# $20 TAX CREDIT

# HEARINGS

BEFORE THE

# COMMITTEE ON FINANCE

# UNITED STATES SENATE

## EIGHTY-FOURTH CONGRESS

FIRST SESSION

ON

# H. R. 4259

AN ACT TO PROVIDE A ONE-YEAR EXTENSION OF THE EXISTING CORPORATE NORMAL-TAX RATE AND OF CERTAIN EXISTING EXCISE-TAX RATES, AND TO PROVIDE A $20 CREDIT AGAINST THE INDIVIDUAL INCOME TAX FOR EACH PERSONAL EXEMPTION

FEBRUARY 28 AND MARCH 1, 1955

Printed for the use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE
59387 WASHINGTON : 1955

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# $20 TAX CREDIT

**MONDAY, FEBRUARY 28, 1955**

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

The committee met, pursuant to call, at 10:15 a. m., in room 412, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, George, Kerr, Frear, Long, Smathers, Barkley, Millikin, Martin, Williams, Malone, Carlson, and Bennett.

Also present: Senator Paul H. Douglas; Elizabeth B. Springer, chief clerk; and Colin F. Stam, chief of staff, Joint Committee in Internal Revenue Taxation.

The CHAIRMAN. The committee will come to order.

We have before the committee for consideration H. R. 4259.

(The act referred to follows:)

[H. R. 4259, 84th Cong., 1st sess.]

AN ACT To provide a one-year extension of the existing corporate normal-tax rate and of certain existing excise-tax rates, and to provide a $20 credit against the individual income tax for each personal exemption

*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 "Revenue Act of 1955".

**SEC. 2. ONE-YEAR EXTENSION OF CORPORATE NORMAL-TAX RATE.**

Section 11 (b) (relating to corporate normal tax), section 821 (a) (1) (A) (relating to mutual insurance companies other than interinsurers), and section 821 (b) (1) (relating to interinsurers) of the Internal Revenue Code of 1954 are hereby amended as follows:

(1) By striking out "APRIL 1, 1955" each place it appears and inserting in lieu thereof "APRIL 1, 1956";

(2) By striking out "April 1, 1955" each place it appears and inserting in lieu thereof "April 1, 1956";

(3) By striking out "MARCH 31, 1955" each place it appears and inserting in lieu thereof "MARCH 31, 1956";

(4) By striking out "March 31, 1955" each place it appears and inserting in lieu thereof "March 31, 1956"

**SEC. 3. ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX RATES.**

(a) EXTENSION OF RATES.—The following provisions of the Internal Revenue Code of 1954 are hereby amended by striking out "April 1, 1955" each place it appears and inserting in lieu thereof "April 1, 1956"—

(1) section 4041 (c) (relating to special fuels);

(2) section 4061 (relating to motor vehicles);

(3) section 4081 (relating to gasoline);

(4) section 5001 (a) (1) (relating to distilled spirits);

(5) section 5001 (a) (3) (relating to imported perfumes containing distilled spirits);

(6) section 5022 (relating to cordials and liqueurs containing wine);

(7) section 5041 (b) (relating to wines);

(8) section 5051 (a) (relating to beer); and

(9) section 5701 (c) (1) (relating to cigarettes).

(b) TECHNICAL AMENDMENTS.—The following provisions of the Internal Revenue Code of 1954 are hereby amended as follows:

(1) Section 5063 (relating to floor stocks refunds on distilled spirits, wines, cordials, and beer) is amended by striking out "April 1, 1955" each place it appears and inserting in lieu thereof "April 1, 1956", and by striking out "May 1, 1955" and inserting in lieu thereof "May 1, 1956,".

(2) Section 5134 (a) (3) (relating to drawback in the case of distilled spirits) is amended by striking out "March 31, 1955" and inserting in lieu thereof "March 31, 1956".

(3) Subsections (a) and (b) of section 5707 (relating to floor stocks refunds on cigarettes) are amended by striking out "April 1, 1955" each place it appears and inserting in lieu thereof "April 1, 1956", and by striking out "July 1, 1955" and inserting in lieu thereof "July 1, 1956".

(4) Subsections (a) and (b) of section 6412 (relating to floor stocks refunds on motor vehicles and gasoline) are amended by striking out "April 1, 1955" each place it appears and inserting in lieu thereof "April 1, 1956", and by striking out "July 1, 1955" each place it appears and inserting in lieu thereof "July 1, 1956".

Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones), as amended by the Excise Tax Reduction Act of 1954, is hereby amended by inserting after "Internal Revenue Code" each place it appears "of 1939 (or section 5701 (c), 5001 (a), 5022, 5041 (b), or 5051 (a) of the Internal Revenue Code of 1954)", and by striking out "April 1, 1955" each place it appears and inserting in lieu thereof "April 1, 1956"

## SEC. 4. ALLOWANCE OF $20 CREDIT FOR EACH PERSONAL EXEMPTION.

Part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits against tax) is hereby amended by renumbering section 38 as section 39 and by inserting after section 37 the following new section:

## "SEC. 38. CREDIT FOR PERSONAL EXEMPTIONS.

"(a) GENERAL Rule.—In the case of a taxable year beginning after December 31, 1955, there shall be allowed to an individual, as a credit against the tax imposed by this subtitle for the taxable year, an amount equal to $20 multiplied by the number of exemptions allowed under section 151 as deductions in computing taxable income.

"(b) LIMITATION ON AMOUNT OF CREDIT.—The credit allowed by subsection (a) shall not exceed the amount of the tax imposed by this chapter for the taxable year, reduced by the sum of the credits allowable under sections 33 (relating to foreign tax credit), 34 (relating to credit for dividends received by individuals), 35 (relating to partially tax-exempt interest), and 37 (relating to retirement income)."

## SEC. 5. TECHNICAL AMENDMENTS.

(a) The following provisions of the Internal Revenue Code of 1954 are hereby amended as follows:

(1) Subsection (d) of section 1 (relating to rates of tax on individuals) is amended to read as follows:

"(d) CROSS REFERENCES.—

**"(1) For allowance of $20 credit for each exemption allowed as a deduction under section 151, see section 38.**

**"(2) For definition of taxable income, see section 63."**

(2) Section 3 (relating to optional tax if adjusted gross income is less than $5,000) is amended by striking out the table and inserting in lieu thereof the following new table:

