able to pay more.

Mr. WOLF. Your 2½ or 3 percent is predicated against his entire income, I take it, before personal exemption?

The CHAIRMAN. The $2,000 man, under present law, pays 3.8 percent net income before personal exemption. He pays 2.66 percent under H. R. 1. Why do you suppose that rate is so low except in recognition of the principle of ability to pay?

Mr. WOLF. I am not contesting the fact that the theory of graduated rates is in recognition of the principle of ability to pay.

The CHAIRMAN. Why would you have an effective rate on an income of $5 million a year of 85.5 percent except on the principle of ability to pay?

Mr. WOLF. We believe that the head of a family of four with a net income of $2,500 will question the fairness of a bill which reduces his taxes by 2 cents per day for each member of the family, when he is told that the head of a family of four with a net income of $1,000,000 will be saving almost $76 per day per member of the family.

The majority report on H. R. 1 made to the House expresses concern because the cost of living has risen very substantially since 1939. That this is nothing more than lip service is illustrated by the fact that a vast number of the 39,000,000 individuals who were added to the tax rolls by decreased exemptions during the war years are given almost no relief at all. The heaviest burden of taxation is not shifted by H. R. 1 from the backs of the low-income groups. We need merely note that married persons with net incomes of $4,000 are required by H. R. 1 to pay taxes which are 970.5 percent higher than those they paid in 1939, whereas a married couple in the highest income bracket is brought back to 1939 levels of taxation, since his tax is increased by H. R. 1 to the extent of nine-tenths of 1 percent above 1939.

The CHAIRMAN. The high bracket man was already in the high brackets in 1939; was he not?

Mr. WOLF. Yes.

The CHAIRMAN. Is that not the basis of your figures here? Those results would not obtain, would they, if his rates had not already been high in 1939?

Mr. WOLF. We admit that they were high in 1939, but we think that the disproportion has become great during the war and will become greater if H. R. 1 is enacted.

The CHAIRMAN. I think you will find that if you apply a flat reduction percentage in taxes—the number of times that the $25,000 man, for example, pays more taxes than the $5,000 man—the ratio is preserved exactly. We had a demonstration of that.

Mr. WOLF. That is because you are utilizing the mathematical calculation of cutting directly by one-fifth.

The CHAIRMAN. You are preserving the relationship for better or worse. If you want to assume that the present relationship is all right, we are preserving that relationship.

Mr. WOLF. Yes; but you are preserving the relationship predicated on war rates rather than a relationship predicated on peacetime rates.

The CHAIRMAN. That is right. The problem is where to get your revenue, and if you took all of the income above the $5,000 group and applied it entirely to taxes, you could not meet your fiscal burden.

Mr. WOLF. We are not suggesting that.

The CHAIRMAN. I know you are not, but I am using that to illustrate to you why it happens that you have to reach into the low-income citizen to get some taxes.

Mr. WOLF. Again, I would like to state that we would agree to the necessity of taxation in the lower brackets, predicated on a principle that subsistence level without taxation should be maintained. We will develop that further as well as the method of securing revenue.

The CHAIRMAN. How much would the take-home pay of the married man with a family of 4 be increased if you gave him complete exemption—paying no taxes at all?

Mr. WOLF. If a married man with 2 dependents earning $4,000 merely got an exemption of $2,500 for himself and his wife and $1,000 for the 2 dependents, his percentage of increase in spendable income would be pretty close to 8 percent.

The CHAIRMAN. What would be the increase in his take-home pay if you completely exempted the $2,500 man with two children?

Mr. WOLF. Pretty close to 4 percent. That is, by eliminating the $95 tax that he pays at the present time.

The CHAIRMAN. Proceed.

Mr. WOLF. Although they paid 90.2 percent of the total of the Nation's individual tax bill for 1939, the taxpayers with net incomes of $5,000 and over will pay only 45.8 percent under H. R. 1. On the other hand, taxpayers with net incomes under $5,000, who paid 9.8 percent of the Nation's individual tax bill for 1939, will be required by H. R. 1 to continue bearing the burden of the heavy wartime liability by paying 54.2 percent of the total individual tax bill. It is obvious that those who will benefit most as a result of the enactment of H. R. 1 are those in the highest income brackets—persons in the net income class of $100,000 and over; the class which, incidentally, has more than trebled its ranks as a result of the war.

When we consider, further, that in terms of 1939 purchasing power the value to a family of four of the present $2,000 exemption amounts to less than $1,300, it is apparnt that the concern of the proponents of H. R. 1 because of the impact upon the low-income groups of the rise in the cost of living since 1939 is more apparent than real. During the House debate, Representative Doughton stated that "H. R. 1

is nothing more than a hurriedly conceived, untimely, discriminatory, and unsound patchwork of political expediencey." An editorial in the Wall Street Journal referred to the bill as originally introduced as "unscientific." The National Lawyers Guild contends that H. R. 1 is an unfair, inequitable, and undemocratic tax measure. It does violence to the principle of ability to pay, and can best be described in the words of Franklin D. Roosevelt as providing "relief not for the needy but for the greedy."

We submit that H. R. 1 will not assist in staving off the coming depression. Instead, its enactment will contribute to the economic ills of the Nation, since its provisions help to continue the present squeeze on mass-purchasing power. With an annual bill for direct and indirect taxes which averages almost $1,300, and facing the highest prices they have ever been required to pay, the 92 percent of the families in the United States with total family income of less than $5,000 will not find in this tax-reduction bill the relief they need to assist them in their attempt to secure a decent standard of living. These low-income families are responsible for the purchases which keep our economic machine in operation. Unless they receive assistance that machine faces a break-down.

The report appearing in the Federal Reserve Bulletin of June 1946 relating to the concentration of savings in the United States reveals that at the end of the war period, after years of scarcity of consumer goods, 40 percent of the families in the United States had only 1 percent of total individual liquid assets; whereas 10 percent of the families had 60 percent of the Nation's individual liquid assets. A more recent report of the Commerce Department reveals that savings declined to $19 billion in 1946, a reduction of 43 percent from 1945. During the first quarter of 1947, the decline has been even greater. The report indicates that the bulk of the $19 billion has been saved by the higher-income groups. The low-income groups cannot compensate for reduced purchasing power through withdrawals from nonexisting savings. Instead, they will curtail their purchases, or go into debt to maintain themselves at a bare subsistence level.

President Truman pointed out in his recent speech that millions of American families "are postponing necessary medical care. They have gone into debt in an amount 50 percent greater than a year ago. They are doing this not through choice, but in order to make both ends meet."

The National Lawyers Guild believes that the 1947 tax bill must contribute materially to closing the gap between our vast productive capacity and the ability of our people to consume the products of our economic machine. This can be done only by easing the tax burden on the lower- and middle-income groups—those groups which spend virtually all of their income; by maintaining high taxes on the upper-income groups which spend relatively little and whose savings are large; by making investment of savings secure, at reasonable rates of profit; and by creating a climate in which American small business can resist the pressure of its monopolistic competitors. To assist in achieving these purposes we urge this committee to substitute for H. R. 1 a bill which would provide that individual income-tax exemptions be increased to the following amounts: $1,500 for a single person and $2,500 for a married couple, with the current $500 exemption for each dependent continuing.

To maintain and strengthen purchasing power and to implement the democratic principle of taxation according to ability to pay, personal income-tax exemptions should be raised to a level sufficient to maintain a family at a minimum standard of health and decency. No taxes should be levied on any taxpayer whose income is below this standard.

The most authoritative study of the budget which is necessary to maintain a family of four in a large American city at a minimum standard of living in health and decency is the Heller committee budget. At the price levels of September 1946, this essential minimum budget was computed at $3,576. Although the cost of living has risen substantially since that time, we are proposing a level of tax exemption which will leave a family of four with an untaxed income of $3,500. Any amount of exemption below this will result in an equal amount withdrawn from current purchases with consequent damage to an economy which must continue to expand. Each dollar of exemption below $3,500 will mean reduction of food, clothing, housing, or medical care in the value of such an amount for the members of the family, with consequent damage to the health and welfare of the Nation.

The exemptions proposed by the National Lawyers Guild are not excessive in terms of prior revenue acts. From 1925 through 1939 the exemption for a family of four ranged from $4,300 to $3,300. Comparing present price levels to those of 1939, we find that the real value of an exemption of $3,500 for a family of four is approximately $2,250.

The CHAIRMAN. Your point there goes all the way across the economy; does it not?

Mr. WOLF. I think so. The major portion of the tax savings which would result from the adoption of our proposal would find its way into the stream of commerce and, by helping to bolster mass purchasing power, would assist in insuring a stable market for business. Such a market is the only real incentive for business investment.

In contrasting the tax effects on a family of four of the National Lawyers Guild proposal and those of H. R. 1—the attached table incidentally will supply a full contrast in various income levels—it is evident that our proposal benefits those with net incomes through $10,000 to a far greater degree than does H. R. 1, but that for incomes above $25,000 the reverse is true. The taxpayer with a net income of $2,500 saves $95 rather than $28, and thus adds almost 3 percent more to his spendable income than under H. R. 1. The $5,000 annual net income recipient saves $304 and thus increases his take-home pay by 6.9 percent, whereas under H. R. 1 his take-home pay would have increased only 2.7 percent. The man whose net income amounts to $300,000, however, under the National Lawyers Guild proposal would save $1,250, an increase in spendable income by 1.9 percent, rather than, as under H. R. 1, 70.5 percent.

The upper income bracket taxpayers whose rates should not be changed constitute the group that possesses the heavy saving of funds which, when not invested, hamper the economic machine and exercise a depressing influence on our economy. A good portion of their income must be siphoned off through taxation so that the Government will have its required revenues. We do not believe that the present rates in the upper income brackets are such as to make investment unattractive, provided investors can be assured of safe investments and a steady flow of income, albeit at lower rates than have sometimes been earned. This safety of investment can be provided only in an expanding economy, a sine quo non of which is the highest possible level of mass purchasing power.

To argue, as do the proponents of H. R. 1, that the present upper income bracket tax rates are impeding the flow of incentive capital is to ignore reality. Interest rates are low and business loans are expanding. Representative Lynch reported to the House that business loans during the week ended March 12 amounted to $193 million, and thus reached a high of almost $11 billion, or $3½ billion over the previous year. The increase of outstanding business loans was more than $5 billion in 1946, a gain larger than any for a 12-month period since 1919-20. Secretary Snyder reported to the Ways and Means Committee that in 1946 there was an increase in the number of operating business firms of 369,800 over 1945. By mid-1946 all of the wartime decreases in the business population had been made up and the number of operating business firms now exceeds the highest prewar level.

In considering tax legislation for 1947, this committee should not forget that substantial relief was granted to large income recipients during 1946 through the reduction of 3 percent in surtax in each bracket and a 5 percent across-the-board tax cut.

The CHAIRMAN. How many men were taken off the rolls?

Mr. WOLF. I believe about 12,000,000.

In the present economic climate, therefore, although the rate reductions contained in H. R. 1 will benefit largely the upper income groups, they will not stimulate incentive capital. Nor will they aid to any degree in increasing the purchasing power of the American people. Passage of H. R. 1 will facilitate boom and bust and should, therefor, be rejected. The National Lawyers Guild proposal to increase personal income-tax exemptions, on the other hand, fits the economic needs of the Nation.

In order to compensate for the reduction in revenue which our proposal would entail, and to provide for substantial debt reduction, we urge the restoration for the year 1947 of the wartime corporation excess-profits tax, without carry-back. However, to assist small business, we suggest that the first $100,000 of profits should be exempt.

The CHAIRMAN. Have you broken down who would bear the cost of that restoration of excess-profits tax, what percentage to consumer? What percentage to worker? What percentage to the dividend man?

Mr. WOLF. No. We have been unable to do that. We believe, however, that in light of heavy corporate profits during 1946 and previous years, the large corporations are well able to pay the amount that is involved. In fact, as we develop this statement you will note that the corporations have been treated much more gently in recent years in contrast to the treatment of individuals than had been so in previous years.

Since 1944, individuals, through the income tax, have borne a disproportionate share of the Nation's tax burden. Whereas prior to that year corporation income and excess-profits taxes had customarily exceeded individual income tax collections, for the fiscal year ended June 30, 1944, the individual income tax accounted for 47 percent of the total Federal tax revenues—excluding social-security taxes. Corporations, however, paid income and profits taxes of only 39 percent. The contrast for the 1946 fiscal year was even greater, since the corporate taxes accounted for only 32.7 percent, while individuals paid income taxes amounting to 47.5 percent of the total.

Incidentally, in the President's budget estimate for fiscal 1948, you will note that tax receipts would require payment by individuals of 51 percent as contrasted to payment by corporations of 22 percent.

In addition, it should be noted that at the Treasury estimate of a 1947 level national income of 165.6 billion dollars, corporations will benefit from the revenue reduction contained in the Revenue Act of 1945 in the amount of $5,238,000,000, whereas, individual income tax reductions amounted to $3,800,000,000. Corporations in this country are well able to provide additional reve ue to the Treasury.

While the total compensation of employees in the United States shrank almost $5 billion from 114.5 billion dollars in 1945 to 109.8 billion dollars in 1946, corporate profits, after taxes, during the same period increased 3 billion to a total of $12 billion. Comparing the profits for 1946 with the 1940–45 average profit of 8.9 billion dollars—in itself 5 billion dollars more than the 1936–39 average—it is evident that the pattern of wartime profits has continued after the war.

The CHAIRMAN. What is the effect of wage raises on those profit statistics?

Mr. WOLF. It appears that the wage raises given in 1946 had very little effect in decreasing corporate profits but instead permitted the highest corporate profits that they have ever had. I should think the effect would be very little, particularly in the light of the fact that it is our contention that corporate profits, and individual business profits, will continue to rise if, and only if, purchasing power exists. Corporations can't make money—nobody can make money—unless there is a market for the products they produce.

The CHAIRMAN. I do not think anyone would dispute that, and I think that you have got to enable the corporations to continue to produce.

Mr. WOLF. We have seen no evidence that this we will stop.

The CHAIRMAN. No, and we do not want to.

Mr. WOLF. They continued to produce during the war and they continued to produce under an excess profits tax.

The CHAIRMAN. We do not want it to stop.

Mr. WOLF. Undoubtedly. We are in wholehearted accord. According to the National City Bank, 2,900 leading corporations earned 9.5 percent on their net worth in 1946. This was a rate of return 4.3 higher than for all corporations than in the boom year of 1929.

Of the $12 billion of profits, after taxes, which corporations earned in 1946, $5 billion was paid out in dividends and $7 billion retained in already swollen treasuries. A large portion of these funds went into inventories which not only encouraged price increases but will also serve to intensify any recession arising through the drying up of mass purchasing power.

The CHAIRMAN. Do you believe that a corporation should operate without inventory?

Mr. WOLF. Undoubtedly not. We believe, however, that the inventories are swollen and so do most of the economists in the country today.

The CHAIRMAN. What happens to that money in the Treasury? It does not lie there idle, does it?

Mr. WOLF. I am not fully cognizant of what happens to all of it.

The CHAIRMAN. Some of it goes for plant expansion, does it not?

Mr. WOLF. Undoubtedly.

The CHAIRMAN. Some of it goes for inventory, does it not?

Mr. WOLF. Undoubtedly.

The CHAIRMAN. And some of it goes for reserves?

Mr. WOLF. That is right. Incidentally, plant expansion, to a degree, and reserves for depreciation, as you know, are not taxable. The replacement of plant by the corporation is adequately taken care of by depreciation rates that exist, at the present time. For most of the large corporations, certainly.

Incidentally, I might point to one place where some of it has gone. Figures on the corporation accumulation of funds show that whereas in 1939 corporations had cash on hand and in banks, amounting to $10.9 billion, in the third quarter of 1946 they had cash on hand and in banks amounting to $22.3 billion. In 1939 they had in Government bonds $2.2 billion and in 1946, $16.2 billion, that is, for the third quarter of 1946. So that the total increase now runs pretty close to $35 billion since 1939. Increases in what in effect were the liquid assets of the corporations.

The CHAIRMAN. You have had an increase in the population, you have had an increase in the dollar value of business and a decrease in the value of the dollars. That operates exactly for the corporation as it operates on the individual, the decrease in the value of the dollar.

Mr. WOLF. Undoubtedly. The dollars in corporate treasuries are not worth as much as they were before.

The CHAIRMAN. Of course.

Mr. WOLF. It is not as important however to the corporation as it is to the income recipient in the low-income levels.

The CHAIRMAN. Does not the corporation buy goods?

Mr. WOLF. The corporation does not have to spend all its money.

The CHAIRMAN. Does not the corporation have to spend money for increased wages to accommodate the increase in living costs? In what respect is it not as important?

Mr. WOLF. Because the corporation doesn't in effect live on what might be called a spend-as-you-go basis. The low-income recipient must—he must spend every dollar of his wages to live. He has to, to exist. He cannot exist otherwise. The mere fact that the corporations have been able to increase their holdings of liquid capital in the amount that they have is, I think, illustrative of the fact that they aren't operating just as low income individuals do.

The CHAIRMAN. A corporation buys goods every day.

Mr. WOLF. Surely.

The CHAIRMAN. It pays wages every day. It pays interest every day, does it not?

Mr. WOLF. That is true.

The CHAIRMAN. Of course, and it pays it in the same kind of dollar that the worker receives.

Mr. WOLF. Notwithstanding all of the expenditures of corporations, it does remain a fact that the amount of accumulated liquid reserves of capital in corporations today is a tremendous amount.

The CHAIRMAN. Is that not a fortunate thing? I mean, they have got to replace their worn out machinery. They have got to expand.

They have got to provide tools for your workers. How could they do that if they did not have reserves?

Mr. WOLF. Again, I would like to make clear that I am not contesting the need for reserves in corporate treasuries or the need for reserves in any business treasury, particularly today.

The CHAIRMAN. If you are not contesting that then we have no point of difference between us.

Senator JOHNSON. The witness has stated that the corporations can stand a heavier tax.

The CHAIRMAN. Yes.

Senator JOHNSON. And I thought he was proving his point by pointing to these reserves.

Mr. WOLF. Corporation earnings for the first quarter of 1947, are at an annual rate in excess of 23 billion dollars before taxes and $15 billion after present taxes. If $5 billion are paid out in dividends this year, and there is as yet no indication that the dividend rate will be increased, an additional $10 billion will be retained by American corporations. In 1929 American corporations were able to retain only 2.6 billion dollars after payment of dividends.

It must be emphasized that these excessive corporate profits are war-developed profits, since they stem from war-induced scarcities which will continue through 1947. They have been reaped as a direct result of sacrifice and shortages endured by the American people during the war. Reenactment of the Wartime Excess Profits Tax for 1947, without carry-backs, will weaken the incentive toward the continuation of the inflationary price increases which are a major force in driving the country toward a critical economic collapse. Not only would the enactment of such a tax help to curb profiteering, but it would also increase the tax revenue of the Government so that greater individual income tax reductions, with their attendant increase in the release of purchasing power, can be effected. At the same time, the revenues derived from such a tax would make possible adequate provision for debt retirement.

The committee will note that we have proposed an exemption of the first $100,000 of taxable income. This is to benefit the small corporations which do not have the financial resources of big business. Their relative positions were considerably worsened by the heavy concentration of war contracts in the large corporations. They must not be eliminated from the economic scene. Since 1940 more than 1,800 formerly independent competitive firms in manufacturing and mining alone—firms with 4.1 billion dollars of assets—have disappeared as a result of mergers and acquisitions. Continuation of this trend would be extremely damaging.

We must not repeat the grave errors which led to the depression of the twenties and thirties. The American people demand that the foundations of our national economy be strengthened. The time has come for bold action on all fronts. An intelligent fiscal policy is a powerful weapon in the battle to overcome the ups and downs of the business cycle.

The adoption of the National Lawyers Guild tax program would recapture some of the excessive postwar profits of American corporations and can help put a brake on prices, curtail the inflationary pressure of large profits and big dividends, increase the purchasing power of the

American people; safeguard our falling standard of living and act as a mitigating factor in staving off a calamitous depression.

We believe the proposals we have presented today offer to the American people a fiscal program which will contribute to a dynamic expanding economy, maximum employment for workers, and fair and steady profits for investors, coupled with increased security of investment.

(The table is as follows:)

Comparison of amounts of individual income tax under the present law, under H. R. 1 and under the National Lawyers Guild proposal, for specified amounts of net income and comparison of increases of spendable income under H. R. 1 and the National Lawyers Guild proposal, for specified amounts of net income

Net income before personal exemption	Married person—2 dependents						
	Amount of tax			Amount of tax reduction		Percentage of increase in spendable income	
	Present law	H. R. 1 [1]	National Lawyers Guild proposal	H. R. 1 [1]	National Lawyers Guild proposal	H. R. 1 [1]	National Lawyers Guild proposal
$2,500	$95	$67		$28	$95	1.1	3.9
$3,000	190	133		57	190	2.0	6.7
$4,000	380	304	$95	76	285	2.1	7.8
$5,000	589	471	285	118	304	2.7	6.9
$7,000	1,045	836	693	209	352	3.5	5.9
$10,000	1,862	1,490	1,434	372	428	4.6	5.3
$25,000	8,521	6,817	7,695	1,704	826	10.3	5.0
$100,000	62,301	49,841	61,061	12,460	1,240	33.1	3.2
$300,000	233,700	186,960	232,403	46,746	1,297	70.5	1.9

[1] Assumes taxpayer is under 65 years of age.

The CHAIRMAN. Any questions?

(No response.)

The CHAIRMAN. I believe there are quite a few facts that might be considered as counterfacts to your thesis, that have been developed in connection with somewhat similar presentations, so it would unduly prolong this hearing to rehash the whole field.

Mr. WOLF. I would be very much interested in seeing them As a matter of fact, I requested copies of the daily print, but Iunderstand that since the Reorganization Act they are not available any more.

The CHAIRMAN. They will be available but are very much delayed. We are having great trouble in getting the printed records.

Mr. WOLF. These printed records, incidentally, would give the only real opportunity for adequate rebuttal.

The CHAIRMAN. They give the Senate committee itself the only opportunity for adequate study and we hve great difficulty in getting them on time.

Thank you very much for coming.

We will recess until 10:30 tomorrow morning.

(Whereupon, at 1:10 p. m., an adjournment was taken until Wednesday, Apr. 30, 1947, at 10:30 a. m.)

INDIVIDUAL INCOME TAX REDUCTION

WEDNESDAY, APRIL 30, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin, chairman, presiding.

Present: Senators Millikin (chairman), Taft, Bushfield, Hawkes, Martin, George, Byrd, Johnson, and Lucas.

The CHAIRMAN. The hearing will come to order please.

Mr. Lionel Edie, please?

STATEMENT OF LIONEL D. EDIE, PRESIDENT OF THE LIONEL D EDIE CO., INC., NEW YORK, N. Y.

The CHAIRMAN. Good morning, Mr. Edie. We are very glad to have you with us.

Will you give your full name to the reporter please?

Mr. EDIE. Lionel D. Edie, New York.

The CHAIRMAN. What is your business, Mr. Edie?

Mr. EDIE. I am president of the Lionel D. Edie Co., Inc., main work is economic studies and consultation and investment advisory work.

The CHAIRMAN. How long have you been in that business?

Mr. EDIE. About 15 years.

The CHAIRMAN. Would you mind giving us a pretty good briefing on yourself so that we can see your competence, a fact which is known to your friends and those who are acquainted with you.

Mr. EDIE. Before I headed this work of private consultation I was in the university field. I was a professor of finance at the university of Chicago and a professor of economics at Indiana University and lectured at other universities.

Up until about 1930 I was a lecturer and teacher in various universities.

The CHAIRMAN. And since that time you have been——

Mr. EDIE. Since that time I have been in private practice.

The CHAIRMAN. In private practice?

Mr. EDIE. Yes, sir.

The CHAIRMAN. Would it be appropriate for you to give us something of the nature of your practice and the nature of your clientele?

Mr. EDIE. Our clientele is divided between investment advisory work for individuals and funds, institutions, and on the other hand a general consultant relationship with a variety of industrial corporations, retail companies, banks, insurance companies, and in that capacity we are called upon to give our judgment as to the general business outlook and the trends of various factors that affect business and finance and investment.

The CHAIRMAN. Without naming your clients unless you wish to do so, do they include very large and important industrial groups, for example?

Mr. EDIE. Yes; they include several large companies and quite a wide variety of types of companies.

The CHAIRMAN. And does that range through the—in addition to industrial clients do you have clients who are in the merchandising business?

Mr. EDIE. Yes, sir.

The CHAIRMAN. As I understand it, you do not have a prepared statement, and that you do not wish to talk directly to H. R. 1, which is the immediate bill before us, but wish to limit yourself to business conditions and what you see in the future and things of that kind?

Mr. EDIE. That is correct.

The CHAIRMAN. The Secretary of the Treasury estimated income payments in the calendar year 1947 at $166 billion and income payments for the fiscal year 1948 at $168 billion.

Do you think, Mr. Edie, that these estimates are realistic?

Mr. Edie, if you wish to make a general statement first, go right ahead and make it.

Mr. EDIE. Well, perhaps that would be best, and give a little background for this question. Do you mind if I stand up to talk? I am more accustomed to that and feel more at home.

The CHAIRMAN. You may.

Mr. EDIE. My remarks are directed to the general business outlook. I shall not attempt to translate that into estimates of what tax revenues would be at such a level of business, but rather shall try to confine myself to the probable developments in business.

For this purpose it is necessary to make use of certain index numbers and I think that everyone is fairly familiar with the Federal Reserve Board index of industrial production. This is a physical volume index and is not affected by changes in prices.

In the calendar year 1946, this index was 170. Since that time the index has risen substantially and at the present moment is probably in the neighborhood of 188 to 190.

In other words, 18 to 20 points higher than the calendar year average 1946.

Now, the question as to what happens next to that production index involves a great many factors. As we know, there are many questions today as to whether there is going to be a business recession. There is a wide difference of opinion on that.

I would like to observe at the start that we don't assume that the index will remain continuously at this very high level of 188 to 190, but allowing for various adjustments that are likely to take place in the economy we think that the most reasonable expectation for 1947 calendar year is 180—10 points lower, roughly, than the peak of the last month or two.

The CHAIRMAN. Will you be good enough to tell us again, Mr. Edie, what is represented by 180.

Mr. EDIE. That is a physical volume index of industrial production, and is a broad diversified index and generally accepted and used in business circles as the most convenient and the most reliable way of measuring physical volume of business.

The CHAIRMAN. What is the source of the statistic?

Mr. EDIE. It was prepared by the Federal Reserve Board and where possible the index for each industry is in tons or yards or some other physical unit, but in certain industries there is not available such measuring units, and there they use man-hours as a physical measuring device.

The CHAIRMAN. What is the time basis for 100?

Mr. EDIE. 100 was the average for the years 1935 to 1939.

Senator JOHNSON. Does it bear any relationship to the national income?

Mr. EDIE. Yes.

Senator JOHNSON. It bears a relationship but what I mean is: What is the relationship?

Mr. EDIE. This is a physical volume index, and national income is a dollar index. The national income payments are therefore affected by fluctuations in prices and in wage rates, whereas this index is totally unaffected by these fluctuations.

Senator JOHNSON. It is measured in dollars. When you say 180 billion you mean dollars?

Mr. EDIE. I mean here an index number. This is not dollars. This is a physical volume index.

Senator JOHNSON. Percentage?

Mr. EDIE. If I talk of national income payments then I mean dollars but here I am getting away from dollars and away from prices entirely to get a physical volume index. Your income payments would represent a combination of physical volume and price.

Senator BYRD. Your figure of 180 and the income payments are $178 billion, are they not? They are nearly the same, are they not?

Mr. EDIE. That is purely coincidental.

Senator BYRD. There is some relation?

Mr. EDIE. That is right, but that particular similarity is purely a coincidence.

Senator BYRD. Let me ask you one question which I am very much interested in. Of this 180, could you translate into dollars there the tax revenue that would be derived from it, assuming that we continue the present taxes as they are?

Mr. EDIE. No. I have not made an analysis of that step. My only way of being helpful on that I think is to say that if you know what your revenues were for the calendar year 1946 when the index was 170, why, if you are going to be 180 in calendar 1947 presumably your revenue should be a little higher, but that is a very loose way of figuring revenues and I think that later on if I give you some estimates on what this means in terms of national income payments to individuals, that will give a basis for an estimate of tax revenues derived from personal income taxes, then if I give you an estimate of all corporate earnings, that should give a basis for an estimate of tax revenues from corporate taxes.

Now, let me extend this to calendar year 1948. The most probable figure for that calendar year is 175, which is about halfway between 1946 and 1947 calendar years.

Senator BUSHFIELD. You are talking now about physical production, are you not?

Mr. EDIE. Strictly physical.

Senator BYRD. That includes the products of industry and agriculture?

Mr. EDIE. No, sir. This includes industrial production. It includes manufacturing and mining but not agricultural, except insofar as it is reflected in food manufacture, textile manufacture, shoe manufacture, and so on, but does not include agricultural products at the farm.

Senator BYRD. If we shipped a lot of wheat over to Europe it would not include that if it had not been processed?

Mr. EDIE. That is right.

Now, knowing that a tax bill relates to a fiscal year——

Senator LUCAS. May I inquire what you base the 1948 estimate upon?

Mr. EDIE. What I base it on?

Senator LUCAS. Yes.

Mr. EDIE. Well, it is based on our analysis of the individual industries that make up the index. Say there are roughly, 30 separate industries—steel, automobiles, and so on.

Our method of trying to get the over-all index is to analyze each one of those industries and to make the best estimate we can of how much steel production there will be, how many automobiles will be turned out, and then combine those individual studies into the total index.

Senator LUCAS. Your 1948 estimate is more speculative of course than your 1947?

Mr. EDIE. Necessarily so.

Senator LUCAS. I presume that such an estimate is made upon the theory that there will be little or no recession during 1948.

Mr. EDIE. Little or no is perhaps belittling it too much. I am assuming in this case what I would call an orderly adjustment in industry and that would mean, in terms of the index number, that from a monthly peak of, roughly, 188 it could drop down to 170 or 165—in that range—and that would correspond with the calendar year figures that I am using.

Now, if we were talking about a drastic recession we would have somewhat lower figures and I will, in just a moment, if I may, give you figures based on a drastic recession, which in my best judgment does not necessarily have to happen and probably would not happen, but may happen.

Senator LUCAS. You base this more or less on what you term an orderly adjustment?

Mr. EDIE. That is right.

Senator LUCAS. Between now and the end of 1948?

Mr. EDIE. That is right.

Senator LUCAS. But if you take the figure of 175 that you gave, you do not look for any major depression. There might be some slight depression or orderly adjustment I take it.

Mr. EDIE. That is correct, but that would allow for a decline temporarily of 20 to 25 points in this index but would not allow for the level of business to stay there. It assumes that it will snap back by the middle or late 1948.

My figure for fiscal 1948 would be 171, or about the same as calendar 1946.

Now, those are what I regard as the most probable figures, what I think of as the calculated risk in making plans for the future.

Senator BYRD. Then to translate that into the present prosperity of today or industrial level of today, it would be about 10 percent less in 1948?

Mr. EDIE. No. Well, it would be about 10 percent less than the peak, that is right.

Now, if you assume a drastic recession— and in this kind of work I think experience teaches us that we must allow for the unexpected, or we must allow for things that may possibly happen although we do not regard them today as probable. So I have tried to translate this into a set of figures based on a drastic recession.

Now, let me identify drastic recession in terms that will be, I think, readily understandable. Let us suppose that there were 6,000,000 unemployed by the end of this year or early next year, and let us assume that there were a decline of 15 to 20 percent in agricultural prices, on the average. What would that mean in terms of the physical level of business—in other words, in terms of these indexes.

Well, it would mean that the low quarter of this period ahead would probably occur either the fourth quarter of this year or the first quarter of next.

Senator GEORGE. You are speaking of the calendar year?

Mr. EDIE. For the moment; yes.

Senator GEORGE. That is what I mean.

Mr. EDIE. Although I have this translated into the fiscal year as well, if you wish. But at this point I mean either the fourth quarter of calendar 1947 or first quarter of calendar 1948.

The CHAIRMAN. What is your estimate of unemployment at the present time?

Mr. EDIE. About 2¼ million.

Senator MARTIN. May I ask a question?

Is 2¼ million about normal for our country?

Mr. EDIE. Well, it is a rather small normal. That represents what you might call shortage of labor, or pretty full employment. You can have three to four million unemployed and still regard that as relatively normal.

Senator MARTIN. There would not be any danger to our economy if we had as high as 4,000,000 unemployed.

Mr. EDIE. No. That would not be a dangerous change, and it would comply with orderly adjustment. When you get up to 6,000,000 or better you are beginning to get unemployment.

Senator MARTIN. Thank you.

Mr. EDIE. This drastic recession, so defined, would mean about 156, in this index, for the low quarter. Taking that as a criterion, I would say that the calendar year 1947 would be 176 instead of 180.

In other words, it would make four points difference in this calendar year. The reason it does not make any greater difference than that is because you already have 4 months of this calendar year done, and those 4 months have been at a very high level, and you can have a low fourth quarter and pull your average for the full-year up by the high first 4 months, so the average for the year would probably be not below 176, which is 6 points above last year, even granting a drastic recession by the fourth quarter of the year.

Now, in calendar 1948——

Senator BUSHFIELD. May I ask what you regard as a drastic recession, Mr. Edie?

Mr. EDIE. That is a drastic recession—dropping down to 156 in the index.

Senator BUSHFIELD. I mean in terms of employment.

Mr. EDIE. This would correspond with 6,000,000 unemployed.

Senator BUSHFIELD. I see.

The CHAIRMAN. Your figure was 156?

Mr. EDIE. 156 for the low quarter.

Now, the calendar year 1948 average is bound to depend on how long you stay at that low level, whether you stay there very briefly and pull back up to a better level of business, and my best judgment is that that would happen—business would snap back rather quickly—and hence by the end of 1948 we would be back to a fairly high level, and that would give for the calendar year 1948 an average of about 169. In other words, allowing for a rather severe recession late this year, this calendar year, and early next calendar year, you should get 169 calendar 1948, which would be one point lower than calendar 1946.

Senator BUSHFIELD. Do you feel that there will be a severe recession?

Mr. EDIE. In my best judgment, no; but I would not guarantee that. We are in a field here where you cannot be sure of these things. A point that strikes me as important in these calculations is that for the 3 years 1946, 1947, and 1948, we have relatively a very stable index of physical volume of production.

My most probable figures are 170, 180, 175, a remarkably constant level, yet within that you have the possibility of a rather striking fluctuation of 20 to 25 points in your index, and if you take the more drastic recession assumption you can have your index dropped from 180 to 156 as a monthly peak and bottom and still come out with calendar year averages of 170, 176, and 169, which still leaves you a calendar-year pattern that is remarkably constant.

I would like to go from that to the national income payments to individuals. The payments for last year—calendar year—were reported as $165,100,000,000—say, roughly, $165 billion. They have risen considerably in the last few months and probably at the present moment are about $177 billion as an annual rate. Probably March was at an annual rate of $177 billion. I do not assume that they will remain there, as that is a very high rate. But I would like to give an estimate now of what level I think will prevail in these income payments to individuals, and these figures correspond with what I have just stated with reference to the production index. In calendar 1947 the most probable figure is $175 billion. Calendar 1948, $172 billion; and fiscal 1948, $170 billion.

The CHAIRMAN. Just a moment. Calendar 1948.

Mr. EDIE. 172.

The CHAIRMAN. Fiscal 1948.

Mr. EDIE. 170. That is the pattern of orderly adjustment.

Senator LUCAS. Those last figures are based upon the previous figures that you gave under the production index.

Mr EDIE. In part on those, plus new considerations now, because we are dealing with dollar figures instead of physical volume, but the two sets of figures are coordinated.

Senator BYRD. As I recall it, the Secretary of the Treasury estimated the tax revenue, fiscal 1948, at $168 billion, so you are within 2 billion of his estimate.

Mr. EDIE. That is correct. However, I think the Secretary rested his estimate on the assumption of no recession whatever except as to agricultural prices.

Senator BYRD. Still you reach the same conclusions though. Yours is on a dollar basis, as I understand it.

Mr. EDIE. Yes, sir.

Senator BYRD. 170 billion.

Mr. EDIE. That is correct.

Senator BYRD. And his was 168 billion?

Mr. EDIE. That is right.

Senator BYRD. Approximately the same.

Mr. EDIE. That is right; but answering the question that the chairman——

Senator BYRD. That point is very interesting, because other witnesses have figured that we ought to get about $4,000,000,000 more in tax revenue by reason of the fact that the Secretary's estimate was too low. They thought that the actual national income would be $177 or $180, so if you are correct, and the Secretary is correct, the surplus in fiscal 1948 will be what the Secretary estimated unless there is a reduction in expenditures of, I think it was, $1,200,000,000?

Mr. EDIE. I am not prepared to follow through on the translation into the revenues and the surplus.

Senator BYRD. I just wanted to make that point.

Mr. EDIE. Let me consider this in relation to my second assumption—a drastic recession—and see where that leads us.

On that basis I think the calendar year 1947 would be 173 billion. The calendar 1948 would be 168 billion, and fiscal 1948 would be 165 billion.

The CHAIRMAN. What is your 1948 figure, calendar year?

Mr. EDIE. 168. That would allow for a drastic recession, and that would be pretty drastic.

Senator BYRD. That is only 3 percent in dollars, though. Do you think that is drastic?

Mr. EDIE. It is in dealing with national income payments, because they have a much higher degree of stability. They do not fluctuate over nearly as wide a range as your physical production index and most other elements of the economy. They are a remarkably stable type of statistical series, so the fluctuations would be within a much narrower range.

In saying that for the fiscal year this would translate into 170 billion, I realize that that is 7 billion below the annual rate prevailing in March, and therefore I want to make it clear that I am not trying to look at the business prospects in any Pollyanna spirit.

I am trying to be realistic and allow for a very real amount of adjustment in inventories and price excesses; and anything that has gotten out of line and out of balance—I am making a very considerable allowance for that kind of adjustment; and having done so, I think that your income figure would not be below 170 billion.

It might be a little above that if things coast along more smoothly and more nicely—it may be above that; but I would not want to assume that we can sail comfortably through the next 12 to 18 months at 177 billion without any interruption, any adjustment, or any change.

I think that would be taking a relatively optimistic view, and I would not want to base my assumptions on that kind of reasoning.

Senator JOHNSON. Mr. Chairman?

The CHAIRMAN. Senator Johnson.

Senator JOHNSON. I am trying to interpret your index in terms of employment. You say in the period 1936 to 1939 you took as 100?

Mr. EDIE. That is right.

Senator JOHNSON. Now, you have gone up to 180.

Mr. EDIE. 188 or 190.

Senator JOHNSON. All right. Now, how did the employment—as I understand it, your index is a measure of production of industrial goods?

Mr. EDIE. That is right.

Senator JOHNSON. All right. Now, what I want to find out is how much employment increased in that time, or are we producing as much now with the same amount of labor as we produced when the index was 100?

Mr. EDIE. Well, I do not carry in my mind the figures——

Senator JOHNSON. You do not have the employment figures?

Mr. EDIE. I do not carry those in my memory. There has been an increase in employment.

Senator JOHNSON. How much of an increase? We have almost doubled our production, but we have not doubled our employment since 1935–39, have we?

Mr. EDIE. No. The percentage increase in employment would not be as great as the percentage increase in production.

Senator JOHNSON. Does that mean that by means of machinery that our production increases without increasing the quantity of labor?

Mr. EDIE. Well, normally it would be increased by the factor of efficiency of labor—increased output per man-hour—would not be any sensational change in any one year but gradually over a period of years you would see an increase in efficiency of the workers.

Senator JOHNSON. It would seem to me that there is a tremendously important factor. We know that hours are shorter; and if our production is going to double on virtually the same quantity of labor, why, it is a tremendoulsy important factor.

Mr. EDIE. Well, in that base period you had unemployment of probably nine to ten or eleven million, and that you have eliminated in getting up to this high level of production.

Moreover, you must bear in mind that this is primarily a production index of manufacturing and mining which accounts for probably not over a third of your total gainfully employed in the country. You have got services, utilities, railroads, and a great many other sources of employment, so it would be a little misleading to relate your total employment or unemployment to this one segment of the economy.

You would find that there has been a very substantial percentage increase in employment in this segment, but I do not think that it would quite equal the percentage increase in output.

Senator HAWKES. Mr. Chairman, may I ask, right in there: When we talk about production are you talking about production in goods or production in dollars?

Mr. EDIE. Goods.

Senator HAWKES. How much is your production in goods up now as related to the prewar period?

Mr. EDIE. Well, the average for 1935–39 was 100. The most recent index was 188.

Senator HAWKES. And that means that is not in dollar value?

Mr. EDIE. No, sir.

Senator HAWKES. That is in actual goods?

Mr. EDIE. That is in actual goods—physical.

Senator HAWKES. So the question of trade in dollars does not come in there at all?

Mr. EDIE. That is correct.

Senator HAWKES. I suppose that is right—you must know the figures—my experience in any industries I am in does not show that production is up anything like that at all. It is up in dollars, but it is not up in goods. I said the other day, and I think it should be kept in mind, that I know three companies whose inventory in dollars is almost double what it used to be, but their actual inventory in goods is less than it used to be. That is why I asked you that question.

Have we got official figures on that Dr. Edie, showing that the actual production in goods over-all, the things that people use, are up as far as your figures indicate?

Mr. EDIE. This is the official figure.

Senator HAWKES. Where did those figures come from?

Mr. EDIE. Federal Reserve Board.

Senator HAWKES. Well, it is rather amazing to me.

Mr. EDIE. Well, among the experts, so-called, there is some criticism of the method pursued, of the accuracy of the index number.

For my part, I do not think it is seriously misleading at the present time.

The CHAIRMAN. Mr. Edie, you have already touched on it, but would you mind saying again what are the component parts of the Federal Reserve estimate?

Mr. EDIE. Manufacturing and mining—physical output.

The CHAIRMAN. How many industries are——

Mr. EDIE. In the neighborhood of 30 separate industries.

The CHAIRMAN. And do they form a fair cross section of the industry of the country?

Mr. EDIE. Yes; they do.

The CHAIRMAN. Do you have any complaint of the way they assemble their estimate?

Mr. EDIE. Yes; I would have some complaint of it, particularly in that in certain industries they use man-hours to measure physical volume. Then they try to adjust that for a change in efficiency and arrive at their own estimate of the goods.

Now, they have many chances for error in doing that kind of estimation. Part of the index is based on those man-hours, where they cannot get a continuous common denominator in tons or yards or whatever it may be.

Now, that always opens the index to the accusation of being misleading or wrong. However, if the workmen who are doing the job are competent and sincere their errors should not be very great, and for our purposes there I do not think that the possible bias or error is important.

The CHAIRMAN. Would you say that the error, to the extent that there is error, is constant and that therefore, in making comparisons of one year against another, the error may be disregarded?

Mr. EDIE. Yes, I would say it would be a relatively constant error for the 3 years we are talking about here—'46, '47, and '48. If you carry back through the war years I would not know whether that is true or not because that is very much upset. Moreover, I would not say that this figure is scientifically exact when you are trying to compare today's level with '35–'39.

I think that is where there might be some error in it. It might be excessive as a figure in long range comparisons but if you are comparing '46, '47, and '48 I do not think the error is important.

The CHAIRMAN. Did they make their '35–'39 estimates with the same components that they do now?

Mr. EDIE. Substantially the same. They have made two or three revisions of method since the index was originally started and they have tried to add certain new industries that have become important in the economy since that time but those additions again would not affect matters in '46, '47, and '48.

Senator HAWKES. Mr. Chairman, might I ask this question; this is very interesting. About a few months ago the Ford Motor Co. made a statement which I read in the newspaper that labor, they estimated that labor was 35 percent less efficient in the last year than it has been prewar.

Now, do these figures by the Board take into account that thing and do you believe that is so?

Mr. EDIE. What was the date of that statement?

Senator HAWKES. About 6 months ago.

Mr. EDIE. I think it probably was a correct statement as of that date but I doubt that it would be correct as of today. I note that some officers of General Motors made somewhat similar statements as of about that date, but since then they have made statements indicating that there has been an improvement in their output per man-hour.

I do not know what their factor would be today as a figure, but they have so stated publicly.

Senator HAWKES. The point I had in mind, Dr. Edie, in asking that question is: Did the Federal Reserve Board in estimating these man-hours and production efficiency and everything, take that into account, or did they figure an efficiency—because these figures to be available today must have been made during that period.

Mr. EDIE. Well, they are supposed to but I don't know precisely what they have done over there in that shop but they are supposed to take that sort of thing into account.

I think that they may have had some difficulty as a matter of fact in doing it because I think that was one of the industries they had to treat on a man-hour basis during the war. When they went from automobiles to making war materials there was no common denominator except man-hours. Now, when they go back to making automobiles you have got to splice things together and I do not know what the details of their method have been on that particular point.

Senator LUCAS. Mr. Chairman, may I ask a question at this time?

The CHAIRMAN. Senator Lucas.

Senator LUCAS. While there may be some slight error in using man-hours as one of the factors in making up this yardstick, you believe them sufficiently accurate or you would not be appearing here as a witness before this committee?

Mr. EDIE. That is correct. I think they are sufficiently accurate for the purposes that we are concerned with here today. I do not think they are sufficiently accurate to compare with what was going on 15 or 20 years ago. I would then have some questions about the accuracy. If I may go on to the question of the price level: Most analysts rest a great deal of their thinking these days on what is going to happen to commodity prices and the more pessimistic people about the business outlook derive their conclusions very largely from the expectation of a violent decline in commodity prices.

By "violent" I mean this: That the all-commodity wholesale price index has recently been up to a peak of 149. I might just orient that index in this way—that 1926 equals 100. August 1939, when Hitler went in to Poland, equals 75. So that at 149 you practically double August 1939—all wholesale prices.

Now, the extreme pessimists about the business outlook are indicating a target for these wholesale prices that is very much lower. Down around 110 to 112 in the index. Obviously the drop from 149 to 110 or 112 is pretty serious.

The CHAIRMAN. That would take us back to when—to what comparable period?

Mr. EDIE. To about February and March of 1946. I think February was 107. February 1946 was 107. So we have come up fast and furious since then to 149.

Senator LUCAS. To what do you attribute that?

Mr. EDIE. I attribute that mainly to the money supply that was created during the war. We increased the demand deposits of the banks and the currency in circulation by a little over 200 percent during the war, and when the OPA was lifted, the prices were free to seek their own level, they came up to this 149 point which I would regard as high enough to put them in equilibrium with the new money supply. I think it was a matter of adjusting to the money supply created during the war.

As a matter of fact we created a little more money supply during last year—about another 7 billion, so I would say it is a money supply question primarily.

Senator LUCAS. You know there were those who said that the moment we took off OPA price ceilings there would be a slight rise in prices, but prices would immediately drop back to where they were under OPA.

Mr. EDIE. I realize there were those who said that sir, but I do not think they were taking into account, into the reckoning, the money-supply factor. They were looking at it on a supply-and-demand basis, leaving the money supply largely out of the accounting and I think that was the error.

The CHAIRMAN. I think, Mr. Edie, there were also those who said that the price lines of OPA being arbitrary simply served to mask the condition that has since revealed itself?

Mr. EDIE. Yes, I recall such comments at the time.

Senator JOHNSON. And I recall at the time that it was said by the opponents of OPA that when you removed the OPA restrictions that the prices would go to the black-market level which was the supply-demand level, and that of course was a sensible observation at the time and it has proved to be since then. Prices did not go above the black-market level.

Mr. EDIE. I think that is correct.

Senator JOHNSON. They have not gone above them.

Mr. EDIE. I think that is correct, but there seems to be a concept now, widely accepted, although I do not, myself, think it is right, that prices now have got to return to a "normal" level. And what do such observers mean by "normal"? Why, "normal" is where prices were before OPA went off, and if prices have got to make that decline they have got to go from, say, 149 down to 112 or something like that, which is a very severe decline, and I do not think it is going to happen.

The CHAIRMAN. That would assume, would it not, that the OPA price levels were realistic?

Mr. EDIE. That is right. That would assume they were realistic and in tune with this new money supply, which they were not.

The CHAIRMAN. That raises the whole argument as to whether they were realistic.

Mr. EDIE. That is right. My own point in bring this up is that if you are going to adopt a highly pessimistic view of business I think you have got to justify it and support it and argue for it in terms of a very sharp decline in commodity prices, and if you do not start from a very sharp decline in commodity prices you cannot get this very violent business recession that people are talking about.

That was my point in developing this.

Well, being critical of the other fellow's ideas of what is going to happen to prices, I suppose that it is appropriate for me to state my own ideas about it. I think that the new normal level of prices—I am talking wholesale prices, not the cost of living—is considerably above the level at the time OPA went off. I think the new normal is between 130 and 140 for this index but not 112.

The CHAIRMAN. Is that for fiscal or calendar '48?

Mr. EDIE. That is regardless, for '47, '48, '49. It is a plateau over a period of years.

The CHAIRMAN. What was your estimate?

Mr. EDIE. Between 130 and 140, and I think that because the money supply is fixed up at this high level. I do not see anything that is going to bring that money supply down enough within any one 12 months' period, calendar or fiscal, to permit prices to drop as low as so many people are talking. I do not think it is going to happen. I think you are going to have some adjustment of prices.

Senator JOHNSON. If we reduce the national debt it will reduce the money supply to that extent.

Mr. EDIE. That is correct, but it will not be a one-to-one relationship. You will reduce the money supply only insofar as the bonds paid off are owned by the commercial banks. If you assume that they own a third, or 40 percent of the total debt, then every time you pay off a billion of debt you are reducing the money supply by a third to four-tenths of that billion. You are not reducing it by the full billion.

Insofar as the bonds are owned by life insurance companies, savings banks, individuals, you are not reducing the money supply when you pay off the debt. That may be technically a little confusing but I am sure that that is a correct statement. You are not reducing demand deposits or currency in circulation, except insofar as you take the bonds out of the ownership of the commercial banking system.

The CHAIRMAN. As far as the individual is concerned, when you take the bonds away from him and you give him, let us say, $100, you give him $100, he has that money to spend.

Mr. EDIE. You have not changed his total position.

The CHAIRMAN. But when you take it away from the bank you are taking away the expansive credit power which the bank has with that bond, is that not correct?

Mr. EDIE. That is correct. My price target for 1947 calendar year is 143 and the decline from 149 to 143 will be due largely to a change in agricultural prices rather than to a decline in industrial prices. I do not want to walk into a buzz saw of argument about the program of President Truman of voluntary price reduction and so on, but I am just stating my assumptions about the price index. The main decline will be in agricultural prices. Why?

Senator BYRD. Are you speaking of the next year 1947?

Mr. EDIE. I am speaking of the next 9 to 12 months, because I think that during that period you will get this decline well under way.

The CHAIRMAN. Calendar '47?

Mr. EDIE. Yes. In fact, it has already started.

Senator BUSHFIELD. We have an unprecedented demand for farm products in foreign countries. Will that not have some effect upon it?

Mr. EDIE. Yes, sir. That will prevent the decline from going any further.

Senator BUSHFIELD. Surely.

Mr. EDIE. But it will not hold prices at this remarkable peak. I think it is worth while to take a minute of explanation on this price question. There are two main groups of prices—agricultural prices and nonagricultural or industrial prices.

Your agricultural prices today, or recently, attained a peak of 183, whereas your industrial prices are around 133. There is a 50 point difference in the increase that has occurred in agricultural and industrial prices.

Senator HAWKES. As related to what base period, base time—163 or 133 whatever it is.

Mr. EDIE. 1926 equals 100 in this.

Senator HAWKES. 1926.

Mr. EDIE. That is right.

Senator HAWKES. I just wanted to be sure of that.

Senator MARTIN. May I ask a question there?