| If adjusted gross income is— But less than | And the number of exemptions is— 1 | 2 | 3 | 4 or more | If adjusted gross income is— At least | But less than | And the number of exemptions is— 1: And taxpayer is single or married filing separately | 1: And taxpayer is head of household | 2: And taxpayer is single or married filing separately | 2: And taxpayer is head of household | 2: And a joint return is filed | 3: And taxpayer is single or married filing separately | 3: And taxpayer is head of household | 3: And a joint return is filed | 4 | 5 | 6 | 7 or more |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | The tax is— | | | | | | The tax is— | | | | | | | | | | | |
| $775 | $0 | $0 | $0 | $0 | $2,375 | $2,400 | $290 | $290 | $150 | $150 | $150 | $10 | $10 | $10 | $0 | $0 | $0 | $0 |
| 800 | 2 | 0 | 0 | 0 | 2,400 | 2,425 | 294 | 294 | 154 | 154 | 154 | 14 | 14 | 14 | 0 | 0 | 0 | 0 |
| 825 | 6 | 0 | 0 | 0 | 2,425 | 2,450 | 299 | 299 | 159 | 159 | 159 | 19 | 19 | 19 | 0 | 0 | 0 | 0 |
| 850 | 11 | 0 | 0 | 0 | 2,450 | 2,475 | 303 | 303 | 163 | 163 | 163 | 23 | 23 | 23 | 0 | 0 | 0 | 0 |
| 875 | 15 | 0 | 0 | 0 | 2,475 | 2,500 | 308 | 308 | 168 | 168 | 166 | 28 | 28 | 28 | 0 | 0 | 0 | 0 |
| 900 | 20 | 0 | 0 | 0 | 2,500 | 2,525 | 312 | 312 | 172 | 172 | 172 | 32 | 32 | 32 | 0 | 0 | 0 | 0 |
| 925 | 24 | 0 | 0 | 0 | 2,525 | 2,550 | 317 | 317 | 177 | 177 | 177 | 37 | 37 | 37 | 0 | 0 | 0 | 0 |
| 950 | 29 | 0 | 0 | 0 | 2,550 | 2,575 | 321 | 321 | 181 | 181 | 181 | 41 | 41 | 41 | 0 | 0 | 0 | 0 |
| 975 | 33 | 0 | 0 | 0 | 2,575 | 2,600 | 326 | 326 | 186 | 186 | 186 | 46 | 46 | 46 | 0 | 0 | 0 | 0 |
| 1,000 | 38 | 0 | 0 | C | 2,600 | 2,625 | 330 | 330 | 190 | 190 | 190 | 50 | 50 | 50 | 0 | 0 | 0 | 0 |
| 1,025 | 42 | 0 | 0 | 0 | 2,625 | 2,650 | 335 | 335 | 195 | 195 | 195 | 55 | 55 | 55 | 0 | 0 | 0 | 0 |
| 1,050 | 47 | 0 | 0 | 0 | 2,650 | 2,675 | 339 | 339 | 199 | 199 | 199 | 59 | 59 | 59 | 0 | 0 | 0 | 0 |
| 1,075 | 51 | 0 | 0 | 0 | 2,675 | 2,700 | 344 | 344 | 204 | 204 | 204 | 64 | 64 | 64 | 0 | 0 | 0 | 0 |
| 1,100 | 56 | 0 | 0 | 0 | 2,700 | 2,725 | 348 | 348 | 208 | 208 | 208 | 68 | 68 | 68 | 0 | 0 | 0 | 0 |
| 1,125 | 60 | 0 | 0 | 0 | 2,725 | 2,750 | 353 | 353 | 212 | 213 | 213 | 73 | 73 | 73 | 0 | 0 | 0 | 0 |
| 1,150 | 65 | 0 | 0 | 0 | 2,750 | 2,775 | 357 | 357 | 217 | 217 | 217 | 77 | 77 | 77 | 0 | 0 | 0 | 0 |
| 1,175 | 69 | 0 | 0 | 0 | 2,775 | 2,800 | 362 | 362 | 222 | 222 | 222 | 82 | 82 | 82 | 0 | 0 | 0 | 0 |
| 1,200 | 74 | 0 | 0 | 0 | 2,800 | 2,825 | 366 | 366 | 226 | 226 | 226 | 86 | 86 | 86 | 0 | 0 | 0 | 0 |
| 1,225 | 78 | 0 | 0 | 0 | 2,825 | 2,850 | 371 | 371 | 231 | 231 | 231 | 91 | 91 | 91 | 0 | 0 | 0 | 0 |
| 1,250 | 83 | 0 | 0 | 0 | 2,850 | 2,875 | 375 | 375 | 235 | 235 | 235 | 95 | 95 | 95 | 0 | 0 | 0 | 0 |
| 1,275 | 87 | 0 | 0 | 0 | 2,875 | 2,900 | 380 | 380 | 240 | 240 | 240 | 100 | 100 | 100 | 0 | 0 | 0 | 0 |
| 1,300 | 92 | 0 | 0 | 0 | 2,900 | 2,925 | 385 | 384 | 244 | 244 | 244 | 104 | 104 | 104 | 0 | 0 | 0 | 0 |
| 1,325 | 96 | 0 | 0 | 0 | 2,925 | 2,950 | 390 | 389 | 249 | 249 | 249 | 109 | 109 | 109 | 0 | 0 | 0 | 0 |
| 1,350 | 101 | 0 | 0 | 0 | 2,950 | 2,975 | 395 | 394 | 253 | 253 | 253 | 113 | 113 | 113 | 0 | 0 | 0 | 0 |
| 1,375 | 105 | 0 | 0 | 0 | 2,975 | 3,000 | 400 | 399 | 258 | 258 | 258 | 118 | 118 | 118 | 0 | 0 | 0 | 0 |
| 1,400 | 110 | 0 | 0 | 0 | 3,000 | 3,050 | 407 | 406 | 265 | 265 | 265 | 125 | 125 | 125 | 0 | 0 | 0 | 0 |
| 1,425 | 114 | 0 | 0 | 0 | 3,050 | 3,100 | 417 | 415 | 274 | 274 | 274 | 134 | 134 | 134 | 0 | 0 | 0 | 0 |
| 1,450 | 119 | 0 | 0 | 0 | 3,100 | 3,150 | 427 | 425 | 283 | 283 | 283 | 143 | 143 | 143 | 3 | 0 | 0 | 0 |
| 1,475 | 123 | 0 | 0 | 0 | 3,150 | 3,200 | 437 | 434 | 292 | 292 | 292 | 152 | 152 | 152 | 12 | 0 | 0 | 0 |
| 1,500 | 128 | 0 | 0 | 0 | 3,200 | 3,250 | 447 | 444 | 301 | 301 | 301 | 161 | 161 | 161 | 21 | 0 | 0 | 0 |
| 1,525 | 132 | 0 | 0 | 0 | 3,250 | 3,300 | 456 | 453 | 310 | 310 | 310 | 170 | 170 | 170 | 30 | 0 | 0 | 0 |
| 1,550 | 137 | 0 | 0 | 0 | 3,300 | 3,350 | 466 | 462 | 319 | 319 | 319 | 179 | 179 | 179 | 29 | 0 | 0 | 0 |
| 1,575 | 141 | 1 | 0 | 0 | 3,350 | 3,400 | 476 | 472 | 328 | 328 | 328 | 188 | 188 | 188 | 48 | 0 | 0 | 0 |
| 1,600 | 146 | 6 | 0 | 0 | 3,400 | 3,450 | 486 | 481 | 337 | 337 | 337 | 197 | 197 | 197 | 57 | 0 | 0 | 0 |
| 1,625 | 150 | 10 | 0 | 0 | 3,450 | 3,500 | 496 | 491 | 346 | 346 | 346 | 206 | 206 | 206 | 66 | 0 | 0 | 0 |
| 1,650 | 155 | 15 | 0 | 0 | 3,500 | 3,550 | 506 | 500 | 355 | 355 | 355 | 215 | 215 | 215 | 75 | 0 | 0 | 0 |
| 1,675 | 159 | 19 | 0 | 0 | 3,550 | 3,600 | 516 | 510 | 364 | 364 | 364 | 224 | 224 | 221 | 84 | 0 | 0 | 0 |
| 1,700 | 164 | 24 | 0 | 0 | 3,600 | 3,650 | 526 | 519 | 374 | 373 | 373 | 233 | 233 | 233 | 93 | 0 | 0 | 0 |
| 1,725 | 168 | 28 | 0 | 0 | 3,650 | 3,700 | 536 | 529 | 384 | 383 | 382 | 242 | 242 | 242 | 102 | 0 | 0 | 0 |
| 1,750 | 173 | 33 | 0 | 0 | 3,700 | 3,750 | 546 | 538 | 394 | 392 | 391 | 251 | 251 | 251 | 111 | 0 | 0 | 0 |
| 1,775 | 177 | 37 | 0 | 0 | 3,750 | 3,800 | 555 | 547 | 403 | 401 | 400 | 260 | 260 | 260 | 120 | 0 | 0 | 0 |
| 1,800 | 182 | 42 | 0 | 0 | 3,800 | 3,850 | 565 | 557 | 413 | 411 | 409 | 269 | 269 | 269 | 129 | 0 | 0 | 0 |
| 1,825 | 186 | 46 | 0 | 0 | 3,850 | 3,900 | 575 | 566 | 423 | 420 | 418 | 278 | 278 | 278 | 138 | 0 | 0 | 0 |
| 1,850 | 191 | 51 | 0 | 0 | 3,900 | 3,950 | 585 | 576 | 433 | 430 | 427 | 287 | 287 | 287 | 147 | 7 | 0 | 0 |
| 1,875 | 195 | 55 | 0 | 0 | 3,950 | 4,000 | 595 | 585 | 443 | 439 | 436 | 296 | 296 | 296 | 156 | 16 | 0 | 0 |
| 1,900 | 200 | 60 | 0 | 0 | 4,000 | 4,050 | 605 | 595 | 453 | 449 | 445 | 305 | 305 | 305 | 165 | 25 | 0 | 0 |
| 1,925 | 204 | 64 | 0 | 0 | 4,050 | 4,100 | 615 | 604 | 463 | 458 | 454 | 314 | 314 | 314 | 174 | 34 | 0 | 0 |
| 1,950 | 209 | 69 | 0 | 0 | 4,100 | 4,150 | 625 | 614 | 473 | 468 | 463 | 323 | 323 | 323 | 183 | 43 | 0 | 0 |
| 1,975 | 213 | 73 | 0 | 0 | 4,150 | 4,200 | 635 | 623 | 483 | 477 | 472 | 332 | 332 | 332 | 192 | 52 | 0 | 0 |
| 2,000 | 218 | 78 | 0 | 0 | 4,200 | 4,250 | 645 | 633 | 493 | 487 | 481 | 341 | 341 | 341 | 201 | 61 | 0 | 0 |
| 2,025 | 222 | 82 | 0 | 0 | 4,250 | 4,300 | 654 | 642 | 502 | 496 | 490 | 350 | 350 | 350 | 210 | 70 | 0 | 0 |
| 2,050 | 227 | 87 | 0 | 0 | 4,300 | 4,350 | 664 | 651 | 512 | 505 | 499 | 360 | 359 | 359 | 219 | 79 | 0 | 0 |
| 2,075 | 231 | 91 | 0 | 0 | 4,350 | 4,400 | 674 | 661 | 522 | 515 | 508 | 370 | 369 | 368 | 228 | 88 | 0 | 0 |
| 2,100 | 236 | 96 | 0 | 0 | 4,400 | 4,450 | 684 | 670 | 532 | 524 | 517 | 380 | 378 | 377 | 237 | 97 | 0 | 0 |
| 2,125 | 240 | 100 | 0 | 0 | 4,450 | 4,500 | 694 | 680 | 542 | 534 | 526 | 390 | 388 | 386 | 246 | 106 | 0 | 0 |
| 2,150 | 245 | 105 | 0 | 0 | 4,500 | 4,550 | 704 | 689 | 552 | 543 | 535 | 400 | 397 | 395 | 255 | 115 | 0 | 0 |
| 2,175 | 249 | 109 | 0 | 0 | 4,550 | 4,600 | 714 | 699 | 562 | 553 | 544 | 410 | 407 | 404 | 264 | 124 | 0 | 0 |
| 2,200 | 254 | 114 | 0 | 0 | 4,600 | 4,650 | 724 | 708 | 572 | 562 | 553 | 420 | 416 | 413 | 273 | 133 | 0 | 0 |
| 2,225 | 258 | 118 | 0 | 0 | 4,650 | 4,700 | 734 | 718 | 582 | 572 | 562 | 430 | 426 | 422 | 282 | 142 | 2 | 0 |
| 2,250 | 263 | 123 | 0 | 0 | 4,700 | 4,750 | 744 | 727 | 592 | 581 | 571 | 440 | 435 | 431 | 291 | 151 | 11 | 0 |
| 2,275 | 267 | 127 | 0 | 0 | 4,750 | 4,800 | 753 | 736 | 601 | 590 | 580 | 449 | 444 | 440 | 300 | 160 | 20 | 0 |
| 2,300 | 272 | 132 | 0 | 0 | 4,800 | 4,850 | 763 | 746 | 611 | 600 | 589 | 459 | 454 | 449 | 309 | 169 | 29 | 0 |
| 2,325 | 276 | 136 | 0 | 0 | 4,850 | 4,900 | 773 | 755 | 621 | 609 | 598 | 469 | 463 | 458 | 318 | 178 | 38 | 0 |
| 2,350 | 281 | 141 | 1 | 0 | 4,900 | 4,950 | 783 | 765 | 631 | 619 | 607 | 479 | 473 | 467 | 327 | 187 | 47 | 0 |
| 2,375 | 285 | 145 | 5 | 0 | 4,950 | 5,000 | 793 | 774 | 641 | 628 | 616 | 489 | 482 | 476 | 336 | 196 | 56 | 0" |