Why the difference in the increase between the industrial and the agricultural?

Mr. EDIE. Well, the agricultural prices increased more all during the war because the controls were not exercised nearly as rigidly in that field as they were in the industrial. Then after the war the agricultural prices took another leap forward, primarily because of the export demand. They have really forged way ahead of the rest of the price structure, and this is one of the orderly adjustments that

I think will take place. I think the decline in agricultural prices bringing that group back into balance with the general structure, would not need to be viewed with great alarm, but rather it would mean that the cost of living was being adjusted and that balance was being reestablished, and it would be a healthy adjustment.

Senator BYRD. What percent do you estimate agricultural prices will go down?

Mr. EDIE. I think the agricultural group will go down between 15 and 25 percent within the next 12 months.

Senator BYRD. That is assuming that we have a good crop.

Mr. EDIE. That is true. If we had a drought all over the place that would not prevail but assuming normal crops, I think that would happen.

Senator BYRD. And assuming we continue to ship food to Europe too?

Mr. EDIE. Yes. That is right.

Senator MARTIN. How soon will this drop in agricultural products affect processed foods because that will have probably more effect on the cost of living than the cost of agricultural products, themselves.

Mr. EDIE. I think the time lag would be relatively brief—2 or 3 months I think would see it translated into a decline in retail. Sometimes it is very quick. In the last week soap prices were cut 10 percent almost immediately when tallow prices fell 7 cents a pound, and in that case it was almost instantaneous, but it is not always that quick. For calendar 1947, 143; calendar 1948, 136; and fiscal 1948, 136.

In other words, I do not think your price level can possibly go back down to this 110–112 range, but if I did not think the prices were going back to that range then I would be forced to talk not about just the possibility of a drastic recession. I would be forced to talk about the possibility of a major depression, and I do not think it is in the cards. I do not think we have to treat it as a serious possibility for any purpose here today, but the adjustment I am speaking about here is within the framework of an orderly correction of things that are out of line and out of balance.

Senator LUCAS. I do not understand you when you make the statement that if prices went to 112 we could expect a major depression in the next 3 years. If I understand you correctly, that was the index last June.

Mr. EDIE. In the first place it would knock these national income payments down; I do not know just how much, but way, way below any figures we have been talking about.

Secondly, the inventory losses that would be taken by small business and big business and so on would just be beyond calculation. You would have a repetition of 1921 without any question.

If I may go on to my fourth point—and this is my last series to consider—corporate earnings. I hope you will bear with me on this because frankly this is the most difficult series to analyze for purposes——

Senator LUCAS. May I ask a question before you start in on this new subject?

Is it your opinion, Doctor, that these prices must remain around 130 and 135 constantly in the future if we are to have the kind of a national income that we expect, or maintain it in a position relative to that we are receiving today?

Mr. Edie. Yes, sir; during the 1947–48 period here under our attention.

Senator Lucas. There is no outlook in your opinion for any reduced prices in the future, if we are to maintain the level of prices and standard of living we have at the present time and if we are to balance the budget.

Mr. Edie. You would maintain your standard of living in physical terms. You could have people eat as much food and wear as much clothes with lower dollar income if prices were correspondingly lower but in making the change-over, the transition from one scale of prices, one scale of income, to another scale, you go through quite an upset in your economy, more than what is contemplated in just a drastic recession.

Senator Lucas. In other words, if I follow you correctly, should the prices come down to, say, 110, where they were in June 1946, it would mean that wages would have to come down and also the prices of what you receive for the industrial output would also have to come down?

Mr. Edie. I think so. I think you would have to liquidate the wage structure. I do not regard that as a realistic proposition.

Senator Lucas. That would be a major operation.

Mr. Edie. I think so.

The Chairman. Mr. Edie, barring fear psychology, and perhaps within some limits, do not decreases in prices have a tendency to increase volume?

Mr. Edie. Yes, sir; they do, once you have a farily well-established balance in your price structure. I think that gradually, year by year, we get a lower price for a refrigerator, for an automobile, and that has been the history of the country.

The Chairman. In other words, with a given volume of dollar spending power, you can increase your standard of living if you decrease your costs.

Mr. Edie. Correct.

Senator Hawkes. Mr. Chairman, I think, if I get what Dr. Edie means, that if there is some stability in the price structure that people do not buy—my experience all through life has been that they do not buy if prices go down, down, down. They wait. Is that what you had in mind when you said "if there is some stability of price structure"?

Mr. Edie. If they expect next month or within a few months, that the price for an article is going to be greatly lower they will hold off and wait, but that is not the kind of price cut that I think was meant here.

Senator George. What I gather from what you say is that you do not think this price level is going to go down below the point indicated, because there is no likelihood of a diminishing money supply, is that right?

Mr. Edie. That is right.

Senator George. And that presupposes a rather wide and equitable distribution of the purchasing power does it not?

Mr. Edie. Yes, sir.

Senator George. And you do not think there is a likelihood of a price drop below say 143 for the next 10 or 12 months?

Mr. Edie. One hundred and forty-three is my average for calendar 1947.

Senator GEORGE. That is what I meant.

Mr. EDIE. The first 4 months of that calendar year have already been chalked up at 148 or 149.

Now, it is going to be below 143 somewhere in the tail end of the year in order to give an average of 143. My calendar year average is 143, which means something lower than that in the last 2 months of the year, but I am trying to indicate how much lower when I say that for the next calendar year, that in 1948 I think the average will be 136.

Senator GEORGE. It will be 136?

Mr. EDIE. That is right.

The CHAIRMAN. For calendar '48?

Mr. EDIE. Calendar '48.

The CHAIRMAN. Did you say 136 or 146?

Mr. EDIE. One hundred and thirty-six.

Senator LUCAS. Should the program inaugurated by the President prove successful through the voluntary cooperation of people, would that change your figures any?

Mr. EDIE. I will answer that to the best of my own personal judgment. I do not want to get into the political side of it at all. I do not think it would affect the price——

Senator LUCAS. I hope you do not think there is any politics in that question.

Mr. EDIE. No. I am an out-of-towner and a little naive about politics.

Senator GEORGE. A voluntary reduction of any given percent presupposes that somebody has just put the prices up there and that factors beyond the control of the retailer or small producer and big producer and others have not really put those prices where they are, does it not?

Mr. EDIE. Well, it assumes they have put the prices up there arbitrarily and wantonly and not because the costs have gone up.

Senator GEORGE. That is what I mean.

Mr. EDIE. There are cases where I will freely grant that I think that is what has happened, but I see those cases being corrected pretty fast, and I think for the rank and file——

Senator GEORGE. That is what you mean by leveling out rather than a recession or anything like a drastic——

Mr. EDIE. For the rank and file, the great majority of these industrial lines, I think that their costs are so high that they do not have any leeway for voluntary price cutting that would amount to much of anything. I think that is the situation, and I would look for the industrial segment to increase a little further.

The average of industrial prices, I think, will go up a little further, despite this program of voluntary price cutting, and despite cutting in certain individual items. Paperboard was cut \$5 a day or so ago. Despite those individual cases I think that your industrial price index is going up a little higher and I think the reason it is going up a little higher is because of the wage pattern that has recently been set in the basic industries. Then I think that later this year, that industrial price index will come back down, start to come back down a little bit, but I doubt very much if by the end of the year your industrial price index will get any lower than it is today. I doubt it very much.

Senator BYRD. But it will be lower next year you think?

Mr. EDIE. The industrial price index?

Senator BYRD. Yes.

Mr. EDIE. I doubt it.

Senator BYRD. Did you not say it would be 136 next year?

Mr. EDIE. That is the average for the two combined. I say the adjustment is mainly in the agricultural end because it is higher now than the industrial. There is a very important comparison that I would like to mention to you about these prices. People compare things today with 1920 and 1921, and there are many similarities but there are also some striking contrasts, and no place is a more striking contrast than in this price comparison.

In 1920 the industrial segment of prices went up 150 percent over prewar. As of today your agricultural prices have gone up about 172 precent above prewar, but your industrial prices have gone up only about 62 percent above prewar. Industrial prices went up 150 percent in 1920 over 1914, 62 percent now over 1939.

Your industrial prices have not gone up nearly as sharply as they did in 1920. If they had gone up equal to the percentage rise, in 1920 I could not talk to you about an orderly adjustment. I would have to talk to you about the same kind of thing as happened in 1921, but I do not think that is going to repeat itself because the industrial prices have not gone up 150 percent this time. They have gone up about 62 percent. That is one reason why I do not think the industrial prices can be cut much. They have not gone up so wildly as they did in 1920.

Senator GEORGE. Another thing, Doctor: Unquestionably you do not have very much flexibility in your labor costs, have you?

Mr. EDIE. No. It is very rigid.

Senator GEORGE. And that is a condition that never existed before in this country on such a wide scale, at least, over any long period of time.

Mr. EDIE. I think that is true. There was never the same degree of rigidity. Do you wish me to go into this earnings subject?

The CHAIRMAN. Yes. I would like to ask one question, Mr. Edie. You have not discussed the problem in terms of shortage of supply. With a constant dollar background operating against an increasing volume of supply what is the expected result so far as prices are concerned?

Mr. EDIE. Well, it would be 136, my index here. I mean the assumption you state has been my line of reasoning about this.

The Chairman. The increase in supply is one of the factors in your judgment.

Mr. EDIE. That is right. Your supply and demand month by month and one item by another and in the course of 6 to 12 months most of these things will be caught up with their demand so far as the current situation is concerned.

The CHAIRMAN. And the dollar at that time would have an increase in purchasing power?

Mr. EDIE. That is correct. The industrial earnings, or the all-corporate earnings are a very complicated matter of calculation. Of course, it is easy to strike off some mechanical correlation between earnings and production and between earnings and national income, but I would not have much confidence in it. There is a lot to be said for careful method when you are estimating earnings, and I would like to say just a word about method.

I have tried to take the component parts of all corporate earnings—banks, railroads, public utilities, retail stores, manufacturing corporations, and so on—and break it down into as many subdivisions as possible, and then analyze each one of those subdivisions to get an earnings estimate, then combine all those separate calculations to get a total. Each one of these components is affected by quite different sets of factors and to generalize about them all, as if they were in the same basket, can result in something very misleading. I do not want to go into all the details, but I just wanted to say that about method. By that method we get a result—an earnings estimate. The figures that I am going to give you is earnings before taxes of all corporations, but it is earnings arrived at in this way. It is the sum of all the companies that were in the black, minus the sum of all those that were in the red. In other words, it is a composite or net figure.

Senator LUCAS. For what period?

Mr. EDIE. Well, for these calendar years and fiscal years.

Now, these figures have got to be compared with something in the past, and as far as I can find there have been no official reports yet for 1946.

We have seen in the press some quotations from one of the President's addresses, and I think from the Council of Economic Advisers, about a figure for 1946, but it mystifies us because it is not clearly stated just what the figure means. I do not think it means the same thing as I am talking about here. That figure was an estimate of corporate earnings of 20 billions.

Senator HAWKES. That is before taxes?

Mr. EDIE. That is before taxes. That was for '46. It is not the same figure that I am talking about. I do not know just what their figure meant. I do not have a definition of it. As nearly as I can see, the pretax earnings last year must have been around 22 or 23 billions. I think that in calendar '47 they will be roughly 22—22.5 happens to be my exact figure, although decimal points do not have much place in this kind of substantial approximation—22.5 billions for calendar '47, and my alternate figure, assuming a pretty drastic recession, would be 20 billions. Those figures compare with years going back prior to where there is an official calculation of pretax earnings, and as far as possible my use of pretax earnings is consistent with the Department of Commerce published figures on earnings up to and including 1945, but they have not given out a figure on '46. I am talking about that series that is published in the Department of Commerce work. The 1945 figure was 20.9. Prewar 1941 was 17.1, and 1940 was quite a bit lower—9.2.

I am giving that background just to make a comparison.

The CHAIRMAN. What was 1940?

Mr. EDIE. 9.2. As far as possible, these figures of mine are supposed to splice on to that series.

Senator HAWKES. Is that 9.2 before taxes also, Dr. Edie?

Mr. EDIE. Yes, sir; but bear in mind it is before taxes after you have subtracted the deficit from the pluses.

Senator HAWKES. Oh, yes.

Mr. EDIE. You see, it is a net pretax figure.

Senator HAWKES. Yes.

Mr. EDIE. For calendar '48——

The CHAIRMAN. You mean net earnings?

Mr. EDIE. Net earnings before taxes, but here I am using the net to indicate that we have subtracted from all the earnings all the deficits.

Senator HAWKES. In other words, you mean all the corporations that lost money have been subtracted from the total of all those who made money and it brings us 9.2 before taxes.

Mr. EDIE. That is right. For calendar '48 we get 20.8 billions assuming orderly adjustment, and 18.4 assuming drastic recession.

For fiscal '48 we get 20.3, assuming orderly adjustment and 14.4 assuming a drastic recession lasting a good part of the year.

The CHAIRMAN. 14.4.

Mr. EDIE. 14.4. Those decimals happen to be there simply because we were adding up all the component parts and it came out with a decimal. It is not a pretense of being accurate to that precise hair-splitting decimal.

Senator LUCAS. Mr. Chairman, may I interrupt?

The CHAIRMAN. Senator Lucas?

Senator LUCAS. I want to make one inquiry about the statement you made with regard to the 20 billion dollars that the President's economic advisers estimated. I did not quite get your criticism of that statement.

Mr. EDIE. I am not criticizing it. I am saying that I do not know from the statement just what it was supposed to cover—whether it was the pretax net with the deficit taken out or just what it was. It was given as the figure for the all-corporate earnings for 1946 but whether it was a figure that compares with this figure I do not know.

Senator LUCAS. Your figures are comparatively the same?

Mr. EDIE. I think they should be the same if we were defining our thoughts in the same way.

Senator LUCAS. I see. All right.

Mr. EDIE. That, sir, is the extent of my prepared remarks.

The CHAIRMAN. Is your estimate of 170 billion income payments an optimistic estimate?

Mr. EDIE. In my judgment, no.

The CHAIRMAN. For fiscal '48?

Mr. EDIE. I think it is what I would call a safely probably figure. I can readily conceive of its being a little higher than that but I do not want to stretch figures at all or put a bright complexion on them. I am trying to say that I think that there is a pretty safe prudent figure, a reasonably conservative figure. I doubt very much if we will see anything lower than that and we might see something higher than that.

The CHAIRMAN. There has been some talk of a rate of national income, as indicated by the first quarter of 1947, of 181 billion. Regardless of how you project that, would that figure be out of line as far as your own thinking is concerned?

Mr. EDIE. Well, yes. I feel that it probably is an error of selection of figures when anybody talks about that 181. I think they are two different items that sound almost alike but are different. One is national income, the other is national income payments to individuals.

The CHAIRMAN. I misspoke myself. I should have said national income instead of income payments.

Mr. EDIE. National income of 180 to 181 billions I think would be roughly similar to income payments of 177 billion.

You would be talking about the same thing because there are certain deductions that come in there.

The CHAIRMAN. The Secretary of the Treasury estimated income payments in the calendar 1947 at 166 billion and income payments for the fiscal year of 1948 at 168 billion. Does that strike you as a realistic estimate?

Mr. EDIE. It strikes me as if there were some mistake somewhere. I do not know just where it is. The calendar year figure could not be as low as 166. In the light of the fact that we already have the first 4 months of the calendar year and know that they are 176 or better. Surely for the first half of this year they will be around 176.

Now, in order to get an average as low as 166 you have got to put the second half down to 156.

Senator BYRD. The Secretary of the Treasury revised that estimate—that is, the estimate made last December—he made a reestimate for 1947.

The CHAIRMAN. Would you say that an estimate of 168 would keep the thing within reality?

Mr. EDIE. No. I do not see how that could be, because I understand his estimate was made on the basis of no recession except a decline in some prices. Well, if you are not having a recession, then to get a calendar year average of 168, knowing that your first 6 months are 176 means that in the latter part of the year you have got to have a very drastic recession in order to get your yearly average down that low, so I just do not see how it can be mathematically possible.

Senator BYRD. I understood you to say a while back that you estimated 170 billion dollars for fiscal 1948?

Mr. EDIE. That is the fiscal year.

Senator BYRD. Therefore you are practically in line with the estimate that the Secretary of the Treasury made of tax revenue for '48 which was based on 168 billion.

Mr. EDIE. I am not terribly far apart from the Secretary on fiscal '48. My figure happens to be 2 billion above.

Senator BYRD. That is the way we get at tax revenue?

Mr. EDIE. The question is how to reconcile 166 for calendar '47 with 168 for fiscal '48 and I say I do not see how it can be reconciled.

Senator BYRD. For all purposes of tax revenue you and the Secretary of the Treasury for fiscal '48 are practically on the same basis?

Mr. EDIE. I am a little higher but we are not very far apart.

Senator BYRD. Two billions?

Mr. EDIE. We are not very far apart.

The CHAIRMAN. You suggested that income payments for fiscal '48 might decline from the present level of 176 billion to 170 billion. Would you tell us for the same period how much you would expect unemployment to fall from the present level of about 2¼ million?

Mr. EDIE. I would say it would be about 4 million unemployed to correspond to that.

The CHAIRMAN. What are the factors that would reduce the down turn to the extent that you have estimated?

Mr. EDIE. Well, the factor, first, of going from a sellers to a buyers market in a good many lines of business. That will make some decline necessary—the factor of rechanneling the spending of the consumers.

They are changing from furs to automobiles or from liquor to shoes—and that rechanneling of expenditures is going on all the time and it involves a certain loss of total volume, total income, but the greatest uncertainty and risk and danger in figuring your national income payments is the private capital expenditures. That is the variable that gives us the greatest difficulty and the greatest problem all the time. Private capital expenditures are now running at a very high level. Probably over 25 billion dollars a year.

Now, that figure either is going to be maintained or it is going to decline. I am afraid it will decline a little. There are a lot of factors in there that you cannot decipher very well because they are psychological. Capital expenditures reflect incentives and motives and psychological factors in business and amoug private investors, their willingness to take risks.

There are a lot of things that influence that psychology. I suppose one of the main factors is taxes. That is a psychological factor of importance. If capital expenditures should drop down by 5 or 10 billions of dollars, my figures would be too high here.

I am inclined to think that there is an attitude on the part of business that, although they do not like the high costs of construction, they feel bound by a certain law of necessity to modernize and streamline their plant and expand in order to hold their competitive position in the industry, and I am counting on that to hold the capital expenditures well enough to support my figures.

The CHAIRMAN. Would you say that the tax-reduction bill tends to encourage capital expenditures?

Mr. EDIE. It would be my observation that private investment of this kind is extremely sensitive to the tax rate and the tax program, extremely sensitive to it. It is one of the most powerful psychological factors motivating capital.

The CHAIRMAN. On the assumption that there will be a moderate recession, or even on the assumption of a drastic recession, would an income-tax-reduction bill be helpful or hurtful in your opinion?

Mr. EDIE. In my opinion it would be helpful to maintaining this private capital expenditure.

The CHAIRMAN. And also if the tax reduction went down far enough it would tend to maintain mass consumer purchasing power, would it not?

Mr. EDIE. Yes, sir. It would be a sustaining factor in both directions.

The CHAIRMAN. Could you reconcile the Sectetary's figure of 168 for fiscal 1948 with his idea that our economy at the present time has no slack in it and that therefore a tax reduction could do no good?

Mr. EDIE. Well, I think it is doubtful if a tax reduction could so stimulate the economy as to raise these indexes to still higher peaks. You have got a production index up to 188 or 190.

Now, by cutting taxes are you going to run that up to 200? I am very doubtful of that. But it seems to me as a sustaining factor I think it is most important.

Senator JOHNSON. What do you think would be most helpful to every one in this country—debt retirement or tax reduction?

Mr. EDIE. I think that the answer to that is that you need a balance between the two—neither one exclusively. I think you need a combination of the two. I think if you try either one alone that it is just a lopsided program.

Senator JOHNSON. You favor debt retirement, do you?

Mr. EDIE. I do, certainly.

Senator JOHNSON. On a very meager scale or a moderate scale, or a rather accelerated scale?

Mr. EDIE. Well, in terms of figures, I would say that if you had debt retirement of anywhere from 2 to 4 billions a year, I think that that would accomplish the good that you see in debt retirement but would not upset the applecart. If you start retiring debt at the rate of 8 to 10 billions, out of Treasury surplus I am very much afraid you would start and precipitate a deflationary spiral and it would be very hard to stop once it got started. It is the sort of thing that is good in proper doses but if you give too big a dose it could do a lot of harm.

Senator LUCAS. Would you place debt retirement before tax reduction, assuming we had to have one or the other?

Mr. EDIE. That is sort of a question in logic, I suppose. Do you have to make it mutually exclusive that way? Can you not have a little of both?

Senator LUCAS. If we can. I just put that question. The Senate, of course, has voted a resolution to apply $2,600,000,000 on the national debt.

Assuming that, after all of the appropriation bills are—and we have a notion as to what the expenditures of Government are going to be, and finally we have some notion maybe of what the income is going to be, and we find that if we apply the $2,800,000,000 there might not be much tax reduction.

Mr. EDIE. I do not know what the hypothetical answer ought to be but directing my remarks to the kind of economic picture I see in this country today and over the next 12 to 18 months, it seems to me sound reasoning to conclude that you can have some of both to fit this picture.

Senator LUCAS. You stated in answer to the chairman's inquiry that a tax reduction would be satisfactory in case there should be a recession or a depression, and I presume tax reduction from your standpoint is also satisfactory even though we remain, in the future, on the national income basis that we are today, and we have no recession or depression of any kind?

Mr. EDIE. Well, tax reduction is a good thing any time you might say, in that sense, but what I mean really is that if you want to see maintained even approximately this level of income, and this standard of living, this general structure of business, I think you have got to keep those capital expenditures up there and I do not believe you can do it for very long unless you give some relief in the tax treatment to the people who supply the capital. That is what worries me.

Senator LUCAS. That answer is based on your general theory of things regardless of what the profits of individuals are or what the profits of corporations are.

Mr. EDIE. Well, I would not say it is regardless. It is still relative to the actual concrete picture that I have drawn here. In that general atmosphere I think that is the right conclusion.

Senator LUCAS. It has been stated—and I presume it is probably true—that individual incomes are the highest in the history and corporate incomes are the highest in history and the profits are the best.

Some men in Congress feel that the time to get money to pay off the national debt is when people have the money, but, not withstanding that, you believe that for the good of the country and of the economy and stimulation of business, some tax reduction ought to be made.

Mr. EDIE. Yes. That would be my personal judgment.

Senator LUCAS. Do you have any opinion as to whether or not January 1 of 1947 the date contained in H. R. 1, which would be retroactive, would be the proper time, or whether we should start on January 1 of 1948?

Mr. EDIE. Since my interest in the tax reduction relates primarily to this capital expenditures question, I would like to answer your timing inquiry, purely in its relevance to that.

A retroactive cut in taxes would not affect incentive which is today and tomorrow, in capital expenditure.

Something that is going into effect July 1 would have a powerful bearing on incentive, but making it retroactive back to January 1 would not change the incentive result materially.

Senator LUCAS. You would have the same incentive which we are now discussing if we made it January 1, 1948?

Mr. EDIE. No, sir; I think it would not. I think that would indicate that there was an attitude on the part of the Government of just refusing to come to the grips with the question. It would leave business with a great uncertainty during a period that is rather critical.

Senator LUCAS. July 1 is almost here and it would take some time for these industrialists to get their houses in order, so to speak.

Mr. EDIE. But rightly or wrongly the industrialists thought that they were going to see something on the tax bill before this. Suppose they say, "We will give it up as far as the first 6 months is concerned, guess we should not have had our hopes up."

Now, you are going to ask us to write it off for another 6 months. If so, what do we know about from then on? How do we know anything about this? You have got to have something.

Senator LUCAS. If Congress passed a law setting January 1, 1948 as the date when the reduction would start, I have a right to assume that the people of the country will believe that the Congress meant what they said.

Mr. EDIE. Yes; they would not question the good faith of it.

Senator LUCAS. I cannot see the discrepancy that you place on the 6-month basis. You are saying in substance that the people of the country and the industrialists of the country would have no confidence in a tax measure if we postpone it until January 1, 1948.

Mr. EDIE. Under normal and ordinary conditions it might not make any difference but I am thinking again of the very particular background, the history and the events of the last 6 months, and the condition of business, and its stage in the business cycle. What is ahead of us? We have got these adjustments in agricultural prices coming. We have got the question of construction costs that are coming down and these capital expenditures. It is a very vital period and therefore, I say, I think in order to give a sustaining power to that capital expenditures factor, you need to do it right away—reasonably right away. That is my feeling about it, that it is not a thing to dilly-dally with.

The CHAIRMAN. Mr. Edie, we are grateful to you for having come and given us the benefit of your observations.

Senator HAWKES. I would like to ask Dr. Edie a question.

The CHAIRMAN. Senator Hawkes.

Senator HAWKES. I take it that you and I are in agreement on the fact that the question of taxes is so tied in with the question of raising revenue to pay the debt, that you cannot separate the two. They go hand in hand. In other words, if you are going to produce revenue you have got to stimulate incentive to go into things and do things that produce profit from which taxes and revenue come?

Mr. EDIE. That is right.

Senator HAWKES. I would like to know if you feel as I do, that as far as I am concerned I would far rather pay $2 billion a year against a debt—start paying it—with some just reason or ground to assume that I could continue doing that, than to make a larger payment and pay no attention to taxes, and find out that we had lost revenue and we could not keep up our payments on the debt.

Do you subscribe to that philosophy?

Mr. EDIE. Yes, sir, I do.

Senator HAWKES. Thank you very much.

Senator LUCAS. I want to ask one more question, Mr. Chairman.

The CHAIRMAN. Senator Lucas.

Senator LUCAS. I want to understand you correctly. If H. R. 1 is passed in its present form, making tax reduction retroactive to January 1, 1947, that within itself would have no effect upon stimulating the money of the country to the point where it goes into capital expenditures?

Mr. EDIE. I think it would have no greatly important effect on stimulating the capital expenditures. If you put it in July 1 it would be almost as good, as an incentive to capital expenditure, as making it retroactive. The place where the retroactive feature might exercise a stimulating influence is in its bearing on mass purchasing power. The consumer might get a windfall of retroactive cash benefit which he would turn around and spend in retail markets.

I could see where that might sustain the retail business but would not have any effect on your incentive to capital expenditure.

Senator LUCAS. One of the theories upon which H. R. 1 is based is that it would stimulate capital investment to the point where it would be tremendously beneficial to the country and I would like to have your viewpoint upon that question because it seems to challenge that theory.

Mr. Chairman, I would like to ask one question. This is not of the doctor. This is of the chairman.

Has any competent witness appeared before the committee giving an opinion that the national income would reach a high point of $181 billion?

The CHAIRMAN. Not yet.

Senator LUCAS. We have been talking about $181 billion all through this hearing. I have not attended all of the hearings, unfortunately, and I was wondering whether or not any witness with the background and the qualifications of the distinguished witness now on the stand had come before us and had gvien us any information based upon certain factors as the doctor has.

The CHAIRMAN. There have not been any witnesses on that point. There have been some estimates made as to what the Department of Commerce will say but the Department of Commerce has not yet said it.

Senator LUCAS. There have been a lot of guesses and speculation about that 181 billion.

Senator HAWKES. I suggested the other day that before we get through we have somebody from the Department of Commerce. We still have that in mind, have we not?

The CHAIRMAN. That is strongly in mind. We have one difficulty there, Senator. The Department of Commerce has a regular time when it gets out these estimates, and that time is not yet. There is a certain amount of embarrassment in the Department, because they have not finished their calculations, in asking them to give an estimate at this time. But the matter is strongly in mind.

Thank you very much, Mr. Edie.

STATEMENT OF JAMES F. STILES, JR., VICE PRESIDENT AND TREASURER OF ABBOTT LABORATORIES ON BEHALF OF THE FEDERAL FINANCE COMMITTEE OF THE NATIONAL ASSOCIATION OF STATE CHAMBERS OF COMMERCE, CHICAGO, ILL.

The CHAIRMAN. Mr. James Stiles, Jr.

Mr. Stiles, will you state your full name and position?

Mr. STILES. Thank you, sir.

This statement is submitted by myself, Mr. James F. Stiles, Jr., vice president and treasurer of Abbott Laboratories, on behalf of the Federal finance committee of the National Association of State Chambers of Commerce, in support of the immediate reduction of individual income taxes.

Mr. Chairman I want to say, just by way of introduction that I thoroughly enjoyed listening to the previous witness. I, however, am going to try to approach this from the practical rather than the theoretical viewpoint because I would not be capable of discussing the theoretical viewpoint.

Senator Robertson once gave me a little squib which I think is very interesting. He said there is much truth in the couplet:

> The butterfly beside the road preached contentment to the toad; but the toad beneath the harrow knows exactly where each tooth point goes.

I am the toad.

Senator LUCAS. You are not yet. You may be before we get through with you.

Mr. STILES. I will rest my case in your hands, Senator Lucas, coming from Illinois.

I want to give you a picture, if I may, very briefly and I wish some of our friends from other States were here.

We have represented here this morning executive officers from State Chambers of Commerce of Illinois, Indiana, Ohio, Pennsylvania, New Jersey, Wisconsin, Texas, and Alabama.

This is a little pamphlet which the Illinois State Chamber of Commerce published to its members, and is simply submitted to you gentlemen as a way in which this matter has been carefully considered in one State and I can assure you it has been similarly considered in other State chambers of commerce as our friends from other States realize in their associations with the State chambers.

Senator HAWKES. Mr. Stiles, how many State chambers of commerce are in your organization?

Mr. STILES. There are 32.

Senator HAWKES. That means 32 States are represented?

Mr. STILES. Thirty-two chambers are represented through the finance committee of which all of them have members. If you would just like me to pass these to you. I will give them to the clerk there and you can see that the other folks get a record. That is all by way of introduction, gentlemen.

The affiliated organizations of the association have a membership of some 35,000 predominantly among the smaller business concerns and that membership employs some 6,500,000 workers.

With 31 other State chambers of commerce, the Illinois State Chamber, of which I am president, works in close cooperation with the national association in activities or mutual interest.

As a business group we are mindful of the difficulties you are encountering in reducing the Federal budget substantially to make lower taxes possible. We are aware that the pressures upon Congress to maintain the recent rate of spending or even to increase it are tremendous, and we congratulate you upon your vision in emphasizing the greater importance of lower taxes rather than preserving the high level of public spending.

A year and a half ago the National Assocation of State Chambers of Commerce published a program for Federal taxes which urged the speedy reduction of Federal spending and the lowering of taxes upon individuals and business to much more moderate rates. More recently we have advocated the cutting of the Federal budget to $31.5 billion for the fiscal year 1948 and to $25 billion thereafter. It is our firm conviction that only by lowering spending very materially can we reduce taxes to the level that our citizens and our system of free enterprise can endure. Our program would include, of course, the substantial and consistent reduction of the Federal debt.

Senator HAWKES. Do you mind being interrupted, Mr. Stiles?

Mr. STILES. No, sir; not by you, sir, any time.

Senator HAWKES. I was going to ask you: we all know that we have got to reduce Government expenditures in order to justify any substantial tax reduction, and we have had a good many witnesses before this committee, and so far as I am concerned, they have all had the philosophy that Government expenditures should be substantially reduced, but when we have asked them how and where they have not told us, they have simply made the general statement that Government expenditures must be reduced, and I am just wondering whether you have any suggestion or thoughts as to where Government expenditures can be reduced and still be satisfactory to the American people?

Mr. STILES. Well, sir; I would not presume to tell this committee the exact place where Government expenses could be reduced, when you have available to you all of the information that has been made available to you.

I do suggest though—and I can only give you my experience as a businessman—I happen to be the financial officer of the Abbott Laboratories as Mr. Lucas knows—if I had a program of expenditure and our annual budget is in the neighborhood of $49 million, I would investigate thoroughly, as we do at the plant, see that value is received for every item of expenditure, and I would rather look with suspicion at any witness that just came before me that was not in as close touch with the management of the affairs of my company as I am and comparably as you gentlemen are, with the mangaement of the affairs of the Government, so I am not prepared to say to you definitely where this economy can be effected, but certainly with a budget many times the size of any previous peacetime budget, there is ample room for economies to be effected.

In this little memorandum which I just passed to you, we did recommend congressional action for economy by reducing the number of civilian employees of executive agencies for Federal Government to the end that the figure of 1,650,000 recommended by the Byrd Committee and adopted by Congress will be in fact attained by June 30, 1947.

The employment on September 1946 was 2,480,959. We suggested second the abolishing of every remaining war agency and its functions at such time as the bona fide needs that the agency was created to serve no longer exist.

Third, the eliminating of all unnecessary duplication of functions——

Senator LUCAS. Let me ask you a question on the No. 2 item. I submit that I do not quite understand what you are talking about in connection with that. I presume that you would not want anything done on the question of reduction of expenditures for national defense at this crucial time in the period of our Nation and the world, which would in anywise impair an adequate national defense.

Mr. STILES. Mr. Lucas, with that last statement I think you are correct, but I live pretty close to some operations of the national defense and as a matter of fact I am very much interested in national defense. I had two sons as you know that went into the military service and both saw overseas activity in the foreign service, and through a kind providence they both returned home, but the Brookings Institute, I think, has made some very constructive suggestions which this committee would do well to look into.

I am not an expert on the operation or management of Navy or military affairs, but I certainly do think that it would be well for this committee to study carefully to see that they get the greatest value for the dollar expended.

Senator LUCAS. That should be in every department.

Mr. STILES. That is true. Let me say this: I think the greatest contribution that industry can make toward our free enterprise or our economic system is by research and engineering skill to constantly create greater economic value for less money to the consumer as time goes on and I think that the Government should take that same position. I think that the time has come when our Government should carefully study the expenditure of every dollar that is being paid out, and see if they are giving the taxpayer and the citizen more economic value for less money as time goes on. To make a very crude illustration, Senator: I was walking over from the Navy Department yesterday back to the hotel and I saw a truck go by—a literature truck for one of the bureaus. There was a truck driver and eight men in the truck.

Of course I presume they were assigned there for some purpose. It did not look like a transportation matter, but we would not permit eight of our employees to ride around on a truck, because we just could not stay in business at that rate. We have a truck driver and a helper and that is the way we handle our affairs in business.

Now, it is going to take an inspired department manager——

Senator LUCAS. I presume you do not know what those eight men were there for?

Mr. STILES. I do not know as I say. It is crude but just the same you see those things yourself as you go about. You just wonder what in the world they could be doing.

Senator LUCAS. You could speculate and wonder about it.

Mr. STILES. You could not help but wonder, and that is the way I wonder.

Senator LUCAS. We have had more speculation before this committee than almost anything else.

Mr. STILES. Well, I will try to be practical.

Senator LUCAS. All right.

Mr. STILES. I am going to really try to be practical. I may not be constructive but I will say this: I will try to be brief, I will try to be practical. I certainly am sincere, and then I will be seated. I do not want to talk too long.

Fourth, reviewing the needs for present programs of Federal aid to State and local governments with a view to reducing the amounts expended for such programs, and restricting any new or expanded program of such aid to a minimum.

We are encouraging, in the State of Illinois, every local chamber of commerce to go to their municipal government and say, "Please do not ask for any more Federal aid" and Senator if you get one you write me a letter and I will be glad to go down to that territory and have a little conference.

Senator LUCAS. I want to congratulate you on that score. I hope that time will come when every State can pay its own way.

Mr. STILES. I hope so, too.

Senator LUCAS. But it does worry me and disturb me to hear some folks always talking about the encroachment of Government upon the States, when those same States are constantly coming to Washington with a little black bag and taking back whatever money is necessary—or not necessary—in order to help them run the State government, and it goes with some municipalities as well.

Now, your theory, your idea, is constructive, and I certainly hope you can put it across. Nothing would please me more than to see the States sometimes say, "We do not want any of your Federal money at all." That is, I understand, what Indiana did sometime ago in passing a resolution through its legislature.

Mr. STILES. I have a copy of that resolution with me.

Senator LUCAS. I think it is a grand beginning.

Mr. STILES. Yes, sir; and furthermore the man that controls the purse strings usually controls the policies and if we want to control the policies in the State it is high time we raised our own money to keep our expenditures within our own limits of ability to pay.

Senator LUCAS. You have a wonderful program there. I hope you succeed but I have my doubts.

Mr. STILES. Let me go on with my statement and if you want to include the rest of those comments there in the record you can. I do not want to keep you here any longer than necessary, gentlemen.

The CHAIRMAN. In other words, you would like to have those six points included in the record?

Mr. STILES. I suggest those six points be included in the record if you will, please.

(The document referred to is as follows:)

A PROGRAM FOR FEDERAL TAXATION AND FINANCE PROPOSED BY THE FEDERAL TAXATION COMMITTEE, ILLINOIS STATE CHAMBER OF COMMERCE, TO REDUCE FEDERAL EXPENDITURES; TO ADOPT DEMONSTRATED ECONOMIES FOR REDUCING EXPENDITURES; TO LOWER TAXES IMMEDIATELY

THE ILLINOIS STATE CHAMBER OF COMMERCE RECOMMENDS—

Reduction of Federal expenditures

Congress should institute all possible economies in the operation of Federal Government to the end that total expenditures including $2.5 billion for debt service will be reduced to at least $[illegible] billion at as early a date as practicable.

Even at an amount of $25 billion a year the budget would be virtually [illegible] times the last peacetime budget of $[illegible] billion for fiscal year 1940.

Twenty percent cut in individual income tax

With a reduction in expenditures through economies as proposed herein, it should be possible to provide some immediate tax reduction, and yet achieve a balanced budget. The first step in tax reduction should be taken in the case of the individual income tax. The bill now pending in Congress to provide a 20 percent reduction in this tax effective January 1, 1947, has the approval of the Illinois State Chamber of Commerce.

This would stimulate business. Reducing the individual taxpayer's burden would assure continuing demand for the products of industry. It would make more funds available for business expansion and help to sustain high levels of employment.

Congressional action for economy by—

1. Reducing the number of civilian employees of executive agencies of the Federal Government to the end that the figure of 1,650,000 recommended by the Byrd committee and adopted by Congress will in fact be attained by June 30, 1947. (Employment September 1946 was 2,480,959.)

2. Abolishing every remaining war agency and its functions at such time as the bona fide needs that the agency was created to serve no longer exist.

3. Eliminating all unnecessary duplication of functions and services among the 1,141 existing departments, agencies, bureaus and other units of the Federal Government. An account of such duplication is presented in the Byrd committee's report of May 1, 1946: "Reorganization in the Executive Branch of the Federal Government."

4. Reviewing the needs for present programs of Federal aid to State and local governments with a view to reducing the amounts expended for such programs, and restricting any new or expanded program of such aid to a minimum.

5. Deferring public works construction not of immediate necessity to some future period when it will not compete with private industry for construction materials and labor which are now in short supply, and when it would help to expand a present low level of business activity.

6. Providing for the continuation of the Byrd committee (Joint Committee on Reduction of Nonessential Federal Expenditures) which has made notable contributions in improving the efficiency of government.

The foregoing proposals of the Illinois State Chamber of Commerce bring to Illinois business and to Congress the results of original work by the Chamber's Federal Taxation Committee, and ideas developed in conjunction with tax experts of business concerns in 32 States.

Senator JOHNSON. Do you have the Indiana resolution with you?

Mr. STILES. Yes, I left it with a gentleman from Illinois who is present.

Senator JOHNSON. Do you care to have that in the record also at this point?

(Discussion off the record.)

Mr. STILES. This is, as I understand it, the same one that was adopted in Indiana. This is the copy I had received from New Jersey. I thank you for bringing it up. I suggest it be entered in the record if you so desire.

The CHAIRMAN. It will be entered.

(The Assembly Concurrent Resolution No. 9 is as follows:)

STATE OF NEW JERSEY ASSEMBLY CONCURRENT RESOLUTION NO. 9

Introduced March 3, 1947, By Mr. Harris; Referred to Committee on Judiciary

A CONCURRENT RESOLUTION calling upon New Jersey's representatives in the National Congress and the Legislatures of the sister States and all good citizens to restore the American Republic and the forty-eight States to the foundations built by our fathers

Preamble: New Jersey needs no guardian and intends to have none. We Garden Staters, like the people of our sister States, were fooled for quite a spell with the magician's trick that a dollar taxed out of our pockets and sent to Washington will be bigger when it comes back to us. We have taken a good look at said dollar. We find that it lost weight in its journey to Washington and back. The political brokerage of the bureaucrats has been deducted. We have decided that there is no such thing as "Federal" aid. We know that there is no wealth to tax that is not already within the boundaries of the forty-eight States. So we propose henceforward to tax ourselves and take care of ourselves. We are fed up with subsidies, doles, and paternalism. We are no one's stepchild. We have grown up. We serve notice that we will resist Washington, D. C., adopting us.

Be it resolved by the General Assembly of the State of New Jersey (the Senate concurring):

1. We respectfully petition and urge New Jersey's Congressmen and Senators to vote to fetch our county court house and city halls back from Pennsylvania Avenue. We want government to come home.

2. *Resolved, further,* that we call upon the Legislatures of our sister States and on good citizens everywhere who believe in the basic principles of Lincoln and Jefferson to join with us and we with them to restore the American Republic and our forty-eight States to the foundations built by our fathers.

Senator LUCAS. I presume Senator Hawkes was responsible for that New Jersey resolution?

Senator HAWKES. I wish I had been. I would take great pride in it.

Mr. STILES. I give you credit for being from a State that has guts enough to stand up and say, "We have had enough."

The postwar tax program of the national association was both a transitional and a long-range tax plan. In publishing that program back in October 1945, it was hoped that individual income-tax rates could be cut to a range of 16 to 75 percent by 1947, the maximum rate applying to income in excess of $1 million. We also advocated the further reduction of tax rates, as fast as revenue requirements would permit, to a maximum of 50 percent, with substantial reductions in the lower and middle as well as the upper income brackets.

It is our belief that the individual income-tax rates are much too high for the most efficient operation of a peacetime economy because they discourage initiative and the willingness to assume risks while curtailing the availability of funds for investment and consumption. Both investment and consumption must be maintained at a high level if employment and production are likewise to continue at high levels. The ultimate economic objective which should guide us in any tax revision is the expansion of the production of more income in terms of goods and services for our 140,000,000 consumers. This goal can be achieved only if those furnishing productive energy are adequately rewarded, whether they be workers, farmers, managers, investors, the professions, or other essential groups.

We have, therefore, been in sympathy with the purposes and provisions of the Individual Income Tax Reduction Act of 1947. Our committee notified Mr. Knutson, when his bill was being studied, that we were favorable to a 20-percent-across-the-board cut in tax rates as a quick, practicable, and reasonably equitable method of necessary tax reduction. We realize, of course, that the schedule of tax rates will require further revision at the earliest possible date in order to distribute the tax load more equitably and at the same time to moderate the onerous taxes now being borne by our population. H. R. 1 is a long step in the right direction, however, and for that reason we are giving it our support and urging you to do the same.

The bill contains provision for an exemption of $1,000 for persons over 65 years of age instead of the usual exemption of $500, the effects of which we have not had time to carefully consider. I note that objection has been raised to this provision by the Secretary of the Treasury. There may be some merit in his criticism. Our committee is not prepared to take a stand on favoring or opposing this provision.

With these general observations as a background, I would like to relate the problem of income-tax reduction to some of the issues which have been raised by those who are opposed to tax reduction at this time. It has been said that if we reduce taxes we cannot reduce the debt, and there has been much fruitless discussion of the question, should taxes or the debt be reduced first. The answer is clear and definite. Taxes and the debt should be reduced simultaneously. If we do not reduce taxes, an extravagant Federal budget will be maintained at a higher level than necessary; and if we do not reduce the debt, its complicated problems will haunt us for generations to come. Fortunately, it is clearly apparent that we can now accomplish the dual objectives of tax and debt reduction at the same time.

It is also said that tax reduction is inflationary because it would place more money in the hands of our citizens which they might spend. If the Government collects this money in taxes, will it not also be spent?

I might just add here that the gentleman who preceded me calls your attention to the way in which some of the Government debt could be retired, and its effect on inflation or money in circulation.

May I further point out that individual income-tax reduction will lessen the pressure of taxation upon the investment process because it will benefit the middle and upper income groups that furnish the capital for new enterprises. Increased investment is necessary for greater production and employment, as we all agree. It is only by producing more and more goods that inflationary scarcities will be eliminated and prices will be brought down.

Among the lower income groups, the additional money made available by income-tax reduction might, it is true, be largely spent. On the other hand, these income groups have been cutting into their savings to support their consumption, and tax reduction should make possible some renewal of saving. There would also be less need for installment buying and other credit expansion to finance consumer purchasing. Moreover, there will undoubtedly be less pressure for wage increases that are bound to raise prices.

The employee is interested in his take-home pay. Under the present withholding tax plan, most of his taxes are checked off by the paymaster. Any reduction in taxes to the wage earner would immediately increase his take-home pay without increasing the cost of the products he produces.

It is not strange that those who oppose income-tax reduction because they say it is inflationary generally rally to the defense of the high Federal budget and say it cannot be reduced, or that only very small economies are feasible. Does Federal spending not tend to bid up the prices of scarce goods, and thus accentuate the inflationary spiral? In other words, if individual spending is thought to be inflationary, why, again may I inquire, is Federal spending not inflationary? Moreover, many of those who attack tax reduction as an inflationary factor have, at the same time, consistently encouraged labor to press for higher wages, apparently assuming that business profits are so immense that unlimited wage increases can be granted merely without raising prices by reducing profits. On one hand, some argue that inflation is undesirable, but on the other hand they make matters worse by giving their blessing to tendencies that aggravate inflationary conditions.

Such an approach to the problem is purely political, rather than economic, as the occasion really requires. We are told that tax cuts will be all right in due time but we are given no sound and convincing reason for postponing them. Meanwhile, the frictions in the economy are increasing, and the dangerous talk of an approaching economic recession becomes more common. We believe that economic conditions call for the lowering of the individual income tax now rather than in 1948 or 1949 and thus lessen the risk that a recession may become an established fact. Prompt action in reducing taxes may aid us materially in avoiding such an unfortunate consequence.

The proposal before you to lower income taxes is, in our opinion, also reasonably equitable. The popular principle of progressive taxation is now generally accepted, and if it is applied with rational moderation it will distribute the tax load fairly. On the other hand, if income taxes are excessive on any group, the whole economy will suffer from the lack of funds for consumption and investment and the dearth of adequate remuneration for the exercise of productive energy. As time permits, income taxes should be lowered further on all income classes, the inequities now existing in the taxation of dividends both as corporate and individual income should be alleviated as much as possible, and the taxation of the income of married couples in all States should be equalized. As income-tax burdens are lightened, economic incentives will be stimulated and the inclination to avoid taxation will become less attractive, with consequent benefits to the revenues.

I want to pause here for just a moment. I saw in this morning's paper a little statement. It says:

> State of Illinois awarded $300,000,000 of veterans bonus bonds to a syndicate headed by two Chicago banks and Halsey, Stuart & Co. on a single bid of 100.06, which represented a net interest cost of 1.67611 percent. It was the largest public financing in history aside from Federal borrowing.

Gentlemen, that is a tax-exempt bond. It runs in series from 2 to 25 years maturity. Do you have any idea what equity capital would have to earn to equal that net return to the investor over the same period. I think I am safe when I say it would have to earn from five to eight times, depending on the bracket which that investor was in.

That is the biggest financing in our own State and I just happened to see that in the paper and I wanted to mention it here, because of this tremendous discrepancy. This will not put men to work in the sense that capital will employ labor. This will help needed situations, surely, but only when capital employs human effort are economic values created, and profits accrued to the investor, and when taxes are such that an issue of that kind can sell at that rate, I think you must realize the seriousness of this situation and the temptation that there is for large investors to keep out of an equity position and put their money into tax-exempt securities.

Perhaps the greatest handicap which has faced business since the cessation of hostilities is the uncertainty which has existed with regard to Government's attitude toward our economy. In 1946 we experienced uncertain labor relations, in 1947 there is an uncertainty regarding income taxes. I firmly believe that as soon as the Government takes appropriate action on these matters further talk of recession will disappear.

Other business organizations have submitted statistical data which support the case for tax reduction, and we shall not further burden the committee and the record with additional detailed data. Therefore I shall merely conclude by summarizing our position. We believe that—

1. Income-tax reduction is now essential for the effective operation of the private enterprise system.

2. Income-tax reduction would stimulate investment production, and employment and help overcome inflationary tendencies.

3. Income-tax reduction would assure the taxpayers and the country that Federal spending is going to be brought down to a more sensible level so that the debt may be substantially and consistently reduced.

The CHAIRMAN. Mr. Dudley, we have a vote at 1 o'clock and it is apparent that we are not going to hear you. I wonder if you would be good enough to let us have your remarks so we can put them in the record and give them consideration.

Mr. DUDLEY. I would be glad to do that if it is impossible to be heard.

The CHAIRMAN. We have a vote at 1 o'clock and we have just time to get to the place of voting and conclude with the present witness.

Now, is Mr. Brown in the room?

Mr. BROWN. Yes, sir.

The CHAIRMAN. Mr. Brown, could you accommodate us by filing your statement and allow us to put it into the record for the same reason?

Mr. BROWN. I will only take about a half a minute. It is very brief, sir.

The CHAIRMAN. You know what the time limitation is and if you can do the job in a half a minute.

Senator LUCAS. I want to ask a couple of questions before Mr. Brown starts on his half minute because I have heard those half minute speeches before. Knowing Mr. Brown as I do, I have never heard him conclude in a half minute.

Mr. DUDLEY. I have submitted a copy of my statement, and I should also like to file in the record an article from the Wall Street Journal of April 12, which is referred to in my statement.

The CHAIRMAN. We would be glad to put it in the record.

Senator LUCAS. Mr. Stiles, you know that when we needed revenue to finance the war, that Congress adopted the method of lowering the exemption rate.

Now, as a result thereof, that increased the tax load sharply upon the lower-income brackets over the prewar level. You realize that under H. R. 1, not a single individual is going to be taken off the tax rolls. I have introduced a substitute to this bill which seeks to increase the personal exemptions for dependents from $500 to $600, for married people from $1,000 to $1,200.

Do you have any serious objection to a tax approach of that kind?

Mr. STILES. Senator, I would rather see, if we are going to revise our exemptions and our rates, I would rather see the Ways and Means Committee and the Senate Finance Committee give the thing a general overhauling, because I think some inequities exist at this time, and I think that——

Senator LUCAS. Well, we are deviating very materially from the course we pursued a few years ago when we raised these exemption rates—or rather lowered them—lowered the exemption rates. Under H. R. 1, the 47,500,000 people who are now filing income-tax returns will continue to do so. My bill, by increasing the rates from a $500 to a $600 exemption, and a $1,000 to a $1,200 exemption would take over 4,000,000 people from the tax rolls and give to the lower-income groups with which you are very familiar a distinct benefit in reduction of taxes.

I was wondering whether or not you belong to the school of thought which holds that no one ought ever to come off the tax rolls after they have gone on them.

Mr. STILES. Well, Senator, if you will remember the last time we discussed this, we—that is—the National Association of State Chambers of Commerce—favored the elimination of the 3 percent on the $500. In fact, we favored the complete elimination of the 3-percent tax as such, the last time it came up and that in itself removed millions from the tax rolls, and I think that that—if I may state it this way, Senator: I think that that is largely an administrative matter. I think that the taxes however should not be adjusted for a social basis.

Senator LUCAS. It is not an administrative measure. It is a policy question.

Mr. STILES. Does it cost you more to collect the taxes from the 4,000,000 people than their taxes amount to?

Senator LUCAS. I would say that the cost would be exorbitant.

Mr. STILES. I would think so.

Senator LUCAS. That is one of the reasons for the elimination of the small fellow who has to pay $1 or $1.50 for income tax.