(3) Subsection (d) of section 21 (relating to changes in rates during the taxable year) is amended to read as follows:

"(d) TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1956, AND ENDING AFTER DECEMBER 31, 1955.—Subsection (a) of this section does not apply in the case of a taxable year beginning before January 1, 1956, and ending after December 31, 1955."

(4) The table of sections for part IV of subchapter A of chapter 1 is amended by striking out

"Sec. 38. Overpayments of tax."

and inserting in lieu thereof the following:

"Sec. 38. Credit for personal exemptions.
"Sec. 39. Overpayments of tax."

(5) The text of section 36 (relating to credits not allowed to certain individuals) is amended to read as follows:

"(a) ELECTION TO PAY OPTIONAL TAX.—If an individual elects to pay the optional tax imposed by section 3, the credits provided by sections 32, 33, 35, and 38 shall not be allowed.

"(b) ELECTION TO TAKE STANDARD DEDUCTION.—If an individual elects under section 144 to take the standard deduction, the credits provided by sections 32, 33, and 35 shall not be allowed."

(6) Section 151 (relating to allowance of deductions for personal exemptions) is amended by adding at the end thereof the following new subsection:

"(f) CROSS REFERENCE.—

**"For credit against the tax imposed by this subtitle in an amount equal to $20 multiplied by the number of exemptions allowed as a deduction under this section, see section 38."**

(7) Subsection (c) of section 443 (relating to returns for a period of less than 12 months) is amended to read as follows:

"(c) ADJUSTMENTS FOR PERSONAL EXEMPTIONS.—In the case of a taxpayer other than a corporation, if a return is made for a short period by reason of subsection (a) (1) and if the tax is not computed under subsection (b) (2), then—

"(1) the exemptions allowed as a deduction under section 151 (and any deduction in lieu thereof), and

"(2) the credit allowed by section 38,

shall be reduced to amounts which bear the same ratio to the full exemptions or to the full credit (as the case may be) as the number of months in the short period bears to 12."

(8) Subsection (a) of section 642 (relating to special rules for credits against tax) is amended by adding the following new paragraph:

"(4) CREDIT FOR PERSONAL EXEMPTION.—For purposes of section 38 (relating to credit for personal exemptions), an estate shall be treated as being allowed one exemption under section 151 as a deduction in computing taxable income."

(9) Section 6015 (a) (2) (A) (relating to declaration of estimated income tax by individuals) is amended by striking out "$600" and inserting in lieu thereof "$700".

(b) COLLECTION OF INCOME TAX AT SOURCE ON WAGES.—

(1) Paragraph (1) of section 3402 (b) of the Internal Revenue Code of 1954 (relating to percentage method of withholding) is hereby amended to read as follows:

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

**"Percentage Method Withholding Table**

| "Payroll period | Amount of one withholding exemption |
|---|---|
| Weekly | $15.00 |
| Biweekly | 30.00 |
| Semimonthly | 32.00 |
| Monthly | 65.00 |
| Quarterly | 194.00 |
| Semiannual | 389.00 |
| Annual | 778.00 |
| Daily or miscellaneous (per day of such period) | 2.10" |

(2) Paragraph (1) of section 3402 (c) of the Internal Revenue Code of 1954 (relating to wage bracket withholding) is hereby amended by striking out the tables and inserting in lieu thereof the following new tables:

"If the payroll 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 | $15 | 18% of wages | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| $15 | $16 | $2.80 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $16 | $17 | 3.00 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $17 | $18 | 3.20 | .50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $18 | $19 | 3.30 | .60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $19 | $20 | 3.50 | .80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $20 | $21 | 3.70 | 1.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $21 | $22 | 3.90 | 1.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $22 | $23 | 4.10 | 1.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $23 | $24 | 4.20 | 1.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $24 | $25 | 4.40 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $25 | $26 | 4.60 | 1.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $26 | $27 | 4.80 | 2.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $27 | $28 | 5.00 | 2.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $28 | $29 | 5.10 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $29 | $30 | 5.30 | 2.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $30 | $31 | 5.50 | 2.80 | $0.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $31 | $32 | 5.70 | 3.00 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $32 | $33 | 5.90 | 3.20 | .50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $33 | $34 | 6.00 | 3.30 | .60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $34 | $35 | 6.20 | 3.50 | .80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $35 | $36 | 6.40 | 3.70 | 1.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $36 | $37 | 6.60 | 3.90 | 1.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $37 | $38 | 6.80 | 4.10 | 1.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $38 | $39 | 6.90 | 4.20 | 1.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $39 | $40 | 7.10 | 4.40 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $40 | $41 | 7.30 | 4.60 | 1.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $41 | $42 | 7.50 | 4.80 | 2.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $42 | $43 | 7.70 | 5.00 | 2.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $43 | $44 | 7.80 | 5.10 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $44 | $45 | 8.00 | 5.30 | 2.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $45 | $46 | 8.20 | 5.50 | 2.80 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $46 | $47 | 8.40 | 5.70 | 3.00 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $47 | $48 | 8.60 | 5.90 | 3.20 | .50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $48 | $49 | 8.70 | 6.00 | 3.30 | .70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $49 | $50 | 8.90 | 6.20 | 3.50 | .80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $50 | $51 | 9.10 | 6.40 | 3.70 | 1.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $51 | $52 | 9.30 | 6.60 | 3.90 | 1.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $52 | $53 | 9.50 | 6.80 | 4.10 | 1.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $53 | $54 | 9.60 | 6.90 | 4.20 | 1.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $54 | $55 | 9.80 | 7.10 | 4.40 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $55 | $56 | 10.00 | 7.30 | 4.60 | 1.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $56 | $57 | 10.20 | 7.50 | 4.80 | 2.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $57 | $58 | 10.40 | 7.70 | 5.00 | 2.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $58 | $59 | 10.50 | 7.80 | 5.10 | 2.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $59 | $60 | 10.70 | 8.00 | 5.30 | 2.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $60 | $62 | 11.00 | 8.30 | 5.60 | 2.90 | .20 | 0 | 0 | 0 | 0 | 0 | 0 |
| $62 | $64 | 11.30 | 8.60 | 6.00 | 3.30 | .60 | 0 | 0 | 0 | 0 | 0 | 0 |
| $64 | $66 | 11.70 | 9.00 | 6.30 | 3.60 | .90 | 0 | 0 | 0 | 0 | 0 | 0 |
| $66 | $68 | 12.10 | 9.40 | 6.70 | 4.00 | 1.30 | 0 | 0 | 0 | 0 | 0 | 0 |
| $68 | $70 | 12.40 | 9.70 | 7.00 | 4.30 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 |
| $70 | $72 | 12.80 | 10.10 | 7.40 | 4.70 | 2.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| $72 | $74 | 13.10 | 10.40 | 7.80 | 5.10 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 |
| $74 | $76 | 13.50 | 10.80 | 8.10 | 5.40 | 2.70 | 0 | 0 | 0 | 0 | 0 | 0 |
| $76 | $78 | 13.90 | 11.20 | 8.50 | 5.80 | 3.10 | .40 | 0 | 0 | 0 | 0 | 0 |
| $78 | $80 | 14.20 | 11.50 | 8.80 | 6.10 | 3.50 | .80 | 0 | 0 | 0 | 0 | 0 |
| $80 | $82 | 14.60 | 11.90 | 9.20 | 6.50 | 3.80 | 1.10 | 0 | 0 | 0 | 0 | 0 |
| $82 | $84 | 14.90 | 12.20 | 9.60 | 6.90 | 4.20 | 1.50 | 0 | 0 | 0 | 0 | 0 |
| $84 | $86 | 15.30 | 12.60 | 9.90 | 7.20 | 4.50 | 1.80 | 0 | 0 | 0 | 0 | 0 |
| $86 | $88 | 15.70 | 13.00 | 10.30 | 7.60 | 4 90 | 2.20 | 0 | 0 | 0 | 0 | 0 |
| $88 | $90 | 16.00 | 13.30 | 10.60 | 7.90 | 6.30 | 2.60 | 0 | 0 | 0 | 0 | 0 |
| $90 | $92 | 16.40 | 13.70 | 11.00 | 8.30 | 5.60 | 2.90 | .20 | 0 | 0 | 0 | 0 |
| $92 | $94 | 16.70 | 14.00 | 11.40 | 8.70 | 6.00 | 3.30 | .60 | 0 | 0 | 0 | 0 |
| $94 | $96 | 17.10 | 14.40 | 11.70 | 9.00 | 6.30 | 3.60 | .90 | 0 | 0 | 0 | 0 |
| $96 | $98 | 17.50 | 14.80 | 12.10 | 9.40 | 6.70 | 4 00 | 1.30 | 0 | 0 | 0 | 0 |
| $98 | $100 | 17.80 | 15.10 | 12.40 | 9.70 | 7.10 | 4.40 | 1.70 | 0 | 0 | 0 | 0 |
| $100 | $105 | 18.50 | 15.80 | 13.10 | 10.40 | 7.70 | 5.00 | 2.30 | 0 | 0 | 0 | 0 |
| $105 | $110 | 19.40 | 16.70 | 14.00 | 11.30 | 8.60 | 5.90 | 3.20 | .50 | 0 | 0 | 0 |
| $110 | $115 | 20.30 | 17.60 | 14.90 | 12.20 | 9.50 | 6.80 | 4.10 | 1.40 | 0 | 0 | 0 |
| $115 | $120 | 21.20 | 18.50 | 15.80 | 13.10 | 10.40 | 7.70 | 5.00 | 2.30 | 0 | 0 | 0 |
| $120 | $125 | 22.10 | 19.40 | 16.70 | 14.00 | 11.30 | 8.60 | 5.90 | 3.20 | .50 | 0 | 0 |
| $125 | $130 | 23.00 | 20.30 | 17.60 | 14.90 | 12.20 | 9.50 | 6.80 | 4.10 | 1.40 | 0 | 0 |
| $130 | $135 | 23.90 | 21.20 | 18.50 | 15.80 | 13.10 | 10.40 | 7.70 | 5.00 | 2.30 | 0 | 0 |
| $135 | $140 | 24.80 | 22.10 | 19.40 | 16.70 | 14.00 | 11.30 | 8.60 | 5.90 | 3.20 | .50 | 0 |
| $140 | $145 | 25.70 | 23.00 | 20.30 | 17.60 | 14.90 | 12.20 | 9.50 | 6.80 | 4.10 | 1.40 | 0 |

"If the payroll 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— | | | | | | | | | | |
| $145 | $150 | $26.60 | $23.90 | $21.20 | $18.50 | $15.80 | $13.10 | $10.40 | $7.70 | $5.00 | $2.30 | $0 |
| $150 | $160 | 27.90 | 25.20 | 22.50 | 19.80 | 17.10 | 14.40 | 11.70 | 9.10 | 6.40 | 3.70 | 1.00 |
| $160 | $170 | 29.70 | 27.00 | 24.30 | 21.60 | 18.90 | 16.20 | 13.50 | 10.90 | 8.20 | 5.50 | 2.80 |
| $170 | $180 | 31.50 | 28.80 | 26.10 | 23.40 | 20.70 | 18.00 | 15.30 | 12.70 | 10.00 | 7.30 | 4.60 |
| $180 | $190 | 33.30 | 30.60 | 27.90 | 25.20 | 22.50 | 19.80 | 17.10 | 14.50 | 11.80 | 9.10 | 6.40 |
| $190 | $200 | 35.10 | 32.40 | 29.70 | 27.00 | 24.30 | 21.60 | 18.90 | 16.30 | 13.60 | 10.90 | 8.20 |
| | | 18 percent of the excess over $200 plus— | | | | | | | | | | |
| $200 and over | | 36.00 | 33.30 | 30.60 | 27.90 | 25.20 | 22.50 | 19.80 | 17.20 | 14.50 | 11.80 | 9.10 |

If the payroll 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 | $30 | 18% of wages | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| $30 | $32 | 5.60 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $32 | $34 | 5.90 | .60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $34 | $36 | 6.30 | .90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $36 | $38 | 6.70 | 1.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $38 | $40 | 7.00 | 1.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $40 | $42 | 7.40 | 2.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $42 | $44 | 7.70 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $44 | $46 | 8.10 | 2.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $46 | $48 | 8.50 | 3.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $48 | $50 | 8.80 | 3.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $50 | $52 | 9.20 | 3.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $52 | $54 | 9.50 | 4.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $54 | $56 | 9.90 | 4.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $56 | $58 | 10.30 | 4.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $58 | $60 | 10.60 | 5.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $60 | $62 | 11.00 | 5.60 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $62 | $64 | 11.30 | 6.00 | .60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $64 | $66 | 11.70 | 6.30 | .90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $66 | $68 | 12.10 | 6.70 | 1.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $68 | $70 | 12.40 | 7.00 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $70 | $72 | 12.80 | 7.40 | 2.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $72 | $74 | 13.10 | 7.80 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $74 | $76 | 13.50 | 8.10 | 2.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $76 | $78 | 13.90 | 8.50 | 3.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $78 | $80 | 14.20 | 8.80 | 3.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $80 | $82 | 14.60 | 9.20 | 3.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $82 | $84 | 14.90 | 9.60 | 4.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $84 | $86 | 15.30 | 9.90 | 4.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $86 | $88 | 15.70 | 10.30 | 4.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $88 | $90 | 16.00 | 10.60 | 5.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $90 | $92 | 16.40 | 11.00 | 5.60 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $92 | $94 | 16.70 | 11.40 | 6.00 | .60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $94 | $96 | 17.10 | 11.70 | 6.30 | .90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $96 | $98 | 17.50 | 12.10 | 6.70 | 1.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $98 | $100 | 17.80 | 12.40 | 7.10 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $100 | $102 | 18.20 | 12.80 | 7.40 | 2.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $102 | $104 | 18.50 | 13.20 | 7.80 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $104 | $106 | 18.90 | 13.50 | 8.10 | 2.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $106 | $108 | 19.30 | 13.90 | 8.50 | 3.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $108 | $110 | 19.60 | 14.20 | 8.90 | 3.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $110 | $112 | 20.00 | 14.60 | 9.20 | 3.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $112 | $114 | 20.30 | 15.00 | 9.60 | 4.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $114 | $116 | 20.70 | 15.30 | 9.90 | 4.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $116 | $118 | 21.10 | 15.70 | 10.30 | 4.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $118 | $120 | 21.40 | 16.00 | 10.70 | 5.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $120 | $124 | 22.00 | 16.60 | 11.20 | 5.80 | .40 | 0 | 0 | 0 | 0 | 0 | 0 |
| $124 | $128 | 22.70 | 17.30 | 11.90 | 6.50 | 1.10 | 0 | 0 | 0 | 0 | 0 | 0 |
| $128 | $132 | 23.40 | 18.00 | 12.60 | 7.20 | 1.90 | 0 | 0 | 0 | 0 | 0 | 0 |