Mr. STILES. I do think it is well, for as far down the line as possible, without being burdensome on the man that a dollar of taxes means a denial of the necessities of life, I do think it is well for all of us to pay our mutual share of Federal taxes, but I also feel that the Treasury Department is in a much better position—they have to collect the money—they are in a much better position to advise you whether or not the $100 increase in exemptions should be made or whether it should remain as it is. I don't know.

Senator LUCAS. In other words, you have no definite convictions about the policy that we are advocating here. There are two different policies you understand. I am seeking to follow the policy that the Congress has been following for years. H. R. 1 is something that is more or less novel in its approach. We take no one off the tax rolls under that bill. A man who is paying $1 tax now will pay 70 cents under H. R. 1. Now, I just can't follow that theory, and I am trying to convince my good friends on the committee here that we ought to do what I have suggested. I may have a little trouble, I must confess.

Mr. STILES. Well, Senator, I would just love to go all the way on it.

Senator LUCAS. I thought maybe you would and I thought you would get around to that pretty soon.

Mr. STILES. I just honestly feel that it is of some value to the small taxpayer to realize that he is contributing, as small amount as it may be—and it is really taken from him—insofar as the Government is concerned since corporations started this withholding affair, they did a lot of collecting for the Government; now the Government has to send some of it back to them, I realize that.

Senator LUCAS. If H. R. 1 had the same provision that my bill has, you still would be for it, would you not, I mean, you would still be for the tax reduction?

Mr. STILES. I would be in favor of an across-the-board tax reduction as suggested by H. R. 1, because I believe it is an equitable way of approaching something that you haven't time to study to get all the inequities straightened out.

Senator LUCAS. Let me ask you one further question and then I will cease and desist. As you know, one of the most glaring inequities in the present tax law is that citizens in nine States, including Washington, California, Idaho, and others, enjoy the privilege of dividing income between husband and wife. In this bill of mine I have included a provision which seeks to split family incomes and seeks to place all of our States on the same basis as those nine Western States. I presume you would be in favor of that if we could place this provision in the bill?

Mr. STILES. I mentioned that and I noticed it in your bill. I think it is a step in the right direction. I think there is no reason why our branch manager in Dallas, Tex.—and I wish my friend, Senator Connally was here—and a manager in Kansas City, both getting, say, $10,000 a year and one pays only one-third the amount of tax that the other one pays. I think there is much merit to your position.

The CHAIRMAN. Thank you very much for coming.

Mr. STILES. It has been a pleasure. I enjoy being with you. I wish all the rest of my friends were here this morning.

(Witness excused.)

STATEMENT OF EDGAR G. BROWN, DIRECTOR, NATIONAL NEGRO COUNCIL

The CHAIRMAN. Mr. Brown, you said you could do it in a half-minute.

Mr. BROWN. I am director of the National Negro Council.

The CHAIRMAN. I will say this to you: If you can come around here tomorrow and take your chances, we will squeeze you in and give you more than a half-minute. I do not want you to feel you are shut off.

Mr. BROWN. I appreciate your gracious courtesy.

The National Negro Council wishes to call the attention of the Senate Finance Committee to a long-standing and flagrant injustice imposed upon more than 3,000,000 Negro income-tax payers, including approximately a million veterans of World War II. These millions of patriotic Americans in the Southern States who are denied their constitutional right to vote, 150 years removed from the scenes of the original Boston Tea Party, still suffer from taxation without representation.

The chairman and the leadership of the majority of the Senate can right this wrong by amending H. R. 1 and make another fundamental constitutional contribution to the cause of democracy on the home front and the destruction of communism and Hitlerism, as the fait accompli on January 4, when the Senate majority turned back former Senator Theodore G. Bilbo, for violation of American citizens' rights to vote on account of race and color.

The National Negro Council urges the Senate Finance Committee to immediately pass H. R. 1, guaranteeing a wide, deep, and handsome tax cut, right across the board, retroactive to January 1, 1947, for all taxpayers, but specifically exempting from all taxes every American, regardless of race, creed, or color, who is denied his constitutional right to vote by the State of his residence.

(The clipping is as follows:)

[From the Wall Street Journal, Washington Bureau, April 12, 1947]

COLLEGES IN BUSINESS—SHOULD THEY PAY TAXES ON PROFITS FROM STORES, FACTORIES, RAIL YARDS?—CONGRESS REVENUE EXPERTS TO STUDY PROBLEM; SAY LOSS TO UNITED STATES IS SUBSTANTIAL—EYE OTHER TAX EXEMPTIONS

WASHINGTON.—Uncle Sam's tax gatherers are worried by a growing tendency of schools and colleges to buy and operate money-making business properties.

Nonprofit educational institutions pay no Federal income taxes. They don't even have to file returns showing where their money comes from. Some congressional tax experts wonder whether a university that owns a hotel, a department store building, a gear-making factory, or a business block shouldn't be taxed on the proceeds from such pursuits.

More and more schools are shopping about for income property to invest their money in. Others are holding onto business left them in legacies instead of turning the property into cash.

Professors' industry?

"If this thing goes far enough," muses one legislator, "you could have the whole of American industry run by professors." Few tax authorities here in Washington take such a black view of the situation; but they are concerned over the loss of revenue to the Government.

The Joint Committee on Internal Revenue Taxation, tax research group for Congress, is taking a discreet look at this problem. It is expected to recommend that the appropriate House and Senate committees call hearings to find out if tax exemption is justified in these cases.

Educational institutions, of course, are only one group of enterprises whose income can't be tapped by the Federal tax collector. Labor unions, cooperative ventures, and religious and charitable associations enjoy similar immunity.

How about research profits

Among other things, Congress' researchers intend to look into research divisions of colleges which sell their services to private industrial concerns. Should the return on such projects accrue without tax to the university? Or should it be taxed as an outright business venture?

Experts on the joint committee's staff explain that educational institutions are merely one of the fields they intend to cover in their tax exemption study.

"We think it might be a good idea for Congress to call hearings on this subject," say one congressional tax adviser. "Then representatives of these institutions can come in and tell exactly why they feel they're entitled to tax exemptions. Maybe they can show a good case."

Cites general examples

High tax rates tied with soaring real estate values over the past few years have spurred the sale of land, buildings, and even manufacturing plants to educational foundations. Here are some examples:

Spiegel, Inc., Chicago mail-order house, last month sold an eight-story brick building and warehouse in Kansas City to Yale University for $1 million. The mail-order firm immediately leased back the properties from Yale for a 100-year period.

The University of Pennsylvania a year ago bought the block-square store building and land owned by Lit Bros., Philadelphia department store. Lit then leased the property for 23 years.

Ramsey Accessories Corp., St. Louis manufacturing company, early in 1946 sold all its assets to the Ramsey Corp. of New York for about $3 million. The New York concern is a tax-exempt organization all of whose profits go to the medical and law schools affiliated with New York University. It continues to operate the St. Louis company.

Union College, Schenectady, bought practically all of the real estate and buildings owned by Allied Stores Corp., department store chain, for about $16 million.

Are these deals questionable methods of tax evasion? Or are they a legitimate way for colleges and universities to add to their income when returns from stock and bond portfolios are small?

Tax men don't know answer

Internal revenue men aren't sure. They hope the joint committee's current investigation will garner enough information to show whether a change in the tax law is merited. Specifically, they want to know if the Government would be justified in seeking a tax "on institutional activities not incident to the direct purpose of the tax-exempt institution."

As the Federal law now stands, the source of income isn't important so long as it goes primarily for nonprofit religious, charitable, scientific, literary, or educational purposes.

Most States and cities also provide tax exemption for educational institutions. Washington University in St. Louis is an interesting, though by no means isolated, example.

By special legislative charter in 1853, the university's business holdings were exempted from municipal taxes. At the end of 1946, Washington University had a total endowment of $21.8 million, of which almost $8 million was invested in income-producing real estate. It owns 51 business buildings in St. Louis and two buildings in Kansas City. Included in its properties are a railroad freight station and switching yard, by virtue of which the United States Circuit Court of Appeals once ruled the university was in the railroad business.

Real estate investment return the last 2 years to Washington University has been between 6 and 7 percent. St. Louis municipal officials estimate the city's annual tax loss on university-owned property is about $220,000. Two suits to set aside the university's tax-exempt status have been defeated in the Missouri State Supreme Court, and a third is pending. Last January, university directors notified the city they will acquire no more property in St. Louis except that deemed necessary for "direct educational use or for the protection of or enhancement in value of present property."

Just beginning study

Congress researchers have only started to delve into the subject of universities in business. Chief of Staff Colin Stam says he has no estimate on how much revenue is lost to the Federal Government annually through such activities, but he believes the total is "substantial."

Under present market conditions, real property gives universities a better yield than almost any other security of equal safety. Over the long term it holds assurance of fairly stable income. Once any existing mortgages are amortized out of rentals, the entire income accrues to the institution.

Many a property owner finds it advantageous to sell to an educational foundation. A tax-exempt purchaser likely will offer a better price than an individual or corporation who must pay taxes on his acquisition. Moreover, the seller generally can lease back the property on a long-term basis. The rent he pays the university is deductible from his taxes as a business expense.

In many of the transactions thus far reported, properties have been old, and the seller has been able to report a capital loss for deduction from his income tax. In the case of Lit Bros., for instance, the sale of its store to the University of Pennsylvania resulted in a loss of $6.4 million. Of this total, $3.1 million was charged against operations for the 1946 fiscal year and the rest was charged to surplus.

Lit Bros. has agreed to pay the university an annual rental of $275,000 for the 23-year term covered by its lease. It has the option of three renewal periods at rentals to be determined later. The university reports that the income received from the rentals is "sufficient to pay interest and amortization on the mortgage ($3.8 million, held by the Metropolitan Life Insurance Co. of New York) and to provide, in addition, a substantial return on investment." The mortgage will be paid off at the end of the 23-year period and the university will own the property without encumbrance.

Philadelphia the testing ground

Philadelphia seems to have been a favored testing ground for university ventures into the ownership of department store buildings, Gimbel Bros. led off the parade back in 1944. It sold its block-square property bounded by Eighth, Ninth, Market, and Chestnut Streets to Fidelity-Philadelphia Trust Co. as trustee for a group of schools and colleges. Gimbels then leased back the store building. The beneficiaries include Yale and Cornell Universities, the University of Rochester, Lawrenceville School, and the Louis J. and Mary E. Horowitz Foundation, Inc.

The trustee gets an annual rental for a "fixed initial period" of 20 years; the lease gives Gimbels the right to renew for four additional 20-year periods. The owners paid $1 million in cash to Gimbels and assumed an outstanding mortgage of $4 million. The educational institutions will get back their entire initial cash investment within 12 years.

Frank & Seder Department Store in Philadelphia, a subsidiary of National Department Stores, was purchased some time ago by Yale. Snellenburg's building and land is owned by the Board of City Trusts which administers public and charitable trusts.

The CHAIRMAN. Thank you very much. Mr. Brown.

Mr. Dudley if you can come around tomorrow we will try to squeeze you in. I don't want you to feel you have been foreclosed if you insist upon talking.

Mr. DUDLEY. I am sorry, Mr. Chairman. I am leaving town in 10 days.

The CHAIRMAN. I thank you for your courtesies and we will give due consideration to your remarks.

Senator LUCAS. Mr. Brown, whom do you represent?

Mr. BROWN. I am director of the National Negro Council. We had 1,000,000 or more petitions signed to deny a seat in the Senate to former Senator Bilbo, for cause of his campaign to disfranchise 100,000 Negro war veterans at the Mississippi primary election, July 2, 1946.

Senator LUCAS. I did not ask you that.

I asked you whom you represent.

Mr. BROWN. I recall your asking me the same question at a previous hearing. You have never been very sympathetic with our interests, and constant antidiscrimination campaign.

Senator LUCAS. Of course, that is not true. As usual, you do not know just what you are talking about. I would like to ask you this question: Where are your headquarters?

Mr. BROWN. 1717 Euclid Street NW., Washington, D. C.

Senator LUCAS. How many people do you represent? How many people belong to your organization?

Mr. BROWN. I should say about 300,000.

Senator LUCAS. You mean paid up in dues?

Mr. BROWN. Persons who have subscribed to our principles of equal justice and opposition to discrimination on account of race or color.

Senator LUCAS. Who is the president of your organization?

Mr. BROWN. Dr. D. V. Jemison is chairman of the anti-Bilbo campaign and one of our founders and financial contributors.

Senator LUCAS. Where does he reside?

Mr. BROWN. Selma, Ala. He is president of the National Baptist Convention, representing 4,000,000 Negro Baptists.

Senator LUCAS. Does he come to Washington frequently?

Mr. BROWN. Yes; I hope to meet him this week in Pittsburgh, at the Baptist regional convention of 20 States.

Senator LUCAS. I would like to meet the doctor some time.

Mr. BROWN. I would be happy to have you meet him.

Senator LUCAS. You are the fellow who always testifies.

Mr. BROWN. I am the representative of the National Negro Council.

Senator LUCAS. Are you on any pay roll with the exception of this one?

Mr. BROWN. No.

Senator LUCAS. Are you sure of that?

Mr. BROWN. I am positive. I have filed my papers with the Secretary of the Senate as director of the National Negro Council, under the regulations of the act, provided by the Congress, with which I am sure you are familiar.

Senator LUCAS. How long have you been working for the doctor?

Mr. BROWN. I am representing the National Negro Council.

Senator LUCAS. How long have you been working for them?

Mr. BROWN. I have represented the National Negro Council for some time.

Mr. LUCAS. And your headquarters are in Washington?

Mr. BROWN. That is right.

Senator LUCAS. What do you do outside of lobbying?

Mr. BROWN. My work here includes opposition to all discriminatory legislation. It is a full-time job.

Senator LUCAS. That is what I thought. All right.

STATEMENT OF CLAUDE W. DUDLEY, MEMBER OF FIRM OF DUDLEY, JONES & OSTMANN, LAWYERS, WASHINGTON, D. C.

Mr. DUDLEY. My name is Claude W. Dudley and I am a member of the firm of Dudley, Jones & Ostmann, with offices in the Transportation Building, Washington, D. C. My firm is engaged in the general practice of law but most of our work is in connection with Federal taxation. For the past 25 years I have given practically all of my own time to tax practice. I am appearing here, however, neither as a representative of my firm nor of any of its clients. I am presenting my own personal views.

I am in favor of the general objectives of H. R. 1. With a substantial surplus assured for the fiscal year 1947 and a reasonable expectation of a large surplus under the existing tax rates for the fiscal year

1948, I believe that it is now time to apply part of that surplus to a reduction of taxes.

I have no conviction that the method of apportioning the reduction among the different taxpaying groups is the best that can be devised but neither have I any other method to suggest as superior. I do have a conviction that tax reduction should not be coupled with an increase in the personal exemptions. We cannot expect to support the present Government needs without a broad tax base. I should not be opposed to a larger reduction in the tax on the first $1,000 of taxable income above the present exemptions, provided the Budget will permit it, but I am strongly opposed to taking more people off the tax rolls.

I oppose the retroactive features of H. R. 1. I have heard three dates mentioned as starting dates for tax reduction; January 1, 1947, July 1, 1947, and January 1, 1948. Of these July 1, 1947, is my first choice, January 1, 1948, my second choice, and January 1, 1947, the least desirable. I do not think that it is sound fiscal policy to enact a law near the close of the fiscal year 1947 which burdens the revenues of the fiscal year 1948 with a tax refund load of $700 million. A large part of the individual tax bill is paid currently through the withholding tax and payments on quarterly estimates. Individuals have already budgeted their own fiscal situation for the first half of 1947 under existing tax rates and no good purpose will be served by handing them a retroactive windfall. Under the pay-as-you-go system you gentlemen seem to have adopted the policy that there shall be no retroactive tax increases. That is sound and I think that it is equally sound to adopt the same policy with respect to tax reductions.

There is one other feature of the bill which I strongly oppose. That is the provision granting an additional exemption of $500 to persons over 65 years of age. That apparently innocuous provision is just one more step in the wrong direction. I urge that it should not be taken and if the committee agrees with me in this, I request that the committee state in its report a definite policy against broadening the exempt class.

Tax exemption is a real evil. There were two fundamental reasons for the break-down of the French economy prior to the Revolution, extravagance of the Government and tax exemptions enjoyed by the nobility and the church.

This Congress is taking steps toward economy in government but is not as yet dealing with the tax-exemption evil.

I want to call to the committee's attention an article in the Wall Street Journal of April 12, 1947, under the title "Colleges in Business." It is there brought out that Yale University has recently bought a mail-order business property, the University of Pennsylvania a department store property, New York University a manufacturing business, and so on. Washington University of St. Louis has $8 million invested in income-producing real estate, so much that the city of St. Louis brought suit to set aside its tax exemption, after which the university agreed to buy no more business property in St. Louis. These are all evils stemming from the tax exemption accorded religious, charitable, and educational institutions, which will, no doubt, have the attention of the Congress at the proper time.

The fact that the Federal estate tax can be completely avoided under present law is another serious matter for consideration by the

Congress. Since Mr. Ford's death the papers have repeatedly referred to the Ford foundation which now owns a substantial part of the stock of the Ford Motor Co.

Its holdings are variously estimated at from $200 million to $600 million. The stock held by the foundation is nonvoting stock, whereas the Ford family retains most of the voting stock. In this way the family keeps control of the Ford business although it is actually the owner of a very small part of it. I am not blaming Mr. Ford or any others who have followed this course. I am, in fact, an admirer of Mr. Ford and am firmly of the believe that he has contributed greatly to the development of our economy. The present law invited him and others to do what they have done.

I am not sure that the estate tax is a good thing, but we have now had it on the books for 31 years and I assume that it is here to stay. If that is true, then a law should be passed which will prevent its avoidance.

As you know, an individual is not permitted to deduct for income-tax purposes more than 15 percent of his annual income. If the estate tax is to be retained a similar limitation should be placed on the amount of property which a man can devise to charitable organizations, tax-free, at his death. As the law stands today, one has merely to choose whether to leave his property to charitable organizations, tax-free, or whether to leave it to his family subject to the estate tax. The law invites this choice and we cannot blame those who make the choice against the tax revenue.

Equality of taxes is of extreme importance. The present inequality in taxing the income of married persons in the various States is a matter well worthy of the attention of this committee. The placing of all on an equal basis can be accomplished as a part of a general tax-reduction program, but at no other time. If the equalization is not undertaken as a part of the present bill, I suggest to the committee that it leave a leeway for further tax reduction in the coming year so that the problem can be met in connbction with that program.

The matters to which I have referred particularly require considerable study and perhaps it will be impossible to treat of them in the present bill. In the meantime, I suggest that the committee reject without prejudice the exemption granted in H. R. 1 to persons over 65 years, leaving the matter for later consideration in connection with a comprehensive study of tax exemptions.

The CHAIRMAN. We will meet at 10:30 tomorrow morning.

(Thereupon, at 1 p. m., an adjournment was taken until Thursday, May 1, 1947, at 10:30 a. m.)

(The chairman directed the insertion in the record at this point of the following statement by Mr. Robert B. Irwin, executive director of the American Foundation for the Blind, Inc.)

STATEMENT OF ROBERT B. IRWIN, EXECUTIVE DIRECTOR, THE AMERICAN FOUNDATION FOR THE BLIND, INC.

A few years ago when blind people were permitted a special $500 tax-free income allowance in recognition of their special expenses growing out of blindness, the tax-free allowance, through an oversight, was classified as a deduction instead of an exemption, which has complicated income-tax reporting by the blind, and has in many cases deprived them of some of the rights enjoyed by seeing taxpayers.

The income-tax law should be amended by reclassifying the $500 nontaxable-income allowance for the blind as an exemption instead of a deduction, just as is done for the aged in H. R. 1. This change should be made for the following reasons:

1. It makes it possible for employers to allow for this exemption when withholding the tax, thus giving blind people the use of their money as they earn it.
2. It permits the blind person to use the short form of tax report instead of the long form with which seeing people had so much difficulty as to require special action by Congress.
3. It permits blind people in the lower-income brackets to take advantage of the 10-percent deduction covering charitable contributions, sickness, etc., without itemizing the amounts so expended, just as seeing people do.

Employers should have no more difficulty in obtaining certificates of blindness than they will have in obtaining certificates of age.

Unless the change from deduction to exemption is made, blind people will be treated with less consideration than will be the aged when H. R. 1 becomes law, in spite of the fact that it is easier for a seeing aged person to make out his tax report than it is for a person without sight.

Blind taxpayers will greatly appreciate this recommended change, which introduces no new principle in the law.

INDIVIDUAL INCOME TAX REDUCTION

THURSDAY, MAY 1, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin, chairman, presiding.

Present: Senators Millikin (chairman), Taft, Bushfield, Hawkes, George, Barkley, Connally, Johnson, and Lucas.

The CHAIRMAN. The hearing will come to order please.

Mr. Roswell Magill is the first witness.

STATEMENT OF ROSWELL MAGILL, MEMBER OF CRAVATH, SWAINE & MOORE, NEW YORK CITY, N. Y.

The CHAIRMAN. Mr. Magill, will you state your name and your present business and brief us up a little bit on your background?

Mr. MAGILL. Roswell Magill. I am a member of the law firm of Cravath, Swaine & Moore in New York City. I am also a professor of law at Columbia University. I presume what the chairman wished me further to state is that I was Under Secretary of the Treasury in 1937 and 1938.

The CHAIRMAN. Thank you very much.

Will you be seated, or do you wish to stand?

Mr. MAGILL. It does not make any particular difference.

The CHAIRMAN. Whichever way suits you best.

Mr. MAGILL. Mr. Chairman, I have a very short prepared statement which I am afraid covers a good deal of the same ground that has been covered here before.

If it is agreeable to you I will go through this statement. If any of you have questions you wish to ask, either during or after I read the statement, I shall be glad to do what I can with them.

The CHAIRMAN. Go ahead, Mr. Magill.

Mr. MAGILL. Taxes, particularly individual income taxes, play a major part in shaping business decisions. Misdirected taxation, not merely the sheer burden of taxation, is perhaps the greatest threat to the free enterprise system in this country today. If we believe in free private enterprise, our tax system should be framed to permit free private enterprise to function and flourish for the general good.

Federal budgets of the size we must contemplate cannot be balanced without actively functioning business. The Congress and the Treasury must be quite as much interested in good business and full employment as anyone else.

The first step in bringing the Federal budget under control is to reduce expenditures. We cannot expect to go on indefinitely applying the highest peacetime tax rates we have known to the highest national income we have ever had. If expenditures are brought down $4, $5, or $6 billions, in line with the action of either House of Congress, substantial tax reduction, and a much more substantial payment on the debt than the President contemplated, can both be made.

Since Congress cannot at this time undertake a revision of the whole normal tax and surtax rate structure, the fairest procedure for tax reduction seems to be a straight across-the-board percentage cut in the individual income tax rates. If this is done, the present progressive rate structure will be left in effect, with a pro rata reduction. The big taxpayer will receive more benefit in dollars saved than the small taxpayer, but only because the taxes he has been paying are many times as great both in rates and amounts.

If income taxes are to be reduced, there are substantial reasons for allowing persons in the upper and middle brackets a full share of relief, as well as persons in the lower brackets.

First, the incomes of the men who manage American business fall in those brackets, and we want to encourage them as much as we can to vigorous activity in the next decade.

Second, since the wartime increases in taxes were sharpest in those brackets, in fairness they should now participate ratably in any tax reduction.

However great our corporations may become, they will be and must be managed by men. Any new capital, not developed by the business itself, will have to come from men. Surtax rates of the present magnitude are less likely to induce men to take on additional responsibilities or to make new investments than to persuade them to take a rest.

A citizen may be willing to pay half of what he earns as the price of civilized society; but when the Government in peacetime takes two-thirds or three-fourths of what he earns, he is apt first to grumble, then to slow up, then to stop taking on additional responsibilities. The revenue the Government has lost by being too grasping is incalculable.

Yet, we stagnate as an industrial nation, unless men are willing to get up early and work late, to risk money in new ventures and to take on new duties.

The whole force of the steeply progressive rates in the present surtax system is directed in opposition to the vigor and incentive and ambition of the young executive who wants to climb to the top of the ladder. The surtax rates tell him that he does not have much to gain by the climb.

One of our proper boasts in this country is that the boy from the farm or the small town has just as good a chance, perhaps a better chance, to reach the top, as the son of the well-to-do city family. That boy gets to the top by being a little more vigorous and intelligent, by producing more goods, and by making them better and cheaper than the next fellow.

The managers of American business produce for all of us, whether consumers or laborers or stockholders. Consumers and laborers and stockholders are all interested in promoting good management.

As a matter of fact, the first two groups, and particularly labor, have more at stake than the third.

The Treasury gains little from the top surtax rates. The total yield of the surtaxes on all taxable incomes of $50,000 and over at the present level of national income is about 8 percent of the total produced by the individual income tax. The total yield of the surtaxes on all taxable incomes of $100,000 and over is about 4 percent of total revenues from the individual income tax. Thus, the revenue reasons for such rates are not forceful, and the economic arguments against them are strong.

A substantial reduction in Federal expenditures, and a straight across-the-board cut in individual income-tax rates will have important beneficial effects on our economy.

First, it will give our citizens and the business world confidence that Congress at long last actually has the Federal budget under control; that the Federal Government is going to get $1 in value for $1 spent.

Second, it will encourage business executives, particularly young men, to work and to grow, for their earnings will have become something more than token payments in 40-cent or 30-cent or 25-cent dollars; that is, payments most of which are going to move on to the United States Treasury in income taxes.

The CHAIRMAN. Mr. Magill, are you familiar with H. R. 1?

Mr. MAGILL. I cannot say I am very familiar, but I am familiar with it; yes.

The CHAIRMAN. Generally speaking, do you approve it?

Mr. MAGILL. Yes; I do.

The CHAIRMAN. Have you any personal estimates of revenue over the next fiscal year?

Mr. MAGILL. I have not. I presume the reason I was invited down here was that I served as chairman of the Committee on Postwar Tax Policy, which got out a report a few months ago and did make such estimates, but I am a lawyer rather than a statistician, and I am not in a position to help you much on that score.

The CHAIRMAN. Are there any questions?

Senator LUCAS. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Lucas.

Senator LUCAS. Mr. Magill, I am not sure that you know that I introduced a bill in lieu of H. R. 1.

Mr. MAGILL. I have gone over your bill hurriedly, Senator. I am also not intimately familiar with it, but I know what it does in general.

Senator LUCAS. Will you tell me why you oppose an increase in personal exemption, say, from $500 to $600?

Mr. MAGILL. Well, as I responded to the chairman, H. R. 1 seems to me a good bill to adopt at this time. I do not mean to say by that I am necessarily opposed to the items that are contained in your bill. Indeed, some of them I heartily favor.

As to the matter you speak of, I presume the question you want to raise is whether or not it seems better to raise the exemption somewhat or to lower the rates somewhat in the way that H. R. 1 proposes.

Senator LUCAS. That is correct. In other words, when the Government needed money to run the war, they reduced the exemptions, and it was my thought that until we could get an over-all tax bill which would take into consideration all of the angles, as we must do some day, we ought to pursue the same method in increasing the exemptions we followed a few years ago in lowering the exemptions to raise the revenue.

Mr. MAGILL. Of course, there is much to be said for that. The argument the other way, I think, would be this: As you are, of course, all of you, even more aware than I, the rates, particularly in the middle and upper brackets, were considerably raised during the era of the thirties before the actual advent of the war. The history of the thirties was a history of the increase of those top rates, and the exemptions were not, I think, importantly changed during that period.

When the war came on, it was necessary to raise very much more money from the individual income tax; and, as you know, today the individual income tax is producing about half of the total revenue of the Federal Government.

In order to get that additional money, of course, the rates had to be applied where the income is; and the income, as I have sketchily indicated in my statement, is actually in the lower brackets and not in the upper brackets. Hence the exemptions had to be lowered.

Now, my own view has been that since the individual income tax is—and, as I see it, must be—the cornerstone of the Federal tax structure, it is desirable that citizens generally should be subjected to some income-tax payment so that they will be familiar with the fact that it is necessary to pay taxes in a society of this sort. Further, in that way I think people will have more interest in what is going on down here and in how the money is being spent.

Senator LUCAS. On that theory, everyone who makes any money at all should be on the tax rolls?

Mr. MAGILL. Of course, it is always a question that is difficult to solve as to what the exemption should be. I am sure all of us would agree that there ought to be some minimum amount excluded, that the income tax ought not to apply literally to everybody in the community, for one thing because of the great difficulty of collection from persons of very small income.

Now, whether the exemption should be $500 or $600 is a question that I am sure I could not answer in any absolute sense.

Senator LUCAS. I agree with you on your last statement. For instance, under H. R. 1 the individual who now pays a dollar income tax will still be paying 70 cents under H. R. 1, and under my bill, of course, he would be taken off of the tax rolls entirely. It does seem to me that those in the lower income brackets ought to have the real benefit—ought to have a tremendous amount of benefit at this particular time, in view of the high prices of everything that the lower income group is compelled to purchase.

In addition to that, increasing the exemption from $500 to $600, takes over 4,000,000 people off the tax rolls, which certainly should be of some benefit to the economy of Government as far as pay rolls are concerned.

Mr. MAGILL. Well, as I have said, the question as to whether the exemption should be $500 or $600 or $400, or some other amount, is certainly a matter of judgment which I am sure you men are more capable of solving than I am.

My own feeling would be, as I have said, to leave the exemption alone for the present. Whether or not you would choose to change it in the future, I do not know. I am thinking, of course, in terms of what I believe we use as a typical family, a married couple with 2 children, with $2,000 total exemptions.

It does not seem to me a bad idea to have a person who has $2,100, or whatever it is under those circumstances, to pay a little something to the Federal Government, to be aware of it that much. I have heard advocacy down here—I do not know whether it was in this committee—of the desirability of having even more citizens pay some kind of filing fee in connection with a tax return. This proposal has its points.

The CHAIRMAN. Kind of a general head tax?

Mr. MAGILL. Yes.

Senator TAFT. Poll tax?

The CHAIRMAN. Yes.

Mr. MAGILL. I think the last time I heard it was from David Lawrence; but whether or not he is still advocating it, I do not know.

Senator LUCAS. It might be a little difficult to get a poll tax in some States.

Senator CONNALLY. They all had them in the beginning. Practically every State in the Union had a poll tax at the beginning of the Government.

Senator LUCAS. That was before I was here.

Senator CONNALLY. You are here now.

The CHAIRMAN. Mr. Magill, obviously we had to have to keep this reduction within certain financial limits. There is a certain amount of money which we finally decide we will use for the purpose of tax reduction. Increased exemption of $100 would cost a billion and a half dollars in tax revenue.

In your judgment, considering the allocation of this over-all amount of tax reduction, do you think it would be better to apply the billion and a half by increasing exemption or by income-tax reduction?

Mr. MAGILL. I would do it by income-tax reduction. As I have tried to say here, as you know, most of all the Treasury and the Congress is betting an awful lot of money on a very high national income. The national income, I think we all agree, just must be kept up, if we are going to balance the budget and get along as we must do.

Now, as I view it, the way to see that this is accomplished is to see to it that the economy is functioning as actively and as well as we know how to make it. That, to a great degree, is in the hands of the managerial group who are in the surtax brackets in one place or another.

I think they badly need, at this time, the encouragement and incentive which an across-the-board tax reduction would give them. For that reason, I come to the conclusion that the enactment of H. R. 1 would be a good thing.

The CHAIRMAN. Senator Lucas, have you finished?

Senator LUCAS. You are familiar with the family-income splitting various States?

Mr. MAGILL. The community-property States?

Senator LUCAS. Yes.

Mr. MAGILL. As our committee said in its report, we think that is a very desirable reform. We have no opposition to that at all. Every time I visit a community-property State, which I did recently, I wish to goodness that I lived in one of them and enjoyed the advantages which people who live there have.

Senator GEORGE. The trouble with that is the first reduction we are giving—we would not give old maids and old bachelors any relief on their income in the community-property States.

Mr. MAGILL. That is the trouble. It so happened that the State which I visited was Senator Connally's State, and I can join him in admiration for it. But the man I was talking to was not married, and he did not think community-property was so good.

Senator LUCAS. Under the bill which I introduced, the old maid and the old bachelor would still be paying less taxes than they are paying today.

Senator CONNALLY. The community property in my State, at least, had nothing to do with income taxes. It has been our law for over a hundred years before anybody ever dreamed about income taxes.

Senator TAFT. If you take a school teacher with $1,200 income, under this bill, I would roughly guess they now pay $100, and under this bill they pay $70; but under Senator Lucas' bill, all they would get would be the saving on $100; that is to say, they would save about $20. It seems to me that under H. R. 1, a school teacher with $1,200—it seems to me that class has the heaviest burden of all to pay, and they get less reduction than they get under H. R. 1.

Mr. MAGILL. I have not actually completed that, but I suspect that what you are saying is true. I have wondered a little about Senator Lucas' bill in this respect: I would suppose that it is beneficial to people down at the bottom of the scale and that it is beneficial to people up at the top of the scale, but I am dubious as to its benefits as compared to H. R. 1 as to people in the, say, $5,000 to $15,000 range. I do not know about your school teacher, Senator Taft—about how she would fare.

Senator LUCAS. Your conclusions are erroneous.

Mr. MAGILL. Are they?

Senator LUCAS. Yes.

Mr. MAGILL. Well, I come to the fount of wisdom on the Lucas bill.

Senator TAFT. Increasing the exemption to $600 saves $20?

Senator LUCAS. That is the lower income groups. He is talking about my bill as a whole. The lower income groups get the benefit, and higher income groups get less benefit.

Mr. MAGILL. That is right. I have not figured it, but I wondered about the people in the middle.

Senator LUCAS. You will find in the charts which we will present before we get through that we really flatten out the curve and the fellows in the middle income groups are going to do all right.

Mr. MAGILL. I am glad to hear that. I did not know that was true.

The CHAIRMAN. In your judgment, would it not be better to get at the problem raised by Senator Lucas' bill, the one we have just been discussing, and a general revenue revision measure, or should we assume the billion dollar cost of that in this bill and thus reduce to that extent income tax relief?

Mr. MAGILL. We have thought of it in our committee, and I have thought of it personally, as being a matter for a general bill.

As all of you are well aware, there are a good many such matters. I do not know whether the Secretary of the Treasury enumerated them here. I remember he did in the House. There are a number of matters which are crying for attention and need to be dealt with in a general bill. I would list this as one of them. But in my judgment it is important to put through promptly a simple proposal like H. R. 1.

The CHAIRMAN. The split income relief in that part of Senator Lucas' bill would go to a relatively limited number of people.

Mr. MAGILL. I have thought so. I am shaken by what the Senator has just said. I would like to see your charts. As I say, unfortunately, I have not really studied that matter closely.

The CHAIRMAN. Are there any further questions?

(No response.)

The CHAIRMAN. Thank you very much for coming, Mr. Magill.

Senator Lucas?

STATEMENT OF HON. SCOTT W. LUCAS, A UNITED STATES SENATOR FROM THE STATE OF ILLINOIS

Senator LUCAS. Mr. Chairman, I have a brief statement that I want to read into the record, if I may, at this time.

I presume I can sit right where I am and be cross-examined just as effectively up here as I can down there.

Senator GEORGE. Maybe you want to be heard in executive session?

Senator LUCAS. I would like to be heard in executive session but I would like to be heard here also.

Senator JOHNSON. You probably will be.

Senator LUCAS. Mr. Chairman and members of the committee, we have heard much in these hearings concerning the immediate economic future of our country as it bears on the problem of tax reduction. Plainly, one of the most important factors to be taken into consideration in connection with any tax bill is the economic climate in which it is to be effective.

As has been shown recently by bitter experience, our economic future is less predictable than the weather. There are those who say with positive assurance that we are heading into a deflation which makes it imperative that we immediately enact a tax-reduction measure retroactive in character in order to stem the tide of deflation. This may very well be the case.

On the other hand, there are many signs which point in the opposite direction. National income and employment are at an all-time high. The major manufacturing industries have either concluded, or are about to conclude, their bargaining with their workers for this year, substantially without any major interruptions to production. Corporate profits are exceeding the fondest hopes of corporate executives and shareholders. There is no reason why we have to face a serious decline in the general prosperity, providing only that we can make the adjustment to a peacetime economy without serious strain.

Regardless of what lies ahead, it is clear to me that a majority of the Senate is determined to pass a tax-reduction measure. While I agree with the President that now is not the time to reduce taxes, nevertheless, the bill now being considered by the committee seems to me to be shot through with such glaring inequities that I have undertaken to introduce a substitute for it.

The President in his budget message to this session of the Congress called for the expenditure during the fiscal year 1948 of $37.5 billion. The Senate voiced its determination to trim that figure by $4½ billion. The House of Representatives set the cut at $6 billion. Although this disagreement between the two Houses of Congress has been in the hands of a conference committee of both Houses since March 4, almost 2 months ago, no agreement has been reached.

This, however, is not so important as is the fact that up till now not a single significant appropriation measure for fiscal 1948 has been enacted by both Houses of Congress. Of those considered by the House, the extent of the reduction in the figures of the President has been so slight as to give little warrant for assuming that either the goal of the House of a 6 billion dollar cut, or the goal of the Senate for a 4½ billion dollar cut is likely of realization.

The largest single item in the budget, namely, that for the armed services, which alone constitutes 30 percent of the budget, has not yet been reported out of the House Committee on Appropriations.

Unexpected contingencies not provided for in the President's budget may demand further expenditures of substantial proportions, of which the 400 million dollars of aid to Greece and Turkey are but a single important illustration. In making a tax reduction before expenditures become clearer, we are putting the cart before the horse. Moreover, it seems to me as elementary as it is sound that in times of high national income a significant start must be made toward retiring the enormous national debt which the war left in its wake. If we cannot start that retirement now, then when will we be able to?

Mr. Chairman, at this point I would like to put into the record just what the Appropriations Committee of the House has done up to this moment, comparing that with the estimates made in the President's budget all of which seem to me to be very necessary in seriously considering a tax measure of this kind.

I want to take this opportunity to compliment the Appropriations Committee of the House in attempting to cut the budget wherever possible, so long as the essential services of Government are not impaired and I think they are doing everything they can along that line.

For instance, the estimate in the Federal budget for Labor Department and Federal Security Agency was $1,763,412,300. As passed by the House of Representatives we find the figures to be $1,684,586,780 which constitutes a reduction of $78,825,520, or a 4.5 percent reduction.

For the Interior Department, the President's estimated budget was $295,420,420. As passed by the House of Representatives, its appropriation was $161,413,513, a reduction of $134,006,907 or in percentage terms 45.4.

Now I undertake to say from what I have heard around the Senate, that this particular appropriation will probably be increased by the Appropriations Committee of the Senate, but nevertheless, I am using the figures just as they came out of the House in this exhibit.

The figure for the Treasury and Post Office Departments in the President's estimated budget was $4,099,123,500. As passed by the House of Representatives, the appropriation for those Departments was $3,202,050,750 or a total reduction of $897,072,750, in percentage terms 21.9. In connection with that reduction, I call the committee's attention to the fact that there is an $800,000,000 item that I have included in additional funds for tax refunds as estimated by the Treasury Department, because in my judgment—and it seems to be the judgment of everyone—the Appropriations Committee of the House was wrong in reducing that amount—a bookkeeping transaction only. With that $800,000,000 included, we have a total in the estimated budget for the agencies I have mentioned of $6,157,956,220 as submitted by the President. That is what the President's budget included in the items that I have discussed. Appropriations for those same agencies passed by the House of Representatives to date with the $800,000,000 included, total $5,848,051,043, which results in a total amount of reduction under the Budget estimates of $309,905,177 or a percentage reduction of 5 percent up to this time.

Now, you will note at the bottom of the table I say this:

The President's budget for the fiscal year 1948 called for expenditures of 37.5 billion dollars. If the House version of the legislative budget should prevail, 6 billion dollars, or 16 percent, must be cut from the President's estimate. If the Senate version of the legislative budget should prevail, 4½ billion dollars, or 12 percent, must be cut from the President's estimate. To date $6,157,956,220 of the President's budget has been considered, or 16.5 percent. Out of this amount, the House has succeeded in cutting off $309,905,177, or 5 percent. The largest item in the budget which remains to be considered is that for the armed services, which is estimated at over 11.5 billion dollars. Interest on the national debt will be $5 billion. We know we have to pay that. International affairs and finance will call for 3.5 billion dollars. We know we have to pay that, and veterans' services and benefits will cost more than 7.3 billion dollars.

The House Appropriations Committee, as I recall, took out $350 million from the Veterans' Administration appropriation in the first deficiency bill through some mistake or error, and then when the bill will before the House they put the $350 million back.

Now, I place those figures in the record because that is all the figures in appropriations for 1948 which are available at this time, to show what has been done by the House.

As I recall, the Senate has not acted upon any 1948 appropriation. The Senate Appropriations Committee has reported the bill for the Labor Department and Federal Security Agency and I do think they may have decreased that appropriation below the amount the House passed by some 8 million dollars, which would not make much difference in the figures here.

I am also, Mr. Chairman, preparing another set of figures with respect to authorizing legislation which has been introduced by various members of the Congress which I have not yet completed. I think it has an important bearing on what we are considering here. It shows the bills that have been introduced in the Senate and the House authorizing the expenditure of money necessitating additional appropriations by this Congress, and it will run into billions of dollars.

Senator JOHNSON. Will they be in addition to the budget?

Senator LUCAS. Oh, yes. They have not been taken into consideration in the budget at all. For instance, I am thinking of one, universal military training, which is a bill that I probably would be for myself in due course, but it, as I recall, would cost a billion and a half alone. It is pending before the Congress, and I can see some possible emergency that might come along in which we might have to use that type of legislation. I hope not.

The CHAIRMAN. Senator, I do not want to interrupt you unduly.

Senator LUCAS. It is perfectly all right.

The CHAIRMAN. I want to say as to that $800 million, on account of the refund item, while I agree completely that that does not represent an economy, yet it may very properly represent a reduced expenditure in '48, and we are casting our expenditure budget on an actual expenditure basis. So if the House is correct in saying that we will not spend more than that, even though we may have to make it up in future years, it will represent a true reduction so far as expenditures are concerned.

Senator LUCAS. Well, Senator, I do not go along with that theory. If we are going to have to make it up sometime hereafter as suggested by the Senator, I do not see how we can just lop off $800 million on tax refunds.

In other words, you go on the theory, as I understand it that every fellow is going to make out an income tax schedule correctly, and that he knows exactly what his tax is going to be. The Treasury has been making these estimates for years and it does seem to me that they are in a better position to make a proper estimate than anybody else. Nevertheless, even if you included that, I may say it would not increase the percentage only a few points.

The CHAIRMAN. It would represent roughly an amount of reduction in a total of $1,009,905,177.

Senator LUCAS. Yes, sir. I think that is correct.

Mr. Chairman, we do not now lack a broad base of purchasing power among the mass of our people. What we lack are goods to satisfy their demand. This situation results in prices so high that persons whose incomes are relatively fixed find that they cannot compete in the market for the goods which are available. To add more money to the purchasing power now available, without adding a corresponding quantity of goods into the market will put a prop under the present high level of prices and seriously retard the gradual reduction in prices which would contribute so much to economic stability.

This statement was prepared before Dr. Edie made his statement yesterday. He takes the position that prices are never going to come down if we maintain the stable economy that we have at the present time. I just do not quite agree with that. As a layman, I may be wrong, but it does seem to me that prices are too high and that they have to come down.

Senator HAWKES. You also agree that a layman is sometimes right when the other fellow that does all this theorizing is sometimes wrong.

Senator LUCAS. I think you and I will both agree to that.

Senator HAWKES. I am sure I will agree with that.

Senator LUCAS. I was tremendously interested in the doctor's testimony but there were one or two things I could not subscribe to and that was one of them.

Senator HAWKES. Mr. Chairman, will the Senator pardon me for reminding him that Dr. Edie did say that he thought the higher prices of agricultural products that lend themselves to reduced cost of living in his opinion would have to subside and go down from where they are?

Senator LUCAS. Yes. He said that, that that was the one commodity that would fall in the next 12 or 18 months as I remember.

Senator HAWKES. And his theory was that the reason that had to fall was that it had gone up so much higher than the industrial products and so forth.

Senator LUCAS. The Senator is correct. Those who advocate a retroactive or immediately effective tax reduction are positively committing themselves to the proposition that a deflation is upon us. For, otherwise, the benefits of the tax reduction will have been dissipated in higher prices, and, if the deflation does not come promptly but appears at a later date, our ability then to reduce taxes will be curtailed, since taxes cannot be constantly reduced without seriously impairing the credit of the country. Moreover, if the object of the tax reduction is to provide a safeguard against a recession, then any tax reduction bill should insure that the maximum tax benefit goes to the lower income groups in order that the maximum stimulus may be given to purchasing power.

H. R. 1 makes tax relief retroactive to January 1, 1947. No valid reason has been advanced why a tax reduction should be effective for a period when income payments have been as high as they ever have been in any period in the Nation's history.

Senator HAWKES. Mr. Chairman, will the Senator from Illinois let me say in there that I agree you have got to keep purchasing power up but I also think that you have got to keep up the initiative of the people that produce the things that the people want to purchase, so that you will have them in volume to carry out the very thought you had a few moments ago, that you have got to have material, and that is the reason that I am interested in seeing that the tax is reduced in the place where it will stimulate investment to produce more things.

I agree with you, you have got to keep purchasing power up, but I think you have got to have a balance in there.

Senator LUCAS. Certainly managerial incentive is not stimulated retroactively. I do not think that it is. I do not think an argument can be made that you can stimulate incentive retroactively.

Senator JOHNSON. That is water over the dam.

Senator LUCAS. That is water over the dam, that is correct, and one of the bases of this tax bill is to stimulate incentive, and yet you make it retroactive as of January 1.

The CHAIRMAN. You cannot tempt a man with a breakfast that he ate this morning.

Senator LUCAS. That is very well put, Senator, thank you for the contribution.

The nature of the reduction in H. R. 1 has a plausible ring until you examine it. The plans of some Members of Congress to reduce taxes flatly by 20 percent across the board had to be modified for a very interesting reason. If the 20 percent reduction in taxes were to be really applied across the board, the result would have been to reduce the taxes of those few taxpayers with incomes in the highest brackets to a level below the tax paid in 1939, leaving moderate and lower income groups nowhere near the prewar level of taxation.

It is perfectly true that with Federal expenditures at a 37.5 billion level, the burden of taxation on the little fellow is going to be substantially higher than it was in 1939, and I am definitely, Mr. Chairman, for broadening the base and keeping it there but I do not follow the theory that you have to keep 47,500,000 people on the tax rolls forever in order to make a lot of these folks who pay a small sum of money in income tax payments good citizens or to make them patriotic or to remind them that they have a stake in government as has been testified to here by the experts.

I am just a layman as the Senator from New Jersey is—a fellow who has been around a little through the country and I believe I understand the country folks fairly well. If you want to make a bad citizen out of one of them just keep the Government prodding him all the time. We have heard this theory expounded by our friends on the opposite side of the aisle in the Senate time without number. They have said if you can remove controls, if you can get government out of business, and if you can get government away from the individual and let him have some peace, then everything is going to be all right. But in this tax bill you are going to permit the Government to continue to harass and annoy the little fellow who is down there paying 15 or 20 cents.

Senator HAWKES. From my contacts with the little fellows—and I know lots of them—they do not want the Government wasting money to put heavier taxes on them than would otherwise be the case. I think they are deeply interested in seeing the Government stop useless expenditures.

Senator LUCAS. Of course you are going to waste a lot of money if you fool around with 10, 15, 20 and 30-cent tax returns. That is a debatable issue right there, where it does not return a new dollar for an old one.

Senator BARKLEY. In that connection, I might make this suggestion: that those very people who are to be made patriotic by having Uncle Sam gouging at them are conscious of the taxation if they happen to own a small home or a piece of land or anything in the home, with the State, the county, the school district and the city, all taxing him, if he has got anything at all. They are reminded constantly that they are taxpayers. It seems to me we do not make them any better citizens by superimposing on that local taxation a few cents or a few dollars for the Government of the United States especially when it amounts to that to collect it.

Senator LUCAS. That is my theory exactly. The 1939 budget was only 9 billion dollars. You can get enough revenue of the size of 37.5 billion dollars only with a very broad base. But if we are ready to cut a tax reduction melon, we ought to try to give the money back to the various income groups in the same manner we increased the tax load.

H. R. 1 would cut revenues by 3.8 billion. If you are going to split up 3.8 billion dollars among the taxpayers, the way to do it obviously is to decrease taxes the same way they were raised to meet the cost of the war. The bulk of the increased revenue came from reducing personal exemptions. In 1939, personal exemptions were \$2,500 for married persons and \$1,000 for single persons, with \$400 for each dependent. Plainly we cannot go back to that level of personal exemptions and still raise 37.5 billions of dollars or even 30 billions of dollars.

But the way to reduce taxes is to restore to the extent that it is possible to do so the 1939 situation, and increasing exemptions is certainly a way to do this. Reducing surtax brackets by percentage points is another way of restoring the 1939 situation, for surtax brackets were increased to meet the cost of the war, too.

Here is an interesting set of figures. In 1939 the average family of four people with an income of $4,000 paid a tax of $12. I do not think that is enough. Under the present law that same family with the same income will pay a tax of $380, or roughly 31 times more than they paid in 1939. Under H. R. 1 that family would pay $304, or 25 times as much. Under my bill, this family would pay $274, more than $100 less than under present law, but still 23 times as much as before the war.

In 1939 that same family with an income of $25,000 paid $2,327. Under present law its tax is $8,522, nearly 3⅝ times as much as in 1939. Under H. R. 1, this family would pay $6,817, or nearly three times as much as they paid in 1939. Under my bill, this family would pay $5,525, somewhat more than twice the prewar tax.

In 1939 if that family's income was $500,000, it paid $303,568. Under present law, they pay $406,600 or 34 percent more than in 1939. Under H. R. 1, this family would pay $341,300, which is only 12 percent more than they paid before the war. Under my bill, they would pay $372,879, or still 23 percent more than they paid in 1939. My bill more closely fits the 1939 pattern of taxation, which may or may not be important.

This amendment has three parts. In the first place it increases the per capita exemption, now at $500, to $600. In the second place, it reduces the tax rate in each surtax net income bracket by two percentage points. Thirdly, it permits married persons to split their income for tax purposes, so as to eliminate the discrimination which now prevails between taxpayers in the nine community-property States and taxpayers in the rest of the United States.

The CHAIRMAN. May I interrupt? How much will your proposed reduction in surtax rates cost?

Senator LUCAS. I will reach that in just a few minutes.

The CHAIRMAN. All right. Go right ahead, please.

Senator LUCAS. The increase in personal exemptions. This feature, entailing a revenue loss of 1.6 billion dollars, will remove 4,700,000 taxpayers from the tax rolls. I pause to say this: That with 43,500,000 people on the tax rolls of this country, you can take 4,700,000 off and not do violence to that school of thought which believes that it is necessary to keep a number of people on the tax rolls in order to make good citizens out of them.

I regard this as a very important part of this tax reduction program.

In 1939 we had a total of 3,959,297 income tax returns filed. In 1947, according to my notation here, this figure will be 43,500,000. The economy in the administration of the tax law in the removal of 4,700,000 taxpayers from the rolls is not an item to be overlooked in these days of maximum economy in running the Government. I confess I have no sympathy with the views of some, who insist that paying taxes gives the citizen the feeling that he has a stake in his government, so that every citizen ought to be made to pay something in taxes, however small the amount. A person struggling to support a wife and two children with an income of $2,400 is likely to wonder at the manifest injustice of a tax system that reduces his ability to buy the bare necessities of life for his family. Under H. R. 1 this citizen would pay a tax of roughly $50. Under my bill he would pay nothing. That is due primarily to the increase in that personal exemption.