## If the payroll 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— | | | | | | | | | | |
| $132 | $136 | $24.10 | $18.70 | $13.40 | $8.00 | $2.60 | $0 | $0 | $0 | $0 | $0 | $0 |
| $136 | $140 | 24.80 | 19.50 | 14.10 | 8.70 | 3.30 | 0 | 0 | 0 | 0 | 0 | 0 |
| $140 | $144 | 25.60 | 20.20 | 14.80 | 9.40 | 4.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| $144 | $148 | 26.30 | 20.90 | 15.50 | 10.10 | 4.70 | 0 | 0 | 0 | 0 | 0 | 0 |
| $148 | $152 | 27.00 | 21.60 | 16.20 | 10.80 | 5.50 | .10 | 0 | 0 | 0 | 0 | 0 |
| $152 | $156 | 27.70 | 22.30 | 17.00 | 11.60 | 6.20 | .80 | 0 | 0 | 0 | 0 | 0 |
| $156 | $160 | 28.40 | 23.10 | 17.70 | 12.30 | 6.90 | 1.50 | 0 | 0 | 0 | 0 | 0 |
| $160 | $164 | 29.20 | 23.80 | 18.40 | 13.00 | 7.60 | 2.20 | 0 | 0 | 0 | 0 | 0 |
| $164 | $168 | 29.90 | 24.50 | 19.10 | 13.70 | 8.30 | 3.00 | 0 | 0 | 0 | 0 | 0 |
| $168 | $172 | 30.60 | 25.20 | 19.80 | 14.40 | 9.10 | 3.70 | 0 | 0 | 0 | 0 | 0 |
| $172 | $176 | 31.30 | 25.90 | 20.60 | 15.20 | 9.80 | 4.40 | 0 | 0 | 0 | 0 | 0 |
| $176 | $180 | 32.00 | 26.70 | 21.30 | 15.90 | 10.50 | 5.10 | 0 | 0 | 0 | 0 | 0 |
| $180 | $184 | 32.80 | 27.40 | 22.00 | 16.60 | 11.20 | 5.80 | .50 | 0 | 0 | 0 | 0 |
| $184 | $188 | 33.50 | 28.10 | 22.70 | 17.30 | 11.90 | 6.60 | 1.20 | 0 | 0 | 0 | 0 |
| $188 | $192 | 34.20 | 28.80 | 23.40 | 18.00 | 12.70 | 7.30 | 1.90 | 0 | 0 | 0 | 0 |
| $192 | $196 | 34.90 | 29.50 | 24.20 | 18.80 | 13.40 | 8.00 | 2.60 | 0 | 0 | 0 | 0 |
| $196 | $200 | 35.60 | 30.30 | 24.90 | 19.50 | 14.10 | 8.70 | 3.30 | 0 | 0 | 0 | 0 |
| $200 | $210 | 36.90 | 31.50 | 26.10 | 20.70 | 15.40 | 10.00 | 4.60 | 0 | 0 | 0 | 0 |
| $210 | $220 | 38.70 | 33.30 | 27.90 | 22.50 | 17.20 | 11.80 | 6.40 | 1.00 | 0 | 0 | 0 |
| $220 | $230 | 40.50 | 35.10 | 29.70 | 24.30 | 19.00 | 13.60 | 8.20 | 2.80 | 0 | 0 | 0 |
| $230 | $240 | 42.30 | 36.90 | 31.50 | 26.10 | 20.80 | 15.40 | 10.00 | 4.60 | 0 | 0 | 0 |
| $240 | $250 | 44.10 | 38.70 | 33.30 | 27.90 | 22.60 | 17.20 | 11.80 | 6.40 | 1.00 | 0 | 0 |
| $250 | $260 | 45.90 | 40.50 | 35.10 | 29.70 | 24.40 | 19.00 | 13.60 | 8.20 | 2.80 | 0 | 0 |
| $260 | $270 | 47.70 | 42.30 | 36.90 | 31.50 | 26.20 | 20.80 | 15.40 | 10.00 | 4.60 | 0 | 0 |
| $270 | $280 | 49.50 | 44.10 | 38.70 | 33.30 | 28.00 | 22.60 | 17.20 | 11.80 | 6.40 | 1.00 | 0 |
| $280 | $290 | 51.30 | 45.90 | 40.50 | 35.10 | 29.80 | 24.40 | 19.00 | 13.60 | 8.20 | 2.80 | 0 |
| $290 | $300 | 53.10 | 47.70 | 42.30 | 36.90 | 31.60 | 26.20 | 20.80 | 15.40 | 10.00 | 4.60 | 0 |
| $300 | $320 | 55.80 | 50.40 | 45.00 | 39.60 | 34.30 | 28.90 | 23.50 | 18.10 | 12.70 | 7.30 | 2.00 |
| $320 | $340 | 59.40 | 54.00 | 48.60 | 43.20 | 37.90 | 32.50 | 27.10 | 21.70 | 16.30 | 10.90 | 5.60 |
| $340 | $360 | 63.00 | 57.60 | 52.20 | 46.80 | 41.50 | 36.10 | 30.70 | 25.30 | 19.90 | 14.50 | 9.20 |
| $360 | $380 | 66.60 | 61.20 | 55.80 | 50.40 | 45.10 | 39.70 | 34.30 | 28.90 | 23.50 | 18.10 | 12.80 |
| $380 | $400 | 70.20 | 64.80 | 59.40 | 54.00 | 48.70 | 43.30 | 37.90 | 32.50 | 27.10 | 21.70 | 16.40 |
| | | 18 percent of the excess over $400 plus— | | | | | | | | | | |
| $400 and over | | 72.00 | 66.60 | 61.20 | 55.80 | 50.50 | 45.10 | 39.70 | 34.30 | 28.90 | 23.50 | 18.20 |

## "If the payroll 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 | $32 | 18% of wages | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| $32 | $34 | $5.90 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $34 | $36 | 6.30 | .50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $36 | $38 | 6.70 | .80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $38 | $40 | 7.00 | 1.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $40 | $42 | 7.40 | 1.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $42 | $44 | 7.70 | 1.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $44 | $46 | 8.10 | 2.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $46 | $48 | 8.50 | 2.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $48 | $50 | 8.80 | 3.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $50 | $52 | 9.20 | 3.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $52 | $54 | 9.50 | 3.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $54 | $56 | 9.90 | 4.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $56 | $58 | 10.30 | 4.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $58 | $60 | 10.60 | 4.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $60 | $62 | 11.00 | 5.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $62 | $64 | 11.30 | 5.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $64 | $66 | 11.70 | 5.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $66 | $68 | 12.10 | 6.20 | .40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $68 | $70 | 12.40 | 6.60 | .80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $70 | $72 | 12.80 | 6.90 | 1.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $72 | $74 | 13.10 | 7.30 | 1.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $74 | $76 | 13.50 | 7.70 | 1.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $76 | $78 | 13.90 | 8.00 | 2.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**"If the payroll 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— | | | | | | | | | | |
| $78 | $80 | $14.20 | $8.40 | $2.60 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| $80 | $82 | 14.60 | 8.70 | 2.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $82 | $84 | 14.90 | 9.10 | 3.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $84 | $86 | 15.30 | 9.50 | 3.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $86 | $88 | 15.70 | 9.80 | 4.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $88 | $90 | 16.00 | 10.20 | 4.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $90 | $92 | 16.40 | 10.50 | 4.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $92 | $94 | 16.70 | 10.90 | 5.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $94 | $96 | 17.10 | 11.30 | 5.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $96 | $98 | 17.50 | 11.60 | 5.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $98 | $100 | 17.80 | 12.00 | 6.20 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $100 | $102 | 18.20 | 12.30 | 6.50 | .70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $102 | $104 | 18.50 | 12.70 | 6.90 | 1.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $104 | $106 | 18.90 | 13.10 | 7.20 | 1.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $106 | $108 | 19.30 | 13.40 | 7.60 | 1.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $108 | $110 | 19.60 | 13.80 | 8.00 | 2.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $110 | $112 | 20.00 | 14.10 | 8.30 | 2.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $112 | $114 | 20.30 | 14.50 | 8.70 | 2.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $114 | $116 | 20.70 | 14.90 | 9.00 | 3.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $116 | $118 | 21.10 | 15.20 | 9.40 | 3.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $118 | $120 | 21.40 | 15.60 | 9.80 | 3.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $120 | $124 | 22.00 | 16.10 | 10.30 | 4.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $124 | $128 | 22.70 | 16.80 | 11.00 | 5.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $128 | $132 | 23.40 | 17.60 | 11.70 | 5.90 | .10 | 0 | 0 | 0 | 0 | 0 | 0 |
| $132 | $136 | 24.10 | 18.30 | 12.50 | 6.60 | .80 | 0 | 0 | 0 | 0 | 0 | 0 |
| $136 | $140 | 24.80 | 19.00 | 13.20 | 7.30 | 1.50 | 0 | 0 | 0 | 0 | 0 | |
| $140 | $144 | 25.60 | 19.70 | 13.90 | 8.10 | 2.20 | 0 | 0 | 0 | 0 | 0 | 0 |
| $144 | $148 | 26.30 | 20.40 | 14.60 | 8.80 | 2.90 | 0 | 0 | 0 | 0 | 0 | 0 |
| $148 | $152 | 27.00 | 21.20 | 15.30 | 9.50 | 3.70 | 0 | 0 | 0 | 0 | 0 | 0 |
| $152 | $156 | 27.70 | 21.90 | 16.10 | 10.20 | 4.40 | 0 | 0 | 0 | 0 | 0 | 0 |
| $156 | $160 | 28.40 | 22.60 | 16.80 | 10.90 | 5.10 | 0 | 0 | 0 | 0 | 0 | 0 |
| $160 | $164 | 29.20 | 23.30 | 17.50 | 11.70 | 5.80 | 0 | 0 | 0 | 0 | 0 | 0 |
| $164 | $168 | 29.90 | 24.00 | 18.20 | 12.40 | 6.50 | .70 | 0 | 0 | 0 | 0 | 0 |
| $168 | $172 | 30.60 | 24.80 | 18.90 | 13.10 | 7.30 | 1.40 | 0 | 0 | 0 | 0 | 0 |
| $172 | $176 | 31.30 | 25.50 | 19.70 | 13.80 | 8.00 | 2.20 | 0 | 0 | 0 | 0 | 0 |
| $176 | $180 | 32.00 | 26.20 | 20.40 | 14.50 | 8.70 | 2.90 | 0 | 0 | 0 | 0 | 0 |
| $180 | $184 | 32.80 | 26.90 | 21.10 | 15.30 | 9.40 | 3.60 | 0 | 0 | 0 | 0 | 0 |
| $184 | $188 | 33.50 | 27.60 | 21.80 | 16.00 | 10.10 | 4.30 | 0 | 0 | 0 | 0 | 0 |
| $188 | $192 | 34.20 | 28.40 | 22.50 | 16.70 | 10.90 | 5.00 | 0 | 0 | 0 | 0 | 0 |
| $192 | $196 | 34.90 | 29.10 | 23.30 | 17.40 | 11.60 | 5.80 | 0 | 0 | 0 | 0 | 0 |
| $196 | $200 | 35.60 | 29.80 | 24.00 | 18.10 | 12.30 | 6.50 | .60 | 0 | 0 | 0 | 0 |
| $200 | $210 | 36.90 | 31.10 | 25.20 | 19.40 | 13.60 | 7.70 | 1.90 | 0 | 0 | 0 | 0 |
| $210 | $220 | 38.70 | 32.90 | 27.00 | 21.20 | 15.40 | 9.50 | 3.70 | 0 | 0 | 0 | 0 |
| $220 | $230 | 40.50 | 34.70 | 28.80 | 23.00 | 17.20 | 11.30 | 5.50 | 0 | 0 | 0 | 0 |
| $230 | $240 | 42.30 | 36.50 | 30.60 | 24.80 | 19.00 | 13.10 | 7.30 | 1.50 | 0 | 0 | 0 |
| $240 | $250 | 44.10 | 38.30 | 32.40 | 26.60 | 20.80 | 14.90 | 9.10 | 3.30 | 0 | 0 | 0 |
| $250 | $260 | 45.90 | 40.10 | 34.20 | 28.40 | 22.60 | 16.70 | 10.90 | 5.10 | 0 | 0 | 0 |
| $260 | $270 | 47.70 | 41.90 | 36.00 | 30.20 | 24.40 | 18.50 | 12.70 | 6.90 | 1.00 | 0 | 0 |
| $270 | $280 | 49.50 | 43.70 | 37.80 | 32.00 | 26.20 | 20.30 | 14.50 | 8.70 | 2.80 | 0 | 0 |
| $280 | $290 | 51.30 | 45.50 | 39.60 | 33.80 | 28.00 | 22.10 | 16.30 | 10.50 | 4.60 | 0 | 0 |
| $290 | $300 | 53.10 | 47.30 | 41.40 | 35.60 | 29.80 | 23.90 | 18.10 | 12.30 | 6.40 | .60 | 0 |
| $300 | $320 | 55.80 | 50.00 | 44.10 | 38.30 | 32.50 | 26.60 | 20.80 | 15.00 | 9.10 | 3.30 | 0 |
| $320 | $340 | 59.40 | 53.60 | 47.70 | 41.90 | 36.10 | 30.20 | 24.40 | 18.60 | 12.70 | 6.90 | 1.10 |
| $340 | $360 | 63.00 | 57.20 | 51.30 | 45.50 | 39.70 | 33.80 | 28.00 | 22.20 | 16.30 | 10.50 | 4.70 |
| $360 | $380 | 66.60 | 60.80 | 54.90 | 49.10 | 43.30 | 37.40 | 31.60 | 25.80 | 19.90 | 14.10 | 8.30 |
| $380 | $400 | 70.20 | 64.40 | 58.50 | 52.70 | 46.90 | 41.00 | 35.20 | 29.40 | 23.50 | 17.70 | 11.90 |
| $400 | $420 | 73.80 | 68.00 | 62.10 | 56.30 | 50.50 | 44.60 | 38.80 | 33.00 | 27.10 | 21.30 | 15.50 |
| $420 | $440 | 77.40 | 71.60 | 65.70 | 59.90 | 54.10 | 48.20 | 42.40 | 36.60 | 30.70 | 24.90 | 19.10 |
| $440 | $460 | 81.00 | 75.20 | 69.30 | 63.50 | 57.70 | 51.80 | 46.00 | 40.20 | 34.30 | 28.50 | 22.70 |
| $460 | $480 | 84.60 | 78.80 | 72.90 | 67.10 | 61.30 | 55.40 | 49.60 | 43.80 | 37.90 | 32.10 | 26.30 |
| $480 | $500 | 88.20 | 82.40 | 76.50 | 70.70 | 64.90 | 59.00 | 53.20 | 47.40 | 41.50 | 35.70 | 29.90 |
| | | 18 percent of the excess over $500 plus— | | | | | | | | | | |
| $500 and over | | 90.00 | 84.20 | 78.30 | 72.50 | 66.70 | 60.80 | 55.00 | 49.20 | 43.30 | 37.50 | 31.70 |

"If the payroll 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 | $64 | 18% of wages | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| $64 | $68 | 11.90 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $68 | $72 | 12.60 | .90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $72 | $76 | 13.30 | 1.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $76 | $80 | 14.00 | 2.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $80 | $84 | 14.80 | 3.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $84 | $88 | 15.50 | 3.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $88 | $92 | 16.20 | 4.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $92 | $96 | 16.90 | 5.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $96 | $100 | 17.60 | 6.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $100 | $104 | 18.40 | 6.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $104 | $108 | 19.10 | 7.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $108 | $112 | 19.80 | 8.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $112 | $116 | 20.50 | 8.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $116 | $120 | 21.20 | 9.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $120 | $124 | 22.00 | 10.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $124 | $128 | 22.70 | 11.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $128 | $132 | 23.40 | 11.70 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $132 | $136 | 24.10 | 12.50 | .80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $136 | $140 | 24.80 | 13.20 | 1.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $140 | $144 | 25.60 | 13.90 | 2.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $144 | $148 | 26.30 | 14.60 | 2.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $148 | $152 | 27.00 | 15.30 | 3.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $152 | $156 | 27.70 | 16.10 | 4.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $156 | $160 | 28.40 | 16.80 | 5.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $160 | $164 | 29.20 | 17.50 | 5.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $164 | $168 | 29.90 | 18.20 | 6.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $168 | $172 | 30.60 | 18.90 | 7.30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $172 | $176 | 31.30 | 19.70 | 8.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $176 | $180 | 32.00 | 20.40 | 8.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $180 | $184 | 32.80 | 21.10 | 9.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $184 | $188 | 33.50 | 21.80 | 10.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $188 | $192 | 34.20 | 22.50 | 10.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $192 | $196 | 34.90 | 23.30 | 11.60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $196 | $200 | 35.60 | 24.00 | 12.30 | .60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $200 | $204 | 36.40 | 24.70 | 13.00 | 1.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $201 | $208 | 37.10 | 25.40 | 13.70 | 2.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $208 | $212 | 37.80 | 26.10 | 14.50 | 2.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $212 | $216 | 38.50 | 26.90 | 15.20 | 3.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $216 | $220 | 39.20 | 27.60 | 15.90 | 4.20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $220 | $224 | 40.00 | 28.30 | 16.60 | 5.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $224 | $228 | 40.70 | 29.00 | 17.30 | 5.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $228 | $232 | 41.40 | 29.70 | 18.10 | 6.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $232 | $236 | 42.10 | 30.50 | 18.80 | 7.10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $236 | $240 | 42.80 | 31.20 | 19.50 | 7.80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $240 | $248 | 43.90 | 32.30 | 20.60 | 8.90 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $248 | $256 | 45.40 | 33.70 | 22.00 | 10.40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $256 | $264 | 46.80 | 35.10 | 23.50 | 11.80 | .10 | 0 | 0 | 0 | 0 | 0 | 0 |
| $264 | $272 | 48.20 | 36.60 | 24.90 | 13.20 | 1.60 | 0 | 0 | 0 | 0 | 0 | 0 |
| $272 | $280 | 49.70 | 38.00 | 26.30 | 14.70 | 3.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| $280 | $288 | 51.10 | 39.50 | 27.80 | 16.10 | 4.50 | 0 | 0 | 0 | 0 | 0 | 0 |
| $288 | $296 | 52.60 | 40.90 | 29.20 | 17.60 | 5.90 | 0 | 0 | 0 | 0 | 0 | 0 |
| $296 | $304 | 54.00 | 42.30 | 30.70 | 19.00 | 7.30 | 0 | 0 | 0 | 0 | 0 | 0 |
| $304 | $312 | 55.40 | 43.80 | 32.10 | 20.40 | 8.80 | 0 | 0 | 0 | 0 | 0 | 0 |
| $312 | $320 | 56.90 | 45.20 | 33.50 | 21.90 | 10.20 | 0 | 0 | 0 | 0 | 0 | 0 |
| $320 | $328 | 58.30 | 46.70 | 35.00 | 23.30 | 11.70 | 0 | 0 | 0 | 0 | 0 | 0 |
| $328 | $336 | 59.80 | 48.10 | 36.40 | 24.80 | 13.10 | 1.40 | 0 | 0 | 0 | 0 | 0 |
| $336 | $344 | 61.20 | 49.50 | 37.90 | 26.20 | 14.50 | 2.90 | 0 | 0 | 0 | 0 | 0 |
| $344 | $352 | 62.60 | 51.00 | 39.30 | 27.60 | 16.00 | 4.30 | 0 | 0 | 0 | 0 | 0 |
| $352 | $360 | 64.10 | 52.40 | 40.70 | 29.10 | 17.40 | 5.70 | 0 | 0 | 0 | 0 | 0 |
| $360 | $368 | 65.50 | 53.90 | 52.20 | 30.50 | 18.90 | 7.20 | 0 | 0 | 0 | 0 | 0 |
| $368 | $376 | 67.00 | 55.30 | 43.60 | 32.00 | 20.30 | 8.60 | 0 | 0 | 0 | 0 | 0 |
| $376 | $384 | 68.40 | 56.70 | 45.10 | 33.40 | 21.70 | 10.10 | 0 | 0 | 0 | 0 | 0 |
| $384 | $392 | 69.80 | 58.20 | 46.50 | 34.80 | 23.20 | 11.50 | 0 | 0 | 0 | 0 | 0 |
| $392 | $400 | 71.30 | 59.60 | 47.90 | 36.30 | 24.60 | 12.90 | 1.30 | 0 | 0 | 0 | 0 |