Increasing personal exemptions is a step in the direction of the 1939 tax structure and I maintain seriously that until we do write an over-all tax bill, if we are going to have any tax reduction whatever we ought to move back the same way that we went up until we reached a point where we can write the kind of tax bill that everyone desires to see in the future.

The enormous increase in Federal revenue was made possible only by broadening the base of the income tax. As we move forward to a permanent system of lower taxes, we shall have to continue to raise personal exemptions and thus remove more citizens from the tax rolls. It is a move obviously weighted in favor of the low-income groups, and is in accord with the basic principle of the income tax system which is geared to the ability of the taxpayer to pay taxes. Increasing exemptions add revenue to the lowest income groups—the very groups which provide the mass consumer market which must be maintained if a recession is to be avoided.

The reduction in the surtax brackets: This bill reduces tax rates by two points in each surtax net-income bracket. The reduction of the surtax net-income brackets by an equal number of percentage points tends to give more relief to the bottom end of the income brackets than to the top. This point can be readily grasped when it is pointed out that if you reduce a surtax net-income bracket where the rate is 20 percent by two points, you have reduced the rate in the bracket by 10 percent. If you reduce two points in the 80 percent bracket, you have reduced the rate in that bracket by only 2½ percent. This modification in the surtax net-income brackets is designed to give relief which is more than nominal to all taxpayers and tends to preserve the ability-to-pay principle.

Family income splitting: For years a glaring inequity in the tax law has been permitted to go uncorrected. The citizens of nine western States, Arizona, California, Idaho, Washington, Nevada, New Mexico, Texas, Louisiana, and Oklahoma, enjoy the privilege of dividing income between husband and wife, thus reducing the tax load substantially below the load carried by a similar family in a noncommunity property State. For example, under present law, a married person with no dependents residing in Colorado pays a tax of $24,795 on a salary of $50,000. If the same man and wife moves to California, they would pay a tax of only $18,164, enjoying in addition to the pleasure of living in California, a $6,631 increase in spendable income. Now I did not mean to reflect on Colorado.

The CHAIRMAN. You picked up two votes here.

Senator LUCAS. I did not mean to reflect on the climate or conditions in Colorado because I recently visited Denver and found it one of the most enjoyable of any of the places I have ever gone. You have wonderful people there and wonderful climate, nevertheless you know that you cannot outbrag California. That is why I put that in there.

The CHAIRMAN. We were delighted to have you, Senator.

Senator BARKLEY. You could make up for a good deal of that difference if you had the additional income you would get by not having to pay so much taxes.

Senator LUCAS. If I had the additional income in Colorado I really believe I would enjoy it more than California.

The CHAIRMAN. It is worth that much more to live in Colorado.

Senator LUCAS. This situation cannot continue to prevail. The legislatures of the States are memorializing the Congress to do something about this situation during the Eightieth Congress. Eight States, namely, Oregon, South Dakota, North Dakota, Nebraska, Illinois, Colorado, Kansas, and Iowa have petitioned the Congress to act.

My bill would put an end to the unstable situation which now prevails, and still the clamor of the taxpayers who have been sufficiently aroused about this disparity to petition us individually to do something. Under my bill a husband and wife, wherever they reside, would be permitted to divide their income for tax purposes.

I appreciate that it does have that feature that Senator George mentioned a moment ago which is probably bad. It does not help the widow, the single person, as much as it should, and I think that might be a difficult thing to write properly into a tax law, but even under my bill, that individual would be paying less taxes than he is paying at the present time.

Senator JOHNSON. He paid more taxes proportionately in 1939 too.

Senator LUCAS. That is correct, he did.

Senator JOHNSON. Much more than your bill——

Senator LUCAS. He always has.

Senator JOHNSON. Yes. You relieved him a little, I think.

Senator LUCAS. That is right. Unlike H. R. 1 which is designed to be effective retroactively to January 1, 1947, my bill is not effective until January 1, 1948. H. R. 1 would weaken the receipts in the fiscal year 1948 by lowering revenues in fiscal 1948 by almost 4 billion dollars. In addition to this 4 billion dollars, it is estimated that out of the receipts in fiscal 1948, three-fourths of a billion dollars in refunds would have to be paid to make up for the overpayments in the first 6 months of the calendar year 1947. My bill, by contrast, would take only approximately one and one-fourth billion dollars from the fiscal receipts of 1948 since it would be effective only for 6 months of the fiscal year.

The proposal to make the tax cut effective July 1 would create considerable difficulty. Most taxpayers pay taxes on a calendar year basis and are already paying 1947 taxes at present rates. That money is money which the Government should keep to be applied to the national debt.

On the other hand, a tax cut effective January 1, of next year may very well increase, rather than diminish revenue. The firm commitment to a lower tax rate will encourage the starting of new enterprises, greater production and more jobs, and from this expanding business activity larger revenues may be forthcoming.

In other words, if you pass a bill enacting such legislation effective on January 1, 1948, that gives everyone an opportunity between now and then to do the very planning that is necessary for this expenditure based on the incentives that we constantly talk about. It also would give the Treasury Department an opportunity to get its house in complete order to administer a tax that would take effect on January 1, 1948.

In conclusion, let me say that I agree with the President that a tax reduction is not in order at this time. I also would prefer a comprehensive revision of the Federal tax structure—I say I agree with the President that a tax reduction is not in order at this time.

Put it this way: Under the facts as presented up to now. That is the way I want to leave that.

I also would prefer a comprehensive revision of the Federal tax structure rather than a sporadic attack on the bits and pieces of our tax system. Is is my belief that H. R. 1 is unsound and inequitable but, if the majority of the Senate is determined to make this move, I urge the committee to adopt my amendment as being more nearly compatible with the ability-to-pay principle which is at the root of our income-tax system. It removes from the rolls taxpayers who are now struggling to maintain themselves, and corrects a flagrant inequity in the law.

If Dr. Edie is correct in maintaining that prices are going to continue to be high, then the mass purchasing power which is in the lower income groups should not be overlooked by Congress. We should help those people by making a simple correction by increasing the exemptions.

I shall read for the record a letter from William Green, president of the American Federation of Labor, in which he virtually endorses this bill that I have introduced, and I have one from Ed O'Neal, the head of the American Farm Bureau Federation, who endorses certain features and does not endorse others, under a resolution that they passed at their annual convention last year, and I have another from Russell Smith of the Farmers' Educational and Cooperative Union.

The CHAIRMAN. Senator, I assume you would like to have that go in?

Senator LUCAS. I would like to; yes, sir.

The CHAIRMAN. Can you get those to us in time?

Senator LUCAS. Yes. I will get those to you.

(The letters referred to appear on pp. 496-499.)

Senator HAWKES. Can you tell us what features Mr. O'Neal endorses?

Senator LUCAS. He endorses the community property tax, and as I recall, I think the resolution they passed indicates that they would like to see any surplus here placed on the national debt. I am not sure exactly on that point. The resolution will speak for itself, and I will place it in the record.

The CHAIRMAN. Senator, do you want these tables put into the record itself?

Senator LUCAS. Yes, at the proper time I think that when the Treasury official testifies I will then discuss these tables.

They are very very important and very illuminating in connection with the present tax law, H. R. 1, and the bill that I have introduced.

The CHAIRMAN. I wonder if these are the same tables that Secretary Snyder put it. They should be in the record.

Senator LUCAS. They are not the same tables. These tables have been prepared since Secretary Snyder testified, and they were prepared at my request. I asked him to make the comparison.

The CHAIRMAN. They ought to be in the record.

Senator LUCAS. I think, however, I will wait for the Treasury Department. I do not want the Treasury Department to think that they have to endorse my bill by simply having Mr. Surrey or some other individual examine these tables when they come on here. I think perhaps it would be a little better to have the Treasury witness on the stand when these tables are introduced.

Mr. Chairman, that concludes my statement.

The CHAIRMAN. Any questions, gentlemen?

(No response.)

The CHAIRMAN. Thank you very much, Senator.

If there are no questions we will call Mr. Surrey right now.

STATEMENT OF STANLEY S. SURREY, TAX LEGISLATIVE COUNSEL, TREASURY DEPARTMENT

The CHAIRMAN. There is a joint session of the Congress today so we will have to leave here at not later than a quarter after 12.

Mr. Surrey, will you be seated, or stand, as you wish. State your full name and your occupation.

Mr. SURREY. My name is Stanley S. Surrey, tax legislative counsel for the Treasury Department.

The CHAIRMAN. Do you have a prepared statement?

Mr. SURREY. No, I do not have a prepared statement. I was asked to appear here to discuss in a technical way the substitute of Senator Lucas for H. R. 1, and I am appearing here in this capacity.

Considering the substitute, and starting with section 2, this section provides for an increase in exemptions as Senator Lucas has stated. It increases the present per capita exemption from $500 to $600. A married couple under this increase would have a $1,200 personal exemption, a married couple with one dependent $1,800, and so forth.

This form of increase maintains the present per capita system which was adopted in 1944 as a simplification measure, and hence presents no new problems in that regard. As exemptions are increased, there is a question of whether we should retain the per capita system, but I do not think that question seriously arises at an increase to $600. This increase to $600 on a per capita basis relieves 4.7 million taxpayers from tax.

The committee will recall that in 1945, when the normal tax exemptions were increased, so as to give an exemption for the wife and an exemption for dependents, the result of that increase was to strike about 12 million taxpayers from the rolls.

I would imagine that due to inflationary conditions many of the 12,000,000 that were removed from the tax rolls in 1945 have wandered back on the rolls and are included in this 4.7 million taxpayers that are relieved of taxes under the increase in exemptions.

Senator GEORGE. Have you any break-down of that 4.7 million between families and individuals without families—single persons?

Mr. SURREY. I do not believe we have the break-down with us, but we will see if we can provide that for the record.

Senator GEORGE. I wish you would get that. I think it is important, to see whether or not you are simply turning out a few more people who have 2 or 3 children or whether you are turning out, or giving any relief practically, under that one single provision to a single person.

Mr. SURREY. I think under that revision relief is given to single people, as the tables will later on indicate, but I will try to see if we can get a break-down as to how many of the 4.7 million are single persons.

Senator GEORGE. I would like to know how many of the 4.7 who are single will go out under the increase in tax exemption of $100.

(The information requested follows:)

Of the 4.7 million taxpayers eliminated, 1 million are single persons.

Mr. SURREY. This increase in exemption would leave, as Senator Lucas has stated, about 44 million taxpayers on the rolls.

The increase in exemption may be considered as a cost-of-living adjustment in the light of the cost-of-living increase that has occurred. The $500 per capita exemption was established in 1944. The price rise since then has been such that if that figure were to be stated on a present-day basis it would be slightly over $600.

The CHAIRMAN. What would be the revenue losses?

Mr. SURREY. The cost of the increase, or the revenue loss as the chairman asked, is $1,646,000,000, of which $1,507,000,000, or 92 percent, goes to taxpayers with net incomes under $5,000.

There are some minor technical matters which should be adjusted if this phase of the substitute were to be adopted. But those could very readily be handled, such as changing the filing requirements and the declaration requirements, and so forth.

The next matter that I think we can discuss is section 5 which is the reduction in surtax rates. This section amends the surtax table to reduce the rate in each surtax bracket by two percentage points. Thus, the present surtax rate on the first $2,000 is 17 percent. Under the substitute it is 15 percent.

The present 5 percent reduction in tentative tax is retained, so that after the tax is figured at the reduced rates under the Lucas substitute, the 5 percent is then applied. In effect, this makes the actual reduction, the actual effective reduction, slightly under 2 percent or 1.9 percent.

If you consider the over-all result, the present normal and surtax rate on the first $2,000 is 19 percent. When you consider the normal tax, the surtax, and then take into account the 5 percent reduction, under the Lucas substitute, it is 17.1 percent. No new problems result from this form of reduction. It probably would be helpful here, as the Commissioner suggested in connection with H. R. 1, to incorporate the 5 percent reduction into a tax table.

The cost of the two percentage points reduction on a revenue basis is $1,156,000,000. Of this, $788,000,000, or 68 percent, goes to taxpayers under $5,000.

The third phase of Senator Lucas' substitute in section 3 and 4 deals with the splitting of family income. I am sure that the background of this subject is familiar to the committee. There is at present a great inequality in the treatment, tax treatment, of married persons at the same income level. There is a geographical inequality as a result of the fact that the community-property system existing in certain States is recognized for tax purposes under Supreme Court decisions, so that the division of community income between husband and wife in these States is recognized for tax purposes.

As a result of this, at a $5,000 net income, the tax in the community-property State is about 5 percent less, at $10,000 it is 15.7 percent less, at $15,000 is 22 percent less. At $25,000 it is 28.9 percent less, and at $50,000 it is 25 percent less.

Originally, there were eight community-property States. These are the traditional community-property States which have had this system practically from the start—California, Arizona, Texas, New Mexico, Washington, Nevada, Idaho, and Louisiana. These are the traditional community-property States as Senator Connally pointed out.

In 1945, Oklahoma enacted a community-property law which added Oklahoma to the list of States in which the tax burden is less on married people. I understand that about a week ago Oregon has done the same, so that Oregon is now a community-property State. As a result of their adopting a community-property system, taxpayers in Oregon in the middle brackets have, in effect, achieved a 30-percent reduction in Federal income tax, as a result of the action taken last week.

This problem, although it is generally called a community-property problem, is not simply a community-property problem. It is probably true that leaving out community property the discriminations among married couples in non-community-property States are just as serious.

The Supreme Court has decided in numerous decisions that a husband who receives earned income—salary, professional earnings—earnings of that type—cannot divide those earnings for tax purposes with his wife. However, if a husband has income from property such as dividends, interest, rental income from real property, there are methods whereby he can divide such income with his wife through outright gifts or certain trusts.

The result is that in non-community-property States, just looking at the non-community-property group alone, there are serious discriminations between people in the middle brackets, depending upon the type of income that the husband has.

The discrimination is against those families that possess earned income, because there is no effective tax way to split that income with the wife. A husband can make a valid contract with his wife that one-half of his earnings shall be hers but that contract is not recognized under Supreme Court decisions for tax purposes. However, a husband can give half of his stocks or bonds to his wife, and that is recognized for tax purposes, and there will be a resultant division of income. The result is that the present——

The CHAIRMAN. That is recognized for gift tax purposes?

Mr. SURREY. Yes, sir.

The CHAIRMAN. But thereafter the income——

Mr. SURREY. The income is recognized for tax purposes.

The CHAIRMAN. Joint tax?

Mr. SURREY. The wife can report her interest and dividends and the husband reports his interest and dividends. The result is that in non-community-property States, as between people living on earned income and those who live on investment income and have split their income, you have discriminations of the proportions that exist between community-property and non-community-property States.

In addition, this desire to split income in non-community-property States has resulted in a continuous search by taxpayers and tax counsel to see what devices will produce the effective splitting of income from property.

The CHAIRMAN. At what bracket does this subject become really important?

Mr. SURREY. The reduction takes effect above the first surtax bracket. At $10,000, the reduction is about 15 percent in tax, so that the question is how much of a reduction do you view as important: I would think it would become important at around that bracket.

Senator GEORGE. In the very high bracket it is not very important?

Mr. SURREY. At $100,000 it is about 20 percent and then it drops down under our present surtax rates because so much of the income gets in the upper brackets in any event. But I think the effect is appreciable until about $150,000. So it ranges from about $5,000 to $150,000.

The CHAIRMAN. Is it within the power of the States generally to remedy the situation themselves?

Mr. SURREY. Well, Oklahoma and Oregon have done it in the sense that they have adopted a community property system. I would imagine that they would have preferred that the remedy come from the Congress, because otherwise what is required is to take a system of property holding which these States have not hitherto regarded as desirable or necessary, or at least they are not used to it, and make them adopt such an entirely different system which may not be any better, as a property system. Since it is different, it requires the lawyers and the people in these States to learn a new system of property holding.

The CHAIRMAN. Of course, this relief itself would require a new process.

Mr. SURREY. You are mentioning Senator Lucas' proposal?

The CHAIRMAN. Yes, or any similar proposal. It requires a new system of calculation at least by the tax lawyers.

Mr. SURREY. I would like to mention that point a bit later but the difference is that when Oklahoma and Oregon adopted community property they did it for all purposes. I do not think they would have done it but for the importance as regards Federal taxation.

The CHAIRMAN. I was developing the point as to whether that relief by State action is available to the other States. The reason I asked that question is, I understand that in several States they have constitutional difficulties, that to work out a plan of that kind would require vast changes in their whole system of property law.

Mr. SURREY. That may well be, Senator.

The CHAIRMAN. I have been told that Arkansas finds itself in that predicament. But what I am trying to get at is: are those exceptional cases and is this relief available to the States on their own action generally speaking?

Mr. SURREY. I do not know enough about the constitutional provisions of the various States. I would say that the relief would be available at a considerable sacrifice in the well-settled methods in dealing in property in these various States: Many of them have adopted systems that they feel are more protective of the wife than community property systems. They have statutory methods of recognizing the wife's share in property and I think they would not, except for this reason, change those methods.

If enough States do it, in self-protection the other States will have to fall in line but the result then will be that everybody will have this tax reduction but it will come at a considerable confusion and dislocation of property interests in the various States.

The CHAIRMAN. That comes down to the question that each State must weigh the advantages against the disadvantages. Oklahoma and Oregon you say weighed the advantages and decided to do what they did do.

Mr. SURREY. But as you say, if at some point, with so many States shifting, it becomes a matter of such serious proportion, I think it is proper for the Federal Government to act—I don't think it is desirable to continue the inequalities as the other States slowly fall in line.

It would be far simpler to do it on a Federal basis.

The CHAIRMAN. If the State has it in its own power to remedy the inequality, the question then remains whether it should be left to the States or to the Federal Government.

Mr. SURREY. Except that generally speaking the emphasis in the Federal income tax has been to achieve a national uniformity as far as possible where there are not significant differences.

Senator LUCAS. If this bill were passed it would in nowise interfere with property laws in these various States. It would simply be a matter of rearranging the calculations.

Mr. SURREY. That is correct, Senator. I was coming to that. At the present time, there is considerable litigtion in this field, in the field of term trusts, family trusts, family partnerships, family corporations, attempted assignments of income——

The CHAIRMAN. May I interrupt? I want to make clear that I am not advocating that the States should do this. It just is a factor for consideration, and I thought it well to probe that angle of it.

Mr. SURREY. The amount of that litigation is quite serious both for the Government and taxpayers. Family partnership cases and family trust cases are among the principle items in controversies handled by internal revenue agents and cases in the Tax Court. There is even considerable litigation over community property to find out whether the taxpayer is actually domiciled in the community-property State and whether the particular income is community income or separate income.

Senator LUCAS. That is a problem for the Treasury Department, too.

Mr. SURREY. Yes. That is a difficult problem.

Senator LUCAS. This would eliminate all that?

Mr. SURREY. Yes; it would. The Congress and the Secretary have considered this problem for, I think, over 25 years. Mainly two solutions have been emphasized. One is mandatory joint returns which was rejected by the Congress in 1941 and 1942. That would be a system under which husband and wife are compelled to put their income into one single return and the tax is computed on the total income. The other solution was that something be done about the community-property States alone—to undo, for tax purposes, the community-property division—by taxing the person who earns the income in the community-property State and the person who manages it. That solution was rejected in 1941 by the Congress. It is a solution which would not deal with the problem adequately on a national basis because it would not affect the non-community-property States, in that it would not eliminate the present discrimination as between earned and unearned income in the non-community-property States.

Senator Lucas' substitute represents an approach that has recently been the subject of numerous bills and much discussion. This substitute adopts the approach of permitting equal splitting between husband and wife for tax purposes. This splitting is on a voluntary basis, using the mechanics of the present joint return, so that there is no fundamental change in the tax machinery in this respect.

Under the suggestion of the substitute, a married couple could file a joint return. If they did, instead of the present system of computing a single tax on the total income in a joint return, the tax would be first computed on one-half of the income, and then that tax, so computed, multiplied by 2. That would give the same effect as in community-property States where there is an equal division of income. It would not, as Senator Lucas pointed out, affect the distribution of the income or the allocation of the income for nontax purposes. It is simply a method of calculating the Federal income tax on a husband and wife who file a joint return.

Senator GEORGE. Under this amendment of Senator Lucas, would it apply to anything except earned income?

Mr. SURREY. It would apply to all forms of income.

Senator GEORGE. Dividend income?

Mr. SURREY. Dividend income.

Senator LUCAS. Everything that goes into making up a tax return.

Senator HAWKES. In other words, the total income of both husband and wife would be the income reported and it would be divided by 2 and the tax assessed and each one of them to pay that amount?

Mr. SURREY. The tax paid on the joint return would be twice the tax on one-half of the income, which has the effect of putting both halves in lower surtax brackets.

Senator HAWKES. I understood you to say that would be regardless of where the money went for other purposes.

Mr. SURREY. That is correct.

Senator HAWKES. In other words, it would be simply for tax purposes?

Mr. SURREY. That is correct.

The CHAIRMAN. Does that not run across a whole body of theory that the Treasury has adhered to regarding the actual dominion of income?

Mr. SURREY. I can answer that in this way, I believe. As I indicated, the Treasury and the Congress have attempted to produce equality among married couples for 25 years. That equality can be achieved in a variety of ways. One is by mandatory joint returns, another is by this approach. The present law attempts to allocate the income on the basis of control, real ownership, and so forth. That attempt has led to extensive litigation in this field. Any solution that produces equality between the parties will have to disregard the actual ownership of the property.

The CHAIRMAN. Is it not true that in the Treasury's effort to obviate avoidance or evasion you have put increasing emphasis over the years on the fact that you mentioned—real dominion of the money, the source or the origin of the money, and so forth and so on, and would this not run across a considerable body of theory of that kind?

Mr. SURREY. This approach is contrary to the existing approach—to existing concepts. However, I think that the existing approach has, as I indicated earlier, two basic defects. It does not produce equality because of the community-property situation and because earned income people cannot split their income while people with property can split their income if they do it correctly, such as by outright gift. In addition, the present system is productive of much litigation.

The CHAIRMAN. If we recognize this theory in this particular field, would it not tend to break down the dominion and control theories in other fields?

Mr. SURREY. I do not think it would necessarily have that effect.

The CHAIRMAN. Would it not start a tendency in that direction?

Mr. SURREY. I cannot see that it would, Senator.

The CHAIRMAN. Usually when you start off on a course of this kind, you are then called upon for relief in many directions by analogy.

Mr. SURREY. I do not think it would have that effect. It will have the effect of eliminating much of the litigation today to decide who is the actual owner for tax purposes. A person may be the actual owner under private law, but is not recognized as such under tax law. The present system produces a situation where a family partnership may be recognized for State law purposes but we do not recognize it for tax purposes because it is contrary to Supreme Court decisions on tax avoidance.

Under this substitute we would not have to question such devices because anybody could split their income by filing a joint return and it would eliminate the present incentive behind much of the litigation in this field today.

Senator HAWKES. May I ask this question: In many States—I think I am right—husband and wife in community-property States—husband and wife enter into an agreement that they do not want to come in under that community law; is that correct?

Mr. SURREY. Yes. You can do that in some States.

Senator HAWKES. That is perfectly legal?

Mr. SURREY. Yes.

Senator HAWKES. Could they have such an agreement in a community State, under this provision that you are talking about, and not be under the community-property law of the State, and yet avail themselves of this privilege of reporting for income-tax purposes as you have defined?

Mr. SURREY. They could, Senator.

The substitute of Senator Lucas simply states that in computing the Federal income tax on a husband and wife, we are not concerned with the actual ownership of the income as between the spouses.

Senator HAWKES. Or what type of income it is?

Mr. SURREY. Or what type of income it is.

Senator HAWKES. Earned or dividends or whatever it may be?

Mr. SURREY. That is correct. This substitute would have the effect of reducing taxes paid by married persons above the first surtax bracket in non-community-property States where they have earned income, in non-community-property States where they have investment income and have not divided it equally already, and in community-property States to the extent that there is separate income of husband and wife as well as community-property income. As I stated earlier, it would also reduce the incentive behind much of the litigation in this field today.

The absolute amount of the tax liability of single persons is not changed by this substitute. The substitute does increase the proportion of total tax paid by this class relative to married persons, on a proportional basis. The income splitting——

Senator HAWKES. In other words, the very fact that it lowers the tax paid by the married people in this joint reporting for tax purposes, that changes the relativity between the married person and the single person.

Mr. SURREY. Yes, Senator.

The CHAIRMAN. Mr. Surrey, we will be leaving here in about 15 minutes. So that it will not be lost in the shuffle, let me say that the other day I asked the Treasury to provide a break-down as to the sources of the revised estimates for fiscal year June 30, 1947.

Is the Treasury prepared to supply that?

Mr. SURREY. I have not got that with me today.

The CHAIRMAN. Would you mind looking into that over the noon hour and let us know what you find out?

Mr. SURREY. I will, sir.

The CHAIRMAN. Go ahead, please.

Mr. SURREY. The income splitting under the substitute applies only to the income of husband and wife and not that of children. Where children have separate incomes there would not be equal taxes for equal income families, because the children would have some income which would not be figured in this combined income.

If this approach to the Lucas substitute were adopted, study should continue to be made of this area to see if further measures to equality are eventually needed, especially if there is a trend to splitting income with children.

The use of the joint return would reduce the number of returns filed and make separate returns unnecessary, for example, in community-property States. If they wanted to, they could still file separate returns.

The CHAIRMAN. How many taxpayers would benefit?

Mr. SURREY. I will see if we can get that figure and supply it. I will have to get that figure.

(The information requested is as follows:)

Four and one-half million married persons would receive a reduction in taxes under the income-splitting aspect of the Lucas substitute.

The CHAIRMAN. Under this system would the wife or the husband be liable for payment of tax?

Mr. SURREY. Under the substitute, the present mechanics of the joint return are followed, under which the husband and wife are jointly and severally liable for the tax.

The CHAIRMAN. If one were not responsible, of course the other would have to pay the bill. If the other had a small source of income it might become confiscatory, might it not, through the irresponsibility of the other spouse?

Mr. SURREY. It could. That is the present system applicable today to married couples who choose joint returns.

Under the substitute, the present standard deduction, which is the deduction used in lieu of actually itemizing deductions—the present standard deduction is 10 percent of adjusted gross income up to a maximum of $500. This substitute amends that to provide a maximum of $1,000 for a joint return, which produces the same result as presently exists in community-property States.

Now, there are some technical aspects that I do not think require discussion; if the substitute were to be adopted, there should be some minor technical changes made.

The CHAIRMAN. How many taxpayers would benefit—would be taken off the rolls?

Mr. SURREY. No taxpayers would be taken off the rolls.

The CHAIRMAN. I am not speaking now of this. I am speaking of the exemptions.

Mr. SURREY. 4,700,000 taxpayers.

The CHAIRMAN. And the loss in revenue would be $1,646,000,000

Mr. SURREY. That is correct.

The CHAIRMAN. What would be the loss per present taxpayer. That figures about $350; does it not?

Mr. SURREY. You mean the loss of the 1.6 billion allocated to——

The CHAIRMAN. We will put it in terms of benefit. The benefit would be about $350 per taxpayer; would it not?

Mr. SURREY. You are dividing the 4,700,000 into 1 billion six?

The CHAIRMAN. That is right.

Mr. SURREY. But they are not the total recipients of the benefit because the people who stay on the rolls also get the benefit of the $100 increase. It extends throughout the entire surtax scale.

The CHAIRMAN. What would be the benefit to those who are taken off the rolls?

Mr. SURREY. It would vary, depending upon the amount of income they had. In other words, if a person had today only $50 of taxable income——

The CHAIRMAN. I am talking in terms of averages. If you lose 1,500,000,000 by taking those people off the rolls, does that not give you a basis of loss?

Mr. SURREY. You and I would benefit by that increase in exemption and the benefit to a person in a 25 percent bracket is 25 percent of $100, so I don't think we could get the figure you desire in that fashion.

The CHAIRMAN. What would be the figure on the class of income taxpayer that you want to benefit directly; to wit, the lower bracket taxpayer?

Mr. SURREY. I suppose the maximum benefit per exemption would be 19 percent of $100 which is $19. In other words, that person is completely removed from the rolls and he has the maximum benefit. Other people can be relieved from the rolls and the benefit would not be as great. If he had only $50 taxable income today, then he only gets the benefit of 19 percent times $50, which is $9.50. Do I make myself clear on that point?

The CHAIRMAN. Yes.

Senator HAWKES. Mr. Chairman, may I ask a question. I am a little confused on what you are talking about. The total reduction by raising that exemption would be $1,646,000,000?

Mr. SURREY. Yes.

Senator HAWKES. I thought what the chairman wanted to find out was how much of that $1,646,000,000 would go to people who actually fall off the roll through the raising of that exemption. How many dollars of that $1,646,000,000 would go to those people and how many would go to the people who still stayed on the rolls and paid taxes?

Mr. SURREY. I do not believe we have constructed our tables on that basis and we would have to supply that figure for the record.

(The information requested is as follows:)

One hundred and thirty-five million of the over-all $1,646,000,000 reduction would be received by the 47,000,000 taxpayers removed from the tax rolls.

The CHAIRMAN. That would be important, would it not? If we are casting a benefit for the particular purpose of benefitting a particular group of people we ought to know what benefit they are getting.

Mr. SURREY. I would say the maximum benefit per exemption they could conceivably get would be $19. Now, it tapers down from $19 depending upon how much taxable income they have.

The CHAIRMAN. It seems to me on that same point, it seems to me if the average benefit all the way up and down the line is $350——

Mr. SURREY. Average benefit could not be $350. The maximum benefit is——

The CHAIRMAN. I am not talking about this lower bracket.

Mr. SURREY. Even all the way along the scale the maximum benefit would be at the top bracket level of 85 percent—would be $85 per exemption. The maximum benefit that anybody could get per exemption would be $85.

The CHAIRMAN. I am talking about the average benefit. If you are losing $1,646,000,000 out of your revenues, the whole group of taxpayers are benefiting to that extent. The average is $350. Is that not correct?

Mr. SURREY. No.

The CHAIRMAN. No; that is not the average. I am in error; I am sorry.

Mr. SURREY. The maximum is $85 per exemption.

The CHAIRMAN. Yes; I am in error. I am sorry.

Senator LUCAS. Would not all taxpayers be benefited by my bill?

Mr. SURREY. I would say 47,000,000 people are benefiting, which is the existing number of taxpayers. Everyone would benefit.

Senator HAWKES. Mr. Chairman, I would like to ask Mr. Surrey this question: If there are 4,700,000 people going to be taken off the tax rolls by the raising of this exemption, and their average was only $10 tax saving, then that would only be $47 million; and if their average was 20 it would be twice that; so what is going to these people you want to help is a very minor point. That is what I had in mind, Mr. Chairman. It is a very minor thing. I do not mean that a minor thing is not helpful. Do not misunderstand me on that; but I mean, it could not, according to your own statement, that the maximum would be $19——

The CHAIRMAN. Senator, is it not your point that you are losing an enormous amount of revenue to give a very small part of that benefit to a very small group of people?

Senator HAWKES. That is exactly my point.

Mr. SURREY. I don't think I have made myself clear. Of this $1,646,000,000, one billion five hundred million, or 92 percent, goes to taxpayers with net incomes under $5,000. Now, with respect to a person who is taken off the rolls, he only needs the amount of relief necessary to get him off the roll. If he has $50 of taxable income, and that is all he has, all he needs is an increase of $50 in exemptions and he is off the roll, and you cannot give him any more unless you are going to give him a bonus or subsidy.

Senator HAWKES. My point is that you have got $1,646,000,000, according to you, and if I understand the thing at all, that has got to be distributed over 47,000,000 taxpayers. Now, by doing that thing you remove 4,700,000 taxpayers whom you benefit anywhere from $5 in taxable money—$5 to $19 maximum, you have said—so if you take the total maximum of $19—let us call it $20, just for easy figuring—and multiply 4,700,000 now, you have got 94 million out of the $1,646,000,000.

Mr. SURREY. The rest of that money goes to taxpayers who remain on the rolls.

Senator HAWKES. That is the idea.

Mr. SURREY. And who are in the low-income brackets.

Senator HAWKES. Well, it goes to the high-income brackets, too.

Mr. SURREY. Yes; it goes to the higher brackets, too.

Senator HAWKES. It goes to everything.

Mr. SURREY. But only $100 million goes to people above $5,000.

Senator HAWKES. I understand that; but the group that we are talking about benefiting, according to the figures you have given here, if I understand them, cannot benefit more than 20 times that 4,700,000. It will not benefit that much, according to your statement.

Mr. SURREY. They will benefit to the extent that they need the benefit.

Senator LUCAS. The statement that you made with respect to those——

Senator GEORGE. How much of it goes to the $5,000 and under?

Mr. SURREY. $1,500,000,000.

When I stated earlier that the maximum benefit to a person taken off the rolls by the increase in exemption was $19, I was thinking of a person who had a single exemption. A married person could get a maximum benefit of $38. A married person with one dependent could get a maximum of—if he is taken off the rolls—could get a maximum benefit of $57.

The CHAIRMAN. Call it an average of $30. That is $120,000,000 benefit to people that you are trying to benefit, and in doing that you are spreading a further benefit to people in higher brackets of the difference between $80,000,000 and $1,646,000,000; is that not correct?

Mr. SURREY. The brackets over $5,000 get only $100 million.

The CHAIRMAN. I understand that; but I mean this was slanted to get these people off of the rolls who are being pestered by having to pay small amount of taxes, and in order to do that you give them a benefit of, let us say, $120 million. But the whole course of your remedy involves $1,646,000,000 to people who are not in that degree of distress.

Mr. SURREY. If I were advocating an increase in exemptions, I would not urge it solely for the reason that it takes people off the rolls. It has the additional effect—in fact, it is the only way, I believe—that you can produce the maximum distribution of the benefits of a particular tax change to people in the low-income groups. Within this area, it further distributes the benefits to married people and people with dependents.

The CHAIRMAN. Mr. Surrey, could you come back at 2:30?

Mr. SURREY. Yes.

The CHAIRMAN. We will resume at 2:30.

(Thereupon, at 12:15 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The committee reconvened at 2:30 p. m., upon the expiration of the recess.

The CHAIRMAN. The hearing will come to order please.

STATEMENT OF STANLEY S. SURREY, TAX LEGISLATIVE COUNSEL, TREASURY DEPARTMENT—Resumed

Senator LUCAS. Mr. Chairman, I have now the letter of the American Federation of Labor, dated April 29, 1947. Briefly, this letter states as follows:

I appreciate very much the opportunity you have given me to comment on the tax bill which you propose to introduce to take the place of H. R. 1. Our study of the tax problem which confronts the Nation and of the programs offered convinces us that your proposal more nearly meets the requirements of a sound tax policy.

On the basis of an analysis we have made of your proposal, I am glad to make the following comments:

1. The American Federation of Labor does not believe that any pending tax measure should be retroactive or become effective before January 1, 1948. We believe that the effective date provided in the Lucas bill is eminently sound.

2. The American Federation of Labor is unqualifiedly opposed to any proposal for an across-the-board percentage reduction in individual income-tax liability. Our opposition extends to the modified version of this proposal embodied in H. R. 1 as passed by the House of Representatives. We believe that this method for reducing individual income taxes is in direct opposition to the principle of progressive taxation which labor strongly and insistently supports.

3. The tax problem must be viewed as a part of the entire fiscal policy of the Federal Government. Advisability of a sharp general tax reduction would depend first upon the existence of a substantial Government surplus and, secondly, upon the relative merits of tax reduction and debt retirement. Although it appears likely that a small budgetary surplus will in fact be achieved by the end of the current fiscal year, the exact size of this surplus likely to be reached in the next fiscal year depends upon a number of factors including the size of the national income and the amount of the appropriations made by Congress for the efficient administration of the Federal Government. The determination of these two factors is still a matter of speculation. Sudden decline in the national income in the course of the next fiscal year would upset calculations of the anticipated tax revenue. The appropriation bill is still far removed from final enactment, and the scope of the appropriation is far from having been determined.

This entire question, and particularly the relation between tax reduction and debt retirement, has to be viewed with regard to its effect upon the national economy. This is a matter which has to be given serious study and is one on which it seems to me the advice of the Council of Economic Advisers should be sought.

4. For these reasons, we feel that a 20 percent general reduction at this time is too drastic. Taxes should be lowered to the extent necessary for the maintenance of purchasing power adequate to sustain high production and high employment. At the same time, the lowering of taxes should be consistent with a long-term plan of retirement of the Federal public debt.

We believe that a tax reduction is necessary which will square with these objectives and would relieve the low-income groups of the heavy burden of taxation they have carried since the beginning of the war.

Removal of corporate excess-profit taxes so speedily enacted by Congress after the termination of hostilities, the provision for tax refunds and other corporate tax relief accorded corporations favored tax treatment. Wage earners, farmers, and other persons with moderate income who have shouldered the major share of the tax burden throughout the national emergency, are entitled to a fair measure of the tax relief.

5. We feel that your approach to this problem more nearly approaches the need than the method of granting an across the board straight percentage reduction, to which labor objects. It is imperative to lighten the tax load on families with moderately small incomes. Increasing the personal exemption is a simple and efficient method of obtaining this objective. In addition, the principle of

progressive taxation is best retained by the type of reduction you proposed, namely, a decrease by a specific number of points of the tax rate applied to each income bracket. We have not yet had the opportunity of making a detailed study of the effects of the straight 2-point reduction you propose to apply to the present graduation.

6. Your other proposal, the splitting of family incomes, deserves more study. It does have obvious advantages such as removing existing inequities in favor of certain Western States, and solving various enforcement problems. However, we are not convinced that this proposal would work equitably at the high income levels. It makes possible substantially lower tax liability for the individuals in the higher income brackets. The application of such a proposal should be confined to the taxpayers in the lower income brackets.

I hope these comments will prove valuable to you.

Sincerely yours,

(Signed) WILLIAM GREEN.

Now, without retracing my statement you can just exclude it all and I will ask to have it placed into the record. I might add that the Tax Department of the American Federation of Labor is working now on an additional statement with certain observations that are not included in Mr. Green's letter, and it may be that I will want to add that one tomorrow.

The CHAIRMAN. Senator, was there not another letter?

Senator LUCAS. There is another letter from the American Farm Bureau. The sum and substance of that letter encloses a resolution passed at the San Francisco convention. It says:

This will acknowledge your letter of April 18, asking for my comments on a tax bill which you propose to introduce in lieu of H. R. 1, the Knutson bill which has passed the House of Representatives and is now pending before the Committee on Finance of the Senate. The American Farm Bureau Federation at its Twenty-eighth Annual Convention, held in San Francisco last December, passed a comprehensive resolution on taxation. A copy of this resolution was sent to you and a number of other selected members of the House and Senate last January 13. So that you may have it before you in consideration of the bill which you propose, I enclose a copy of this resolution.

As you will note, our resolution calls for governmental economy and for applying all possible revenues to a reduction of our national debt, under present conditions of record national income. Hence, we can not support legislation providing for large tax reductions at this time. I hope you will study our recommendations for a long-time tax program.

You may be interested also in an action taken by the board of directors at its February meeting which went on record in favor of extension of community property laws to all States. The action taken by the board is as follows:

"That for Federal income tax purposes, we favor the extension to married couples within all States the privileges now enjoyed within those States having community property laws."

I appreciate your courtesy in sending me a copy of the bill which you propose. The whole subject is of such vital importance to the country I hope the Senate Finance Committee will give the matter thorough study.

Sincerely yours,

EDWARD A. O'NEAL, *President.*

I again request what I previously requested for this letter, as well as the resolution passed by the Farm Bureau, which is very interesting.

AMERICAN FARM BUREAU FEDERATION,
Washington, D. C., April 25, 1947.

Hon. SCOTT W. LUCAS,
United States Senate, Washington, D. C.

MY DEAR SCOTT: This acknowledges your letter of April 18, asking for my comments on a tax bill which you propose to introduce in lieu of H. R. 1, the Knutson bill which has passed the House of Representatives and is now pending before the Committee on Finance of the Senate.

The American Farm Bureau Federation at its twenty-eighth annual convention, held in San Francisco last December, passed a comprehensive resolution on taxation. A copy of this resolution was sent to you and a number of other selected Members of the House and Senate last January 13. So that you may have it before you in consideration of the bill which you propose, I enclose a copy of this resolution.

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Sincerely yours,

EDW. A. O'NEAL, *President.*

RESOLUTION ADOPTED BY VOTING DELEGATES OF THE AMERICAN FARM BUREAU FEDERATION AT ITS TWENTY-EIGHTH ANNUAL CONVENTION, SAN FRANCISCO, CALIF., DECEMBER 12, 1946

TAXATION

The American Farm Bureau Federation believes that a sound national tax policy is essential to the welfare of our entire economy. Taxes should be not only equitable and fair, but also chosen with due regard to their effect upon the economy.

The American Farm Bureau Federation is opposed to any material reduction in the income tax rates as long as inflationary tendencies prevail and there is a high level of employment. We call upon the Congress to use discretion and not use an instrument as vital to our national welfare as a tax and fiscal program for political purposes. We believe that under present conditions all possible revenues should be applied to a reduction in our national debt. Furthermore, we believe that every effort should be made to eliminate all nonessential Government expenditures and reduce essential expenditures to the minimum necessary for good government and adequate national defense. Maintenance of revenue and reduction of expenses are essential to stabilize our economy under present conditions.

The magnitude of the national debt makes it imperative that our national fiscal policies be handled prudently. Long-range plans should be made for the gradual reduction of the national debt; however, the debt retirement should be handled in such manner as to promote a stable price level and prosperous economy which, in turn, may necessitate adjusting both the amount of revenues and the volume of expenditures of the Federal Government with reference to levels of employment and national income. If this Nation is to remain solvent and meet the obligations, it is imperative that we maintain a high national income and a heavy tax program for many years to come. A long-time stable Federal tax policy should be adopted with a tax rate which balances the budget under normal business conditions. Such a program would allow for substantial payments on the national debt during periods of prosperity. Provisions should be made which will allow for prompt but temporary reduction of the lower bracket personal income tax rate within certain limits during periods of low business activity. At least, a tax program should be adopted which would not increase tax rates during periods of depression, or lower them unduly during periods of prosperity. The appropriate machinery for conducting research and making recommendations in the Federal tax and expenditure field should be established.

The personal income tax should be the major source of revenue for the Federal Government. We favor keeping the personal income tax base as broad as practicable through the retention of low exemptions and the avoidance of a general Federal sales tax. All self-supporting persons should make a direct contribution to the support of government. The income from all future issues of Federal, State, and local government bonds should be subject to the same taxation as other income. The personal income tax rate should be as high as necessary so that, together with Federal revenues from other sources, they will provide the funds to meet the expenses of government and provide for the gradual reduction of the national debt, without destroying the incentives for greater business activity and production. This theory of taxation should be strictly adhered to except when its continuance might lead to serious unemployment.

We recognize that if full employment is maintained, the bulk of the jobs must be provided by free enterprise. Therefore, the following recommendations are made pertaining to corporate taxes. The corporation should be exempted on that portion of its annual earnings distributed to the stockholders as dividends, where such dividends are taxed in the hands of stockholders. A reasonable proportion of corporation earnings retained should be taxed at the rate used in the first income bracket of the personal income tax. The balance of any amount retained should be taxed at a rate sufficient to encourage, but not to compel the distribution of earnings. Corporation taxes should be put upon a "pay as you go" basis, similar to individual income taxes at the present time. Proper safeguards must be developed, if the foregoing recommendations are adopted, to prevent abuses in tax avoidance by the corporate form of business.

We favor the principle of carrying forward and back losses to offset against gains for a reasonable period of time, both with regard to individual and corporate taxation.

Federal excise taxes should be largely limited to amusements and taxes on the so-called luxury goods, including alcoholic liquors and tobacco. The transportation tax on the movement of goods and commodities should be repealed. The Federal gasoline tax should be reduced to 1 cent a gallon and it should not exceed that amount. This tax should be paid only on gasoline used for transportation purposes, and all of the money so raised should be expended for construction and maintenance of transportation facilities. The long-recognized historic formula of allocating the highway funds among the States; namely, one-third on the basis of population, one-third on area, and one-third on post-road mileage, should be continued.

The Federal Government should declare a definite public policy in regard to replacing taxes lost to local governments through the acquisition of property by the National Government. Federally owned property, operated on an earning basis in competition with private enterprise, should be subject to payments in lieu of taxes comparable with taxes based on similar property when privately owned. Property acquired by the Federal Government, even though it does not compete with private enterprise, often diminishes the tax base of local governments. The Federal Government should compensate the net tax loss thus caused to local taxing units where such action on the part of the Government does not reduce correspondingly the expenses of the local taxing unit. Legislation should be enacted to bring the estate-tax offset law of 1926 up to date.

The Federal social-security taxes should not be increased until a study of the entire problem is made, showing the need for a change from the present rate. Taxes for unemployment compensation should be levied upon employer and employee alike.

Senator LUCAS. The letter from the Farmers Educational and Cooperative Union reads as follows:

FARMERS EDUCATIONAL AND COOPERATIVE UNION OF AMERICA,
Washington, 3, D. C., May 2, 1947.

Senator SCOTT W. LUCAS,
Washington, D. C.

DEAR SENATOR LUCAS: Thank you very much for giving us an opportunity to see the tax bill you propose to introduce in lieu of H. R. 1, the Knutson bill, recently passed in the House. Mr. Patton has asked me to reply to your letter since it was necessary for him to leave for a conference in Europe before he could give the measure the attention it deserved.

Certainly the bill you have proposed is a tremendous improvement over the Knutson bill. It is the belief of the National Farmers Union that all of the reductions in taxes, if indeed any are to be made, ought to be made for the benefit of of low-income groups. Naturally, the simplest way to do this would be to increase the exemptions. This not only would be an act of social justice but it also would do about as much as anything to bolster buying power of the people at large, as is evidenced from the beginning decline in consumer spending; the Nation will badly need this buying power in the coming year simply from a cold economic standpoint. As to your proposal for the splitting of family incomes, certainly this would correct one of the most glaring injustices in the present tax structure and I certainly think it is worthy of the most serious consideration.

Sincerely,

RUSSELL SMITH, *Legislative Secretary.*

The CHAIRMAN (addressing Mr. Surrey). Before the recess, I asked you about a break-down as to the revised estimates for the fiscal year of 1947. Did you find anything out about that?

Mr. SURREY. I made inquiry with respect to that, Senator, and I am not in a position to give it to you now, but I understand it is being prepared and it should be sent up either today or tomorrow.

The CHAIRMAN. Let us back track and recapitulate the testimony with respect to the exemption matter. As I understand your testimony, a total tax reduction of $1,646,000,000 will result from Senator Lucas' proposal for tax exemption, is that correct?

Mr. SURREY. That is correct.

The CHAIRMAN. And of this sum, 1 billion, 507 million, or 92 percent, will go to taxpayers under $5,000, is that correct?

Mr. SURREY. That is correct.

The CHAIRMAN. That would take off the rolls how many taxpayers?

Mr. SURREY. The effect of increasing the exemptions is to take off 4,700,000 tax payers.

The CHAIRMAN. And they would benefit to the extent of how much?

Mr. SURREY. The 4.7 million taxpayers who are removed from the rolls would receive thereby $135 million of the overall 1 billion, 646 million dollars.

The CHAIRMAN. Is that not a maximum figure?

Mr. SURREY. It is average of $28.55 per taxpayer of that group.

The CHAIRMAN. I invite your attention to H. R. 1 which would give benefits to the same group, that is those under $5,000 of $2,255,000,000.

Senator LUCAS. You mean this same group of 4,000,000?

The CHAIRMAN. Under $5,000, the total benefit under H. R. 1 would be $2,255,000,000.

Mr. SURREY. Senator, I may have perhaps given you the wrong impression. That $1,646,000,000, of which $1,500,000,000 goes to people under $5,000 is the effect solely of the increase in exemptions. There would be additional reduction for people under $5,000 as a result of the surtax reduction.

The CHAIRMAN. Yes, I understand that.

Mr. SURREY. We will get down later to the comparisons.

The CHAIRMAN. I wanted to see if we could not recapitulate and get clearly the effect of the exemption standing by itself.

Now, as to the joint return matter, have you figured out how many people will benefit from that?

Mr. SURREY. There are 4,000,000 married couples filing joint returns who would benefit, plus an additional one-half million married couples where each spouse files a separate return who would also benefit. The total is thus 4½ million married couples. In terms of million of taxpayers, the figure is 5,000,000.

The CHAIRMAN. 4½ million taxpayers?

Mr. SURREY. Yes, sir.

The CHAIRMAN. That is from the smallest benefit up to the largest.

Mr. SURREY. Yes, sir.

The CHAIRMAN. And the smallest benefit I assume starts in some very low brackets?

Mr. SURREY. Starts above the first surtax bracket.

The CHAIRMAN. And after you get up into the very high ones, the effect of it diminishes rapidly because the high rates apply to the split income as well as to the single income, is that correct?

Mr. SURREY. Yes; that is the explanation.

The CHAIRMAN. So that what might be called—you still have a question of definition of substantial—but the substantial benefits in anyone's language would start around the $10,000 point.

Mr. SURREY. I think we could express it this way: Income splitting produces a reduction of $721 million of which $551 million, or 76 percent, goes to taxpayers with net incomes between $10,000 and $100,000.

The CHAIRMAN. Yes.

That is what I was getting at. And that benefit would be appreciable beyond the $100,000 up to perhaps $200,000. Where does the point of diminishing return come in there?

Mr. SURREY. I think it is about $150,000.

The CHAIRMAN. From that point on it runs down rapidly.

Mr. SURREY. The effect of splitting becomes much less significant.

The CHAIRMAN. By the substantial benefit then of that $551 million out of the $721 million goes from——

Mr. SURREY. $10,000 to $100,000.

The CHAIRMAN. Thank you very much.

Senator GEORGE. Before you get away from that, let me ask this question:

It is not pertinent to anything you said. What is the exact tax imposed on the adjusted net incomes of $100,000?

Mr. SURREY. Under the present laws?

Senator GEORGE. Under H. R. 1.

Mr. SURREY. Under H. R. 1?

Senator GEORGE. Yes. What is the exact percentage—what percentage is cut off the present law on the adjusted income, per $1,000. We refer to it as 30 percent but I am trying to figure if it is 30 percent.

Mr. SURREY. There is a decrease of 30 percent in the tax liability under H. R. 1. That is, the tax liability on a net income after exemption of $1,000.

Senator GEORGE. Yes, from a thousand dollars up to 139 or whatever the figure is that you have got there—the first bracket, so to speak. Under H. R. 1 I am speaking.

Mr. SURREY. The effect of H. R. 1 is to give a 30 percent reduction.

Senator GEORGE. 30 percent?

Mr. SURREY. Yes. That is correct. In tax.

Senator GEORGE. In tax.

Mr. SURREY. Yes.

Senator GEORGE. Of the tax?

Mr. SURREY. 30 percent of the tax.

Senator GEORGE. Of the tax?

Mr. SURREY. Yes.

Senator GEORGE. All right. And then the effect of H. R. 1 from 1,390-odd dollars—I have forgotten what it is—well, $1,000 adjusted net income up to $1,390——

Mr. SURREY. The effect of the reduction declines from 30 percent to 20 percent in the notch area, which is from $1,000 to $1,396.

Senator GEORGE. $1,390 something.

Mr. SURREY. $1,396.

Mr. O'DONNELL. $1,395.83.

Mr. SURREY. This is the reduction in the notch area of $1,000 net income to $1,396. It is a flat reduction of $67 under H. R. 1.

The CHAIRMAN. The law provides it.

Mr. SURREY. The law provides——

Senator GEORGE. For all amounts?

Mr. SURREY. That is, the reduction in tentative tax that is produced under H. R. 1 in that area is a flat $67.

Senator GEORGE. For all amounts above $1,000.