"If the payroll 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— | | | | | | | | | | |
| $400 | $420 | $73.80 | $62.10 | $50.50 | $38.80 | $27.10 | $15.50 | $3.80 | $0 | $0 | $0 | $0 |
| $420 | $440 | 77.40 | 65.70 | 54.10 | 42.40 | 30.70 | 19.10 | 7.40 | 0 | 0 | 0 | 0 |
| $440 | $460 | 81.00 | 69.30 | 57.70 | 46.00 | 34.30 | 22.70 | 11.00 | 0 | 0 | 0 | 0 |
| $460 | $480 | 84.60 | 72.90 | 61.30 | 49.60 | 37.90 | 26.30 | 14.60 | 2.90 | 0 | 0 | 0 |
| $480 | $500 | 88.20 | 76.50 | 64.90 | 53.20 | 41.50 | 29.90 | 18.20 | 6.50 | 0 | 0 | 0 |
| $500 | $520 | 91.80 | 80.10 | 68.50 | 56.80 | 45.10 | 33.50 | 21.80 | 10.10 | 0 | 0 | 0 |
| $520 | $540 | 95.40 | 83.70 | 72.10 | 60.40 | 48.70 | 37.10 | 25.40 | 13.70 | 2.10 | 0 | 0 |
| $540 | $560 | 99.00 | 87.30 | 75.70 | 64.00 | 52.30 | 40.70 | 29.00 | 17.30 | 5.70 | 0 | 0 |
| $560 | $580 | 102.60 | 90.90 | 79.30 | 67.60 | 55.90 | 44.30 | 32.60 | 20.90 | 9.30 | 0 | 0 |
| $580 | $600 | 106.20 | 94.50 | 82.90 | 71.20 | 59.50 | 47.90 | 36.20 | 24.50 | 12.90 | 1.20 | 0 |
| $600 | $640 | 111.60 | 99.90 | 88.30 | 76.60 | 64.90 | 53.30 | 41.60 | 29.90 | 18.30 | 6.60 | 0 |
| $640 | $680 | 118.80 | 107.10 | 95.50 | 83.80 | 72.10 | 60.50 | 48.80 | 37.10 | 25.50 | 13.80 | 2.10 |
| $680 | $720 | 126.00 | 114.30 | 102.70 | 91.00 | 79.30 | 67.70 | 56.00 | 44.30 | 32.70 | 21.00 | 9.30 |
| $720 | $760 | 133.20 | 121.50 | 109.90 | 98.20 | 86.50 | 74.90 | 63.20 | 51.50 | 39.90 | 28.20 | 16.50 |
| $760 | $800 | 140.40 | 128.70 | 117.10 | 105.40 | 93.70 | 82.10 | 70.40 | 58.70 | 47.10 | 35.40 | 23.70 |
| $800 | $840 | 147.60 | 135.90 | 124.30 | 112.60 | 100.90 | 89.30 | 77.60 | 65.90 | 54.30 | 42.60 | 30.90 |
| $840 | $880 | 154.80 | 143.10 | 131.50 | 119.80 | 108.10 | 96.50 | 84.80 | 73.10 | 61.50 | 49.80 | 38.10 |
| $880 | $920 | 162.00 | 150.30 | 138.70 | 127.00 | 115.30 | 103.70 | 92.00 | 80.30 | 68.70 | 57.00 | 45.30 |
| $920 | $960 | 169.20 | 157.50 | 145.90 | 134.20 | 122.50 | 110.90 | 99.20 | 87.50 | 75.90 | 64.20 | 52.50 |
| $960 | $1,000 | 176.40 | 164.70 | 153.10 | 141.40 | 129.70 | 118.10 | 106.40 | 94.70 | 83.10 | 71.40 | 59.70 |
| | | 18 percent of the excess over $1,000 plus— | | | | | | | | | | |
| $1,000 and over | | 180.00 | 168.30 | 156.70 | 145.00 | 133.30 | 121.70 | 110.00 | 98.30 | 86.70 | 75.00 | 63.30 |