Mr. SURREY. To $1,396.

Senator GEORGE. It is just in the notch.

Mr. SURREY. Yes.

Senator GEORGE. Notches are very vicious things. They always have been. I have never seen them work very equitably of course, but we have had to employ them. Now, what above the $1,390?

Mr. SURREY. That would be a 20 percent reduction.

Senator GEORGE. In the tax?

Mr. SURREY. In the tentative tax, until you get to incomes over $302,000, I believe it is.

Senator GEORGE. $302,000?

Mr. SURREY. Yes.

Senator GEORGE. It is about that, is it not?

Mr. SURREY. Yes.

Senator GEORGE. And then above that——

Mr. SURREY. And then the effect of the reduction shades down from 20 to 10.5 percent.

Senator GEORGE. Shades down as you go above that?

Mr. SURREY. Yes. It is a decreasing over-all reduction in tax from 30 percent to 10.5 percent.

Senator GEORGE. But all taxpayers get the 20 percent.

Mr. SURREY. No.

Senator GEORGE. Up to the $302,000?

Mr. SURREY. Yes, those up to $302,000 of income.

Senator GEORGE. Even those in the very top brackets?

Mr. SURREY. Yes. Up to $302,000.

Senator GEORGE. They get the 20?

Mr. SURREY. They get the 20. Now, as your income goes above $302,000——

Senator GEORGE. Above that they would get shaded down?

Mr. SURREY. Shaded downward. There is a 20-percent reduction in the tax on that part of the income up to $302,000 and about 10½ percent on the part over $302,000. As a result, the over-all reduction tapers off to 10½ percent above $5,000,000.

Senator GEORGE. Under H. R. 1, what is the saving to the income groups whose adjusted tax income is $5,000 or less?

Mr. SURREY. The saving——

Senator GEORGE. Total of it.

Mr. SURREY. Total amount is $2,327,000,000 for the net-income groups under $5,000.

Senator GEORGE. That is H. R. 1?

Mr. SURREY. That is H. R. 1.

Senator GEORGE. All right, thank you, sir.

The CHAIRMAN. The saving to the group above under a slightly different method of calculation is $1,441,000,000.

Senator GEORGE. Those figures have been gone over, Mr. Chairman, but I have not been here all the time.

The CHAIRMAN. Mr. Surrey, on the joint income matter it was developed this morning that that did not benefit the single person.

Mr. SURREY. That is correct.

The CHAIRMAN. It would not benefit a widow with children?

Mr. SURREY. That is correct.

The CHAIRMAN. It would not benefit a widower with children?

Mr. SURREY. That is correct.

The CHAIRMAN. It would not benefit a family where there was an even split of income, or a roughly even split of income?

Mr. SURREY. No. because they have achieved the maximum benefit they can get through a division of income—in other words they already have the benefit of the income-splitting plan.

The CHAIRMAN. There has to be substantial disparity in the incomes in order to have the thing become really effective?

Mr. SURREY. Yes. In that regard the present inequality comes about due to the fact that some families have achieved a split either through community property or property transactions in non-community property States and others have not.

The CHAIRMAN. The Treasury has been studying this subject for sometime, has it not?

Mr. SURREY. That is correct.

The CHAIRMAN. And has not the Treasurer given some thought to a solution based upon an entire family group rather than just the husband and the wife?

Mr. SURREY. You mean in connection with the method of income splitting?

The CHAIRMAN. In connection with the method of reporting family income, taking in the children, for example?

Mr. SURREY. Well, in the study which is under way we have been giving consideration to what should be the place of children under such a system of reporting income of husband and wife.

The CHAIRMAN. That is what I mean.

Mr. SURREY. The greatest inequality today comes about as a result of community property and transfers between husband and wife in non-community-property States and the effect of any income-splitting plan would be to eliminate the greatest inequalities and put on the same basis married couples without children, and also married couples with children where the children had no income.

Now, as respects married couples with children that have income, if there is a splitting of income as between the parents and the children you would have some inequality, and consideration might have to be given to that problem.

The Chairman. That has been considered by the Treasury has it not?

Mr. SURREY. That is under consideration.

The CHAIRMAN. The Treasury has not completed its studies on the subject, has it?

Mr. SURREY. As the Secretary indicated, it has not.

The CHAIRMAN. Thank you.

Mr. SURREY. Just finishing up the analysis of the substitute, Mr. Chairman, section 6 is a section authorizing the Secretary to prepare the necessary tables. Actual tables would have to be incorporated which could be prepared. Section 7 is the effective date——

The CHAIRMAN. Senator Lucas, would you like to have tables prepared on that?

Mr. SURREY. Those are the withholding tables and the optional tax tables and so on.

Senator LUCAS. I do not think that is necessary.

Mr. SURREY. The effective date is January 1, 1948, rather than January 1, 1947, as in the case of H. R. 1. With respect to the over-all revenue effects, H. R. 1 produces for a full year a reduction of $3,769,000,000. The substitute of Senator Lucas produces a reduction of $3,522,000,000.

With respect to the budgetary receipts in the fiscal year 1948, H. R. 1 produces a reduction of $3,994,000,000 plus an increase of $751,000,000 in refunds.

The substitute of Senator Lucas produces a reduction of $1,234,-000,000.

The CHAIRMAN. That is because it is operative only during a half of the fiscal year?

Mr. SURREY. That is correct. That is due to the difference in the effective dates, January 1, 1947, for H. R. 1 and January 1, 1948, for Senator Lucas' substitute.

The CHAIRMAN. The other day—I do not know whether you want to get into this, because you came, you stated, merely to discuss the technical features of the Lucas bill—the other day the Secretary of the Treasury stated he would not favor a reduction of taxes and he did not say when he would favor a reduction of taxes.

Would it not be easier to calculate a reduction in taxes effective as of today than it is to calculate a reduction of taxes as of today to be effective 6 months from now or 9 months from now?

Mr. SURREY. Well, I would think that the calculation in either case—you mean the amount of reduction that would be effected.

The CHAIRMAN. I mean as of today you have some tangible factors, as of today, but how do you know—how can you say today what the tangible factors will be on the first of next year.

Mr. SURREY. Well, I suppose, in that respect, as to the area covered from the first of next year and thereafter, both bills are on the same basis.

The CHAIRMAN. From the first of next year on?

Mr. SURREY. Yes.

The CHAIRMAN. Then there is a greater element of certainty so far as known facts are concerned in a bill that would start as of today?

Mr. SURREY. That would be true certainly with respect to the period that is behind us.

Now just a few more figures and then I may be finished.

With respect to the distribution of tax reduction by net income classes, you have touched on that briefly, Senator.

The CHAIRMAN. If you have anything more to say, go right ahead.

Mr. SURREY. I just wanted to say—with respect to the group under $5,000, 61.7 percent of the total reduction under H. R. 1 goes to that group, 65.6 percent under the Lucas substitute.

The CHAIRMAN. That includes the percentage——

Mr. SURREY. That is the effect of all the various changes.

With respect to the group over $5,000, the figure corresponding for H. R. 1 is 38 percent of the reduction, and for Senator Lucas' proposal 34 percent of the reduction.

The CHAIRMAN. Will you be good enough to give me that total figure under the Lucas bill?

Mr. SURREY. The total amount—you mean the entire reduction—is $3,522,000,000, of which $2,311,000,000, or 65.6 percent, is to the group under $5,000. $1,210,000,000 or 34 percent, is to the group over $5,000.

The CHAIRMAN. Would you be good enough to tell me, of the $2,311,000,000, how much is contributed by the exemption?

Mr. SURREY. Yes; $1,506,000,000 is contributed by the exemption, and $788,000,000 by the surtax reduction, and $16,000,000 by the split income.

Senator LUCAS. It should be observed at this point perhaps that while distribution under my bill is more than that under H. R. 1, the grand total of my bill is less.

Mr. SURREY. Yes, that is correct.

Senator LUCAS. Than what H. R. 1 is?

Mr. SURREY. Your substitute has a total over-all reduction of $247,000,000 less than H. R. 1.

Senator LUCAS. That is correct.

Mr. SURREY. Although the amount with respect to the group under $5,000 is about the same.

The CHAIRMAN. What would it be in case H. R. 1 is not retroactive?

Mr. SURREY. On a full-year basis?

The CHAIRMAN. Yes.

Mr. SURREY. You mean on a full-year basis? I am giving you figures on a full-year basis for both bills.

The CHAIRMAN. You made them comparable?

Mr. SURREY. Yes. They are comparable figures. This break-down might be helpful to you: With respect to the groups under $10,000, 69 percent of the amount under H. R. 1 goes to those groups, 73 percent under Senator Lucas' proposal. From $10,000 to $100,000, the same percentage, about 23 percent under both bills. For over $100,000, 7.6 percent of the reduction goes to that group under H. R. 1 and 3.3 percent under the Lucas substitute.

Now, that is by over-all net income classes. If you go on the basis of single people, married people, and so on, you have this break-down: With respect to single people below $950 of net income, they get more tax reduction under Senator Lucas' substitute than H. R. 1.

With respect to single people over $950, they get more reduction under H. R. 1.

With respect to married people below $1,900, there is a greater reduction under the Lucas substitute. From $1,900 to $6,000 of net income, the two bills are the same—that is within a dollar here or there.

From $6,000 to $155,000, there is more reduction under the Lucas substitute, unless the family has already achieved income splitting by various devices. Over $155,000 there is a greater reduction under H. R. 1 than under the Lucas substitute.

With respect to married people and two dependents, there is a greater reduction under the Lucas substitute up to $158,000. Over that there is a greater reduction under H. R. 1.

So that the effect of the income splitting is felt in that regard in that married people always receive a greater reduction up to $155,000 under the Lucas substitute than they do under H. R. 1.

Now, that would conclude the analysis of the——

The CHAIRMAN. Are you going to put those tables in the record?

Senator LUCAS. I have the tables here, Mr. Chairman, which I recently requested the Treasury Department to prepare for me, and I think Mr. Surrey has in his testimony been referring to some of the figures.

It may be that we should have these identified and request Mr. Surrey to make any further comment that he desires to make upon the respective tables.

Therefore, I introduce into the record at this time the first table, which is a comparison of the combined normal tax and surtax under present law and under House bill H. R. 1, and plan to increase the per capita tax $600, et cetera, which appears in my bill—A comparison of the three bills.

I do not know whether it is necessary to identify it as an exhibit or not?

The CHAIRMAN. I would just like to ask: Will those tables show the figures that Mr. Surrey has just been giving?

Mr. SURREY. The sequence of tables will show the figures.

The CHAIRMAN. Then, would you mind putting your consolidation of them into the record?

Mr. SURREY. I have them in sequence here.

Senator LUCAS. You have the same tables?

Mr. SURREY. I have the same tables.

Senator LUCAS. All right.

The CHAIRMAN. Can we find in one table the data you have just been giving?

Mr. SURREY. I do not think you can find all the data I have been giving from one table.

The CHAIRMAN. Then, would you mind putting into the record the tables which you have been giving us?

Mr. SURREY. The table with respect to $5,000——

Senator LUCAS. May I make a suggestion—that he take each table and briefly break it down and analyze it so we can follow it in the record. Otherwise, if we follow his previous testimony, we will be into a lot of tables.

The CHAIRMAN. That is agreeable to me.

Mr. SURREY. Then you would like to have me go through each table and state what it is?

Senator LUCAS. I would like to have you go through each table and explain for the record and for the committee just exactly what each table shows in connection with the present law, H. R. 1, and the Lucas bill.

Mr. SURREY. The first three exhibits are charts which are comparable to the charts inserted by the Secretary with respect to H. R. 1. These charts show the over-all results under the present law, H. R. 1, and the Lucas subsitute, for three different classes of persons—single persons with no dependents, married persons with no dependents, and married persons with two dependents. They show the over-all difference in effective rates under the two proposals.

The CHAIRMAN. The first three charts deal with the Lucas bill?

Mr. SURREY. The first three charts deal with the present law, H. R. 1, and the Lucas substitute.

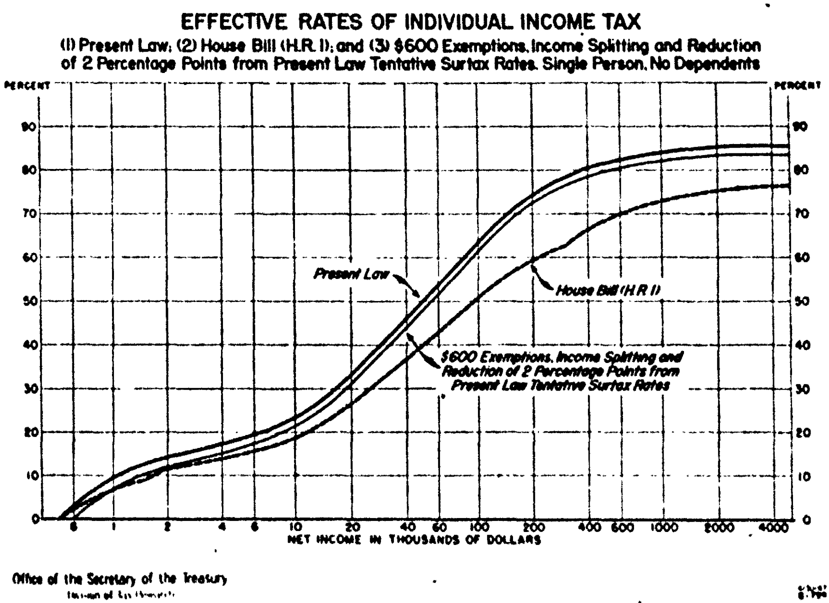
The CHAIRMAN. We are talking about two different things.

Senator LUCAS. Yes; that is right.

Mr. SURREY. Those are these exhibits here. They show the effective rates of the present law and the two bills. This chart is for single people, showing in effect that H. R. 1 gives a greater reduction above $950 of income than does the Lucas bill.

(The chart referred to is as follows:)

CHART I



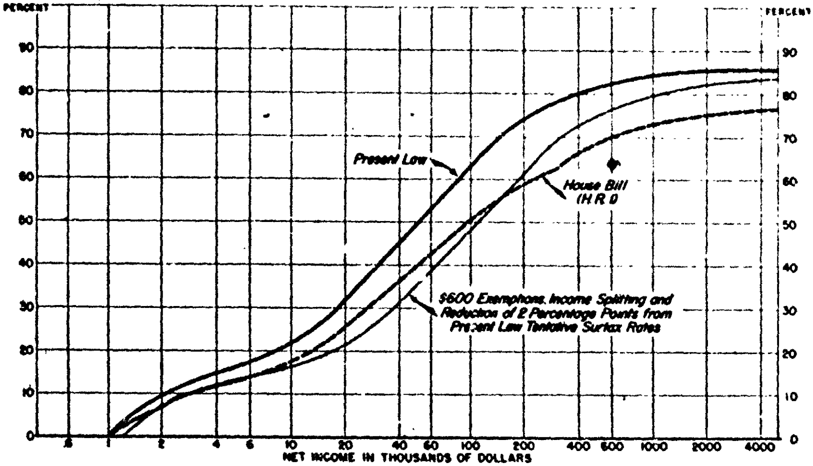
Mr. SURREY. The second chart, married persons with no dependents, shows that the Lucas bill gives a greater reduction in the low incomes, the same reduction about $2,000 to $6,000, greater reduction in the area from $6,000 up to about $155,000, and then H. R. 1 gives a greater reduction as you get above $155,000.

(Chart No. 2 is as follows:)

CHART II

EFFECTIVE RATES OF INDIVIDUAL INCOME TAX

(1) Present Law; (2) House Bill (H.R. 1); and (3) $600 Exemptions, Income Splitting and Reduction of 2 Percentage Points from Present Law Tentative Surtax Rates. Married Person, No Dependents



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Mr. SURREY. The third chart shows, with respect to married people and two dependents, the Lucas substitute gives a greater reduction until $158,000, roughly, and then H. R. 1—the curve of H. R. 1—falls below the Lucas substitute, indicating that the reduction under H. R. 1 is greater above $158,000 for married persons with two dependents.

Senator LUCAS. That is the average family, is it not?

Mr. SURREY. I would think so.

Senator LUCAS. Can we get those graphs into the record?

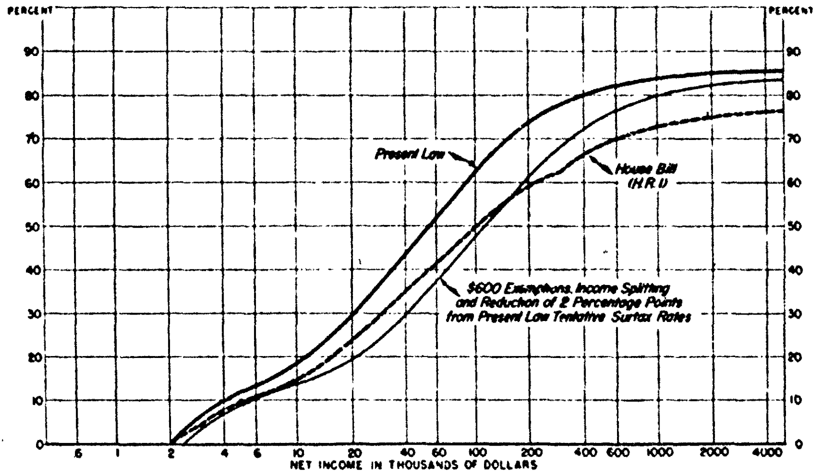
Mr. SURREY. Those are to be put into the record.

(Chart No. 3 is as follows:)

CHART III

EFFECTIVE RATES OF INDIVIDUAL INCOME TAX

(1) Present Law; (2) House Bill (H.R. 1); and (3) $600 Exemptions, Income Splitting and Reduction of 2 Percentage Points from Present Law Tentative Surtax Rates, Married Person, Two Dependents



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Mr. SURREY. With respect to the tables, I have here the first table——

The CHAIRMAN. You want the graphs put in?

Senator LUCAS. I would like to have them put in.

The CHAIRMAN. All right; put them in.

Mr. SURREY. The first table shows the over-all number of taxable income recipients, by net income classes, under present law, H. R. 1, and Senator Lucas' proposal, showing the over-all amount that is paid today and will be paid in these classes under the two proposals.

(Table No. 1, referred to, is as follows:)

TABLE 1.—*Estimated number of taxable income recipients and their individual individual income tax liability under present law,[1] the House bill (H. R. 1) and Senator Lucas' proposal,[2] distributed by net income classes, in the calendar year 1947*

[Assuming income payments of $166 billion]

Net income classes (in thousands of dollars)	Number of taxable income recipients			Total tax liability [3]		
	Present law	House bill	Senator Lucas' proposal	Present law	House bill	Senator Lucas' proposal
	Thousands	*Thousands*	*Thousands*	*Millions*	*Millions*	*Millions*
0 to 1	6,352.3	5,992.3	5,752.3	$299.5	$206.4	$161.6
1 to 2	20,138.9	19,768.9	17,549.8	2,830.6	2,033.9	2,098.0
2 to 3	14,322.0	14,227.0	12,930.2	3,602.3	2,846.9	2,820.4
3 to 4	4,655.5	4,655.5	4,520.3	1,827.7	1,411.8	1,424.7
4 to 5	1,333.2	1,333.2	1,321.3	775.9	609.0	617.7
Under 5	46,801.8	45,976.8	42,074.0	9,435.0	7,108.0	7,123.3
5 to 10	1,126.9	1,126.9	1,126.9	1,318.0	1,042.1	1,051.6
10 to 25	470.2	470.2	470.2	1,874.4	1,495.3	1,458.5
25 to 50	101.2	101.2	101.2	1,435.5	1,157.6	1,173.8
50 to 100	32.7	32.7	32.7	1,183.6	959.5	1,030.7
100 to 250	9.8	9.8	9.8	915.2	747.9	831.5
250 to 500	1.3	1.3	1.3	328.9	274.1	311.9
500 to 1,000	.4	.4	.4	234.5	202.3	227.7
1,000 and over	.2	.2	.2	276.2	245.5	270.1
Over 5	1,742.8	1,742.8	1,742.8	7,566.3	6,124.3	6,355.7
Grand total	48,544.6	47,719.6	43,816.7	17,001.3	13,232.3	13,479.0

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Senator Lucas' proposal would (1) increase the per capita exemption to $600, (2) reduce tentative surtax rates by 2 percentage points in each bracket, and (3) permit husbands and wives to split income, deductions, and exemptions equally.
[3] Includes normal tax, surtax, and alternative tax on net long-term capital gains.

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: Treasury Department, April 1947.

Mr. SURREY. The next table, which is one that has been referred to more frequently in the testimony, shows the break-down of the decrease in tax under H. R. 1 and under the various components of the Lucas proposal with respect to net-income classes under $5,000 and above $5,000, showing how the decrease in tax is divided among these various classes.

(The table referred to is as follows:)

TABLE 2.—*Comparison of the decrease in individual income tax liability under the House bill (H. R. 1) and Senator Lucas' proposal, by net income classes, in calendar year 1947*

[Assuming income payments of $166 billion]

Net income classes (in thousands of dollars)	Decrease in tax from present law under—				Decrease in tax from present law resulting from each provision of Senator Lucas' proposal					
	House bill		Senator Lucas' proposal		Increase per capita exemption to $600		Reduce tentative surtax rates by 2 percentage points [1]		Allow married couples to split incomes, deductions and exemptions equally [2]	
	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent distribution
	Millions		*Millions*		*Millions*		*Millions*		*Millions*	
0 to 1	$93.1	2.5	$137.9	3.9	$120.0	7.3	$17.9	1.5	....	.....
1 to 2	805.7	21.4	740.7	21.0	507.1	30.8	233.3	20.2	$0.3	(3)
2 to 3	845.4	22.4	871.9	24.8	558.2	33.9	313.0	27.1	.7	0.1
3 to 4	415.9	11.0	403.0	11.4	241.9	14.7	156.6	13.6	4.5	.6
4 to 5	166.9	4.4	158.2	4.5	79.4	4.8	67.5	5.8	11.3	1.6
Under 5	2,327.0	61.7	2,311.7	65.6	1,506.6	91.5	788.3	68.2	16.8	2.3
5 to 10	275.9	7.3	266.4	7.6	73.7	4.5	110.2	9.5	82.5	11.4
10 to 25	379.1	10.1	415.9	11.8	45.1	2.7	118.1	10.2	252.7	35.1
25 to 50	277.9	7.4	261.7	7.4	13.4	.8	59.9	5.2	188.4	26.1
50 to 100	224.1	5.9	152.9	4.3	5.1	.3	38.2	3.3	109.6	15.2
100 to 250	167.3	4.4	83.7	2.4	1.7	.1	23.2	2.0	58.8	8.2
250 to 500	54.8	1.5	17.0	.5	.2	(3)	7.1	.6	9.7	1.3
500 to 1,000	32.2	.9	6.8	.2	(4)	(3)	4.9	.4	1.9	.3
1,000 and over	30.7	.8	6.1	.2	(4)	(3)	5.7	.5	.4	.1
Over 5	1,442.0	38.3	1,210.6	34.4	139.3	8.5	367.3	31.8	704.0	97.7
Grand total	3,769.0	100.0	3,522.3	100.0	1,645.9	100.0	1,155.6	100.0	720.8	100.0

[1] After taking into account the increase in the per capita exemption to $600.

[2] After taking into account the increase in the per capita exemption to $600 and the reduction of the tentative surtax rates by 2 percentage points.

[3] Less than 0.05 percent.

[4] Less than $50,000.

NOTE.—Figures are rounded and will not necessarily add to totals.
Source: Treasury Department, April 1947.

Mr. SURREY. The next table, which is one that Senator Lucas mentioned earlier, is just a comparison of the combined normal and surtax rates under the present law, H. R. 1 and Senator Lucas' proposal.

(The table referred to is as follows:)

TABLE 3.—*Comparison of combined normal tax and surtax rates under present law,*[1] *House bill (H. R. 1) and plan to increase the per capita exemption to $600, permit husbands and wives to split incomes, deductions and exemptions equally, and reduce present law tentative surtax rates by 2 percentage points in each bracket*

Surtax net income		Combined normal tax and surtax rates					Percentage-point decrease (−) or increase (+) in rates compared with present law	
Exceeding	Not exceeding	Present law: Tentative rates	Present law: Rates after 5-percent reduction	Rates after reductions under House bill (H. R. 1)	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates: Tentative rates	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates: Rates after 5-percent reduction	House bill (H. R. 1)	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates
		Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$0	$1,000			13.30			−5.70	
$1,000	$1,396 [2]	20	19.00	20.00	18	17.10	+1.00	−1.90
$1,396	$2,000			15.20			−3.80	
$2,000	$4,000	22	20.90	16.72	20	19.00	−4.18	−1.90
$4,000	$6,000	26	24.70	19.76	24	22.80	−4.94	−1.90
$6,000	$8,000	30	28.50	22.80	28	26.60	−5.70	−1.90
$8,000	$10,000	34	32.30	25.84	32	30.40	−6.46	−1.90
$10,000	$12,000	38	36.10	28.88	36	34.20	−7.22	−1.90
$12,000	$14,000	43	40.85	32.68	41	38.95	−8.17	−1.90
$14,000	$16,000	47	44.65	35.72	45	42.75	−8.93	−1.90
$16,000	$18,000	50	47.50	38.00	48	45.60	−9.50	−1.90
$18,000	$20,000	53	50.35	40.28	51	48.45	−10.07	−1.90
$20,000	$22,000	56	53.20	42.56	54	51.30	−10.64	−1.90
$22,000	$26,000	59	56.05	44.84	57	54.15	−11.21	−1.90
$26,000	$32,000	62	58.90	47.12	60	57.00	−11.78	−1.90
$32,000	$38,000	65	61.75	49.40	63	59.85	−12.35	−1.90
$38,000	$44,000	69	65.55	52.44	67	63.65	−13.11	−1.90
$44,000	$50,000	72	68.40	54.72	70	66.50	−13.68	−1.90
$50,000	$60,000	75	71.25	57.00	73	69.35	−14.25	−1.90
$60,000	$70,000	78	74.10	59.28	76	72.20	−14.82	−1.90
$70,000	$80,000	81	76.95	61.56	79	75.05	−15.39	−1.90
$80,000	$90,000	84	79.80	63.84	82	77.90	−15.96	−1.90
$90,000	$100,000	87	82.65	66.12	85	80.75	−16.53	−1.90
$100,000	$150,000	89	84.55	67.64	87	82.65	−16.91	−1.90
$150,000	$200,000	90	85.50	68.40	88	83.60	−17.10	−1.90
$200,000	$302,396 [3]	91	[4] 86.45	69.16	89	[6] 84.55	−17.29	−1.90
$302,396 and over				[5] 77.35			−9.10	

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Indicates area of the notch provision under the House bill. The 33.5-percent reduction of present law tentative tax ends at $1,000 of surtax net income and the 24-percent reduction of present law tentative tax takes effect at $1,396.
[3] Point at which 15-percent reduction of present law tentative tax takes effect under the House bill.
[4] Subject to a maximum effective rate limitation of 85.5 percent.
[5] Subject to a maximum effective rate limitation of 76.5 percent.
[6] Subject to a maximum effective rate limitation of 83.5 percent.

Source: Treasury Department, April 1947.

Mr. SURREY. The next table is a comparison of the amounts of tax under present law, H. R. 1 and the Lucas' proposal with respect to single persons.

In other words, the amount of tax they will have to pay under the three situations.

Senator LUCAS. A single person with no dependents?

Mr. SURREY. A single person with no dependents. The table accompanying that shows the decreases in the amounts of tax for that class of taxpayers.

(The tables referred to are as follows:)

TABLE 4.—*Comparison of amounts and effective rates of individual income tax under present law,*[1] *the House bill (H. R. 1), and plan to increase the per capita exemption to $600, permit husbands and wives to split incomes, deductions, and exemptions equally*[2] *and reduce present law tentative surtax rates by 2 percentage points in each bracket, for specified amounts of net income*

[Single person—No dependents]

Net income before before personal exemption	Amounts of tax			Effective rates		
	Present law	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	Present law	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates
				Percent	*Percent*	*Percent*
$600	$19	$13		3.2	2.2	
$800	57	40	$34	7.1	5.0	4.3
$1,000	95	67	68	9.5	6.7	6.8
$1,200	133	93	103	11.1	7.8	8.6
$1,500	190	133	154	12.7	8.9	10.3
$2,000	285	228	239	14.3	11.4	12.0
$2,500	380	304	325	15.2	12.2	13.0
$3,000	485	388	418	16.2	12.9	13.9
$4,000	694	555	608	17.3	13.9	15.2
$5,000	922	737	813	18.4	14.7	16.3
$6,000	1,169	935	1,041	19.5	15.6	17.4
$8,000	1,720	1,376	1,550	21.5	17.2	19.4
$10,000	2,347	1,877	2,136	23.5	18.8	21.4
$15,000	4,270	3,416	3,952	28.5	22.8	26.3
$20,000	6,645	5,316	6,226	33.2	26.6	31.1
$25,000	9,362	7,490	8,843	37.5	30.0	35.4
$50,000	25,137	20,110	24,130	50.3	40.2	48.3
$75,000	43,477	34,782	41,986	58.0	46.4	56.0
$100,000	63,541	50,833	61,570	63.5	50.8	61.6
$250,000	191,772	153,417	186,947	76.7	61.4	74.8
$500,000	407,897	342,400	398,322	81.6	68.5	79.7
$750,000	624,022	535,835	609,697	83.2	71.4	81.3
$1,000,000	840,147	729,210	821,072	84.0	72.9	82.1
$5,000,000	[4] 4,275,000	3,823,210	[5] 4,175,000	85.5	76.5	83.5

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.

[2] Single persons obtain no benefit from income splitting. Consequently the tax decrease for single persons is limited to the exemption increase and the 2-percentage point decrease in tentative surtax rates.

[3] Assumes taxpayer is under 65 years of age.

[4] Taking into account maximum effective rate limitation of 85.5 percent.

[5] Taking into account maximum effective rate limitation of 83.5 percent.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

TABLE 4a.—*Decrease in amounts and effective rates of individual income tax compared with present law*[1] *under the House bill (H. R. 1), and plan to increase the per capita exemption to $600, permit husbands and wives to split incomes, deductions and exemptions equally,*[2] *and reduce present law tentative surtax rates by 2 percentage points in each bracket, for specified amounts of net income*

[Single person—no dependents]

Net income before personal exemption	Decrease in amounts of tax compared with present law		Percentage point decrease in effective rates compared with present law		Tax decrease as a percentage of present tax liability		Tax decrease as a percentage of net income after present tax liability	
	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates
			Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$600	$6	$19	1.0	3.2	30.0	100.0	1.0	3.3
$800	17	23	2.1	2.9	30.0	40.0	2.3	3.1
$1,000	29	27	2.9	2.7	30.0	28.0	3.1	2.9
$1,200	40	30	3.3	2.5	30.0	22.9	3.7	2.8
$1,500	57	36	3.8	2.5	30.0	19.0	4.4	2.8
$2,000	57	46	2.9	2.3	20.0	16.0	3.3	2.7
$2,500	76	55	3.0	2.2	20.0	14.5	3.6	2.6
$3,000	97	67	3.2	2.2	20.0	13.7	3.9	2.6
$4,000	139	86	3.5	2.1	20.0	12.3	4.2	2.6
$5,000	184	108	3.7	2.2	20.0	11.8	4.5	2.7
$6,000	234	127	3.9	2.1	20.0	10.9	4.8	2.6
$8,000	344	169	4.3	2.1	20.0	9.8	5.5	2.7
$10,000	469	211	4.7	2.1	20.0	9.0	6.1	2.8
$15,000	854	318	5.7	2.1	20.0	7.5	8.0	3.0
$20,000	1,329	419	6.7	2.1	20.0	6.3	10.0	3.1
$25,000	1,872	520	7.5	2.1	20.0	5.6	12.0	3.3
$50,000	5,027	1,007	10.1	2.0	20.0	4.0	20.2	4.1
$75,000	8,695	1,491	11.6	2.0	20.0	3.4	27.6	4.7
$100,000	12,706	1,971	12.7	2.0	20.0	3.1	34.9	5.4
$250,000	38,354	4,825	15.3	1.9	20.0	2.5	65.9	8.3
$500,000	65,437	9,575	13.1	1.9	16.0	2.3	71.0	10.4
$750,000	88,187	14,325	11.8	1.9	14.1	2.3	70.0	11.4
$1,000,000	110,937	19,075	11.1	1.9	13.2	2.3	69.4	11.9
$5,000,000	451,790	100,000	9.0	2.0	10.6	2.3	62.3	13.8

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Single persons obtain no benefit from income splitting. Consequently the tax decrease for single persons is limited to the exemption increase and the 2-percentage-point decrease in tentative surtax rates.
[3] Assumes taxpayer is under 65 years of age.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.
Source: Treasury Department, April 1947.

Mr. SURREY. With respect to the next two tables the same thing is shown as to married persons with no dependents.

The CHAIRMAN. Does it read comparison of amounts and effective rates of individual income?

Mr. SURREY. That is correct. That is for married persons with no dependents showing the actual amounts of tax that will be paid under H. R. 1 and under the Lucas proposal, and the accompanying table to that is the decrease in amounts of tax under the two proposals.

(The tables referred to are as follows:)

TABLE 5.—*Comparison of amounts and effective rates of individual income tax under present law,[1] the House bill (H. R. 1), and plan to increase the per capita exemption to $600, permit husbands and wives to split incomes, deductions and exemptions equally, and reduce present law tentative surtax rates by 2 percentage points in each bracket, for specified amounts of net income*

[Married person [2]—no dependents]

Net income before personal exemption	Amounts of tax			Effective rates		
	Present law	House bill, H. R. 1 [3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	Present law	House bill, H. R. 1 [3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates
				Percent	*Percent*	*Percent*
$1,200	$38	$27		3.2	2.2	
$1,500	95	67	$51	6.3	4.4	3.4
$2,000	190	133	137	9.5	6.7	6.8
$2,500	285	228	222	11.4	9.1	8.9
$3,000	380	304	308	12.7	10.1	10.3
$4,000	589	471	479	14.7	11.8	12.0
$5,000	798	638	650	16.0	12.8	13.0
$6,000	1,045	836	836	17.4	13.9	13.9
$8,000	1,577	1,262	1,216	19.7	15.8	15.2
$10,000	2,185	1,748	1,626	21.9	17.5	16.3
$15,000	4,047	3,238	2,835	27.0	21.6	18.9
$20,000	6,394	5,115	4,271	32.0	25.6	21.4
$25,000	9,082	7,266	5,936	36.3	29.1	23.7
$50,000	24,795	19,836	17,685	49.6	39.7	35.4
$75,000	43,092	34,474	32,128	57.5	46.0	42.8
$100,000	63,128	50,502	48,260	63.1	50.5	48.3
$250,000	191,340	153,072	164,441	76.5	61.2	65.8
$500,000	407,465	342,074	373,893	81.5	68.4	74.8
$750,000	623,590	535,449	585,268	83.2	71.4	78.0
$1,000,000	839,715	728,824	796,643	84.0	72.9	79.7
$5,000,000	[4] 4,275,000	3,822,824	[5] 4,175,000	85.5	76.5	83.5

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Assumes 1 spouse has all the income.
[3] Assumes taxpayer is under 65 years of age.
[4] Taking into account maximum effective rate limitation of 85.5 percent.
[5] Taking into account maximum effective rate limitation of 83.5 percent.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

TABLE 5a.—*Decrease in amounts and effective rates of individual income tax compared with present law*[1] *under the House bill (H. R. 1), and plant to increase the per capita exemption to $600, permit husbands and wives to split incomes, deductions and exemptions equally, and reduce present law tentative surtax rates by 2 percentage points in each bracket, for specified amounts of net income*

[Married person[2]—No dependents]

Net income before personal exemption	Decrease in amounts of tax compared with present law		Percentage point decrease in effective rates compared with present law		Tax decrease as a percentage of present tax liability		Tax decrease as a percentage of net income after present tax liability	
	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates
			Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$1,200	$11	$38	1.0	3.2	30.0	100.0	1.0	3.3
$1,500	29	44	1.9	2.9	30.0	46.0	2.0	3.1
$2,000	57	53	2.9	2.7	30.0	28.0	3.1	2.9
$2,500	67	63	2.3	2.5	20.0	22.0	2.6	2.8
$3,000	76	72	2.5	2.4	20.0	19.0	2.9	2.8
$4,000	118	110	2.9	2.8	20.0	18.7	3.5	3.2
$5,000	160	148	3.2	3.0	20.0	18.6	3.8	3.5
$6,000	209	209	3.5	3.5	20.0	20.0	4.2	4.2
$8,000	316	361	3.9	4.5	20.0	22.9	4.9	5.6
$10,000	437	559	4.4	5.6	20.0	25.6	5.6	7.1
$15,000	809	1,212	5.4	8.1	20.0	30.0	7.4	11.1
$20,000	1,279	2,122	6.4	10.6	20.0	33.2	9.4	15.6
$25,000	1,816	3,146	7.3	12.6	20.0	34.6	11.4	19.8
$50,000	4,959	7,110	9.9	14.2	20.0	28.7	19.7	28.2
$75,000	8,618	10,969	11.5	14.6	20.0	25.5	27.0	34.4
$100,000	12,626	14,868	12.6	14.9	20.0	23.6	34.2	40.3
$250,000	38,268	26,898	15.3	10.8	20.0	14.1	65.2	45.9
$500,000	65,391	33,571	13.1	6.7	16.0	8.2	70.7	36.3
$750,000	88,141	38,321	11.8	5.1	14.1	6.1	69.7	30.3
$1,000,000	110,891	43,071	11.1	4.3	13.2	5.1	69.2	26.9
$5,000,000	452,177	100,000	9.0	2.0	10.6	2.3	62.4	13.8

[1] Internal Revenue Code, as amended by the Revenue Act of 1945.
[2] Assumes 1 spouse has all the income.
[3] Assumes taxpayer is under 65 years of age.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

Mr. SURREY. The next set of tables is the same thing with respect to married persons with two dependents, showing in the one table the amounts of tax to be paid and in the next table the decrease in the amounts of tax.

These tables are similar in type to the tables presented by the Secretary with respect to H. R. 1 and we understood that was the information that was desired with respect to the Lucas substitute.

(The tables referred to are as follows:)

TABLE 6.—*Comparison of amounts and effective rates of individual income tax under present law,[1] the House bill (H. R. 1), and plan to increase the per capita exemption to $600, permit husbands and wives to split incomes, deductions, and exemptions equally, and reduce present law tenative surtax rates by 2 percentage points in each bracket, for specified amounts of net income*

[Married person [2]—2 dependents]

Net income before personal exemption	Amounts of tax			Effective rates		
	Present law	House bill, H. R. 1 [3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates	Present law	House bill, H. R. 1 [3]	$600 per capita exemption, income splitting, and 2-percentage point reduction in tentative surtax rates
				Percent	*Percent*	*Percent*
$2,500	$95	$67	$17	3.8	2.7	0.7
$3,000	190	133	103	6.3	4.4	3.4
$4,000	380	304	274	9.5	7.6	6.8
$5,000	589	471	445	11.8	9.4	8.9
$6,000	798	638	616	13.3	10.6	10.3
$8,000	1,292	1,034	988	16.2	12.9	12.4
$10,000	1,862	1,490	1,368	18.6	14.9	13.7
$15,000	3,639	2,911	2,516	24.3	19.4	16.8
$20,000	5,890	4,712	3,906	29.5	23.6	19.5
$25,000	8,522	6,818	5,525	34.1	27.3	22.1
$50,000	24,111	19,289	17,035	48.2	38.6	34.1
$75,000	42,323	33,858	31,405	56.4	45.1	41.9
$100,000	62,301	49,841	47,462	62.3	49.8	47.5
$250,000	190,475	152,380	163,449	76.2	61.0	65.4
$500,000	406,600	341,300	372,879	81.3	68.3	74.6
$750,000	622,725	534,675	584,254	83.0	71.3	77.9
$1,000,000	838,850	728,050	795,629	83.9	72.8	79.6
$5,000,000	[4] 4,275,000	3,822,050	[5] 4,175,000	85.5	76.4	83.5

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Assumes 1 spouse has all the income.
[3] Assumes taxpayer is under 65 years of age.
[4] Taking into account maximum effective rate limitation of 85.5 percent.
[5] Taking into account maximum effective rate limitation of 83.5 percent.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

TABLE 6a.—*Decrease in amounts and effective rates of individual income tax compared with present law*[1] *under the House bill (H. R. 1), and plan to increase the per capita exemption to $600, permit husbands and wives to split incomes, deductions, and exemptions equally, and reduce present law tentative surtax rates by 2 percentage points in each bracket, for specified amounts of net income*

[Married person[2]—2 dependents]

Net income before personal exemption	Decrease in amounts of tax compared with present law		Percentage-point decrease in effective rates compared with present law		Tax decrease as a percentage of present tax liability		Tax decrease as a percentage of net income after present tax liability	
	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage-point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage-point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage-point reduction in tentative surtax rates	House bill, H. R. 1[3]	$600 per capita exemption, income splitting, and 2-percentage-point reduction in tentative surtax rates
			Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$2,500	$29	$78	1.1	3.1	30.0	82.0	1.2	3.2
$3,000	57	87	1.9	2.9	30.0	46.0	2.0	3.1
$4,000	76	106	1.9	2.7	20.0	28.0	2.1	2.9
$5,000	118	144	2.4	2.9	20.0	24.5	2.7	3.3
$6,000	160	182	2.7	3.0	20.0	22.9	3.1	3.5
$8,000	258	304	3.2	3.8	20.0	23.5	3.9	4.5
$10,000	372	494	3.7	4.9	20.0	26.5	4.6	6.1
$15,000	728	1,123	4.9	7.5	20.0	30.9	6.4	9.9
$20,000	1,178	1,984	5.9	9.9	20.0	33.7	8.3	14.1
$25,000	1,704	2,996	6.8	12.0	20.0	35.2	10.3	18.2
$50,000	4,822	7,076	9.6	14.2	20.0	29.3	18.6	27.3
$75,000	8,465	10,917	11.3	14.6	20.0	25.8	25.9	33.4
$100,000	12,460	14,839	12.5	14.8	20.0	23.8	33.1	39.4
$250,000	38,095	27,026	15.2	10.8	20.0	14.2	64.0	45.4
$500,000	65,300	33,721	13.1	6.7	16.1	8.3	69.9	36.1
$750,000	88,050	38,471	11.7	5.1	14.1	6.2	69.2	30.2
$1,000,000	110,800	43,221	11.1	4.3	13.2	5.2	68.8	26.8
$5,000,000	452,950	100,000	9.1	2.0	10.6	2.3	62.5	13.8

[1] Internal Revenue Code, as amended by Revenue Act of 1945.
[2] Assumes 1 spouse has all the income.
[3] Assumes taxpayer is under 65 years of age.

NOTE.—Computations were made from unrounded figures and will not necessarily agree with figures computed from the rounded amounts and percentages shown.

Source: Treasury Department, April 1947.

Senator LUCAS. I should like to point out one thing with respect to the table introduced for married persons with two dependents which I understand is the average family throughout the United States. Net income before personal exemption of the present law, $2,500, pays a tax of $95. Under the House bill it pays a tax of $67. Under my bill a married person with two dependents would pay $17.

I make that observation because a fellow with $2,500 is the individual I am trying to reach in this bill—the one who I conscientiously believe, with these high prices, is entitled to more relief than any other single group of people.

Mr. SURREY. That completes the analysis.

You understand that that was the capacity in which I was requested to appear.

Senator LUCAS. May I ask a few questions?

The CHAIRMAN. Would you mind holding up? I have two more tables here that I do not believe have been accounted for. Starting back with the table that Senator Lucas has just referred to, which commences with the words "Comparison of amounts and effective rates of individual income tax under present law" and so forth?

Mr. SURREY. Yes, sir.

The CHAIRMAN. Married person with two dependents.

Mr. SURREY. Yes, sir.

The CHAIRMAN. That runs over two pages?

Mr. SURREY. Yes, sir.

The CHAIRMAN. Then I have two more tables. Are they duplicates or what are they?

Mr. SURREY. May I see them a minute?

The CHAIRMAN (handing to Mr. Surrey).

Mr. SURREY. One table you have is one that I had put in the record. The last table is one that I put in practically at the start, which is the table showing the break-down by income classes of the various types of reduction.

The CHAIRMAN. Thank you very much.

Senator LUCAS. Have you placed in the record the exhibit which is a comparison of decrease in individual income-tax liability under H. R. 1, and under my proposal by net income classes for calendar year 1947, assuming income payments of $166,000,000?

Mr. SURREY. Yes, Senator. That has been put in the record.

The CHAIRMAN. Any further questions?

(No response.)

The CHAIRMAN. Thank you very much, Mr. Surrey.

Mr. SURREY. Thank you, Senator.

The CHAIRMAN. Mr. Surrey, one more question:

You are not representing the Treasury Department, are you?

Mr. SURREY. I am representing the Treasury Department solely to present a technical analysis, but this appearance and testimony is not to be understood to be an endorsement of any proposal.

The CHAIRMAN. Mr. Randolph Paul?

STATEMENT OF RANDOLPH PAUL, WASHINGTON, D. C.

The CHAIRMAN. Would you mind giving your full name to the reporter please?

Mr. PAUL. My name is Randolph E. Paul. My present occupation is practice of law both in Washington and New York. My present residence is 3206 P Street NW., Washington, D. C. I am appearing here today at the request of Senator Lucas to discuss the amendment to the House revenue bill which he has proposed. This amendment, as I understand it, is a comparatively simple one. It provides first for a $100 increase in personal exemptions and dependency credits. Second, it reduces the surtax rates in each bracket by two points. Third, it allows married taxpayers to divide family income between them for tax purposes as married couples in the community property States have been permitted to do for many years.

Before discussing these three major provisions of the amendment, I should like to point out that the relief proposed is to become effective January 1, 1948. This means that for the year 1947 the present rates would remain in effect. There is some doubt in my mind as to when tax reduction should go into effect. We are now in a period of high national income and budget uncertainty. This, if ever, should be the time for budget surplus and for debt reduction if we hope to obtain the highly desirable objective of budget balance over a period of years.

Senator GEORGE. You mean by that a dependable balanced budget?

Mr. PAUL. Yes. I do not mean necessarily a balanced budget in each particular year but I regard as highly desirable the balancing of the budget over any period of years. We might meet with sudden emergencies which would throw the budget out of balance in a particular year.

Senator GEORGE. But you visualize an over-all balanced condition of the budget?

Mr. PAUL. I do and I regard that as a very highly desirable objective.

Senator GEORGE. That is one of the things I have thought about a great deal from the time they have started talking about tax reduction.

Mr. PAUL. You and I are in agreement on that point as we have been on many other points in the past.

Senator GEORGE. Excuse me. I just wanted to verify that thought. On the other hand, there are indications that the mass consumption market is softening and is becoming unable to meet its need for consumer goods. The mass consumption market consists principally of the low-income group. This group has very few savings left and those which remain are being rapidly consumed in purchasing for current use. At present prices even the lower levels of the middle-income groups are having difficulty in making ends meet.

These developments call for tax reduction, particularly reduction for the benefit of the low incomes. A tax cut of this kind may very well be necessary to augment purchasing power later this year. It may not be absolutely necessary until next year. We should, of course, remember that under our present system of withholding and current tax payment, any tax reduction has an almost immediate effect in releasing additional purchasing power.

For these reasons there is certainly room for honest difference of opinion on the complicated question of timing of tax reduction. But since the existing signs of a down-turn in markets and investment activities point to lack of confidence in sustained-consumer markets rather than to any lack of investment funds, a tax reduction formula designed to forestall an incipient depression—perhaps I should use the word "recession"—should have as its principal objective relief to taxpayers in the low brackets who spend most of their income.

Assuming the desirability of a tax reduction, I will now briefly discuss each of the three major provisions of Senator Lucas' amendment.

The CHAIRMAN. May I ask you, Mr. Paul: You have sort of balanced both sides? Do you reach any conclusion as to whether we should start the tax reduction now or January 1, 1948?

Mr. PAUL. I do not state any conclusion there for the reason very frankly, Mr. Chairman, that I think there are arguments on both sides. I have tried to state briefly the considerations that point to one course of action and those which seem to make it desirable to adopt the opposite course of action.

I am addressing most of my remarks today to the contents of Senator Lucas' bill rather than the timing of tax reduction.

Senator GEORGE. Would it bother you for me to ask you a question?

Mr. PAUL. Not a bit. I am used to it.

Senator GEORGE. I do not want to divert you and this is a diversion.

Mr. PAUL. It will not bother me at all.

Senator GEORGE. Frankly, it is a diversion but I want to ask you, you use this sentence:

> But since the existing signs of a downturn in markets and investment activities point to lack of confidence in sustained consumer markets rather than to any lack of investment fund—

et cetera.

I want to ask you very frankly if you have been troubled about the nature of a possible recession in this after-war period as compared to the nature of the downturn or recession, finally ending in the depression following World War I?

Mr. PAUL. I have not given specific thought to a comparison between——

Senator GEORGE. In other words, if I can make myself clear—I do not know whether I can—it has seemed to me that following World War I you may recall the Rothschild Bank failed in Austria in 1941 and there was a tremendous shake-up in not only the bond and security markets but the commodity markets in Europe and England, and then there was a tremendous impact on the value of the pound sterling itself, and the main impact of the trouble that we then headed into has always seemed to me to have reached our banking and brokerage and lending institutions, and it has seemed to me—I did not know whether your sentence here embraced that thought—that part of it—that what we are likely to have in this postwar period is an impact directly on business, itself, on production, rather than on the financial structure?

Mr. PAUL. Well, I think, if I understand the Senator's question—I misunderstood it before, because I thought he was referring to the 1920 depression, but I see now that you are referring to the depression of the thirties.

Senator GEORGE. Yes; I meant more than the mere initial period.

Mr. PAUL. I feel that I am not able to make an exact comparison between conditions which produced the depression of the thirties, and what might produce a depression of the late forties, but I do think—I feel quite strongly—that conditions today are, as I state, a growing lack of confidence that there will be the power to buy goods. I think there was a lack of power to buy goods in the thirties.

Now, I cannot trace that back to its exact causes, but certainly in the thirties when our national income fell as it did in 1932 to about $40 billion, we had a lack of power to buy goods. Today we have at the present moment, a fair degree of power to buy goods, but as—I am not an economist but as I get statements from businessmen around the country, and so on, I hear that particularly in industries other than the hard goods—durable goods—industries, people are not buying, and that lack of buying, perhaps largely due to a lack of funds in the lower brackets, is reacting upon the producers and the manufacturers, so that they are beginning to feel a lack of confidence in their power to sell.

Senator GEORGE. Thank you very much. I did not want to divert you. You started into a discussion of three features of Senator Lucas' proposal.

Mr. PAUL. Yes; I was just starting to discuss the increase in personal exemption and the dependency credit.

The increase in the personal exemption and dependency credit gives relief where it is sorely needed and where it will produce the greatest effect in an increased capacity to buy consumer goods. The extent to which this relief is needed by lower income groups is readily recognized if we recall that when the present $500 exemption was put into effect, it was estimated that this amount would be sufficient to cover bare subsistence. The value of this exemption, in terms of purchasing power, is now estimated at about $375. This will not even cover bare subsistence, not to mention a reasonably decent standard of living.

While we hope for a modification of today's high price levels, only a considerable drop in prices would restore the original value of the personal exemption and dependency credit.

The relatively modest $100 per person increase in personal exemptions and dependency credits contained in the Lucas amendment means an additional ability to buy food, clothing, and shelter. Not only do the lowest incomes sorely need increased power to buy the necessities of life, but the Nation as a whole will benefit if they have increased power since the market for consumer goods will be correspondingly enlarged.

For the income group under $5,000 the Lucas amendment provides relief where relief is needed most—in the case of the family with children. The average or typical American family—a man, wife, and 2 children—with an income of $2,500 a year, now pays a tax of $95. Under the House bill this family would pay a tax of $67, but under the Lucas amendment the same family would pay a tax of $17. If an identical family has an income of $5,000, it now pays a tax of $589. Under the House bill it would pay a tax of $471, but under the Lucas amendment it would pay a tax of $445.

The increased personal exemption and dependency credit will remove about 4,700,000 persons from the tax rolls. Many persons have advocated the desirability of making as many citizens as possible feel responsible for their Government by requiring some tax payment from even the lowest income groups. This is certainly a legitimate point of view, but the question is whether it should be pressed to such "a dryly logical extreme" that tax payment obligations cut into bare subsistence.

It is sometimes forgotten that practically every citizen pays substantial excise taxes, which have a relatively heavier impact upon the low-income groups than upon the higher-income groups.

Moreover, we should keep in mind that the elimination of very small taxpayers will considerably ease the Treasury's administrative burden, since they constitute a large part of the group to which refunds are made because of excessive withholding.

The two-point reduction in rates needs emphasis only upon one aspect. It provides comparatively greater relief to the low incomes than would a percentage of tax reduction. This point may be illustrated by reference to the burden tables, which are now, I believe, in the record of the committee.

Incidentally, exhibit 1, table 4 attached to the statement of Secretary Snyder of April 22, 1947, will also illustrate the point.

The tax under present law on a net income before personal exemption of a married man with two dependents is $589. A two-point percentage decrease reduce his tax by $60, a percentage reduction of about 10 percent.

The same two-point percentage decrease gives a much smaller percentage reduction when applied to the tax of a married person with two dependents enjoying an income of $50,000. This taxpayer's cut is only about 4 percent of his present tax.

Generally, the percentage reduction in tax effected by the two-point percentage formula drops as it is applied to higher incomes. The percent of tax reduction contained in the House bill remains constant, and when it is applied to higher incomes it produces in effect a progressively larger reduction of percentage points.

In this way it lessens the progressivity of our tax structure despite the 30 percent formula applied at the lowest levels of income and the 10 percent formula applied at the highest levels.

Since I prepared that statement I might add that the point is well illustrated, and I think is generally sustained by the graphs which have just been put into the record, and also chart I attached to Secretary Snyder's statement of April 22, 1947, will also illustrate the point.

The CHAIRMAN. I think there, Mr. Paul, considerable depends on the definition of progressivity. If you have a flat percentage reduction in taxes you preserve the relative ratios of taxes paid.

For example, if the $5,000 man pays a certain part of his in taxes and the $25,000 man pays a much larger part of his dollars in taxes, you will find that with a flat tax-reduction rate, the ratio remains constant.

Mr. PAUL. Well, I would like to refer——

The CHAIRMAN. Go ahead, Mr. Paul. We will catch up with you.

Mr. PAUL. On that point we have in the record now, I believe, a table entitled "Effective rates of individual income tax." That contains graphically the progressivity curve of the present law, the House bill, and Senator Lucas' bill. Mr. Surrey briefly referred to this table and it is to be observed that the curve of the House bill is above the curve of the Lucas' bill from about $10,000 to a little over $100,000, but it drops off very sharply, relatively, above $100,000.

Now, that, of course, refers to the entire bill, and at this point I am only comparing one aspect of the bill which is the two-point percentage formula reduction with the 2 percent of tax reduction, and I think it is inescapable that those two methods of tax reduction compare in the way that I have indicated.

The CHAIRMAN. The statistic that I have in mind that was elaborated during the course of the hearing is: For example, if a man with an income of $50,000 pays a tax which is 27 times as high as that paid on an income of $5,000 under a flat percentage reduction in tax, you will find that that ratio still prevails. That is all I intended to say.

Mr. PAUL. All that I intended to say, so that we are perfectly clear about it, was that at this particular point, where I am only comparing a two-percentage point formula reduction with the percentage of tax reduction is that the percentage point reduction will preserve the same progressivity curve whereas the percentage of tax reduction applied to a given rate schedule will lessen the progressivity as you go up the scale.

The CHAIRMAN. It will preserve the same ratio of payments?

Mr. PAUL. It will preserve the same ratio of payments but I want to make it clear that at this point in my discussion I am not comparing the curve of the Lucas bill with H. R. 1 which is done in this statement furnished by Mr. Surrey.

I am simply indicating that any formula which reduces percentage points a given number will preserve the curve better than a formula which reduces the tax.

Senator LUCAS. You are just reversing what the Congress has already done. That is, using the same policy for increase in reverse when you use the 2-percent reduction in the surtax brackets; are you not?

Mr. PAUL. You are reversing what Congress has done in the sense that Congress has established a certain curve of tax——

Senator LUCAS. I do not mean reversing the policy, but we went up in a certain way in the surtax brackets to reach the point where we are now.

Mr. PAUL. That is right.

Senator LUCAS. This 2-percent tax takes us back the same way we went up. Not in the same amount but on the same theory.

Mr. PAUL. I cannot say that we went up exactly conveniently all over the scale but I do say that we could not do that, Senator, as a matter of fact because during the war we found that we had to impose greater additional taxes, as I think I pointed out, upon the lower, and very lowest, and the middle incomes, because we had already gone up about as far as we could go on the high incomes, so I cannot agree with your statement without that slight qualification.

Senator LUCAS. Insofar as the particular brackets which this 2 percent affects are concerned those in those brackets are all affected just the same.

Mr. PAUL. That is correct.

Senator LUCAS. It is a 2-percent downward revision, and your position is that a 2-percent downward revision in the respective tax bracket makes a more equitable distribution of the tax than the straight flat 20-percent reduction proposed in H. R. 1?

Mr. PAUL. That is my position, discussing only that one phase of your amendment at this moment.

The CHAIRMAN. I invite your attention to the fact that the first tax action we took at the beginning of the war was a flat 10-percent increase, not in rate but in tax.

Mr. PAUL. That is correct, but later, in the 1942 act and in the 1943 act we found the money wherever we could get it as you will remember, Senator.

The CHAIRMAN. So H. R. 1 is a sort of reverse English on that flat increase?

Mr. PAUL. I think Secretary Snyder pointed out a distinction between the conditions obtaining with respect to that 10 percent but I do not remember exactly his distinction. It is in the record, I believe. We also reduced taxes, as the Secretary pointed out, back in 1924, by a 25-percent formula.

According to Senator Lucas' information, the two changes which I have discussed would cost a total revenue of approximately 2.8 billion dollars, as compared with the 3.8 billion dollars loss in revenue involved in the House bill. Yet these two provisions would provide approximately the same aggregate relief to incomes under $5,000 as does the House bill.

The Lucas amendment would, therefore, be just as effective at considerably smaller revenue cost as the House bill in relieving the low incomes from the pressure of present price levels and increasing spending power and expanding the consumer-goods market. It would approximately, at 250 million dollars less revenue cost, achieve an additional objective of great importance which I shall now discuss.

The division of income between husband and wife. One of the most outstanding discriminations of our individual tax structure is that husband and wife in the 10 community-property States are permitted to divide the earnings of the husband and pay taxes at the resulting lower surtax rates. Whatever may be the merits and demerits of the community-property system as compared with the common-law system of the other States, geographical uniformity and similar treatment for those in the same basic economic situation is essential to a Federal tax system.

There should be, in the language of the late Chief Justice Stone, a "uniform application" of our tax statutes "to a Nation-wide scheme of taxation." If this principle is sound—and I think it is—it is distinctly unfair that married residents in the community-property States should bear a smaller share of the national tax burden than the residents of the other States. Under existing law a married couple in California with an income of $10,000 a year earned by the husband now pays a tax 16 percent lower than a similar married couple living in Michigan with the same income.

The CHAIRMAN. Senator Lucas pointed out this morning that that same outrage applies to Colorado.

Mr. PAUL. Yes; and we might add Illinois and Georgia. The proposal to equalize the situation of the Michigan and the California couples by giving them equal treatment under the tax law embodies basic equity. It is true that the married residents of the 38 common-law States will receive greater benefits under the Lucas amendment than will the residents of the community-property States.

But it seems only fair that this should be so when it is recalled that for many years the California couple paid less tax than the Michigan couple. If we consider only the four war years, the California couple with an income of $10,000 a year paid about $1,368 less tax than did the Michigan couple. The California couple would, of course, receive the same benefits as the Michigan couple from the increase in personal and dependency exemptions and from the reduction in rates.

The division of income between husband and wife does not result in as much benefit to those whose income is less than $5,000 as it does to those whose incomes are larger. Some of those whose incomes are less than $5,000, while relieved to some extent by the division of income, receive their greatest benefits from the personal exemptions and dependency credit.

This group, with incomes of $5,000 or less, represents about 96½ percent of all taxpayers. This 96½ percent of all taxpayers will be equally benefited from the increase in the exemptions, whether they live in California or Michigan. It is only that portion of the remaining 3½ percent of all taxpayers who live in the 10 community-property States who will not fare as well under the Lucas amendment as will the portion of the 3½ percent of all taxpayers who live in the 38 common-law States. I have already stated that it seems eminently fair that the community-property States' portion of the 3½ percent of all taxpayers should not obtain as large a tax reduction as taxpayers in common-law States.

It seems to me that the provision for splitting family income, contained in the Lucas amendment, would be a tax cut equitably distributed among taxpayers. It would be a fair correction of a fundamental inequity which has existed for many years and would have the not unimportnat benefit of eradicating many troublesome problems of family trusts and family partnerships.

Another valuable byproduct would be to diminish the serious tax disadvantage of earned income as compared with investment income. Under present law husband and wife can split investment income, but they cannot split earned income.

The anticipated fiscal situation presents an ideal opportunity to correct a disparity of tax treatment between the residents of the community-property States and the residents of other States. If the House bill becomes law, this revision will have to be postponed until we are again in a position to reduce the Federal tax burden by a large amount.

In conclusion, I would like to summarize by saying that if the Federal revenues are to be reduced by approximately $3.8 billion—and apparently a substantial reduction is to be expected—the Lucas amendment provides what seems to me a more desirable method of achieving this result than does the House bill as it now stands and, I might now add, on the basis of the information I received today, a cheaper method of achieving this result than does the House bill as it now stands. This is largely because the Lucas amendment, while giving as much relief as does the House bill in the lower income groups which make up our mass buying power, concurrently eliminates a long-standing inequity in our tax system.

The CHAIRMAN. Any questions?

Senator LUCAS. There was one question raised this morning I think by Senator George, with respect to single people who perhaps might be somewhat discriminated against under the theory of split family incomes. Woud you care to make any observations upon that point?

Mr. PAUL. I would be glad briefly to indicate a few items for the committee's consideration in that connection. I did not have time to cover that subject in my former statement.

Senator LUCAS. I think it was testified by Mr. Surrey that up to $900 my bill would give more relief to single persons than H. R. 1?

Mr. PAUL. That is right, and from there on up I do not think there is any question but what your bill does not do as well by single persons. That is why in my statement I emphasized the situation of the married couple with two children, which is the typical American family, but I think there is much more to be said on that question of the relationship of the single person and the married person under our tax laws.

In the first place, we have had the same figures for a great many years in the community-property States, and I have not heard very much complaint about it. In other words, precisely the effect of your bill, as regards the community-property point, has been current for many years in the community-property States.

Senator LUCAS. Let me ask you right there, if I may: Do you know of any State that has the community-property law, which attempted to reach the single person and give him preferential treatment of some kind in order to eradicate the inequities that exist?

Mr. PAUL. I do not agree that there is necessarily an inequity.

Senator LUCAS. I presumed that you did, because that is the theory, or has been, that some witnesses have followed.

Mr. PAUL. I misunderstood you then. When you get to this question of the relative position under our tax laws of married couples and single people, you are in a very complicated area. You will remember, Senator, that we used to have a greater personal exemption for a married couple than twice the single person exemption.

In other words, we then recognized the point that two married people with the same income were not in the same position to pay tax as a single person. In other words, we have adopted this system largely for simplification purposes, of having a $500, personal exemption per person and a dependent credit the same amount. That was a swing away from the old system.

Now, I do not personally know which is the better system. There is much to be said on both sides. All I do know is that that is a debatable territory. On the other hand, I am quite clear that the situation as to married people in the community-property States and the non-community-property States, is very unfair to those in the latter.

The CHAIRMAN. What is the advantage of the Lucas' bill in the lower income-tax bracket, where both work?

Mr. PAUL. Where both work, the Lucas relief, assuming each make the same amount of income, is not really necessary.

The CHAIRMAN. There are a large number of people in those brackets, where they both work.

Mr. PAUL. There are a great many situations where they both work. It is a rare situation where they both make exactly the same amount.

Senator GEORGE. The income in the lower income group would not be substantial?

Mr. PAUL. I was just going on to that. The effect of the community-property change recommended by Senator Lucas is very small in the incomes below. I think the figure was seventeen or eighteen million. I may be wrong about the exact figure but it is practically negligible. The entire impact of that change is on the incomes above $5,000.

Senator GEORGE. Yes. I think it would be.

Mr. PAUL. That leads me to suggest this point, Senator George: That in that lower income group—that is those below $5,000 annual income, we have about 96⅔ percent of our taxpayers.

Now, as you have just pointed out, the division of income produces relatively little tax reduction for married couples in that income group. The relative tax burden of single persons and married couples therefore are not very greatly changed in that group from what they are now.

Now, single people having incomes in excess of $5,000 represent about a third, I would say, of the 3⅓ percent of taxpayers—3⅓ percent of all taxpayers—or about 1.2 percent of all taxpayers.

In other words, the conclusion I reach from these figures is that if there is inequitable treatment of single people under the Lucas proposal, it is limited to a comparatively small number and to a group whose incomes are sufficiently large so that the higher tax burden would not produce very great hardship.

Now, one final point I want to make on this question Senator Lucas has asked. I suppose he would be the last person to contend that he had the perfect amendment at the particular moment.

If the committee decides that we have a good relative position between single people and married people at this particular moment in our present tax law it would be very easy to solve this problem of relative treatment under Senator Lucas' amendment by a slight change which gave a somewhat greater exemption to single people, or you could do it by another mechanism—a different rate schedule.

In other words, that is a small detail which should not be insuperable, or should not prevent, in my opinion, the Lucas amendment from being taken for the great benefit it confers as compared with the House bill.

Senator LUCAS. Either one of those proposals would not be difficult to administer.

Mr. PAUL. I should not think so, and I might add, Senator, that under the new figures produced this morning you have $250 million margin with which to operate in that territory.

The CHAIRMAN. Would you not throw all of your withholding tables off and make a lot of administrative difficulty?

Mr. PAUL. Mr. Surrey would make a better witness on that point than I, but I would not think so. I would simply have a different table.

Senator LUCAS. You would have another table for single folks.

Mr. PAUL. That is right.

The CHAIRMAN. Thank you very much.

Senator LUCAS. One further observation, with respect to the States that have the present community-property tax law.

Now, there are figures in the record which show that the great percent of the revenue that is collected by the Federal Government at the present time is collected from those who have incomes of $5,000 or less.

Mr. PAUL. I am not sure about that exact percentage.

Senator LUCAS. What is that percentage, Mr. Surrey? What is the total revenue collected by the Federal Government from those whose income is $5,000 or less?

Mr. SURREY. $400 million.

Senator LUCAS. What is that percentage when compared with the whole amount?

Mr. PAUL. About 60 percent.

Mr. SURREY. Sixty percent from those under $5,000.

Senator LUCAS. Then, as I understand, 60 percent of the people under $5,000 are paying the bulk of the individual income tax in this country?

Mr. PAUL. That is right. They are paying at least more than half of it.

Senator LUCAS. So in the community-property States, a married couple making $5,000 or less would not be affected very much by what we are trying to do here in putting through a uniform tax law.

Mr. PAUL. I should not think that the person below $5,000 and you might also say the person below $10,000 a year, would be very much worried by an extension of the community-property privilege to the citizens of other States. The only thing that would perhaps worry him would be that he did not get some reduction of his tax out of this $700 million cost which is allocated to that system.

Senator GEORGE. The splitting of the income embodied in the amendment of Senator Lucas, and substantially that which is contained in the House bill, actually would give a greater benefit somewhere between incomes going a little bit above $6,000 up to, say, $100,000, but when you get up into the higher incomes, way up in the high brackets they would not benefit greatly by that. They have already been able to take some similar advantages, maybe $125,000 income. That is not an argument against it. It is in that great middle-class group you might say from $6,000 up to say $75,000 or $100,000 income, they would feel the greatest benefit of this amendment.

Mr. PAUL. From the Lucas amendment.

Senator LUCAS. The people that I feel definitely should be helped first in any tax bill are those making under $5,000. That is my personal belief about the thing, and from that angle it would not affect any of these individuals to a great extent?

Mr. PAUL. No. It does not give them very much relief. It gives relief mostly above that but, on the other hand, your bill does give relief to those people of approximately $2,300,000,000 which is within a few million dollars the same as the House bill, and, apart from the community-property phase of your amendment, you are giving the same relief at a total cost of $2.8 billion as against $3.8 billion in the House bill.

Now, the $3.8 billion, the community-property amendment works in the other direction and gives relief above $15,000, and a very important item of the bill is that it gives very great relief to those who earn their income, and particularly what one of the witnesses—I have forgotten which, was talking about, I think this morning—the younger executive group who are complaining now that they are not in the same position as the investment income group or the group in the community-property States.

Senator LUCAS. That young executive group should be encouraged.

Mr. PAUL. I think so too, and your amendment is the most decisive way of encouraging that group that I know of. We have found out that it is very difficult to give an earned income credit.

Senator LUCAS. I am trying to help these newspaper fellows seated around the news table. I see they have a big smile when I say I want to encourage young executives.

The CHAIRMAN. One of the problems that we have got to consider, Mr. Paul, is whether to get at these inequities—the Secretary of the Treasury listed about 20 of them—in our system which need at least attention and consideration, whether to try to do that in this bill or in Senator Lucas' bill or in any other measure at the present time or whether to take that all up comprehensively in a general revenue measure?

Mr. PAUL. My position on that is that it costs money to relieve inequities. We have a margin now for doing it in the possibility of reduction. I do not know when we are going to have another chance to reduce taxes substantially, with the world conditions and general economic conditions as they are today. I do not want to see the opportunity lost.

The CHAIRMAN. I doubt very much whether you can continue on the long-time assumption of a $30 billion expenditure budget.

Thank you.

Mr. Taylor?

STATEMENT OF HARRY G. TAYLOR, MIAMI, FLA.

The CHAIRMAN. Mr. Taylor, Senator Holland was sorry he could not be here to present you to the committee. He has given you a grand send-off. He stated that you were lifetime friends, and that you have an important position as a lawyer and income tax man. We are happy to have you with us.

You may take a seat or stand as you wish and give your full name to the reporter and your present business.

Mr. TAYLOR. Harry G. Taylor of Miami.

The CHAIRMAN. I understand that you will talk to the amendment which Senator Holland proposes to offer to H. R. 1?

Mr. TAYLOR. Yes, sir; and I think I can be quite brief. I do not believe the matter calls for extended discussion. It has to do with the provision for relief against personal holding-company tax, namely section 506 of the Internal Revenue Code.

It might be helpful if you could briefly refer to the personal holding company statute.

Section 500 of the code imposes a tax of 75 and 85 percent of personal holding-company income remaining after payment of ordinary income taxes on all profits not distributed in dividends.

The purpose of it of course was to force personal holding companies to declare dividends so that the income would be subject to the surtax of its stockholders. I have no quarrel with the statute, no quarrel with the purpose of the statute, but the Congress in enacting the statute appreciated the fact that it was a confiscatory tax, that it was just sufficient to break any corporation that might be caught unaware of it, and it is the unaware corporations about which I shall direct my remarks.

Section 506 is the remedial code, or that provision providing for relief, and it is very restricted, so that you have got to have your determination become final and notify the Commission immediately after the tax liability has been determined finally, and so on, so that it is not as easy means for any corporation to obtain relief from the tax.

Unfortunately, section 506 (f) as it now stands prohibits relief from personal holding-company tax where there is a failure to file timely personal holding-company returns, unless it can be shown that those returns were—that the failure to file was due to reasonable cause and not willful neglect.

The proposed amendment merely deletes that part of section 506 (f) which denies to these corporations relief from the taxes because of their failure to file timely personal holding-company returns. That was necessary and is necessary for the reason that every corporation, if it is aware of the fact that it is a personal holding company, naturally would file returns and would distribute its income and not knowingly incur this confiscatory tax. The bigger companies and the real corporations that the law was directed at, are all well advised and are protected. The statute is having a much wider application, I think, than was ever realized, and it is now catching numerous small companies all over, and the levy of the tax is enough to destroy a great many of them.

By way of illustration of what the statute means, I am representing a company that in 1940 had a $16,000 net income. The income taxes were $2,581. The personal holding company tax computed is $10,900; 25 percent penalty for failure to file return is $2,700; and accrued interest on that tax liability is $3,200, making a grand total of $19,582.36, which is nearly $5,000 in excess of the total income of the company.

Senator GEORGE. Mr. Taylor, are you referring to small holding companies who thought themselves to be operating companies?

Mr. TAYLOR. Yes, sir.

Senator GEORGE. And fell under the technical definition of the holding company?

Mr. TAYLOR. My whole remarks are directed to those little companies.

Senator GEORGE. I see.

Mr. TAYLOR. There are none that I know of, of any size at all. It is all cases where the fact that they are a personal holding company just slipped up on them and they were unaware of it until the matter was examined into with personal holding company in mind.

Now, there should be reasonable cause for failure to file returns under circumstances like that, but the unfortunate feature is that ignorance of the law is no excuse, and this is due to nothing but ignorance of the law.

I would like to read a little excerpt from a case very recently decided by the Tax Court involving a little personal holding company.

Senator JOHNSON. Could you briefly tell us something about the organization of this company that you refer to now?

Mr. TAYLOR. Yes. It is a little company that quarried rock down in the city of Miami, and sold it for road building and other purposes of that kind. It had an opportunity to lease its equipment and receive a royalty on the rock quarried. They thought it was a good thing to do and in 1940 did lease its equipment and later on sold its equipment to the lessee.

Senator GEORGE. It would become a holding company because a certain percentage of its income came from rents and royalties?

Mr. TAYLOR. That is right. That is typical of these little cases.

Senator JOHNSON. I understand.

Mr. TAYLOR. Section 500 of the Internal Revenue Code levies a tax of 75 percent of income not in excess of $2,000, and 85 percent of income in excess of $2,000, in addition to the tax levied on all corporations.

Realizing that the levy was confiscatory, and that the purpose would be accomplished if dividends were declared and paid and taxed to the individual stockholders, some relief was provided for by section 506 of the code. However, subsection 506 (f) denies relief if the company is penalized for failure to file timely personal holding company tax returns. The proposed amendment does not impair or restrict in any way the imposition of the 25-percent penalty for failure to file timely personal holding company returns. It merely affords relief as provided by section 506, notwithstanding the imposition of such penalty.

Under existing law the following are actual facts of income and computed taxes, penalty, and interest for the year 1940:

Net income, $16,142.90; income tax $2,581.10; personal holding-company tax, $10,968.56; penalty 25 percent, $2,742.14; accrued interest $3,290.56, or a total of $19,582.36, making an excess of tax, penalty, and interest over income, $3,439.46.

If section 506 (f) is amended as proposed, and the company declares and pays a deficiency dividend of $10,000, the corporate tax, penalty, and interest would be as follows:

Net income (1940) $16,142.90; income tax, $2,581.10; penalty, $2,742.14; personal holding-company tax, $2,050; accrued interest, $615, or total tax, penalty, and interest, $7,888.24.

In addition to the corporate taxes, penalty, and interest, the stockholders would pay current tax on the $10,000 dividend income.

Excerpt from the opinion of the Tax Court of the United States in Orient Investment & Finance Co., Inc., Ellen Investment & Finance Co., Inc., docket Nos. 7003, 7016; 1-4-47; years 1940-42.

On the following facts, the court sustained the penalty for failure to file timely personal holding-company tax returns:

At all times here material the capital stock of the Ellen Investment & Finance Co. has been owned by Orient and its stock, in turn, has all been owned by I. N. Burman, his wife, and daughter. Burman has served as president of both corporations during their entire existence.

The books and accounts of both companies have always been kept by licensed public accountants, two of whom, J. B. Asher and Myer Sigal, were certified public accountants. D. A. Garrett succeeded Asher and, in turn, was succeeded by Myer Sigal. Garrett and Asher are both deceased.

The accountants made all of the entries in petitioners' books and also prepared their income-tax returns. In making out those returns they answered "No" to the question, "Is the corporation a personal holding company * * *?" The accountants did not file a personal holding-company surtax return for either of the petitioners for any of the years involved. So far as the evidence shows, they did not consider or discuss the matter of filing such returns. They never brought it to the attention of Burman, and he had no knowledge of that, or, in fact, of any of the other requirements of the tax laws. He is a man of little education. He could not understand the requirements of the tax statutes, and so left those matters entirely in the hands of the accountants. The accountants whom he engaged were reputable licensed accountants, and he had complete confidence in them. He believed that they had filed all of the returns and done all of the things required under the law. The accountants had before them at all times all of the records of both companies as to stock ownership, as well as the sources of their income. No information concerning any of those matters was ever withheld from them by Burman, or any other officer or stockholder. The first time that Burman ever heard of the requirement for personal holding-company returns was in 1945, when a revenue agent brought the matter to his attention. Another revenue agent, who had made an examination of petitioners' books in 1941, had failed to make any mention of the personal holding-company returns.

Mr. TAYLOR. Now on those facts the tax court held that the company was liable for the penalty, and thereby precluded it from the relief under section 506 of the Code.

Now, with respect to the company I represent I think it would be interesting for me to read this prepared statement to you.

The name of the company is Murphy & Mills Corp., Miami, Fla.

The company was chartered as a corporation under the laws of the State of Florida on December 5, 1938, and commenced business on January 2, 1939. During its entire existence, the stock has been owned by E. B. Mills, 50 percent, and F. G. Murphy, 50 percent.

Upon commencement of business, the company employed a certified public accountant to open a set of books for it and its books and records have been kept under the supervision and direction of that certified public accountant from the commencement of business to this date.

In addition to the above duties, said certified public accountant was also employed for and on behalf of the company to prepare and see to the filing of all Federal and other tax returns required or necessary to be filed. The reason for this employment was that the officers of the company were devoting their full time and effort to the management of the company's business as well as personal business carried on by them. They were not informed as to the tax returns necessary or proper to be filed, or the content thereof, and fully realizing their lack of qualification in that regard, made provision as they thought best for compliance with all requirements.

During the entire period of the existence of this corporation said certified public accountant has prepared or caused to be prepared all Federal and other tax returns for the company and all such returns as prepared by him, and that he had determined should be filed, have been executed and filed by them.

Taxpayer's Federal tax liability for the years 1940 and 1941 were investigated by a United States Internal Revenue agent during the first part of the year 1942, and by letter dated July 18, 1942, the company was advised of the following adjustments:

1940, deficiency in income tax $123.94; deficiency in excess-profits tax, $1,440.52.

1941, deficiency in declared value excess-profits tax, $37.80; deficiency in excess-profits tax, $4,543.64; overassessment of income tax, $944.92.

Now, there is an agent investigating this company for two of the years that they have now gone back and set up personal holding tax on, and it was a personal holding company, there is no denial of that in 1940 and '41. He examined and did not determine it was a personal holding company. All the information was available to him. They settled that assessment and the company paid $5,433 additional tax. They were of the opinion that there was an error in computation and filed a claim for refund of $1,386 of that tax.

A further investigation was made of that claim for refund and they actually refunded $260.95 but again did not determine that it was a personal holding company or had any such liability.

In 1946 there was further examination for the years 1941 and 1942 and 1943. The agent in making the investigation in 1946 as to 1941 determined a net refund of about $300 of taxes, and then determined that the company was a personal holding company in 1942 and 1943 and set up the personal holding company tax for those 2 years, but again he missed 1941.

Later on the matter was under consideration and they went back and checked 1941 and set up personal holding company tax in 1941, and then when they got the issue of the 90-day letter or statutory notice of the deficiencies and they went back and examined 1940 again and decided it was a personal holding company in 1940, and that is the history back of the years, not even the Government men realized it was a personal holding nor did the officer or its accountant have any realization that it was a personal holding company.

Senator LUCAS. Just what has this to do with the tax bill we are considering here?

Mr. TAYLOR. Pertaining to an amendment to H. R. 1.

Senator LUCAS. Senator Holland offered an amendment; did he?

Mr. TAYLOR. Yes. The net result of these computations is that the company had during 1940, 1941, 1942, and 1943, total income of $50,751.57.

Now, the taxes, penalties and interest that has accrued totals $57,450.56, which is about $7,000 more than the total income of the company for those years.

In my opinion and according to my understanding of the law, there is no relief for this company from the burden of this tax, for the reason that the court has in effect said that there was no reasonable cause here for failure to file a personal holding company return as illustrated by the excerpt I read from. So that it has a tax liability that will break it. It will be out of business and finished.

Now, there are other companies exactly situated, represented by accountants down in Miami who have written letters here bearing out, in respect to their companies, the very statements that I have made to you here, and those companies I have nothing to do with, never heard of them, until this matter developed, and they say—the accountants say—and they deal with it more than we do—that it is very common procedure now to discover all of a sudden that you have been a personal holding company for years back.

In fact, I know of one company that they went back to 1938—and set up personal holding company tax on them for all that period—and it just means that these companies are out of business if they have to pay all of these tax penalties and interest.

In connection with this amendment, Senator Holland has not undertaken to write any new tax law. He has not undertaken to change the structure of existing law at all, except to eliminate that provision which says that deficiency dividends credits may not be had if a personal holding company returns are not filed unless reasonable cause for the failure is shown.

The second paragraph of the amendment has been studied by me and my firm, and that is the section that apparently is intended to make it retroactive. I am of the opinion that that section (B) of the amendment is unnecessary and that it is in effect meaningless, because of restrictions in the act itself on the matter of declaring a deficiency dividend.

In other words, when the court decision, or the closing agreement, is final and concluded, the taxpayer must give the Commissioner notice within 60 days that it is going to declare a deficiency dividend. It must declare and pay the deficiency dividend and then claim credit against the tax that has been assessed. That is true in claiming refunds, so that the statute necessarily deals with deficiencies and where the statute had not been complied with in that respect, I think under the law there is no basis for a refund.

I doubt if there is any necessity or applicability of that part of the proposed amendment. I personally know of, I think it is eight of these little corporations whose history and background are in substance the same as that which I have given to the committee here, and it is only a partial credit.

I can illustrate. Take our tax for 1940, as computed it is $19,582.36 or $3,000 more than the income. If this amendment is adopted the most relief that we could get would be that the company would have to pay additional taxes of $7,880, and then the stockholders would have to pay tax on the dividends that they receive, so that there is a substantial—of this $57,000 liability that is set up against us, we roughly estimate we are going to have to pay under the best circumstances between $25,000 and $30,000 of additional tax, so it is not a lot of relief, but it is enough relief so that the company can exist and go ahead.

I think it is a very fair measure. I think it is a measure that should be adopted; and after the complicated and weighty matter you gentlemen have been considering all day, I am happy to bring you one that is not so complicated and does not bear so many headaches.

Senator GEORGE. One that is easy?

(The letters referred to are as follows:)

MIAMI, FLA., *April 29, 1947.*

In re amendment proposed to H. R. 1.

Hon. SPESSARD HOLLAND,
United States Senate, Washington, D. C.

MY DEAR SENATOR: We wish to endorse the proposed amendment referring to section 7, deficiency dividends—denial of credit or refund if fraud, etc.

Our office has experienced instances where a taxpayer's entire income was confiscated by taxes and penalties upon a determination that such taxpayer qualified as a personal holding company and he was denied the right of a credit for dividends distributed after such determination.

It is most difficult for small corporations to ascertain their liability under the personal holding company statute. Many instances of this condition have been experienced through our office. As an illustration of this fact we cite a presently pending appeal to the Tax Court of the United States in the matter of Miami Oolite Rock Co., Docket No. 11918.

In the matter referred to above, the Internal Revenue Department made an examination of the company's returns for the fiscal years August 31, 1942, and August 31, 1943, and submitted reports dated May 26, 1945, raising no question concerning the imposition of the personal holding company surtax. The matter was deemed settled by the taxpayer company until the second report was received on February 19, 1946, wherein for the first time it was alleged that the taxpayer was a personal holding company and therefore subject to taxes and penalties which amounted to slightly more than its entire net income for the 2 years in question.

To illustrate the severity of this situation we give you below a tabulation of the company's net income for the two fiscal years stated and the taxes alleged to be due. These taxes, of course, when assessed will carry substantial amounts of interest in addition to the amount shown above. The tabulation follows and is a matter of public record in the files of the Tax Court, Docket No. 11918.

	Year Aug. 31, 1942	Year Aug. 31, 1943
Net income	$21,354.30	$8,606.50
Less dividends paid	4,000.00	
Balance	17,354.30	8,606.50
Taxes:		
Income tax	4,983.67	2,223.76
Personal holding company surtax	9,977.51	5,225.33
25 percent delinquency penalty	2,494.38	1,306.33
Total	17,455.56	8,755.42
Reduction of surplus	101.26	148.92

While other instances could be cited, the above illustration is typical of the situation with which a taxpayer company is faced when it is not aware of its responsibility for filing a personal holding company return and is subsequently subjected to the imposition of the personal holding company surtax and penalties.

Your proposed amendment is in our opinion most equitable and will result in affording some relief to taxpayers as herein discussed, even though it does not relieve them of the delinquency penalty which is always imposed when a personal holding company return is not filed and a taxpayer is found to meet the provisions of section 501 of the Internal revenue Code.

We appreciate your efforts in behalf of this proposed amendment and feel that it will result in correcting an inequitable tax situation.

Respectfully yours,

PENTLAND, PURVIS, KELLER & CO.,
By HUGH F. PURVIS.

RING, MAHONY & ARNER,
ACCOUNTANTS AND AUDITORS,
Miami 32, Fla., April 30, 1947.

Hon. Judge HARRY G. TAYLOR,
Care of Senator Spessard L. Holland, Washington, D. C.

DEAR JUDGE: Following our conversation yesterday in the matter of personal holding companies and particularly our tax matters with the Ryder Trucking Co., a Florida corporation, I wish to state that this company was organized to conduct a trucking business originally, but about 1940 the actual operations of this company were conducted by a partnership, whose members owned the stock of the Ryder Trucking Co., Inc. Equipment with which the partnership operated was owned by the corporation. Payment for the use of the trucks was on the basis of cost of operations plus 10 percent. When the revenue agent made an examination of this company in the early part of 1945, the examination covered the fiscal years ended August 31, 1942, 1943, and 1944. The revenue agent determined, first, that cost plus 10 percent was not an adequate payment for the use of the trucks and increased the income from a 10 percent basis to a 15 percent basis, and determined that for the fiscal years ended August 31, 1943 and 1944, that the corporation was a personal holding company; and inasmuch as no personal holding company returns were filed for those years, assessed the personal holding company surtax penalties together with a delinquency penalty of 25 percent of the tax. The personal holding company income for the fiscal year ended August 31, 1943, was determined to be $3,092.88, and the personal holding holding company surtax and penalties thereon was $3,036.19. For the fiscal year ended August 31, 1944, the undistributed personal holding company surtax net income was $6,551.10, and the personal holding company surtax and penalties amounted to $6,710.55.

On June 1, 1945, the Ryder Trucking Co. notified the internal revenue agent in charge at Jacksonville that they desired to enter into a closing agreement with respect to the personal holding-company surtax covering the fiscal years ended August 31, 1943 and 1944, in order that a deficiency dividend credit could be authorized under the provisions of section 506 of the I. R. C. On July 5, 1946, the internal revenue agent in charge at Jacksonville notified the taxpayer that the reason given in the affidavit for failure to file a personal holding-company return, form 1120-H, for said fiscal years was not a reasonable cause; even though the taxpayer had had the advice of a certified public accountant who had prepared at least one of the income-tax returns in question and stated that the corporation was not a personal holding company.

The penalties in connection with the taxes are being contested before the Board of Tax Appeals at the present time, first, on the grounds that reasonable cause existed for failure to file the returns, and, second, on the grounds that the corporation was a mere dummy and as such could not have been a personal holding company under any circumstances.

It has been our experience in matters connected with the provisions of the personal holding-company act, and particularly in connection with the relief provisions provided for deficiency dividend credits, that as it is administered today the taxpayer has little chance for any relief, and it is hardly conceivable that Congress intended to penalize a taxpayer to the extent that they would have to dig into their capital in order to pay their tax.

I trust this information will be of assistance to you in your undertaking.

Very respectfully submitted.

W. W. ARNER.

The CHAIRMAN. We appreciate your courtesy in coming.

Thank you very much for your instructive remarks.

We will meet again at 10:30 in the morning.

(Whereupon, at 4:30 p. m., an adjournment was taken to Friday, May 2, 1947, at 10:30 a. m.)

INDIVIDUAL INCOME TAX REDUCTION

FRIDAY, MAY 2, 1947

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

The committee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin (chairman) presiding.

Present: Senators Millikin (chairman), Taft, Hawkes, Martin, George, Connally, and Lucas.

The CHAIRMAN. The meeting will come to order.

Mr. E. M. Voorhees?

STATEMENT OF E. M. VOORHEES, DIRECTOR AND CHAIRMAN OF THE FINANCE COMMITTEE, UNITED STATES STEEL CORP., NEW YORK

The CHAIRMAN. Mr. Voorhees, would you mind taking this chair there. Stand if you wish or be seated, as you please.

Mr. VOORHEES. Thank you.

The CHAIRMAN. Will you give the reporter your full name and your occupation?

Mr. VOORHEES. Enders M. Voorhees, director and chairman of the finance committee, United States Steel Corp.

The CHAIRMAN. Proceed, Mr. Voorhees.

Do you wish to read your prepared statement?

Mr. VOORHEES. I will read this, if I may.

The CHAIRMAN. Very well.

Mr. VOORHEES. I am a director of the United States Steel Corp. and chairman of its finance committee. Occupying that position, I know that the welfare of the United States Steel Corp. is intimately associated with and dependent upon the general welfare of the United States.

What is good for the country as a whole is good for United States Steel and the people associated with it as customers, employees, and and owners. Only as the Nation prospers can United States Steel expect to prosper.

I speak to you as a citizen rather than as an official of United States Steel. But I would like to note that what I have to say, as a citizen, is the same as what I would say as an official of United States Steel for the reason I have just disclosed. I am happy to place such information and experience as I possess at your service. In anticipation of this occasion, and in order to conserve your time, I have prepared a brief memorandum which I would like to read.

I think the principal danger in tax matters is that the Congress may fail to take advantage of the current period of assured replacement demand to restore the incentives to industrial progress that have been largely destroyed by the existing tax structure.

Unless those incentives are restored, it seems probable that as the replacement demand is satisfied the country will lapse into the condition of chronic unemployment that prevailed for many years prior to the war.

What I have to say, therefore, revolves around three points: The first one is the incentive-destroying nature of the present tax structure. The second one is the false notion that the current large volume of employment means that incentives are no longer necessary. The third one is the confusing of tax policy with inflation and deflation phenomena which has given some people the notion that incentive-destroying taxes should be maintained as an anti-inflation measure.

The principal feature of the present tax structure that affects the prospect of maintaining production and employment is the unparalleled severity and progressiveness of the taxation of individual income. This taxation represents virtual confiscation of income in the upper brackets.

By the same token, it represents a progressive penalty on individual investment and production effort. This is especially true when it is realized that a great deal of America's production is conducted through corporations. Income earned by corporations is currently taxed at unprecedented peacetime rates. Such remainder of income after taxes that is paid out in dividends is then subjected to the unprecedented peacetime taxation of a progressive sort to which I have referred.

May I point out that there is only one way that accords with the history of America of providing new and more and better goods and services on a constantly cheaper and more abundant scale. It is that someone by investment of his savings, somehow, somewhere, provides the tools of production—that is, the plant, equipment, and other things needed to produce goods and services.

Those most able to do this, and most able to afford the losses attending the risk, are those of larger income. They have no reason whatsoever for doing so except in the hope of profit. And it should also be pointed out that from the point of view of needing additional income, in order to survive in comfort, they have the least incentive to expand an income that is already large.

Bearing this in mind, what would you do with taxes if you wanted to destroy the initiation of new or expanding enterprise out of which come more and better jobs, and more and better goods and services?

The CHAIRMAN. Mr. Voorhees, do you have a figure as to the amount of capital invested per worker in this country?

Mr. VOORHEES. I would say, Mr. Chairman, it is ~~somewhere around~~—and this is my own feeling in the matter—it is somewhere around $8,000 per worker.

The CHAIRMAN. Thank you very much. That accords roughly with other testimony we have had here.

Senator MARTIN. Mr. Chairman.

The CHAIRMAN. Senator Martin?

Senator MARTIN. Mr. Voorhees, about what is the average number of shares held by your stockholders?

Mr. VOORHEES. I think the average number held by stockholders is somewhere around 50 or 55, or between 45 and 55 shares.

Senator MARTIN. How many shareholders do you have?

Mr. VOORHEES. About 230,000. That is preferred and common.

Senator MARTIN. How many shareholders do you have who have more than 50,000 shares?

Mr. VOORHEES. There are no individuals holding more than 50,000 shares.

Senator MARTIN. I am talking about permanent investors.

Mr. VOORHEES. I do not believe that there is more than one account on our stock records with more than 50,000 shares.

Senator MARTIN. I am talking about permanent investors.

Mr. VOORHEES. I think there is only one, and that is owned by a corporation, which again has many stockholders.

Senator MARTIN. Could you tell me approximately the number who have 10,000 shares or more?

Mr. VOORHEES. That is pretty difficult.

Senator MARTIN. Do you see what I am getting at?

Mr. VOORHEES. The number is very small, and mostly institutions. There are not more than perhaps 3 or 4 individuals owning 10,000 shares or more.

Senator MARTIN. What kind of institutions have United States Steel as an investment?

Mr. VOORHEES. Insurance companies, hospitals, endowment funds, almost all of our charitable institutions have one or the other of our stocks.

Senator MARTIN. Would you have any idea of the percentage of the outstanding stock of United States Steel that is owned by insurance companies and charitable institutions like colleges, and hospitals, and foundations?

Mr. VOORHEES. It is a considerable amount, sir; more than half a million shares.

Senator MARTIN. Thank you.

Mr. VOORHEES. I think you would do just about what the previous Congresses have done. You would take the most important group of investors—that is, those of larger income—and you would say that a great part of any additional income which they might make from providing additional job-creating tools of production would be confiscated by taxation.

This would simultaneously deprive them of the sums they might otherwise invest, and destroy their incentive to invest what was left—an incentive already and inherently relatively less than in the case of those of lesser income.

If you wanted to, you could justify this destruction of incentive by claiming that those of larger income have the ability to pay and would have enough to live on after paying the tax. This would be true but the other half of the truth would be this: With their ability to pay being conscripted for tax purposes, both their ability and incentive to provide the tools for jobs and progress would have been largely destroyed.

I know many individuals who are not producing up to their capacity by reason of the tax discouragement affecting their efforts. The taxes they pay are large in relation to their income; but their taxes are small in the total collections.

While we are all born "free and equal" we are all born with the inequalities that make us individuals. The greatest thing America offers is freedom from the "uncommon" man—freedom to make the most of the abilities he was born with, or can develop. Most often we fail to recognize the small cost to the public of providing the "uncommon" man with the incentive to produce to the best of his ability. We almost completely fail to recognize the great benefit to mankind of maintaining incentives. It results in multiplied availability of ever better goods and services at ever smaller expenditure of human energy. "Soaking the rich" turns out to be a boomerang that returns to hit those who launch it.

Our tax structure constitutes, in my judgment, a wet blanket, smothering the incentive of the very group which has competitively proved its capacity to initiate new enterprise or expand small enterprise that will provide new jobs for workers and goods and services for all.

I think the evidence of this is overwhelming. Thus, one of the outstanding characteristics of the middle and later 1930's was the year-by-year introduction of additional and progressive tax penalties on successful enterprise in terms of taxes on both corporate income and individual income.

At the same time, another basic characteristic of the 1930's was persistent and pronounced unemployment. It is a grim truth that that unemployment prevailed, and seemed likely continuously to prevail, until we went to war and absorbed the unemployed in the Army and in supplying it. If the tax schedules of the 1930's were sufficient to contribute to the unemployment conditions of the 1930's, what can we say of the present tax schedules?

I am well aware of the feeble argument that since we currently have so-called full employment we do not need tax release of incentive. This argument, in my judgment, represents a profound misreading of the current situation, and adherence to that argument must inevitably result in a policy of continuous inflation. The present situation is characterized by the presence of a great flood of check deposits and currency resulting from the wartime practice of what is substantially equivalent to employment of the paper-money printing press.

The second major characteristic of this period is, of course, the great shortage of peacetime durable goods resulting from their subnormal production both before and during the war. It is wholly natural that people should try to convert the money of which they are "long" into the goods of which they are "short."

This is a demand for accustomed goods produced for the most part by business firms already in existence. In considerable degree the presence of these firmsre presents incentive and initiative of long ago. Once investors' money was sunk in brick, mortar, tools, and equipment, a hostage was given to the future. The firms now have to operate for whatever minimum profits are available after taxes. They even have to operate at losses so long as the losses represent a lesser loss than would result from closing down.

They even have to invest for the purpose of replacing obsolete tools, to the extent that they have the earnings or can obtain the credit to do so, in order to remain competitive.

It follows, therefore, that while the replacement demand lasts we will have the appearance of healthy production and employment. But please note that we are talking about existing firms producing accustomed goods to replace goods of which we are short. When that replacement is completed, their business will shrink. But in the meantime, new firms are shut out from starting, and small firms are prevented from growing by reason of the tax destruction of profit prospect commensurate with risk. When replacement is completed, then where is there going to be the expanding new enterprise to absorb the workers released from existing enterprises as their technology improves and the demand for their product shrinks?

If we should arrive at such a situation without having released the incentive and ability to undertake new enterprise or expand small enterprise, then I feel pretty certain that the political outcome will be that the Government will undertake large-scale deficit spending, financed again by expanding bank credit, in an attempt to offset the inevitable large-scale unemployment. That is why I said a moment ago that talking down the need for restoring incentive must inevitably result in a policy of continuous inflation.

I think a good many people make the mistake of thinking about taxes in terms of price inflation or deflation, instead of paying attention to the very much more fundamental relationship of taxes to production and depression. Taxes can be profoundly depressive on production through destroying the profit incentive to initiate production.

But that is not deflationary on prices; it is inflationary, if anything. Decreasing the availability of goods to be bought in relation to the money supply with which to buy them is clearly inflationary rather that deflationary on prices. The popular notions about the relationship of taxes to price inflation, particularly if the Government is prepared to inflate the money supply in an attempt to offset a decrease in employment, are exactly wrong.

I think the general truth is, from the point of view of the money mechanics involved, that taxes being taken by the Government, and by the Government paid out, are returned to the market, and the equilibrium between money coming to market and goods coming to market is maintained. Taxes shift the capacity to buy things from taxpayers to the recipients of Government disbursements, but in and by themselves taxes are neither inflationary nor deflationary. Tax consequences to the community are more to be sought in terms of their influence upon incentives to produce than upon prices.

The CHAIRMAN. I should like to suggest, Mr. Voorhees, that there may be some slight difference between the effect of people spending their own money and the Government spending it for them. When the Government spends money a part of it is spent in exactly the same way that the people spend it. That is, they spend it for pay roll, and the recipients of that pay roll go out and buy just as people buy when they retain their own money; but the Government also invests in projects and facilities and in various enterprises which do not have the dynamic quality that direct-consumer purchases have, and I think there is perhaps some difference, to that extent.

Mr. VOORHEES. Possibly; but I think insofar as the general point that I am trying to make there is concerned, if the Government spends the money for accustomed goods or if the taxpayer does, the effect on employment is practically the same, and therefore you are in balance.

The CHAIRMAN. And you are also putting the Government in competition for goods in a short market?

Mr. VOORHEES. That is very true.

The CHAIRMAN. As far as pay rolls are concerned, clearly there is no difference whatever.

Mr. VOORHEES. That is right.

The CHAIRMAN. Between spending of the Government and allowing the people to spend their own money.

Mr. VOORHEES. That is right.

Senator HAWKES. From my point of view and my experience the Government is not quite as careful about shopping and what it pays for an article as the average private institution is that has to earn the money and knows something about having to go through the process of getting it. I think the Government is more likely to add to inflation by building prices up because of carelessness than the individual person or the individual institution.

Mr. VOORHEES. I agree with that, but I am thinking more of the economics of the situation from the standpoint of whether taxes are inflationary or deflationary.

Senator HAWKES. I agree with that but I am thinking there is a little element of contribution there.

Mr. VOORHEES. I am thinking of the major results of whether taxes are inflationary or deflationary upon our economy.

Senator HAWKES. Yes. Well, thank you very much.

Mr. VOORHEES. The confusion between tax policy and price changes comes about when Government expenditures are financed out of deficits which are covered by the modern equivalent of printing money. You are, of course, familiar with the process. It is this process, not taxation, which is the root of our present price inflation. If we are afraid of inflation, the place to cure it is at its source. That source is the persistent practice of an easy money policy by which not only the Government, but also private borrowers, are enabled virtually at will to have new deposits created by commercial banks—deposits to be spent in markets which are already flooded with the accumulated results of previous persistent practice of easy money policies.

May I sum this up by saying that I think the Congress has a historic opportunity—an opportunity which may not last long or recur soon. It is to take advantage of the present period of replacement demand for goods to be free, through tax revision; the profit incentive to produce; and substitute it for the printing and spending of money as the guiding principle in our economy. I think it important that this be done because the record of history is strewn with the disasters which sooner or later result from relying on printing money as a means of maintaining production and employment.

The CHAIRMAN. Any questions?

(No response.)

The CHAIRMAN. Mr. Voorhees, we are very grateful for your having come here this morning and having given us the benefit of your observations.

Mr. VOORHEES. It has been a great pleasure. Thank you very much.

The CHAIRMAN. Is Senator Fulbright in the room?

(No response.)

The CHAIRMAN. Is Senator Pepper in the room?
(No response.)
The CHAIRMAN. Is Mr. John Connolly in the room?

STATEMENT OF JOHN L. CONNOLLY, SECRETARY AND GENERAL COUNSEL, MINNESOTA MINING & MANUFACTURING CO., ST. PAUL, MINN.

The CHAIRMAN. Mr. Connolly, would you mind commencing, and when Senator Fulbright comes I will ask you to stand aside for just a little bit so that he can make his statement. He has a previous appointment which he has got to keep. So start right out and we may interrupt you later on.

Mr. CONNOLLY. I will be very glad to yield to the Senator.

The CHAIRMAN. Thank you. Do you have a prepared statement?

Mr. CONNOLLY. I have not a prepared statement. I have not had an opportunity to prepare a statement.

The CHAIRMAN. You may sit or stand as you wish.

Mr. CONNOLLY. Thank you.

Mr. Chairman and gentlemen of the committee, as I understand it, your committee has under consideration the question of the reduction of individual income taxes and the effective date. It seems to me from what I learned from the press, and listening to others who have spoken before this committee, that it is generally agreed that individual income taxes should be reduced.

There is disagreement as to the method, the time, and the amount. It is my understanding that H. R. 1 provides that those taxpayers that have incomes of $1,000 or under will get a reduction across the board of 30 percent. Between $1,000 and $1,400 the reduction will be between 20 and 30 percent. Between $1,400 and $302,000 the reduction will be 20 percent across the board. Over $302,000 it will be some 10½ percent.

There is another provision which grants a further exemption under certain conditions of $500 to each person who has attained the age of 65 years or over. I do not know whether your committee has under consideration the so-called Lucas proposal.

The CHAIRMAN. We do have.

Mr. CONNOLLY. It is my understanding that the Lucas proposal—and I have not had much opportunity to study it, so if I make any misstatements I wish you would correct me, Senator Lucas.

This proposal would grant an additional $100 per capita in the way of exemption to all taxpayers. It would reduce the surtax brackets by two percentage points, and it would permit husband and wife to divide their income for the purpose of computing the tax due.

Now, first there is some question as to whether or not we can have both a tax reduction and a debt reduction. From what I have been able to learn as to the estimates of tax receipts for the fiscal year 1948, and the proposed reduction by the House and Senate in expenditures, it is possible to have both a tax reduction and a payment upon the debt.

The CHAIRMAN. Mr. Connolly, Senator Fulbright is here now and if you would be good enough to stand aside now a little while we will hear the Senator.

Mr. CONNOLLY. Thank you.

Mr. CHAIRMAN. We will run your talk in the record in sequence. Thank you.

(After Senator Fulbright's statement, Mr. Connolly resumed his testimony.)

The CHAIRMAN. Mr. Connolly, will you resume your testimony, please?

Mr. CONNOLLY. When Senator Fulbright came in, I think I was talking about the estimates in Government receipts and reduction in expenditures permitting both a tax reduction and a debt reduction. It is my understanding that the proposed reduction, or the reduction proposed in H. R. 1, will reduce the revenues some $3,800,000,000. I understand that the Treasury Department estimated that the Senator Lucas proposal would reduce revenues approximately $3½ billion.

The other day when I was before this committee there was some mention made of the provisions of H. R. 1 being rather unique. I looked up the records to see if there was any precedent for this type of reduction. I find that back in 1924, if memory serves me correctly, the Congress reduced taxes 25 percent. You computed your tax at the rates in effect and deducted from the result obtained, 25 percent.

I found that in 1940 Congress did the opposite. The first Revenue Act in 1940 raised taxes 10 percent by computing the tax at the given rates and adding thereto 10 percent. I find that in 1945 individual rates were reduced some 3 percentage points and a 5 percent reduction across the board was made and that reduction was made in spite of the fact that the fiscal year 1945 had closed with a deficit of some 53 billions of dollars.

We are going to have a surplus for the coming fiscal '48: In the committee report put out by the House committee there is a schedule—I think it is on page 11—that shows the marginal rates under the present law—that is, with the 5 percent deduction, and the marginal rates under H. R. 1.

I would like to put into the record, after I have had an opportunity to check its accuracy, a schedule showing that same information in regard to the proposed Senator Lucas' bill.

(The schedule is as follows:)

Comparison between the marginal rates of the individual income tax under present law, H. R. 1 and Lucas bill

Taxable income [1]		Present law	Marginal rate	
From—	To—		H. R. 1	Lucas Bill
0	$1,000	19.0	18.3	17.10
$1,000	$1,395.83	19.0	20.0	19.00
$1,395.83	$2,000	19.0	15.2	19.00
$2,000	$4,000	20.9	16.7	19.00
$4,000	$6,000	24.7	19.8	22.80
$6,000	$8,000	28.5	22.8	26.60
$8,000	$10,000	32.3	25.8	30.40
$10,000	$12,000	36.1	28.9	34.20
$12,000	$14,000	40.9	32.7	38.95
$14,000	$16,000	44.7	35.8	42.75
$16,000	$18,000	47.5	38.0	45.60
$18,000	$20,000	50.4	40.3	48.45
$20,000	$22,000	53.2	42.6	51.30
$22,000	$26,000	56.1	44.9	54.15
$26,000	$32,000	58.9	47.1	57.00
$32,000	$38,000	61.8	49.4	59.85
$38,000	$44,000	65.6	52.5	63.65
$44,000	$50,000	68.4	54.7	66.50
$50,000	$60,000	71.3	57.0	69.35
$60,000	$70,000	74.1	59.3	72.20
$70,000	$80,000	77.0	61.6	75.05
$80,000	$90,000	79.8	63.8	77.90
$90,000	$100,000	82.7	66.2	80.75
$100,000	$150,000	84.6	67.7	82.65
$150,000	$200,000	85.5	68.4	83.60
$200,000	$300,000	86.5	69.2	84.55

[1] The taxable income shown is arrived at by considering personal exemptions and credits at $500, and in order to give effect to the per capita increase in personal exemptions and creidts, proposed in the Lucas bill the income shown must be reduced by an additioanl $100 for the taxpayer, for his wife and for each of his dependents. The marginal rate under the Lucas bill is not applicable in those cases where the income of husband and wife is divided in order to compute the tax due.

Now, I want to point out, in all fairness, that it is hard to make a comparison between the marginal rates proposed in the Lucas bill and in the House file No. 1, for the reason that the Lucas bill has an additional $100 per capita exemption, and also has the feature that Senator Fulbright talked about.

I think it is a fair statement to say that under the Lucas bill the taxpayers in the lower brackets receive a larger reduction, than the taxpayers in the higher brackets.

Now, I would not oppose this ordinarily but gentlemen when you stop to figure that we are talking here about raising some 13 billions of dollars from individual income taxpayers, I think it goes without saying that we must keep the income tax base very broad, and we cannot do that by reducing personal exemptions and credits.

There is no such reduction proposed under H. R. 1.

On page 23 of the committees report there is a schedule which shows the estimated amount of incomes in the different brackets. It ranges from zero to $1,000 and it goes on up a million dollars and over, and the percentage of distribution given there: 96 percent of the total number of taxpayers have incomes under $5,000, and 79.6 percent of the income is under $5,000.

By increasing personal exemptions, we eliminate a large number of taxpayers. If we were talking about a lesser sum to be raised from individual income taxpayers or we had a smaller budget to balance I would have no opposition to increasing personal exemptions.

Senator Lucas. Do you believe that taking a few more than 4,000,000 off the tax rolls in the very low-income groups does violence to your theory?

Mr. CONNOLLY. Not in numbers, Senator Lucas, I do not.

Senator LUCAS. You have 47,000,000 on the tax rolls at the present time, approximately 47,000,000?

Mr. CONNOLLY. Forty-six to forty-seven.

Senator LUCAS. Now, this slight increase in exemptions would take a few more than 4,000,000 off the tax rolls, still leaving some 43,000,000 for that broad base that you are talking about.

Mr. CONNOLLY. I am talking more to the point that I think it would be much better to keep those on, those 4,000,000, and give them a reduction something comparable to that as proposed in H. R. 1. I would do it by that method rather than give a hundred percent reduction to some taxpayers and a slighter reduction to others. That would be my method of approach, Senator Lucas.

Senator LUCAS. That is not the way we put them on there.

Mr. CONNOLLY. Well, that is a debatable point.

Senator LUCAS. I mean by that, we did decrease the exemptions in order to get those fellows on the tax rolls.

Mr. CONNOLLY. Through necessity?

Senator LUCAS. Yes.

Mr. CONNOLLY. Yes.

Senator LUCAS. Through necessity, that is correct.

Now, as we start reducing taxes, it does seem to me that these fellows in the lower income brackets ought to have that same advantage that the Government took away from them when it started to increase the revenues for war purposes.

Mr. CONNOLLY. I would concede that point, Senator, if I was convinced in my own mind that the necessity by which we put them on no longer existed.

Senator LUCAS. What advantage is there in keeping a fellow who pays 70 cents on the tax rolls?

Mr. CONNOLLY. I would not worry about a taxpayer who pays 70 cents.

Senator LUCAS. That is what you are doing under H. R. 1. The fellow who pays $1 taxes now will continue to pay 70 cents under H. R. 1.

Mr. CONNOLLY. I have no worry about those.

Senator LUCAS. I have.

Mr. CONNOLLY. I mean, by not having any worry, I would not worry about taking them off. I do not think that is the point.

Senator LUCAS. You are making an argument for my position then if you do not have any worry about taking that small fellow off?

Mr. CONNOLLY. No. I say if we could take those particular individuals off without going all the way up the line with the hundred-dollar exemption, I would do it some other way. I do not think any great good is derived by keeping taxpayers on the tax rolls that pay 70 cents. I do not think this idea of making them tax-conscious has the desired effect that some people claim for it.

Senator LUCAS. I am glad to hear you say that because I concur in that remark.

Mr. CONNOLLY. There is one other point I would like to call to the attention of the committee. It seems that too many people feel that in 1945, all business was given a substantial reduction in taxes by the removal of the excess-profits tax on corporations, and the reduction in the normal and surtax rates on corporations. That, as far as it went, was a very excellent thing in my opinion and had its desired results in 1946, but I want to call the committee's attention to the fact that if you look at the reports on business income—and the reports published for 1945 by the Commerce Department—there was $20 billion earned by corporations and $26 billion earned by individuals and partnerships engaged in business.

Now, outside of the two-percentage-points reduction in surtaxes and the 5 percent under the existing law, these individuals have received no relief and are still burdened with the high wartime rates, and this is something that H. R. 1 will correct to the extent that it is possible at this time.

Now, there is one other point that I would like to call attention to, and that is, while it is not corrected in its entirety, and it probably will be sometime before it is, H. R. 1 will alleviate in some respect the duplication and the inequity that exists today by the taxing of corporate earnings at the corporate level and again taxing the dividends in hands of the individuals.

Now, with reference to the Lucas bill the splitting of incomes to equalize the tax with the community-property taxpayers, I have no quarrel with it—I think it is an excellent idea—but I want to point out, as I think the chairman did, that it is not an over-all proposition.

That is, it affects very few taxpayers. I think probably Mr. Stamm's statement, the estimate of 4½ million out of the 46 or 48 is correct.

If you look in the tables shown on page 23 you will find that some 52 percent of the total number of taxpayers have incomes from zero to $2,000 and under the present rates—and I assume it would be the same on the proposed rates—those particular taxpayers, some 23,000,000 of them, will derive no relief by this provision.

Then there is that other group, the single individuals, who will derive no relief, and there are 6,000,000 already enjoying that privilege that will enjoy no relief or reduction by this provision.

Senator LUCAS. Where the husband and wife are approximately equal in income of their own?

Mr. CONNOLLY. That is correct. I sympathize with Senator Fulbright with reference to the ruling in the partnership case and I agree with the Chairman and Senator George. I think the Treasury Department has gone too far.

The CHAIRMAN. Do you mind if I put in at the conclusion of your remarks a ruling which Mr. Stamm has handed me reflecting what I referred to a while ago as a liberalization by the Treasury of its holdings with respect to family partnerships?

Mr. CONNALLY. I would be very glad to.

Senator GEORGE. It only modified it to a degree.

The CHAIRMAN. That is all.

Mr. CONNOLLY. As I understand it—I have not made a specialty of this and my understanding is that unless the wife is active in the partnership, no partnership exists under the Federal rulings—regardless of how much money she may have put in, if the money in the first instance came through the husband by gift or otherwise.

Now, in conclusion——

Senator GEORGE. Mr. Connally on that point I am still of the opinion that the Treasury has gone too far in its insistence against the validity of the family partnerships.

I can, of course appreciate the fact that the Treasury is trying to prevent what it thought was fraud on the revenue, and to that extent it is all right, but in my judgment, it is most unfair to assume that every partnership where the wife had a partnership was made for the purpose of evading the payment of revenue. It was made for very different reasons in many instances and the gift from the husband or wife may have been made many years ago and she put the money in the business or allowed it to stay in the business, and they become partners, and I think the vice of the Treasury's position which it insisted before the courts—and the rulings have virtually destroyed family partnerships in every State in the Union except the community property where a different rule obtained of course—was that they assumed every family partnership was made for the purpose of avoiding the payment of the tax, made for an ulterior reason, which could not have been true, and they ought not to have gone that far but they did it, and I am glad to know that they have somewhat modified their position about family partnerships.

Senator LUCAS. Do I understand, Senator George, that the courts have upheld the position that has been taken by the Treasury Department?

Senator GEORGE. Yes.

Mr. CONNOLLY. The Supreme Court of the United States.

Senator GEORGE. The Supreme Court of the United States.

Senator LUCAS. Is that not a very strong reason for the enactment of legislation by this Congress, because that discrimination will continue to exist in view of the Court's decision.

Senator GEORGE. Oh, yes. There is no doubt about the discrimination, Senator Lucas. There is no question but what it ought to be corrected. Sooner or later, sometime, whether or not in this bill, it certainly ought to be corrected.

Mr. CONNALLY. In conclusion, gentlemen of the committee, let me state that I prefer the provisions of H. R. 1 over the provisions proposed in the Senator Lucas bill.

Let me also state that if it came to a question of tax reduction or debt reduction for the year 1947—I would take tax reduction. One of the reasons I favor H. R. 1 over the Lucas bill is its effective date, effective January 1, 1947, but the Lucas bill would be effective January 1, 1948.

It is my understanding that the House Appropriations Committee has made some substantial reductions in the proposed budget for '48, that the national defense program is running some $100 million per month below the estimate in expenditures, which if continued—and I think it will be continued from what I am able to learn——

Senator LUCAS. May I inquire where you obtained that information?

Mr. CONNOLLY. Where I received my information?

Senator LUCAS. Where you obtained that information that the defense program is running $100 million less per month than the estimate.

Mr. CONNOLLY. Yes. I will tell you. Mr. Connor of the United States Chamber of Commerce gave me that information.

Senator LUCAS. Do you know where he got it?

Mr. CONNOLLY. I do not know. I called for him this morning to check it, but he was out of the city, but I understand he will be back tomorrow. I would be very happy to check with him and put the answer in the record if he will be able to give it to me. That concludes my statement.

(The information is being supplied by letters addressed to Senator Lucas and the chairman.)

The CHAIRMAN. Are there any questions?

Senator CONNALLY. I thought I would ask you this, and I changed my mind, and I changed it again.

You said as between debt reduction and reduction of taxes you would take the reduction of taxes.

Mr. CONNOLLY. If I had to have a choice.

Senator CONNALLY. When would you start paying on the debt under your theory? We owe more money that we ever owed in the world, and we are making more money than we ever made before. Would it not be a good time to start paying something on the debt?

Mr. CONNOLLY. My proposal here is that, as I understand the figures, Senator Connolly, we can do both.

Senator CONNALLY. I know, but you said if you had to choose, and we may have to choose—you would not pay a nickel on the debt, you would put it all in tax reduction?

Mr. CONNOLLY. In answer to your direct question, I would start paying just as soon as I had the surplus available to make the reduction on the debt. In other words, I do not think——

Senator CONNALLY. We expect to have that now.

Mr. CONNOLLY. I say apply it in that respect, but if we do not have it, Senator, then I would, for the effect upon the economy of the country, I would take tax reduction rather than see the economy go into a tailspin by applying all surplus on debt reduction, and we start borrowing a year from now.

Senator CONNALLY. Talking about ruining the economy of the country, we have got a larger national income than we ever had. Our national income is bigger than it has ever been, is it not?

Mr. CONNOLLY. Correct.

Senator CONNALLY. And the people generally have got more money than they ever had in their lives, generally speaking. I do not mean everybody. Of course, some of them may be broke. Is that not true?

Mr. CONNOLLY. I think that would be safe to answer in the affirmative.

Senator CONNALLY. All right. That is all.

The CHAIRMAN. Mr. Connolly, just by way of historical background, and to show how your views can reach the opposite poles under circumstances that may press on a country, I will read in the record an item from the Wall Street Journal of Wednesday, April 30, page 1, as follows:

England encourages her corporations to plow their profits back into earnings and equipment as a means of strengthening the nation's industrial sinews. That course chartered by a labor government was reaffirmed by Chancellor Dalton in his recent budget message. It is diametrically opposite to taxing by our own Treasury which encourages corporations to pay out most of their earnings in dividends. Mr. Dalton said: "I have got rid of the excess-profits taxes, and I am going to try to encourage industry to plow back its profits for requirement and development instead of frittering them away in increased dividends. I therefore am increasing profits taxes on that part of the profits of a business which are distributed through shareholders. That part put back into the business will pay the same tax as before." Britain stands to benefit in two ways: (1) More money earned by business should go toward rehabilitation and modernization of industry, and (2) this dividend money will go to the public to be spent on scarce consumer goods.

I should also like to read a paragraph from an AP news story of Ottawa, Canada, April 30:

Most Canadians greeted with enthusiasm today news that the projected 1947-48 Federal budget will trim their income taxes an average of 29 percent, but expressed disappointment that sales and luxury taxes will remain unchanged.

Mr. CONNOLLY. I neglected to mention that. That item was called to my attention, that Canada was taking those steps.

The CHAIRMAN. Thank you very much, Mr. Connolly.

Mr. CONNOLLY. Thank you.

STATEMENT OF HON. J. W. FULBRIGHT, A UNITED STATES SENATOR FROM THE STATE OF ARKANSAS

Senator FULBRIGHT. Mr. Chairman and members of the committee, I appear in behalf of an amendment that I offered to this bill on yesterday and also Senate Joint Resolution 57 which I introduced February 5, 1947, pertaining to the question of the discrimination that exists in the tax laws arising out of the application of the community-property laws in some nine States.

It is of particular interest to Arkansas because we are surrounded on three sides—that is we have three of these States—Texas, Louisiana, and Oklahoma—adjoining us.

Some of our cities, such as Texarkana, are on the line, and it has caused great distress to the business people because it has induced people with means to move out of Arkansas into Texas particularly.

I have a great many letters stating in no uncertain terms the effect and the reactions upon the people in those cities. It would seem to me that if there is any principle involved in taxation, that principle is that of equality of the burden, whether the tax rates are high or low, that the impact ought to be equal under similar circumstances in the various States.

I have gathered together some material. I know that the committee has much of this already in its files, and I do not propose to put it all in the files, but I have a letter from Mr. Stamm which I think sets out very briefly the history of this legislation. I only want to comment in this way: That in 1921 the first effort was made to rectify this inequality, and it has been recognized by this committee I think and the House, that there is an inequality, a discrimination that exists.

In 1921 the first proposal was made according to the letter from Mr. Stamm. The approach at that time was to remove the advantage that the community-property States then and now have over the non-community-property States.

In other words, it was to force a single return in the community-property States. That did not get anywhere and later at various times—other efforts were made. The latest one prior to the present was 1941 in the revenue bill and the Senate Finance Committee after the proposal was stricken out in the House countered with inserting a provision which would require the elimination of the discrimination by making the people in the community-property States, the earner, in other words, file his return including all of the earned income rather than splitting it between the husband and wife.

It is interesting to note this passage in Mr. Stamm's letter:

The Senate rejected this provision in the bill with the understanding that it would be subject to hearings and action in the administrative bill.

Apparently every time this is brought up they say,

We cannot do it now, but we will do it the next time.

Senator LUCAS. What year was that?

Senator FULBRIGHT. This was in '41. This letter I am quoting from was written to the chairman of this committee by Colin F. Stamm, chief of staff, in response to a letter that I had submitted to the chairman and he gives the history of it, and I have heard that there is some feeling now that,

Well this is a good idea but we cannot consider it now, we will take it up the next time.

Now, that has been going on for 26 years, and it does seem to me that since we are undertaking a very important tax bill at this time—and the object is to reduce taxes—that there could be no more equitable way to reduce taxes than this way, because you achieve not only the reduction but you also achieve equalization and equity in the in the application of the income tax.

I do not think there is any defense of this injustice. I do not think that I need go into many of the figures.

I have prepared here a statement. I might quote a few facts just as a matter of convenience to the committee, although I am sure it has been under study so long that you ought to be thoroughly acquainted with the greatin justice that arises out of this discrimination.

I have several items here. For example, I have a Gallup poll on this subject for whatever it may be worth which I just received a few days ago. This is the question they put:

For the purpose of income taxes in nine States a man and wife can divide their income equally between themselves to reduce their income tax. Should married couples in the other 39 States be allowed to do the same thing?

The replies were 74 percent "yes" and 10 percent "no" and 16 percent "no opinion," and as between the Democrats and Republicans, the Democrats were 72 percent "yes" and "no" 10 percent, but the Republicans showing their great concern for justice voted 77 percent in favor of this.

Now that the Republicans are in control of this committee and the Senate I certainly think it is high time that they accept this principle which has been under consideration for such a long time.

In Arkansas we have some very interesting cases, one of which has been the subject of communication with the chairman.

In view of the two cases I think in '46, one of them—they call it the Tower case—it is the *Commissioner of Internal Revenue* v. *Tower* (327 U. S. 280, 1946).

The other is *Lusthaus* v. *Commissioner of Internal Revenue* (327 U. S. 293), in which they virtually held you cannot have in Arkansas or any of these other States a partnership between husband and wife; that is, you cannot do it even if you, as the husband, give a half interest to your wife and pay a gift tax on it, they still will not recognize it as a partnership and in Arkansas, in other words, by affirmative action, in payment of gift tax, it is impossible to have a partnership whereas across the line in Texas it is automatic, just by the fact that you live in Texas, Oklahoma, or Louisiana.

The case that is of particular interest which gave rise to these inquiries is one now before the internal revenue agent in charge at Oklahoma City. This illustrates the difference. This is a case which is now pending, growing out of the 1941 operations of probably the largest lumber operator in Arkansas.

I may say that unfortunately there are not many people in Arkansas with this kind of an income, but to show the difference, just this one case——

Senator LUCAS. Does he still live in Arkansas?

Senator FULBRIGHT. He still lives in Arkansas. He is in the lumber business, and it is very difficult for him to move his forest. It is right across the line. I imagine he contemplates moving now because of this case. This is '41. He looks forward to the same thing for the succeeding 5 years.

In 1941 his tax liability—that is, as set up by the Government—is $262,215.30. He paid as previously assessed on the basis of a partnership with his wife, which would be automatic in Texas—he paid $80,099.29. The deficiency now assessed against him is $182,116.01. In other words, as I understand this case—and this is the brief—if he lived in Texas without having had to make the transfer which he did, of one-half interest in these properties—he has about 20 sawmills—he would have been treated as a partnership and paid the smaller tax.

Under State law it is perfectly legal to have this partnership with his wife, and under Federal law he can give her that part of it and pay a gift tax, but they will not recognize it for income-tax purposes.

In other words, because he lives in Arkansas he is penalized $182,116.01 for 1 year's operations of his sawmills plus a penalty of $9,105.80.

Senator HAWKES. You mean he is penalized as related to States that have this community property?

Senator FULBRIGHT. If he lived across the line in Louisiana which is not far from his operation it would save him $182,000 taxes in 1 year, 1941.

Senator HAWKES. Is that one of the propositions where there is a limited partnership, where the wife has no interest in the losses but only an interest in the profits?

Senator FULBRIGHT. No; under our State law she is a full partner and if there is any loss——

Senator HAWKES. She has to sustain a share?

Senator FULBRIGHT. Oh, yes; if it had been anybody but his wife it would have been all right. I could have been his partner and not done anything in the business—I do not think she did either—and they would have recognized the partnership but under these cases that I have just cited in the application of them you cannot have a partnership with your wife for purposes of income tax.

Senator HAWKES. Could you not have a partnership if she were willing to accept her losses? I do not know whether you understood me. In other words, there have been limited partnerships under which the wife has no part of the loss, is not responsible in any way but does participate in the profits and has no say when the dividends or profits will be declared as profits?

Senator FULBRIGHT. I read this brief. It is quite a lengthy brief and it does not even raise that point as I understand it.

What that man did, he had these sawmills and he tansferred to his wife a half interest in them and paid gift tax on the transfer. It is an informal partnership, by declaration, that is all you have to do you know, then when they came around to the assessment of taxes—this is a deficiency assessment—he assessed it on that theory in 1941 this case is a current case, now under consideration, and I have submitted most of this to the chairman. Of course there are others. I know of no other quite the size of this.

This man had quite a large income for that year and I think he has had every year since and it is going to be a fairly substantial amount. It is an extreme case as far as size goes in Arkansas.

I presume they would apply the same theory in New Jersey because you are not a community-property State.

Senator HAWKES. I expect they would.

Senator FULBRIGHT. In all, except as you know the nine States.

Senator GEORGE. Those are cases where the wife's interest arises out of a gift of money from the husband?

Senator FULBRIGHT. That is correct.

Senator GEORGE. Or stocks or undivided interest.

Senator FULBRIGHT. That is correct but is perfectly legal to make the gift.

Senator GEORGE. Certainly it is; and I think the Treasury has taken a very narrow view of it. I have always thought so. I have protested to them several times. They have gone in before the courts and insisted upon the courts narrowing it down to the point where there cannot be any valid partnership between the husband and wife, unless the wife has independent income which she has invested in the business hereoh, although he pays the gift tax, and she pays an income tax on her earnings in the business for a long period of time, they can now go into the courts and upset that partnership arrangement?

Senator FULBRIGHT. I would not feel so badly about that if that were true everywhere, but is it not true in Texas, by the operation of the same law, the same couple would divide their income?

Senator GEORGE. It is true everywhere except in the States that have the community property.

Senator FULBRIGHT. If you live in one of those States in effect you have an automatic partnership in doing business and under the same conditions. I have a great many other letters calling attention to this discrimination.

The CHAIRMAN. Senator Fulbright, Mr. Stamm brings my attention to the fact that the Department has recently liberalized some of those partnership rules as to old cases.

In cases of that kind if the wife has an active participation in the partnership and shares losses as well as gains I understand that they are not attacking the partnership for tax reasons.

Senator FULBRIGHT. If she plays an active part. There is no pretense that she plays any active part here and she does not in Texas and the community property States. It is not necessary that she do anything in order to gain the advantage of this separate return.

Senator HAWKES. Mr. Chairman, that is the very point I had in mind a moment ago and I understood the Senator to say that she did assume her responsibilities in the partnership.

Senator FULBRIGHT. I mean an active part in the sense of participation in the business.

Senator HAWKES. I mean the losses.

Senator FULBRIGHT. I would say in this case, Senator, that he gave her—we will say it is $100,000—and he gave her $50,000, if the business loses 50, her 50 is subject to loss the same as his and if the business fails I do not know why that is not sharing the loss. I think that is sharing the loss in this particular case.

The CHAIRMAN. There is a difference between that and an unlimited liability. In the latter case the losing partner must dip into her own resources. In the former ease the business may suffer but she may not suffer personally.

Senator FULBRIGHT. There is no point raised in this whole brief about a limitation on the liability. It is never mentioned in the Garland Anthony case and it sets out in great detail just what they are trying to do there and they are still maintaining that position. This was sent to me within the month and I think it is now pending before the Oklahoma City agent in charge, and of course he anticipates they are going to do the same thing to him on every year since '41.

The CHAIRMAN. I am in hearty accord with Senator George. I think the Treasury Department has gone too far but the reason for its activity is to stop phony partnerships and phony divisions of income for tax-evasion purposes.

Senator FULBRIGHT. I understand that, but if that is true then why are we so complacent about permitting it in the community property States. It is the discrimination that I am after, not this particular case.

Senator GEORGE. We have not been so complacent, Senator, about it. We have had the matter on the floor of the Senate and we had a filibuster there about it by the community property States. It was well organized, and we were defeated. We did the best we could to eliminate it.

Senator FULBRIGHT. It seems to me that the other approach is the better approach—now all we are asking is that you extend it to us. It would be a little too raw for them to filibuster that. I mean if you want to take it away, they have some reason—I read some of those speeches about the sanctity of the Spanish laws and so on, but if we are to extend it to the rest I do not see how they can in any conscience at all make any argument against it.

The CHAIRMAN. As far as Arkansas is concerned, are you prohibited from bringing yourself into the same position as the community-property States?

Senator FULBRIGHT. I have some letters on that, one in particular from Mr. Joe C. Barrett, who is one of the leading lawyers of Arkansas, and has held several important positions in the Government.

One paragraph relative to this question, he says:

In my opinion, it would have been taken 20 to 25 years to obtain judicial interpretation of the act—

He is referring to the act proposed to make it a community-property State—

in all of its ramifications to such extent as that any sound lawyer could safely advise clients on the ultimate effect of the act. Furthermore, it was my view that Congress would either require joint return in community-property States or authorize separate returns in the noncommunity States. In either event the benefit sought to be derived from such action by our general assembly would be nullified.

And, there are several other letters along the same line. They had it up this year and they defeated it on the ground that it would disturb and make uncertain all sorts of questions relating to property, and that it was so unjust that surely the Congress would no longer delay doing something about it, and therefore they are waiting, you might say, to see if we do not do something about it.

The CHAIRMAN. Do you have any inherent property situations in Arkansas that do not permit the State to take the same actions that have been taken by the other States having community property laws?

Senator FULBRIGHT. I do not think so. It would be possible but their view is that it would cause a lot of trouble in the way of interpretation and application, and that it is a thing that surely Congress is going to rectify.

Now, that is their attitude.

The CHAIRMAN. I am not now resisting your thesis.

Senator FULBRIGHT. If we should say that positively we are never going to change this and it is going to remain this way, then I think a renewed effort would be made to do as Oklahoma did.

The CHAIRMAN. In making this comment I am not making it by way of resistance to your thesis but you are asking the Federal Government to suffer a loss of three-quarters of a billion dollars in revenue in order to bring nine States into harmony with a very much larger number of States.

Senator FULBRIGHT. Well, you can put it either way, or bring the much larger ones in harmony with the nine.

The CHAIRMAN. You can put it that way.

Senator FULBRIGHT. I think the Government under H. R. 1 will suffer a much larger tax loss than this involves and that is what you really are proposing to do in H. R. 1.

The CHAIRMAN. It goes into more than that. It goes into how many beneficiaries you want to reach and what kind of beneficiaries you want to reach.

Senator FULBRIGHT. I think I have some figures on that which might be helpful. I made a short study as to the number. These figures, I may say, were worked up for me by the legislative reference in the Library of Congress and I am sure there will be some slight variations, but in the total—there are 6,009,957 taxpayers in these community-property States, out of an estimated 36 to 40 million taxpayers.

In other words, you have got around 35 million, we will say, roughly, of the taxpayers in the country who will be benefited by this reduction, and that is a very large proportion. In would not say it is unjust, under these circumstances, in view of the long time that the community-property States have enjoyed this advantage, that it be restricted to these people.

The CHAIRMAN. The Treasury testified yesterday, as I recall, that about 4 million would benefit.

Senator FULBRIGHT. Well, as I say, I got this from the legislative reference, and they have given these as the numbers. They give each State. California, 2,832,000, and so on. I do not need to labor the point because I know there would be that difference, but when you recognize this point—you take in a $25,000 income, there is a 28.9 percent differential in discrimination against the people in my State and in Texas; now that is an unconscionable difference, it seems to me. With a $5,000 net income, the discrimination is 4.8 percent.

In other words, if you live in Arkansas you pay 4.8 percent more taxes than if you lived in one of these other States.

Now, your bill, the bill H. R. 1, does give very substantial benefits to those brackets. That is one of the points of controversy. This particular measure in all of these 39 States would do just as well, or very similarly, to what your proposed bill will do in the percentage of decrease you might say.

The CHAIRMAN. I just wanted to point out that the Treasury stated a much smaller number of people and those who would benefit by your proposal and they would also benefit by an income-tax reduction. In other words, your proposal would benefit about 4 million people.

Senator FULBRIGHT. You mean in the larger incomes? It would benefit some in the lower incomes, too.

The CHAIRMAN. The Treasury said yesterday it would benefit about 4 million people.

Senator LUCAS. Are you sure of that?

Senator FULBRIGHT. I had not seen that figure. They said 4½ out of the 48 would be benefited. I stand corrected, 4½.

At the same time you are rectifying a long-existing discrimination which has never been justifiable on any basis to begin with.

Senator LUCAS. On the same ratio there would be a very few affected in the community-property States and there are only 4½ million affected outside of the community-property States?

Senator FULBRIGHT. It would be a very small percentage. Roughly about one-sixth of the population lives in the community-property States.

Senator LUCAS. Are you familiar with the substitute that I offered?

Senator FULBRIGHT. I only read about it in the paper this morning. As I understood it, it incorporates this proposition.

Senator LUCAS. I wanted to call your attention to it because we have gone into this pretty thoroughly in the last few days.

Senator FULBRIGHT. I realize that. There is this figure I want to point out, that the accumulative effect of this in the 10-year period from '37 to '46, that a man with a $25,000 income—it would have made a difference of $20,633 on a $100,000—$132,000. This is an enormous difference when you begin to extend it over a period, and an example of a Congressman—I mean you, from Colorado, you pay—if you follow this and without exemptions but just on your salary you would pay $855 a year more taxes than one from Arizona or California.

I cannot see any justice in that. Of course you can multiply those examples endlessly.

There are one or two letters I would like to put in the record from Arkansas if the committee would permit. Well, I think I might read one or two paragraphs.

This is from a prominent attorney in Texarkana.

Here, on the Texas-Arkansas line, we are losing many valuable citizens because they go across the State line and buy themselves a home on the difference they would pay in income tax. This makes real estate in Texas more valuable than in Arkansas, because the identical house will sell for $1,000 to $5,000 more on the Texas side than it will on the Arkansas side. If all the States which do not have the community-property law will get together something can be accomplished.

Practically all of these letters have that same thought and many of them I think very justly resent the continuation of this kind of discrimination and all I would like to say in summary is that this committee not put off again for further study at the next time you are going to have a general revision because that has been going on now 26 years and it seems to me since we are proposing to reduce income taxes, that there is no better time to at the same time try to rectify an injustice that in a sense did grow up accidentally.

I know the community-property law was not adopted with this in mind, and this is a windfall to those States which was not in their minds or anybody else's when it began, and as taxes became more highly graduated it has accentuated and made intolerable this discrimination, and as I say this is especially true in Arkansas and I might suggest to the chairman that if this loss to the Treasury which estimated somewhere between 800 million and a billion is too great I would like to suggest that inasmuch as Arkansas is a relatively small taxpayer, being a very poor State—we pay altogether, even including corporate taxes—around a hundred million dollars to the Federal Treasury annually.

I would like to suggest that you do extend it just to Arkansas and then the loss will be very small indeed and it will not make any great inroads into the returns of the Treasury, and inasmuch as geographically we are next to three of these States I think in justice to that State that is struggling so to get back on its feet you certainly ought to extend it to Arkansas.

The CHAIRMAN. Would you be willing to have Colorado join in that?

Senator FULBRIGHT. I would not oppose it if you would include Colorado. You are next to one of the States I believe, are you not on the south—Utah?

The CHAIRMAN. Oklahoma.

Senator FULBRIGHT. One of the States.

Senator LUCAS. If we did that do you think we could get those Arkansas folks to come back home?

Senator FULBRIGHT. Some would come back but at least it would stop this movement out of all the people who have money and we particularly need a few people with a little capital. That is our greatest deficiency in Arkansas, a little capital to industrialize and bring the State forward economically, and it is, particularly so in those border cities, it is a very serious matter.

I am sure I need not labor the point that anybody under this kind of a discrimination with any money at all will certainly move across the line and they are doing it. That is not a theory at all.

Senator LUCAS. Senator, may I suggest that you examine my bill? I am sure it accomplishes the same thing and with the help that you can give us when we get on the floor of the Senate we may be able to do something for your people in Arkansas. I hope you start a campaign with your senatorial friends immediately.

Senator FULBRIGHT. From what I read about it I certainly will support it. I was only suggesting this alternative to apply to Arkansas in case the committee felt they would not do it because there was such a great amount involved, so I hope the chairman and the members of the committee will approve this amendment now and not put it off.

The CHAIRMAN. We thank you.

Senator Pepper?

(The following was submitted for the record:)

FIELD PROCEDURE MEMORANDUM NO. 408

FEBRUARY 10, 1947.

POLICY TO BE FOLLOWED IN THE CONSIDERATION OF FAMILY PARTNERSHIP CASES

To Internal Revenue Agents in Charge of Field Divisions:

In a letter dated November 14, 1944 (IT:P:CA–CJM), addressed to the field divisions, the Bureau outlined a policy to be followed in the consideration of family partnership cases. In that letter it was pointed out that the percentage of cases then being decided adversely to the Government was too high and that the trend of the decisions at that time was not improving.

Since adoption of the policy in question the trend of judicial decisions has shown a marked improvement. This fact suggests the advisability of restating the policy hereafter to be followed in the examination of family partnership returns. The recent favorable judicial decisions, such as the Supreme Court decisions in the Tower and Lusthaus cases, do not require any basic change or modification of the policy outlined in Bureau letter of November 14, 1944, above mentioned.

Section 22 (a) of the Internal Revenue Code taxes income to the person who earns it, or who creates the right to receive it, or who controls its use. The Supreme Court has held that income taxes may not be escaped by anticipatory arrangements and contracts, no matter how skillfully devised, to prevent income from vesting even for a second in the person who earned it (*Lucas* v. *Earl* (1930) (281 U. S. 111, 50 S. Ct. 241)). Attempts to escape surtaxes by dividing one income into two or more through the device of family partnerships presents an acute problem in the administration of the income tax. The basic question presented by the so-called family partnership is whether such a business arrangement has succeeded in splitting one income or earning power into two or more separately taxable parts within the family group for tax purposes. Such questions as the proper classification of the business arrangement as a joint venture or partnership, or whether a valid partnership has been created under State law, are not controlling on the question of avoidance of Federal surtaxes (*Commissioner* v. *Tower*, 327 U. S. 280).

The four major criteria for determining the validity for income-tax purposes of an agreement purporting to create a family partnership are: (1) The rendition of services by the family member alleged to be a partner, in the regular conduct of the business, to a degree and of a quality commensurate with the status of a partner in that kind of business; (2) the nature and extent of the alleged partner's participation in the control and management of the business: (3) the contribution to the business and subject to its risks, of capital or credit originating with the contributor and which is needed for and was not already available to the business; and (4) the reasonableness of the relation between the proportionate share of the profits granted to any member of the family by the agreement and the proportion of the earnings which is fairly attributable to the services rendered by, or the contributed capital originating with, said member.

Bearing in mind that each partnership has its own peculiar facts, which are to be determined not only from the terms of the agreement but from the conduct of the parties in carrying on the business, and must stand in its own bottom, business partnerships in which the partners or members are closely related may be divided into three broad classes for income-tax purposes. With respect to each of these classes the policy to be followed is as follows:

1. *Valid partnership for income-tax purposes.*—Where related persons enter into an agreement purporting to create a so-called family partnership or other arrangement with respect to the operation of a business or income-producing ven-

ture, under which agreement each and all of the parties are accorded substantially the same treatment and consideration with respect to their designated interests and prescribed responsibilities in the business as if they were strangers dealing at arm's length; where the actions of the parties as legally responsible persons evidence an intent to carry on a business in a partnership relation; and where the terms of such agreement are substantially followed in the operation of the business or venture as well as in the dealings of the partners or members with each other—it is the policy of the Bureau to disregard the close family relationship existing between the parties and to recognize for income-tax purposes the division of profits as prescribed by such agreement. However, where the instrument purporting to create the family partnership expressly provides that the wife or child or other member of the family shall not be required to participate in the management of the business, or is merely silent on that point, the extent and nature of their services in the actual conduct of the business, will be given appropriate evidentiary weight on the question of intent to carry on the business as partners. The class of business partnership described in this paragraph is regarded as consisting of those cases in which it is clearly correct to recognize the partnership for income-tax purposes.

2. *Sham transactions and tax-avoidance schemes.*—Where all the facts reveal the business arrangement as a sham, or as a flagrant device for tax-dodging purposes, it shall be the policy of the Bureau to deny that the agreement affects a division of the income of the person or persons whose services or capital earned the profits of the business and created the right to receive it. For example where the instrument purporting to create the family partnership expressly prohibits the wife or child or other member of the family from participating in the management of the business or from having any voice in the distribution of the assets or profits of the business, or from exercising any control over the assets or profits of the business, the validity of the specific agreement will be denied for tax purposes (James L. Pritchard et al. (1946) 7 T. C. No. 144; Nestor J. Decker, T. C. Memo. Op., Dec. 2, 1946).

This second classification is regarded as consisting of those cases in which it would be clearly against the weight of judicial authority to recognize for income-tax purposes the division of profits provided by the agreement.

3. *Intermediate cases.*—This classification contains the cases as to which the outcome is uncertain.

(*a*) Where, after full development and consideration of the evidence, the merits and equities of the case favor the taxpayer, or the litigating outcome appears favorable to the taxpayer, the division of profits prescribed by the agreement will be recognized as in the first classification. The examining officer should proceed with discretion and carefully weigh all the facts and circumstances before reaching a conclusion adverse to the taxpayer.

(*b*) Where, after full development and consideration of the evidence, the merits and equities of the case weigh in favor of the Government, and there are reasonable prospects of successfully contesting the validity of the distribution of profits prescribed by the agreement, a fair allocation should be made of the profits of the business as between income attributable to personal services and income attributable to capital. The amount of the profits attributable to services vould then be apportioned between the parties on the basis of the fair value of the services actually rendered by each to the business. The amount of the profits attributable to capital would, under the peculiar facts of each case, be apportioned between the parties on the basis of the capital and credit originating with, necessary for, and risked in the business by each party (Claire L. Caufield, 7 T. C. No. 107; M. M. Argo, 3 T. C. 1120; J. Z. Todd, 3 T. C. 643; W. B. Woosley, C. C. Memo. Op., Dec. 6, 1946; and GCM 9825, C. B. X-2, 146).

IDENTIFICATION OF FAMILY PARTNERSHIPS

As a means of identifying family partnerships and developing the facts essential to a correct treatment of such partnerships, it is suggested that each field division adopt a standard-form inquiry letter and a check sheet. The inquiry letter should be designed to secure the information necessary in the office audit of cases which appear to be of this nature. The check sheet should serve as a guide to the field agent and reviewer in the preparation and review of the report on the case examined. It is not deemed advisable to prescribe a general form of inquiry letter and check sheet for use in all field divisions since the local situations to be met will not be the same in all divisions. There are attached, however, forms which may be modified and prepared so as to more nearly meet local situations by each field division which adopts this suggestion. Unnecessary work in preparing these forms, either by taxpayers or revenue agents, should be avoided where the case can with reasonable accuracy be classified without resort to all of the detailed data required by such forms.

REOPENING OF FAMILY PARTNERSHIP CASES

In the consideration of family partnership cases it is inevitable that many of such cases will present the question as to the reopening of closed years. In this situation there is no need for resort to arbitrary rules of thumb. Sound judgment should be exercised in the consideration of the facts in each case. For instance, if the business arrangment is a sham or a flagrant case of tax dodging there would seem to be no good reason for not reopening the closed years that can be reached under the statutory period of limitation. On the other hand, if the case is classified as intermediate under these subsections, the treatment accorded family-partnership cases should follow the policy adopted with respect to other types of income-tax cases which, in general, is not to reopen closed cases.

E. I. McLARNEY,
Deputy Commissioner.

[Letterhead of Field Division]

(Suggested inquiry letter to be sent partnerships located in outlying districts or where volume of such cases requires saving of time)

Name
Address

Year(s) ....

This office has for preliminary survey your partnership return for the year(s) above noted. In order that this office may consider the proper status of the partnership for income tax purposes you are asked to furnish the following information:

(1) Copy of partnership agreement.
(2) Statement of assets turned into the partnership by each partner.
(3) Statement showing balance in each partner's account at close of the year(s) under consideration.
(4) Were any of the assets turned into the partnership by a partner-member received as a gift from any other partner-member at or before the organization of the partnership? If so, explain fully, submitting documentary evidence, if any, showing the transfer of the assets to the donee.
(5) Are any members of the partnership under 21 years of age?
(6) Are any members of the partnership related to any other member or members by blood or by marriage? If so, state the respective relationship of each partner-member.
(7) Describe the services rendered by each member of the partnership and state the amount of time devoted by each and the nature of the work performed.

Please submit the foregoing information to this office promptly, addressing your reply to the internal revenue agent in charge (address).

Very truly yours,

———————

Internal Revenue Agent in Charge.

EXHIBIT B

FAMILY PARTNERSHIP CHECK SHEET

(For use by examining officers in all family partnership cases. To be retained in division office file)

Name of Partnership:----------------------------
Address:-------------------------------------
Taxable Year(s):-----------------------------

	STATEMENT BY AGENT Answer Yes or No
I. Partnership Agreement:	
(A) Written:	-----------
1. Obtain copy of agreement	
(B) Oral:	-----------
1. Obtain affidavit setting forth of agreement, date executed and effective date	
(C) Names of Partners:	
1. Relationship Explain:	
2. Age, if important factor Explain:	
(D) Provisions of Agreement:	
1. Was capital contributed by each partner	-----------
2. State nature of and amount contributed by each:	
3. Allocation of profits and losses Explain:	
4. List names of active partners	
5. Compensation for services Explain:	-----------
6. Do all partners have power to sign check-notes Explain:	-----------
7. Do all partners act in management and control of business? Explain:	-----------
8 Restrictions as to withdrawals Explain:	-----------
9. Restrictions as to termination Explain:	-----------
10. Restrictions as to liquidation Explain:	-----------
(E) Registration of Fictitious Name:	
1. Date of registration	-----------
2. Are names of all partners shown	-----------
(F) Were Creditors and Bank Notified of Partnership	-----------
(G) Are Insurance Policies in Partnership Name	-----------
II. History of Business:	
(A) Description of Predecessor Business:	
1. Nature of business Explain:	-----------
(a) Corporation	-----------
(b) Sole proprietorship	-----------
2. Were the present partners employed by predecessor company? Explain:	-----------
(a) Time devoted	
(b) Duties performed	
(c) Responsibility	
(d) Compensation	
(e) Ownership	
3. Was the predecessor business dissolved to form present partnership	-----------
4. Is there legal evidence of sale or transfer of assets	-----------

EXHIBIT B—Continued

FAMILY PARTNERSHIP CHECK SHEET—continued

	STATEMENT BY AGENT Answer Yes or No
II. History of Business—Continued	
(B) Description of Partnership Business:	
1. Nature of business:	
(a) Is it a technical business	------------
(b) Has the type of business changed	------------
Explain:	
2. Are profits the result of:	
(a) Personal services	------------
(b) Capital and personal services	------------
(c) Capital	------------
3. Did the partnership serve a business purpose	------------
Explain:	
4. Is the partnership business operated in strict accord with the terms of the partnership agreement	------------
5. Are the dealings of the partners with each other in strict accord with the terms of the partnership agreement	------------
III. Partners' Services:	
(A) Do the Partners Render Any of the Following Elements of Service:	
1. Manual services	------------
2. Services independently of husband or father, particularly in connection with suppliers or customers	------------
3. Signature of checks	------------
4. Regularity of service	------------
5. Strong showing of management of office	------------
6. Important share in daily control	------------
7. Allocation of one portion of the business to the dominant control of each partner	------------
(B) Are the Services of Any Partner:	
1. Intermittent services	------------
2. Working when needed	------------
3. Entertaining customers	------------
(C) Did the Activities of Any Partner Increase After the Formation of the Partnership	------------
Explain:	
(D) Is the Business Managed Exclusively by the Former Owner	------------
Explain:	
(E) Secure the Following Information in Regard to Each Partner:	
1. Time devoted to the business.	
2. Specific duties performed.	
3. Character and amount of responsibility.	
4. Ability, experience and the profitableness of the duties.	
IV. Capital Contributions:	
(A) Source of Capital Contribution:	
1. Personal earnings of partner	------------
Explain:	
2. Inherited by partner	------------
Explain:	
3. Loans from relatives or others	------------
Explain:	
4. Gifts	------------
Explain:	
5. Out of partnership profits	------------
Explain:	
6. Other sources	------------
Explain:	

EXHIBIT B—Continued

FAMILY PARTNERSHIP CHECK SHEET—continued

STATEMENT BY AGENT
Answer Yes or No

IV. Capital Contributions—Continued
(B) Date of Capital Contribution:
1. If long prior to partnership ....
(a) Was it made as a loan? ....
(b) Was it made as a gift? ....
(c) Was a proprietary interest granted at that time? ....
1. Was the above contribution lost or dissipated? ....
2. Was there a continuity of proprietary interest? ....
Explain:
2. At formation of partnership ....
3. Subsequent to formation of partnership ....
(C) Secure the Following:
1. Final balance sheet of predecessor business
2. Opening balance sheet of partnership
(a) Explain whether balance sheets contain loans of partners
(D) Secure Transcript of Partners' Capital Accounts in Detail, Showing Dates, Source, Amount, Etc.

V. Disposition of Profits:
(A) Are Profits Distributed in Accordance with the Partnership Agreement? ....
(B) Are the Profits Used for the Benefit of the Respective Partners? ....
(C) Does Any One Partner Have Complete Control of Distribution of Profits for Indefinite Period? ....
(D) Does Each Partner Have:
1. The right of withdrawal of profit or capital? ....
2. The independent retention of profits? ....
(E) Make an Analysis of Partners' Drawing Account to Ascertain the Disposition of the Withdrawals ....
1. To pay income taxes ....
2. For family purposes ....
3. Repayment of partner's loans ....
4. Other withdrawals, if any ....
Explain:

VI. Allocation of Income:
(A) Is the Income Attributable to the Personal Services of the Partners? ....
(B) Is the Income Attributable to the Personal Services and Capital Contribution of the Partners? ....
1. Ascertain the amount attributable to:
(a) Personal services
(b) Capital
(C) Is Capital the Sole Income-Producing Factor? ....

VII. Recommendation:

Approved.................. ....
Reviewer Internal Revenue Agent

Date....................

STATEMENT OF HON. CLAUDE PEPPER, A UNITED STATES SENATOR FROM THE STATE OF FLORIDA

Senator PEPPER. Mr. Chairman and gentlemen of the committee, I join very cordially in what has been said here by Senator Fulbright and Senator Lucas in the matter he has just discussed because my people are interested in the same matter and the legislature is considering legislation on the same subject.

Mr. Chairman and gentlemen of the committee, I offered an amendment to H. R. 1 providing as follows:

Tuition and incidental expenses of teachers: In the case of an individual employed as a teacher in any public or private school, all expenses for tuition, books, laboratory fees and equipment, living, travel, and other incidental expenses, necessarily incurred while pursuing at any institution of learning a course of instruction required for continuance of his employment or for advancement in grade or salary and approved by appropriate school authority for such purpose.

The amendment made by this section shall be applicable to taxable years beginning after December 31, 1946.

What that provides in substance, Mr. Chairman and members of the committee, is a deduction by school teachers in the public and high schools, of those expenses that they incur for retaining their professional status or improving themselves in-grade in the public-school system.

Mr. Chairman, for many years, the school teachers of America have repeatedly tried without success to get the Bureau of Internal Revenue to allow them to deduct from taxable income expenses for training required of them by their employing school boards to meet continued tenure or salary requisites.

The basic administrative decision of the Bureau of Internal Revenue is O. D. 892 issued on April 27, 1921 (in Cumulative Bulletin No. 17–21 of the Bureau of Internal Revenue.) I quote this decision:

The expenses incurred by school teachers in attending summer school are in the nature of personal expenses incurred in advancing their education and are not deductible in computing net income.

I find no facts or reasoning accompanying this decision. I have, furthermore, been informed by the Bureau of Internal Revenue that any change to correct this situation would have to be accomplished through legislation.

I, therefore, urge you to adopt my proposed amendment to H. R. 1, a bill to reduce individual income payments. My amendment would permit the deduction from taxable income all expenses of a public or private school teacher for tuition, books, laboratory fees, living, travel, and other incidental expenses necessarily incurred while pursuing at any institution of learning a course of instruction required in order for him to hold his job or to get a salary increase or grade promotion and approved by the appropriate school authority, to which I adverted. Senator Lucas I believe while you were out I said what the amendment does was it allows teachers deduction in their income tax calculation for expenses incurred in institutions of learning in continuing the training that they have to have either to remain in their positions or to secure advancement in grade as teachers.

In my State of Florida, the teachers have stringent summer school and other training program attendance required for continuance of their tenure as teachers. I am reliably informed that such or similar requirements are in effect throughout the country.

The present tax status of these necessary educational expenses of school teachers is grossly unfair. Rulings of the Bureau of Internal Revenue show that deductions are allowed professors, clergymen, physicians, school teachers, and other professional persons for such expenses as travel, meals, and lodging while attending organization conventions and scientific meetings, depreciation on books and instruments purchased for use in research work, subscriptions to educational journals of their professions.

I also find that the Bureau considers as ordinary and necessary business expenses "in short, every necessary item of expenses in conducting business, incurred primarily because of and solely in the furtherance of the business engaged in."

Now that is the rule with respect to business deductions.

Certainly, if a teacher is required to take educational courses either to hold his job or to get a salary increase or grade promotion, such expenses therefore are incurred primarily and solely in the furtherance of the teaching business engaged in. I cannot see how it can be considered otherwise under these circumstances.

Naturally, the question arises—how much are these expenses? To what extent are teachers required to take such training? A recent survey shows that elementary and high school teachers in cities of over 30,000 in population prior to the war spent, on the average, for such training in summer schools anywhere from $175 to $210. In cities and towns of 30,000 or less these expenses averaged from about $150 to $190. During the war these averages ranged, respectively, from $160 to $200 in the larger cities and from about $160 to $190 in the less densely populated areas.

This study also shows that only a very small proportion, less than 5 percent, of the teachers attending summer school received financial assistance from their respective school systems.

So that this is not a case—of course they get their money from the school authorities but this is a personal disbursement. The average amount of such assistance was on the average less than $50 in such cases and of course it was intended that this amendment should apply only to that part of the expenditures which the teacher personally incurs. Not of course what they receive from the employing authority.

The CHAIRMAN. Are there any open gaps in the system touching the same principle and affecting other professional groups, Senator?

Senator PEPPER. Senator, that would of course require careful phrasing, we have by language limited this only to the teacher, and I think nobody else could come in under this language except the teacher.

Now, whether or not there are other groups that might be similarly affected I would not say with assurance, but I do feel that the principle embodied in this amendment is a salutary principle.

About 25 to 30 percent of the teachers had to have such attendance in order to meet requirements for continued employment in their current jobs, to meet salary requirements, and to renew their teaching certificates in the same grade. A much larger proportion, almost 50 percent, reported that periodic professional study is required, the cost of which is often more than the costs of summer tuition and books.

At first glance the amounts involved may not seem large. But it is clearly evident that school teachers have to have this inequity corrected not only because of the injustice involved but also because they need economic relief. Public school teachers in 1946 in the United States received an average of about $2,000 a year in comparison with $2,596 for Federal Government, and $2,185 for factory workers. Teachers' salaries failed to keep pace with the cost of living which has risen about 55 percent since January 1941. In 1946–47 about 48 percent of them got under $2,000 a year and about 10 percent under $1,200.

As a result, school teachers are leaving the industry in droves and the number of new teachers entering the profession is substantially below needs.

My amendment, while it would not afford substantial relief for the relatively small proportion of high-paid teachers, would correct a serious inequity. It would, particularly, for the very low paid teachers relieve them of the effect of low salaries and the high cost of living.

Mr. Chairman, something must be done for our school teachers. They are the backbone of our free institution of democracy, public education. This measure before you is but part of a larger program to secure a sufficient number of well-trained school teachers, which I have been advocating. We must raise teachers' salaries to a decent level and set a fair minimum wage for them. We must provide loans and scholarships to attract our more capable students into our teacher-training schools.

In short, we must do everything possible for our school system to prevent it from further deterioration and to set the foundations of high-standard free education for all our people. I urge the committee to adopt my amendment to H. R. 1, as one step in that direction.

Mr. Chairman, I will ask that the summary of decisions of the Bureau of Internal Revenue pertaining to educational expenses of teachers be accepted into the record and also a memorandum to the Joint Committee on Internal Revenue Taxation on this subject prepared by the National Educational Association.

The CHAIRMAN. We will be glad to put them in the record.

Senator PEPPER. I will say in conclusion: In the last Sunday's issue of the New York Times there was a long article on the great shortage in the teaching profession and the efforts being made to induce more qualified young men and women to come into that profession. This is a small aid but I do feel it would be helpful in the direction of giving some aid to the teachers of the country.

Thank you for the privilege of appearing.

(The documents referred to are as follows:)

SUMMARY OF DECISIONS OF THE BUREAU OF INTERNAL REVENUE PERTINENT TO EDUCATIONAL EXPENSES OF TEACHERS

1. Travel expenses of a salaried employee who lived in one city and traveled to and from his residence to work in another city.

(a) "In short, every necessary item of expense in conducting business, incurred primarily because of and solely in the furtherance of the business engaged in, is held to be an ordinary and necessary business expense."

(b) The test is the freedom of choice of the individual in occurring the expense. In this case he can't set up his residence wherever he feels like. The result is a matter personal to him. It is not a matter undertaken for business purposes (Bureau of Internal Revenue, C. B. No. 1, April–December 1919, 8-19-317, S. 1048, p. 102).

2. "The expenses incurred by school teachers in attending summer school are in the nature of personal expenses incurred in advancing their education and are not deductible in computing net income" (Bureau of Internal Revenue Bul. No. 17–21, April 27, 1921, 17-21-1595, O. D. 892).

3. (a) Necessary expenses incurred by a member of a professional association in sending a representative to its annual convention for the sole purpose of furthering the business interests of such member are allowable deductions (I. T. 2602).

(b) Amounts expended by physicians in attending medical conventions are deductible (*Cecil M. Jack* v. *Commissioner* 13 B. T. A. 726 C. B. X–2, 35).

(c) Amounts expended by clergymen to attend general conventions of their church are deductible (appeal of Marion D. Shutler, 2 B. T. A. 23 C. B. X–2, 65).

(*d*) Expenses of a professor of chemistry in connection with carrying on his profession and attending scientific meeting and conventions are "ordinary and necessary business expenses." (*Alexander Silverman* v. *Commissioner* 6 B. T. A. 1328–C. B. X–2, 65).

(*e*) A professional man is entitled to deduct a reasonable allowance covering depreciation actually sustained on part of his library necessary and used wholly in pursuit of his profession (Bulletin F, revised January 1931, p. 24).

(*f*) In the case of research work of a teacher in college without remuneration, depreciation on books and instruments purchased for use in research work and expenses incurred in attending meetings of scientific societies are deductible. Expenditures for plates and figures for illustrative purposes in publications of the results of his investigation may or may not be deductible depending on whether the expense is an ordinary one or a capital expenditure (C. B. X11–14–6111, G. C. M 11654).

4. Expenses for traveling, meals and lodging of a university professor while teaching temporarily away from his home city are deductible (C. B. V111–2, July–December 1929, V111–29–4277, I. T. 2481).

5. Dues paid by teachers to professional societies, prices of subscriptions for education journals of the profession, travel, meals and lodging incurred while attending teachers' conventions, if not reimbursed, are ordinary and necessary expenses which are deductible, the cost of technical books purchased specifically in connection with their professional work is a capital expenditure and is not deductible (C. B. 1941–1 January–June 1941, 1941–6–10589, I. T. 3448).

OCTOBER 2, 1946.

MEMORANDUM TO THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

The National Education Association has conferred with staff members of the Bureau of Internal Revenue and the Joint Committee on Internal Revenue Taxation, from time to time over the past 5 years, with regard to the deductibility of teachers' summer-school expenses as a business expense in the payment of Federal income tax. The Bureau of Internal Revenue disallowed the deduction (O. D. 892). The legal and logical arguments which the National Education Association believes refute the correctness of the Bureau's decision have been submitted to Members of Congress upon several occasions, particularly in a statement in November 1945. Subsequent conferences with the staff of the Joint Committee on Internal Revenue Taxation raised several questions which the association is now prepared to answer. An investigation was made of the summer-school attendance and expenses of approximately 1,400 public-school teachers. The results of this investigation are herewith reported to the joint committee, in the hope that the data will answer the questions raised by the joint committee as impediments to its recommendation that summer-school expenses be allowed as deductions for necessary business expenses.

The material collected with regard to summer-school attendance was studied in two sections: Attendance during the war years, 1941–45, and prior to the war. The reason for this distinction is obvious. During the war many persons who might ordinarily have attended summer school did not do so in order to devote their time and energy to war work. Furthermore, many school districts relaxed their requirements during the war because of the shortage of teachers, governmental restrictions upon travel, and the scarcity of living quarters in many areas. During the war years, one-half of the administrators and two-fifths of the classroom teachers did not attend summer school even once in the 5-year period. Prior to the war, however, only one-sixth of the administrators and one-fifth of the classroom teachers did not attend summer school at least once in the period 1936–40. The effect of the war is readily seen from these comparisons.

Of those who did attend summer school at least one summer during the war years, size of town or city in which they were employed had little relation to the proportion of elementary teachers who attended, although among high-school teachers a larger proportion attended among the small-town teachers than among the city teachers. The reverse is true of administrators. Years of teaching experience had some bearing upon the proportion who attended at least one summer school during the war years. When the teachers and administrators were segregated according to years of school experience, there was a decline in summer-school attendance with increase in years of school experience. Before the war this was not true except for administrators. For example, 48.3 percent of the elementary-school teachers with 5 years' teaching experience attended summer school at least one summer in the period 1936–40, while elementary teachers with more than 5 years' teaching experience attended in almost double that proportion, even those with 30 or more years of experience in the teaching profession. In general, approximately half of the teachers young in the profession attended summer school at least once in 5 years, while about three-fourths of the older teachers did so. On the other hand, the older teachers do not attend as frequently as the younger teachers, who are likely to go to summer school more than once in a 5-year period.

Summer-school attendance runs from 5 to 8 weeks per summer at an average annual total cost of less than $200. One of the questions raised by the staff of the joint committee was whether teachers expected to deduct total summer-school expenses or only the cost of tuition and books. There is logic on both sides of this question. If summer-school attendance is a necessary business expense, as the National Education Association has argued, the total expenses connected therewith should be deductible. On the other hand, the joint committee has suggested that if travel and living expenses were allowed as a deduction, some teachers might take advantage of the deduction to travel far and live "high." This objection on the part of the joint committee is somewhat reasonable, although the association does not believe that the practice would be widespread. However, the expenses actually incurred by teachers for travel to summer schools attended were the smaller part of the total expenses. Table 1 gives the average expenses for travel, for living away from home, and for tuition and books. One comparison may be made between the expenses during and before the war. Tuition and books cost about the same during 1941-45 as during 1936-40, but travel and living expenses were usually higher in the war years than previously. In most cases tuition and books cost a summer-school attendant around $50. If the Bureau of Internal Revenue were willing to allow this amount of deduction only, it would be of some help to teachers.

Another question raised by the joint committee with regard to this problem was whether or not teachers who attend summer school are given financial aid from the school system to offset at least part of their summer-school expenses. Table 2 indicates that as a general rule there is no such financial aid given. There was slightly more tendency in this direction during the war years than before the war, possibly because many emergency teachers employed during the war needed to attend summer schools for refresher courses. In about 98 percent of the cases, however, no financial assistance was received by teachers to help them meet their expenses of summer-school attendance. Even when the school system did give some assistance, the amount of money made available for this purpose was only a portion of the total expenses, from $25 to $100, and usually in the neighborhood of $50. Of course, in those rare cases where the school system should happen to extend any financial aid, the amount of this aid would be subtracted from the total expense before the total expense was deducted for income tax purposes, as is done in the case of the deductible expenses in connection with attendance at professional meetings.

TABLE 1.—*Average expenses per summer-school attendance*

Size of city where employed and type of position	Average expenses for— Travel		Living away from home		Tuition and books	
	1941-45	1936-40	1941-45	1936-40	1941-45	1936-40
1	2	3	4	5	6	7
Employed in cities over 30,000:						
Classroom teachers:						
Elementary	$21	$31	$78	$84	$57	$50
High school	33	37	100	107	69	68
Administrators:						
Elementary	34	48	86	122	55	60
High school	23	39	34	70	52	57
General	50	41	89	120	55	66
Employed in towns under 30,000:						
Classroom teachers:						
Elementary	29	31	78	72	55	49
High school	27	32	96	94	63	61
General	18	30	44	40	41	55
Administrators:						
Elementary	32	40	90	112	60	57
High school	39	39	120	117	60	54
General	64	45	124	117	64	53

The Bureau of Internal Revenue in its decision disallowing summer-school expenses as a deduction stated that such expenses were "personal." The National Education Association has argued that summer-school expenses are not personal with respect to avoidability in the large number of cases, since summer-school attendance is frequently a requirement of a local school-board resolution or of State law. In this investigation it was found that approximately half of the teachers were employed under local or State laws in which periodic professional study was required, although the summers these teachers actually attended summer schools were not always for the purpose of meeting these requirements. For instance, 17.7 percent of the elementary teachers in large cities reported that they attended summer school to meet a requirement for continued employment in their current position, but 46 percent of the teachers of the same group reported that periodic professional study was required. Two phases of the data developed out of this question: (*a*) The reason motivating the actual attendance reported, and (*b*) the means for meeting the requirement of periodic professional study without attending summer schools.

TABLE 2.—*Payments by school system toward summer-school expenses*

Size of city where employed and type of position	Percent of those attending summer school who received financial assistance from the school system		Average amount of financial aid received from school system per person receiving such aid	
	1941-45	1936-40	1941-45	1936-40
1	2	3	4	5
Employed in cities over 30,000:				
Classroom teachers:				
Elementary	2.1	1.8	$57	$65
High school	2.1	.3	44	100
Administrators:				
Elementary	4.7	1.6	48	50
High school	3.8	3.0	50	30
General	0	0		
Employed in towns under 30,000:				
Classroom teachers:				
Elementary	3.0	4.1	52	33
High school	2.9	1.3	44	31
General	0	0		
Administrators:				
Elementary	3.9	7.9	38	25
High school	2.7	1.9	60	40
General	5.2	3.4	83	44

More teachers in large cities attended summer schools to qualify for better positions than for any other reason. To qualify for the next higher grade certificate was the most popular reason given by elementary teachers in small towns. High-school teachers and administrators in small towns most often gave as their reason the preparation for promotion.

Looking at these reasons, given in table 3, from the point of view of the Bureau of Internal Revenue, they may be divided into those which are avoidable and those which are unavoidable. Unavoidable reasons are to meet requirement for continued employment in current position, to meet requirement of salary schedule, and to renew a certificate of the same class. Avoidable reasons are those which meet a standard which the teacher may choose to forego without leaving the profession, such as to qualify for placement in higher salary class, to prepare for promotion to better position, to improve professionally, and for personal reasons, e. g., change of environment. One reason, "to qualify for next higher grade certificate," might be classified as avoidable or unavoidable, depending upon the circumstances of the particular case. In some instances low-grade certificates must be exchanged for certificates of the next higher grade after the low-grade certificate in question has been held for a designated number of years. Under such circumstances a teacher's attendance at summer school in order to qualify for the next higher grade certificate may be prerequisite to remaining in the profession. On the other hand, in other circumstances a teacher may wish to obtain the next higher grade certificate as the first step toward a better position. In these cases, attendance at summer school in order to qualify for the next higher grade certificate is avoidable if the teacher is willing to relinquish advancement in the profession. Omitting this reason of uncertain classification, the reasons which are unavoidable and necessary to a teacher in order to remain in the profession or in the current position accounts for from one-fourth to one-third of the attendance reported, while what the Bureau of Internal Revenue would call avoidable reasons for summer-school expense accounts for from one-half to three-fourths of the attendance. No great differences obtain between the war years and prewar years, but there appeared to be greater necessity on the part of classroom teachers than administrators.

TABLE 3.—*Reasons why teachers and administrators attended summer school*

Size of city where employed and type of position	Percent checking reasons			
	Unavoidable reasons		Avoidable reasons	
	1941–45	1936–40	1941–45	1936–40
1	2	3	4	5
Employed in cities over 30,000:				
Classroom teachers:				
Elementary	29.9	28.6	58.5	60.0
High school	26.8	23.7	52.7	65.1
Administrators:				
Elementary	20.5	21.0	71.8	66.7
High school	17.8	22.9	54.2	48.5
General	16.6	25.8	58.4	57.1
Employed in towns under 30,000:				
Classroom teachers:				
Elementary	29.0	25.4	46.0	43.6
High school	32.6	28.5	48.7	67.2
General	26.4	33.3	63.1	37.4
Administrators:				
Elementary	13.7	29.5	68.6	46.5
High school	16.9	19.2	73.2	70.5
General	12.1	11.7	81.0	64.4

One may consider that these data are damaging to the position taken by the National Education Association in arguing that summer-school expenses should be considered necessary business expenses, and therefore deductible. As a matter of fact, however, the data are not contradictory to the association's position but rather bring out a point which makes the association extend its position. Although less than one-half of the teachers who attended summer school did so because of some unavoidable reason, more than half reported that their employing school boards or State law required periodic professional study. Large proportions who teach under such requirements are permitted to meet the requirement by extension classes or correspondence courses. Therefore, the association, instead of withdrawing its request for consideration of the deductibility of summer-school expenses of teachers, extends that request to include required professional study regardless of whether the requirement is met by summer-school attendance, extension classes, or correspondence. All required professional study, at least, should be considered a necessary and unavoidable business expense of a public-school teacher.

Table 4 shows the importance of including extension classes and correspondence courses in the deductible business expenses of a teacher. Travel and expenses of living away from home do not figure in the total expenses of these two means for meeting the requirement for periodic professional study. Yet, the average amounts spent for extension classes and correspondence courses are higher than the average amounts spent for tuition and books in summer schools. It would be illogical to grant a deduction for sumer-school expenses and refuse a similar deduction for extension classes and correspondence courses.

The National Education Association requests the members and staff of the Joint Committee on Internal Revenue Taxation to review again the association's statement of November 1945 in which the legal phases of this problem were discussed fully. That statement together with the data herewith reported should convince the joint committee that public-school teachers should be allowed to deduct the expenses incurred in required periodic professional study as a necessary business expense.

TABLE 4.—*Extent to which periodic professional study is required and use of extension classes and correspondence courses to meet this requirement*

Size of city where employed and type of position	Percent of group reporting that periodic professional study is required	Percent reporting that extension classes may meet this requirement	Percent reporting that correspondence courses may meet this requirement	Percent using extension classes to meet requirement	Percent using correspondence courses to meet requirement
1	2	3	4	5	6
Employed in cities over 30,000:					
Classroom teachers:					
Elementary	46.0	90.4	50.9	62.1	20.7
High school	47.1	82.7	42.3	49.4	6.8
Administrators:					
Elementary	50.0	73.3	40.0	54.5	0
High school	57.1	81.3	37.5	46.2	0
General	36.4	100.0	25.0	75.0	0
Employed in towns under 30,000					
Classroom teachers:					
Elementary	42.9	74.3	51.5	50.7	30.8
High school	42.7	66.5	39.7	37.6	11.3
General	38.5	75.0	0	0	
Administrators:					
Elementary	50.9	72.4	31.0	57.1	11.1
High school	31.6	66.7	46.8	32.3	13.6
General	26.6	76.5	43.8	38.5	0

Senator LUCAS. I should like to read a short letter I have received from Mr. Bernard M. Baruch, of New York, on the general question of taxes. Recently I sent him a copy of the substitute bill that I have prepared and asked him to make any comments he saw fit. Here is the letter:

APRIL 30, 1947.

Hon. SCOTT W. LUCAS,
United States Senate, Senate Office Building,
Washington, D. C.

MY DEAR SENATOR LUCAS: Until we know more of what our obligations are to be—national and international—I would not reduce taxes at all. That was exactly the position I took when the taxes were reduced about $6 billion under Vinson. It was more apparent then than it is now that we did not know what our obligations were to be, yet we reduced taxes $6 billion, of which the corporations got the greater advantage.

I then suggested that we take off the taxes layer by layer, that is, as we pushed the taxes up we should take them down. In other words, commencing in 1947 (which should have been this year) we would take off the last layer of taxes that had been put on, which amounted to $1,200,000,000 a year. This would have affected the lower brackets favorably. Then 1 year after that—that is, in 1948—we could tackle the previous raise in taxes which, if I remember correctly, brought in about $23 billion plus.

I proposed doing it in the following way: that each year 10 percent more should be taken off until at the end of 10 years, the next to the last wartime super-taxes would have been repealed. In the meantime, this year we would have paid off pretty close to $8 billion in debt and next year the same. At the end of 10 years our debt would have been well below $200 billion, and the tax rate would have been gradually going down. The probabilities are that if it had been handled that way, the receipt would not have gone down much. However, that is water over the dam.

I particularly favor—whether anything else is done or not—your suggestion regarding the income splitting.

But taking it by and large, I feel we ought to cut our expenditures as much as we can, but not reduce taxes. I look upon this as a notice to the world that we intend to hold whatever position we take, if we have to hold it alone. Nothing would be so effective as to see this country get back into production and commence to pay off its debt.

I do not know that I have been particularly helpful to you, but I have very strong ideas about this taxation and the retirement of debt, because I think the retirement would make us stronger in the world and at home, and would do more to bring about a business revival than cutting taxes until we see where we are.

I am always glad to hear from you.

Most sincerely yours,

BERNARD M. BARUCH.

Senator LUCAS. Mr. Chairman, I have another witness, but he submitted a letter. Mr. Ruttenberg of the CIO.

Your letter to Mr. Murray enclosing your tax bill which you propose to introduce into the Senate in lieu of H. R. 1, the Knutson bill, has been turned over to me for examination.

I have carefully examined your bill. In principle the CIO agrees with your suggestions that there be an increase in personal exemptions and that if tax rates are to be reduced they should be reduced on a point basis and not a percentage basis. We are, however, opposed in principle to the third provision of your bill which calls for splitting of income.

As for the date the new tax bill should become effective, we feel that a tax bill which grants major relief to the low-income individuals should become effective as soon as possible.

While we are agreed in principle with the two sections of your bill which provide increased exemptions and reduced rates on a point basis, we do not feel that the provisions go far enough. At the present time it is essential for a sound tax program that personal exemptions be increased considerably in excess of the increases suggested in your bill. We have proposed in our tax testimony before the Senate Finance Committee on April 25, 1947, that these same exemptions be increased to $2,500 for a married person, $1,250 for a single individual and $500 for each dependent. Raising exemptions to these levels should take precedence over any rate reductions. But if and when tax rates are reduced, it is essential that they be reduced on a point basis such as proposed in your bill and not upon a percentage basis as proposed in the Knutson bill.

We are opposed to the concept of splitting income because it grants a special privilege to high-income individuals. It gives no aid or assistance to the low income taxpayer. As a matter of fact a married person with two dependents would have to have a gross income of $4,500 at present exemption levels or $4,800 at exemption levels proposed in your bill in order to begin to receive any benefit from a provision providing for splitting of income. A married person with no dependents would need an income of from $3,300 to $3,600 to receive any benefit. The benefit these individuals would receive with incomes in excess of these levels is extremely insignificant compared to the $6,000 tax saving an individual earning $50,000 would receive if he is permitted to split his income.

Instead of extending the special privilege which the community-property States now have, it would be wise for the Congress to remove this special privilege, thereby requiring mandatory joint returns. Year after year, former Secretary of the Treasury Henry Morgenthau, Jr., proposed to Congress the elimination of special privilege for the community-property States. We see no reason why the Congress could not now remove the special privilege enjoyed by residents of community-property States.

Your bill, with the exception of the splitting of income provision, while it does not go near far enough, is far superior to H. R. 1.

Sincerely yours,

STANLEY H. RUTTENBERG,
Assistant Director of Research.

The CHAIRMAN. Is Mr. Hoeppel here?

Mr. HOEPPEL. Yes, sir.

The CHAIRMAN. Will you come forward, please.

STATEMENT OF JOHN HENRY HOEPPEL, EDITOR, NATIONAL DEFENSE

The CHAIRMAN. Mr. Hoeppel, Senator Sparkman has asked us to hear you. Will you proceed, please.

Mr. HOEPPEL. My name is John H. Hoeppel, I am a former member of Congress, past commander of the American Legion, United Spanish War Veterans, and the Veterans of Foreign Wars, and I now publish National Defense, a national monthly periodical. The periodical is devoted to the interests and welfare of officers and men retired from the armed services.

I am appearing before your honorable committee this morning, Senator, to call your attention to the desperate plight of thousands of enlisted men who have retired from the Army and Navy and Marine Corps and Coast Guard. Thousands of these men are receiving approximately the same pay which they received in 1922.

Over 7,000 of them alone received less than $90 per month up until July 1 of last year when their pay was increased 20 percent but through the peculiar computation method, (the way the Navy and Marine Corp figure their pay), these thousands of men today receive approximately $95 per month retired pay. I am requesting the chairman and the honorable members of the committee to consider exempting men who receive less than $100 per month retired pay from paying an income tax, or at least raising the exemptions for these men.

You can readily appreciate how desperate it is for these men—many of them personally known to me are totally disabled. Yet, notwithstanding this, with their $95 or less per month, if they are single they are required to pay an income tax. You well know that the cost of living has gone up immeasurably also taxes, not only national taxes, but local taxes, have gone up considerably.

For instance, my own property taxes in California have risen 300 percent on business property. Of course, I am not speaking for myself, I am speaking for the men whom I represent who are in the lower retired-pay categories, and I am inclined to believe that my views are in accordance with Senator Lucas' proposal, but I think I am a bit more liberal than he would be, in increasing income tax exemptions. I suggest exemptions for all retired enlisted men of the armed forces be raised to at least $1,000 per annum. If he has a wife he doesn't have to pay a tax but if he is single you can appreciate what he is up against and I hope that the chairman and the members of the committee will consider either a provision providing that men with less than $100 a month retired pay would be exempt from paying income tax on their retired pay or that the exemption be raised to say $1,000. Something like this is fair and just and it is absolutely necessary if these men are to eat.

I have concluded this part of my story and if I may, members of the committee, may I give you a reaction as a taxpayer which came to me as I traveled from California east. We drove east. May I do that?

The CHAIRMAN. Surely.

Mr. HOEPPEL. This is what I observed. One of the gentlemen preceding me was opposed to the raising of exemptions on income taxes to those in the lower pay categories. I am in favor of it and this is the reason:

I made it my business wherever I stopped en route, to go through the business sections of the communities, and you would be surprised, gentlemen, how the stores are blocked with goods. Everywhere they are blocked with goods. The building which I occupy in Arcadia, Calif., is occupied by a representative of Westinghouse Electric Co., who sells their products. He cannot sell all of the household appliances which are being turned over to him. He has them in a warehouse at the rear of his building and he has rented another building in which to store electric ranges.

That same condition applies throughout the United States. I noticed in driving along, the stores are all filled with materials which apparently could be sold if the people had the money to buy.

Now, I contend that you will be doing the country immeasurable good if you will raise the income tax exemptions so that the people who wish these household appliances will have some money to buy. That is my contention, and I hope that you gentlemen, when you finally bring this bill out of conference or go into conference, that you will certainly come to some decision on that point, raising the exemptions at least so those in the lower pay categories can buy bread. That is the big point.

Now, I wish to refer to one or two other instances. I know an individual very close to me whose income is a little over $5,000 per annum. He has a wife and two children and he paid approximately $500 or a little more income taxes last year. He needs things which he wants to buy for his home. I know he needs them. In fact, I have lent him money to buy. You can multiply that by the millions throughout the United States. If you will raise the income tax exemption for those in the lower pay categories, they will keep our factories in production. They will keep them working, but as it is now, it is the beginning of a stalemate because most people do not have purchasing power.

You are going to have these stores all chocked and blocked with goods and no one with money to buy. A good percent of the buying today has taken place due to the fact of borrowing through the banks, loans through the banks, but I contend it would be best if a man had a substantial income and he could retain that income and buy what he wishes without going through the medium of borrowing from the bank. This is a serious situation. I analyzed the entire problem which is confronting the Congress, the debt reduction and the question whether we are going to reduce the budget, and all those things, but the most important point, Mr. Chairman, that is before you, and the point which the people of the country are most interested in, is in tax reduction, and the method by which it is being proposed. As the bill passed the house it is absolutely one which will not receive the approval of the bulk of the American people. They are looking for the raising of the exemptions so they can have a bit more money to eat, to live on, and I know the men that I represent, the retired officers and men of the armed services, they are all interested in the raising of the exemptions. In my concluding remarks, I especially appeal to you that something be done for these thousands of men in the lower pay categories who are being forced to pay an income tax from their very low pay. Some of them are veterans that were called back to service again in this war, veterans of two wars, yet when they returned from the active service in World War II they were immediately confronted with an income tax.

Senator Lucas is a veteran, and I would like to propose another thought. This refers to my own brother's son. He served in this war. He came home. To show you the injustice of the tax situation, he came home and worked a year. He was forced to pay $430, I think it is, income tax, the year he worked. He broke down. He is is now totally disabled with TB, in Detroit.

Now, there is a veteran who served his country. He came home and thought he was going to make good and tried to make good, yet, he was forced to pay four hundred-and-some-odd dollars the year he was able to work and now he is on the backs of the taxpayers—perhaps, for the balance of his life. Some consideration ought to be also taken, I contend, for veterans of World War II who came back and tried to do the best they possibly could and who paid income tax, like my brother's boy, but who are now totally disabled for the balance of their lives.

I thank you, Mr. Chairman, and gentlemen of the committee for giving me this opportunity to appear before you.

Senator LUCAS. Is that disability of your brother's son traced to the service?

Mr. HOEPPEL. Total disability due to service. T. B.

Senator LUCAS. Is he being taken care of?

Mr. HOEPPEL. He is being taken care of now but last year he paid four hundred and thirty-some-odd dollars income tax.

The CHAIRMAN. Thank you for coming.

Mr. HOEPPEL. I thank you, Mr. Chairman and gentlemen of the committee.

(Whereupon, the witness was excused.)

The CHAIRMAN. We have no other witnesses on the list and I think we are ready to close the hearing.

The hearing is closed.

(Thereupon, at 12:15 p. m. an adjournment was taken.)

(The following statements were received for the record.)

EXECUTIVE OFFICES OF R. H. MACY & CO., INC.,
New York, May 2, 1947.

Senator SCOTT W. LUCAS,
Senate Office Building, Washington, D. C.

MY DEAR SENATOR LUCAS: Thank you for sending me your tax bill which I have read with the greatest interest. I enclose a copy of some remarks which I made recently at a meeting of the Chamber of Commerce of the State of New York.

I agree with you that one of the first jobs of tax reform is to get equity of treatment of taxpayers of the same class, and I believe the most flagrant violation that we have today of this principle is represented by the preferred treatment of Federal-income taxpayers in community-property States.

Very sincerely yours,

BEARDSLEY RUML.

[For release 12 p. m. April 10, 1947, Chamber of Commerce of the State of New York]

TAXES AND THE BUDGET

Beardsley Ruml, Chairman, R. H. Macy & Co., Inc.

The vast increase in size of the postwar Federal tax burden, as compared with the 1920's or even with the 1930's brings with it new tests of soundness of any tax program. The old criteria for taxation, namely, equality of treatment as between taxpayers of the same class, simplicity and administrative convenience although still valid must be enlarged to include a new criterion, economic effect. Taxation has become a major consideration in fiscal policy.

We must recognize that the objective of national fiscal policy, including taxation, is above all to maintain a sound currency and efficient financial institutions, but, consistent with this basic purpose, fiscal policy, including taxation, should and can contribute to the maintenance of a high level of prosperity, employment, and productive investment.

Briefly, the idea behind our tax policy should be this: That our taxes should be high enough to contribute to the stability of our currency and no higher. • Putting it another way, our taxes should be as low as they possibly can be without putting the value of our money in danger of inflation. The lower our taxes are, the more purchasing power will be left at home in the hands of the people—money that can be spent by them for the things they want to buy, or that can be saved and invested in whatever manner they choose.

Now it follows from this principle that our tax rates can and should be lowered to the point where the Federal budget will be balanced at what we would consider a satisfactory level of high employment. If we set our tax rates any higher than this, we are reducing unnecessarily the money that private individuals will have to spend and to invest; and, therefore, we make it more difficult for ourselves to keep employment at satisfactory levels. There is wide agreement that a satisfactory high level of employment in the United States means today a national income of at least $170 billion, and so we should set our tax rates to balance the budget at a national income of $170 billion, and not at $150 billion or some lesser figure. We want our tax system to work with us and not against us.

Other than this policy of setting tax rates to balance the budget at high employment, there are only two alternative basic tax policies possible. One is to increase tax rates when the level of business is falling in order to get sufficient revenues to balance the budget on an annual basis. The other is to increase tax rates when business is good and reduce them when business is bad. The first alternative would be disastrous; the second is politically and administratively impractical.

When we talk about balancing the budget we should recognize that there are two budgets. One is the conventional budget and the other is the consolidated budget on a cash basis. When budgets were smaller, the distinction was less important, but as President Truman points out in his economic report, it is the consolidated budget on a cash basis that measures the economic impact of Government transactions on the economy. So, obviously, it is the consolidated budget on a cash basis that we shoul alance at high levels of employment.

The consolidated budget on a ca. a basis will show a surplus of about four billion dollars for the current fiscal year. Suppose Congress cuts the President's askings for next year by as much as four billion dollars. Then for 1948, present tax rates at high employment would yield a total of 8 billion dollars as a surplus. Accordingly, we are able to cut present tax rates to yield 8 billion dollars less than they otherwise would, and still the Budget would be balanced at high levels of employment.

Tax reduction of the magnitude that is both possible and desirable, if we think only of ourselves, is both unnecessary and undesirable if we will move promptly toward making the products of American industry and agriculture more available for world relief and reconstruction. We can still reduce taxes substantially and at the same time make substantial additional loans and gifts abroad. In our own interest taking less than this 8 billion dollars of possible tax reduction appears to be the humane and realistic program for the coming year. If, for example, taxes should be reduced to yield 5 billion dollars less, an additional 3 billion dollars could be allocated for foreign reconstruction.

Under the policy of balancing the Budget at high levels of employment, debt reduction would occur as a matter of course if employment exceeds acceptable levels or if prices continue to rise. There should be no fixed legislative commitment to a program of debt reduction except as debt reduction comes automatically as a result of levels of employment or of prices that are too high in terms of the long-time national welfare.

Because of the size of the national debt, debt management has become an essential part of fiscal and monetary policy. Accordingly, debt reduction should be associated in a consistent program with fiscal and monetary decisions and should not be arbitrarily legislated.

Suppose we agree that an eight billion dollar cut in taxes is possible, but that we prefer to use three billion of the eight to aid in world reconstruction. That leaves five billion as a basis for tax reform and rate reductions.

Here then are some concrete suggestions as to program:

1. Do not permit the pay-roll tax for Federal old-age benefits to rise on January 1, 1948, above the present rate.
2. As a matter of equity, of giving equal treatment to all taxpayers of the same class, the tax effects of community property rules should be applied to all taxpayers not just to those residing in nine States in which those rules now exist.
3. In recognition of higher living costs, raise the exemption for taxpayer and dependents from $500 to $600.
4. Reduce individual income-tax rates generally by about half the amounts suggested by the Ways and Means Committee, taking particular note of the fact that the aggregate reductions in the individual income tax under points 2, 3, and 4 exceed the House Committee suggestions, but on a much more equitable and constructive basis.
5. Eliminate those excise taxes, except on gasoline, which fall primarily on the cost of doing business. These tax costs get pyramided in higher prices, they are clumsy, and they bear no relation to income or profits.
6. Finally, I should like to see another 2 percent reduction in the corporation income tax, just to keep the rate fluid on the down side. Next year, if good progress is made in world reconstruction and in the increase in our own productivity, we will be able to eliminate the evil of double taxation on corporate income.

These concrete proposals flow naturally from a recognition of certain basic principles that are appropriate to the new level of national fiscal operations. If we can agree on the principles, the specific measures to be taken can be varied within reasonable limits. On the other hand, the tax measures which have been suggested to date seem far out of touch with the fiscal realities. We must face these realities if our tax system is to help and not to hinder our progress toward an orderly and prosperous world.

New York Board of Trade, Inc.,
New York 7, N. Y.

In re tax reduction

To the Members of the Senate Finance Committee, Senate Office Building, Washington, D. C.

Gentlemen: The New York Board of Trade is in agreement with the purposes of the Individual Income Tax Reduction Act of 1947, now under consideration by your committee. A reduction in personal income taxes at this time would increase the worker's take-home pay and relieve the pressure of labor unions for industry-wide pay boosts. This in turn would permit industry to lower prices and stabilize our economy.

Why should we not reduce taxes now? If we do not reduce taxes at a time when our national income is the highest in history and when we have the opportunity for a budget surplus of many billions of dollars, when will we reduce taxes? Will we do so only after we have brought on a business depression, when national income is vanishing, when Federal revenues are shrinking, when business profits are not here to tax, when unemployment is rampant, and when the Government is struggling to make ends meet? If there be an instance in our more than 150 years of financial history when we did reduce taxes under such circumstances, no one has called it to attention.

The issue of tax reduction against debt reduction which the opponents of the pending tax bill have created is dangerously misleading, to say the least. Industry is thoroughly conscious of the importance of debt reduction, but it is also conscious of the imperative and compelling need for tax reduction. The net effect of the pending tax bill would be to divide the budget surplus about equally between debt reduction and tax reduction. All things considered, that is about the most sensible and practical thing to do under present circumstances.

More important than the amount by which we happen to reduce our debt this year is the need for establishing, without delay, a pattern for debt reduction. If we throw everything into debt reduction now, reducing our debt from $260 billions to $253 billions, we will still have but hardly scratched the surface of our national debt. However, we will have initiated a policy of reducing debt only and wholly out of surplus—which will surely be used in the future as a justification to pay nothing if there is no surplus. Would that be keeping faith with our 85,000,000 bondholders? We all know that years of surplus in Government finance are entirely too infrequent and too uncertain to be adopted as a yardstick for the payment of our national debt. What every bondholder wants to know is that the payment of his bond will not be made the basis of a political football to be kicked around from year to year.

The more effective approach to a concrete debt reduction program, therefore, is to make definite provision in our annual budget for a 1 percent reduction in the principal of our debt. Once done, that should be a consistent and persistent policy in good times and in bad. It would mean, in effect, that by paying 3 percent annually on our national debt instead of the present average interest rate of 2 percent, we would be amortizing the principal on a pay-as-you-go, systematic, and businesslike basis. No single year would then be unduly burdened with a disproportionate debt payment and no single year would escape making provision in the current budget for debt retirement.

The issue is not debt reduction against tax reduction. They are two separate and distinct problems and in no way tied up with the happenstance of this year's budget figures. Systematic annual payments on our national debt from here out should be a must and as much a part of our annual budget as is the payment of interest on our debt. With debt reduction as part of our annual expenditure budget, the keystone to tax reduction is, more than ever, a reduction in over-all expenditures. We must reduce taxes to bearable proportions and keep our expenditures within the revenue. A first step in tax reduction can and must be taken now. To those in the lower brackets tax reduction would come as a welcome relief from the mounting cost of living. To businessmen in all brackets it would constitute a reaffirmation of our belief in the system of free enterprise. All of us certainly want to do everything we can to make that system work. The entire world is waiting for proof that we can make it work. Great Britain is steeped in socialism; Russia is rapidly expanding the influence of communism. We better do our free enterprising effectively—and quickly.

We need to again foster the incentives to production and profit. Our tax system must affirmatively encourage work, ingenuity, and the taking of risk. It does exactly the opposite now. Tax rates are now 50 percent at $18,000; 71 percent at $50,000; 85 percent at at $100,000. Such rates can be justified only under a war economy, when everything is Government-controlled and Government-dictated. Self-preservation is then the driving force for work, responsibility, and the assumption of risk. In peacetime, under our way of life, the same or better results can be attained only by giving our free enterprise system the fullest opportunity for self-expression.

We need to reaffirm and reestablish the American system of free enterprise. We need to reduce taxes, remove all other barriers to production, and free our energies to show the whole world what is possible under a system of free enterprise and free men. The New York Board of Trade considers the enactment of the Individual Income Tax Reduction Act of 1947 an important step in that direction.

Respectfully yours,

M. L. SEIDMAN,
Chairman, Taxation Committee, New York Board of Trade.

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APRIL 18, 1947.

STATEMENT ON TAX REDUCTION LEGISLATION SUBMITTED BY CONSUMERS UNION OF UNITED STATES, INC., 17 UNION SQUARE WEST, NEW YORK 3, N. Y., TO THE SENATE FINANCE COMMITTEE

Consumers Union, a nonprofit consumer testing organization, urges the Senate Finance Committee to reject H. R. 1 because it is grossly inequitable and would not help sustain the dwindling purchasing power of the great majority of American families.

H. R. 1 gives the appearance of graduated tax reduction, but in actuality would give enormous windfalls to wealthy taxpayers. The bottom 70 percent of American families would receive only meager tax savings. For example, the average factory worker today is making about $47 a week, or $2,444 a year if he works 52 weeks. Under H. R. 1 the average married factory worker with two children would receive a tax saving of only $12.48. His take-home pay after taxes would be increased by less than one-half of 1 percent. By contrast, the big corporation executive who is getting $300,000 a year would receive tax savings of $46,651. His take-home income after taxes would be increased 61 percent.

The bottom 70 percent of American families, according to a Federal Reserve Board survey, make less than $3,000 a year. These families have been hardest hit by inflationary prices which have cut deep into their purchasing power. But they will receive little in the way of added purchasing power from H. R. 1. Of the $3.8 billion in tax reduction provided by the bill, 1.6 billion or 42 percent of the total would go to the top 10 percent of taxpayers. The bottom 70 percent of taxpayers would receive $1.2 billion in savings or less than 32 percent of the total cut.

H. R. 1 would not really help those families who urgently need tax relief as a means of making up at least part of their lost purchasing power. Living costs today are 20 percent higher than a year ago and 57 percent higher than before the war. The purchasing power of the consumer's dollar has shrunk to less than 64 cents in prewar terms.

Inflationary living costs have caused a marked reduction in individual savings. According to the Commerce Department, individual savings slumped more than 50 percent from 1945 to 1946, dropping from $33 billion to $16 billion. Put another way, individual savings which were 28 percent of total consumer disposable income (after taxes) in 1945 had fallen to 12 percent in 1946. By the last quarter of 1946 the ratio of savings to disposable income had declined to less than 10 percent.

The inflationary drain on savings is illustrated by the fact that in 1946 redemptions of series E war bonds exceeded purchases by $500 million. Small denomination series E bonds were primarily the ones purchased during the war by those families earning less than $5,000 a year. While sales of series E were going down, sales of series F and G exceeded redemptions by more than $2 billion. These latter series are the large denominations purchased almost entirely by the top income groups.

Moreover, even at the peak of wartime savings, a Government survey revealed that the top 10 percent of American families had 60 percent of total savings, while the bottom 50 percent of families had only 3 percent of savings. Some 24 percent of families had no savings accounts or war bonds, and 29 percent of families had less than $500 in savings in these forms.

President Truman recently described the plight of millions of American families. He said: "Because of high prices, too many of these families are spending their meager savings and cashing their war bonds. They are postponing necessary medical care. They have gone into debt in an amount 50 percent greater than a year ago. They are doing this, not through choice, but in order to make ends meet."

Such families in the income groups below $3,000 a year need to be exempted from income taxes to bolster their dwindling purchasing power. The Lucas bill under consideration by the Senate Finance Committee would be a step in this direction since it raises exemptions from $500 to $600 apiece, thus increasing the total exemption of a family of four from the present $2,000 to $2,400. Under H. R. 1, a married couple with two children that has an income of $3,000 would receive tax savings of $57, while under the Lucas bill this family would have tax savings of $88.

But the Lucas bill has two major defects. Its proposed tax reductions would not go into effect until January 1, 1948. The families who are going into debt because of inflationary prices need to have their purchasing power strengthened immediately and not next year, when as a result of the gap between production and consumption the economy may have been thrown into a tailspin.

Just as serious, the Lucas bill would permit taxpayers to split incomes for tax purposes between husbands and wives, thus providing large and inequitable savings for the top income groups. Under the Lucas proposal only taxpayers in the groups above $5,000 a year would obtain tax advantages through the option of splitting incomes. A $3,000-a-year family would receive no benefit from the income-splitting option. But the $300-thousand-a-year family would have its taxes reduced by about $28,500 because of this device.

The excuse has been given that the option to split incomes between husbands and wives should be enacted in order to correct the inequity that exists because this procedure is now permitted in the eight community property States. But the way to eliminate this inequality is to enact mandatory joint family returns, so that wealthy taxpayers in the community property States do not have this loophole for minimizing their share of the national tax burden.

The McClellan and Murray bills, which are also before the Senate Finance Committee, come closest to exempting from taxation the minimum amount required to maintain a family at a level of health and decency. The authoritative studies of the Heller committee show that at the present time over $3,500 a year is needed to keep a family at a level of health and decency.

Under both the McClellan and Murray bills a married couple with two children would have a total exemption of $3,000. The Murray bill would raise the exemptions of single individuals from $500 to $1,000 and of married couples from $1,000 to $2,000 while continuing the present $500 exemptions for children and dependents. The McClellan bill would simply raise all exemptions from $500 to $750. Since the Murray bill would give greater assistance of single individuals and married couples with one or no children—help which they greatly need at the present time—Consumers Union urges the enactment of the Murray bill. The Senate Finance Committee has the responsibility of providing tax relief for the 70 percent of American families whose shrinking purchasing power is undermining the basis of the current boom and paving the way for a depression in the not too distant future. The way to provide proper tax relief is through speedy enactment of the Murray bill.

STATEMENT SUBMITTED BY MR. S. SIDNEY BROMBERG, ENGLEWOOD, N. J.

INCENTIVE PRODUCTION REDUCED TAX

Additional incomes of corporations and their employees due solely to the introduction of profit sharing, production bonuses, or any other incentive system shall be taxed 50 percent of the regular tax less the percentage of the fall of the price of the product produced.

ILLUSTRATIONS

1. If the incomes of the employees increased 10 percent, the production increased 10 percent (with the same number of employees) and the net profits ncreased also 10 percent, with prices of the products remaining stationary, the employees shall be taxed on their additional incomes 50 percent of the regular tax, corporations taxed 50 percent on their additional net profits.

2. If the increase of workmen's income is 10 percent, the production increase 10 percent, net profits increased also 10 percent and the price of the product reduced 20 percent, the workmen would be taxed 50 minus 20 or 30 percent of the regular tax on their additional income, the corporation would be taxed also 50 minus 20 or 30 percent of the regular corporation tax on additional profits due solely to the introduction of the incentive system.

3. If the increase of the workmen's income is 10 percent, the increase of production is 10 percent, and net profits increased 20 percent with prices stationary, then the workmen are to be taxed 50 percent on their additional income, corporations to be taxed 50 percent on the first 10 percent of profit increase, and the rest of the additional profits to be taxed full regular tax.

4. If the increase of the workmen s income is 10 percent, the increase of production is 10 percent, the net profits increased 20 percent, and the price of the unit of production reduced 10 percent, the workmen are to be taxed 50 minus 10 or 40 percent of the regular tax and the first 10 percent of increased net profits to be taxed 50 minus 10 or 40 percent of the regular tax, and the additional 10 percent of net profits shall be taxed full regular tax.

MAY 2, 1947.

STATEMENT FILED BY WILLIAM GREEN, PRESIDENT OF THE AMERICAN FEDERATION OF LABOR BEFORE THE SENATE FINANCE COMMITTEE OF THE EIGHTIETH CONGRESS, CONSIDERING H. R. 1 AND SENATE SUBSTITUTE FOR H. R. 1, PROVIDING FOR A REDUCTION IN INDIVIDUAL INCOME TAX PAYMENTS

The following statement represents the point of view of the American Federation of Labor with respect to H. R. 1 and Senate substitute for H. R. 1, providing for certain changes in individual income-tax payments.

In a period of general prosperity total tax revenues should be kept at a high level. An increased share of the Federal revenue should be applied toward a reduction of the national debt. The forces of inflation are strengthened at such a time if unwise tax cuts are made.

The national income is now at an all-time high. In the current year the Federal Treasury is to achieve a surplus. While this surplus is likely to be small, its achievement so soon after the vast wartime expenditures and at a time when peace is not yet fully concluded is indeed significant. Under these circumstances the American Federation of Labor believes that tax cuts should be made with extreme care, bearing in mind their ultimate as well as their immediate effects.

Moreover, we believe it important to consider the whole program of tax reduction in relation to national needs. The welfare of our Nation and the continued maintenance of high production and employment must not be sacrificed for the sake of tax reduction for its own sake. There is general recognition of the need for a broad program of Federal aid to education. The American Federation of Labor is committed to the support of such a program. It is equally committed to the principles embodied in previous social-security bills considered by Congress. The problem of adequate housing is more than a local problem; it requires a program such as is incorporated in the Taft-Ellender-Wagner bill, which is currently being considered.

All of these measures will involve the need for revenue that was not included in the President's budget message. They call for additional revenue that should be taken into account when tax cuts are considered, just as fully as the need for balancing the budget and making provision for debt retirement.

However, since Congress is considering tax reductions, the American Federation of Labor earnestly recommends that such reductions as may be made be designed to raise the standards of living and to increase general purchasing power of those in the low-income groups. The present exemptions are ridiculously low, taking into account the fact that living costs for moderate income families are 50 percent higher than they were in 1940. The American Federation of Labor is unqualifiedly opposed to any proposal for an across-the-board percentage reduction in individual income tax. We believe that this method for reducing individual income taxes is in direct opposition to the principle of progressive taxation, which labor strongly and insistently supports.

The American Federation of Labor is on record as favoring exemption of at least $1,000, for an individual wage earner, $2,000 for a married couple, and at least $500 for each dependent. We favor the increased exemption for dependents proposed in the Lucas amendment.

As between H. R. 1 and the Senate substitute for H. R. 1, therefore, we believe that the substitute measure more nearly meets the requirements of a sound tax policy, because it provides more relief to those in the lower income brackets at a somewhat smaller loss in revenue. However, neither proposal is fully cognizant of the current revenue requirements. While the Lucas amendment is a great improvement on H. R. 1, it also fails to provide an equitable proportionate share of tax relief to wage earners, farmers, and other families of moderate income who have borne the heaviest burden of taxation throughout the war.

It is our understanding that under H. R. 1, the tax saving will amount to $3,696,000,000 while under Senate substitute for H. R. 1 the tax saving will be approximately $3,522,300,000

The position of the American Federation of Labor on tax reductions proposed at this time, therefore, may be summarized as follows:

(1) The American Federation of Labor is opposed to any tax reductions that do not take into account the need for balancing the budget in a period of prosperity and making proper provision for education, social security, health, and housing needs.

(2) The American Federation of Labor is opposed to tax reduction measures that are not part of an integrated tax program taking into account the present high excise tax burden and the increasing tendency of State and local governments to depend on consumption taxes.

(3) Of the tax-reduction proposals now being considered by your committee the American Federation of Labor believes that while Senate substitute for H. R. 1 does not go far enough in reducing the tax burden of those in the lower income groups, it is preferable to H. R. 1.

The new proposal offered in the Lucas amendment for splitting of family incomes for tax purposes deserves further study. While this measure would remove existing inequities favoring the residents of certain Western States and solve some of the enforcement problems, it would not, in our opinion, work equitably at the high income levels. This formula would provide a large escape from tax liability on the part of persons in the higher income brackets. If adopted, such a proposal should be confined to taxpayers in the low income brackets.

Net income after Federal taxes—Current tax law, H. R. 1, Lucas amendment to H. R. 1

[Family of 4]

Net income before exemption	Taxes under 1946 law	Taxes under H. R. 1	Taxes under Lucas amendment to H. R. 1
$2,100	$19	$13	$2.85
$2,500	95	67	57.00
$5,000	689	471	499.70
$10,000	1,862	1,490	1,662.50
$25,000	8,522	6,818	7,981.90
$50,000	24,111	19,289	23,071.70
$100,000	62,301	49,841	60,284.00
$500,000	406,600	341,300	396,785.00
$1,000,000	838,850	728,050	819,235.00
$5,000,000	4,275,000	3,822,050	4,192,634.40

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