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll 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 | $2.25 | 18% of wages | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| $2.25 | $2.50 | $0.45 | .05 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $2.50 | $2.75 | .45 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $2.75 | $3.00 | .50 | .15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $3.00 | $3.25 | .55 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $3.25 | $3.50 | .60 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $3.50 | $3.75 | .65 | .25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $3.75 | $4.00 | .70 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $4.00 | $4.25 | .75 | .35 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $4.25 | $4.50 | .80 | .40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $4.50 | $4.75 | .85 | .45 | .05 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $4.75 | $5.00 | .90 | .50 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $5.00 | $5.25 | .90 | .55 | .15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $5.25 | $5.50 | .95 | .60 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $5.50 | $5.75 | 1.00 | 65 | .25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $5.75 | $6.00 | 1.05 | .65 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $6.00 | $6.25 | 1.10 | .70 | .35 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $6.25 | $6.50 | 1.15 | .75 | .40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $6.50 | $6.75 | 1.20 | .80 | .45 | .05 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $6.75 | $7.00 | 1.25 | .85 | .45 | .10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $7.00 | $7.25 | 1.30 | .90 | .50 | .15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $7.25 | $7.50 | 1.35 | .95 | .55 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $7.50 | $7.75 | 1.35 | 1.00 | .60 | .20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $7.75 | $8.00 | 1.40 | 1.05 | .65 | .25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $8.00 | $8.25 | 1.45 | 1.10 | .70 | .30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $8.25 | $8.50 | 1.50 | 1.10 | .75 | .35 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $8.50 | $8.75 | 1.55 | 1.15 | .80 | .40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $8.75 | $9.00 | 1.60 | 1.20 | .85 | .45 | .05 | 0 | 0 | 0 | 0 | 0 | 0 |
| $9.00 | $9.25 | 1.65 | 1.25 | .90 | .50 | .10 | 0 | 0 | 0 | 0 | 0 | 0 |
| $9.25 | $9.50 | 1.70 | 1.30 | .90 | .55 | .15 | 0 | 0 | 0 | 0 | 0 | 0 |
| $9.50 | $9.75 | 1.75 | 1.35 | .95 | .60 | .20 | 0 | 0 | 0 | 0 | 0 | 0 |
| $9.75 | $10.00 | 1.80 | 1.40 | 1.00 | .65 | .25 | 0 | 0 | 0 | 0 | 0 | 0 |
| $10.00 | $10.50 | 1.85 | 1.45 | 1.10 | .70 | .30 | 0 | 0 | 0 | 0 | 0 | 0 |
| $10.50 | $11.00 | 1.95 | 1.55 | 1.15 | .80 | .40 | 0 | 0 | 0 | 0 | 0 | 0 |
| $11.00 | $11.50 | 2.05 | 1.65 | 1.25 | .85 | .50 | .10 | 0 | 0 | 0 | 0 | 0 |
| $11.50 | $12.00 | 2.10 | 1.75 | 1.35 | .95 | 60 | .20 | 0 | 0 | 0 | 0 | 0 |
| $12.00 | $12.50 | 2.20 | 1.80 | 1.45 | 1.05 | .65 | .30 | 0 | 0 | 0 | 0 | 0 |
| $12.50 | $13.00 | 2.30 | 1.90 | 1.55 | 1.15 | .75 | .40 | 0 | 0 | 0 | 0 | 0 |
| $13.00 | $13.50 | 2.40 | 2.00 | 1.60 | 1.25 | .85 | .45 | .10 | 0 | 0 | 0 | 0 |
| $13.50 | $14.00 | 2.50 | 2.10 | 1.70 | 1.30 | .95 | .55 | .15 | 0 | 0 | 0 | 0 |
| $14.00 | $14.50 | 2.55 | 2.20 | 1.80 | 1.40 | 1.05 | .65 | .25 | 0 | 0 | 0 | 0 |
| $14.50 | $15.00 | 2.65 | 2.25 | 1.90 | 1.50 | 1.10 | .75 | .35 | 0 | 0 | 0 | 0 |
| $15.00 | $15.50 | 2.75 | 2.35 | 2.00 | 1.60 | 1.20 | .85 | .45 | .05 | 0 | 0 | 0 |
| $15.50 | $16.00 | 2.85 | 2.45 | 2.05 | 1.70 | 1.30 | .90 | .55 | .15 | 0 | 0 | 0 |
| $16.00 | $16.50 | 2.95 | 2.55 | 2.15 | 1.75 | 1.40 | 1.00 | .60 | .25 | 0 | 0 | 0 |
| $16.50 | $17.00 | 3.00 | 2.65 | 2.25 | 1.85 | 1.50 | 1.10 | .70 | .35 | 0 | 0 | 0 |
| $17.00 | $17.50 | 3.10 | 2.70 | 2.35 | 1.95 | 1.55 | 1.20 | .80 | .40 | .05 | 0 | 0 |
| $17.50 | $18.00 | 3.20 | 2.80 | 2.45 | 2.05 | 1.65 | 1.30 | .90 | .50 | .15 | 0 | 0 |
| $18.00 | $18.50 | 3.30 | 2.90 | 2.50 | 2.15 | 1.75 | 1.35 | 1.00 | .60 | .20 | 0 | 0 |
| $18.50 | $19.00 | 3.40 | 3.00 | 2.60 | 2.20 | 1.85 | 1.45 | 1.05 | .70 | .30 | 0 | 0 |
| $19.00 | $19.50 | 3.45 | 3.10 | 2.70 | 2.30 | 1.95 | 1.55 | 1.15 | .80 | .40 | 0 | 0 |
| $19.50 | $20.00 | 3.55 | 3.15 | 2.80 | 2.40 | 2.00 | 1.65 | 1.25 | .85 | .50 | .10 | 0 |
| $20.00 | $21.00 | 3.70 | 3.30 | 2.90 | 2.55 | 2.15 | 1.75 | 1.40 | 1.00 | .60 | .25 | 0 |
| $21.00 | $22.00 | 3.85 | 3.50 | 3.10 | 2.70 | 2.35 | 1.95 | 1.55 | 1.20 | .80 | .40 | .05 |
| $22.00 | $23.00 | 4.05 | 3.65 | 3.30 | 2.90 | 2.50 | 2.15 | 1.75 | 1.35 | 1.00 | .60 | .20 |
| $23.00 | $24.00 | 4.25 | 3.85 | 3.45 | 3.10 | 2.70 | 2.30 | 1.95 | 1.55 | 1.15 | .80 | .40 |
| $24.00 | $25.00 | 4.40 | 4.05 | 3.65 | 3.25 | 2.90 | 2.50 | 2.10 | 1.75 | 1.35 | .95 | .55 |
| $25.00 | $26.00 | 4.60 | 4.20 | 3.80 | 3.45 | 3.05 | 2.65 | 2.30 | 1.90 | 1.50 | 1.15 | .75 |
| $26.00 | $27.00 | 4.75 | 4.40 | 4.00 | 3.60 | 3.25 | 2.85 | 2.45 | 2.10 | 1.70 | 1.30 | .95 |
| $27.00 | $28.00 | 4.95 | 4.55 | 4.20 | 3.80 | 3.40 | 3.05 | 2.65 | 2.25 | 1.90 | 1.50 | 1.10 |
| $28.00 | $29.00 | 5.15 | 4.75 | 4.35 | 4.00 | 3.60 | 3.20 | 2.85 | 2.45 | 2.05 | 1.70 | 1.30 |
| $29.00 | $30.00 | 5.30 | 4.95 | 4.55 | 4.15 | 3.80 | 3.40 | 3.00 | 2.65 | 2.25 | 1.85 | 1.45 |
| | | 18 percent of the excess over $30 plus— | | | | | | | | | | |
| $30.00 and over | | 5.40 | 5.00 | 4.65 | 4.25 | 3.85 | 3.50 | 3.10 | 2.70 | 2.35 | 1.95 | 1.55" |

(c) Effective Dates.—

(1) The amendments made by subsection (a) of this section (other than paragraph (3) thereof) shall apply only with respect to taxable years beginning after December 31, 1955. The amendment made by paragraph (3) of subsection (a) of this section shall apply only with respect to taxable years beginning before January 1, 1956, and ending after December 31, 1955.

(2) The amendments made by subsection (b) of this section shall apply only with respect to wages paid after December 31, 1955.

Passed the House of Representatives February 25, 1955.

Attest:

Ralph R. Roberts, *Clerk.*

The Chairman. The first witness will be the Secretary of the Treasury, Mr. George M. Humphrey.

Mr. Secretary, we are all very much pleased to have you come before our committee. We would be glad to hear any statement that you desire to make.

## STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY, ACCOMPANIED BY MARION B. FOLSOM, UNDER SECRETARY OF THE TREASURY; LAURENS WILLIAMS, ASSISTANT TO THE SECRETARY; AND DAN T. SMITH, ASSISTANT TO THE SECRETARY

Secretary Humphrey. Mr. Chairman, I am very glad to appear before your committee on this very important matter.

I have a short statement, and then I will be prepared to try to answer such questions as may occur to members of the committee.

Your committee has before it this morning a $20 tax cut which was suddenly sprung on the Ways and Means Committee and hurriedly passed through the House of Representatives last week by a scant margin of only five votes with only a limited hearing and no time for thoughtful consideration.

I strongly urge the Senate Finance Committee to reject this proposal as completely contrary to the public interest.

President Eisenhower asked the Congress to continue responsible financial management of the Government's affairs by extension of (1) the corporate income tax rate of 52 percent and (2) the excise taxes on tobacco, liquor, et cetera, both of which otherwise would go down automatically on April 1. These two extensions will give the Government $2.8 billion in revenue and will help to continue the progress toward lower deficit financing and a balanced budget.

The $20 proposal has been hastily tacked on as an amendment to this sound bill.

This $20 proposal would give every taxpayer a reduction of $20 for himself, his wife, and each dependent. It would take about 5 million taxpayers completely off the Federal income tax rolls. And it would lose about $2.3 billion of revenue in a full year.

Now, why is this $20 proposal contrary to the public interest? It is contrary to the public interest because it means reversing the successful trend during the past 2 years in cutting deficits and working toward a balanced budget. The budget deficit for fiscal year 1953 was almost $9½ billion and a deficit projected for fiscal year 1954 was nearly $10 billion.

We cut planned spending in fiscal year 1954 by more than $10 billion. We cut the deficit in fiscal 1954 by more than $6 billion and so moved two-thirds of the way toward a balanced budget. With these spending cuts firmly in sight, we cut taxes by $7.4 billion—the largest single tax cut in history.

This administration advocated further tax cuts but only at such times as we can see them justified by further cuts in spending and increased revenues from economic growth that broadens the tax base.

The President said in his state of the Union message, "I am hopeful that such reductions can be made next year." Both the President's budget message and his economic report also expressed hope for a tax reduction next year but only if expressly justified by spending cuts and increased income from economic growth.

To vote a $20 tax cut now—before we know we can afford it next year—and without any indication of where the money is coming from is nothing but an irresponsible gesture. It is based only on hopes as yet entirely unrealized which may well turn out to mean heading back into heavy deficit financing, with all the inflationary dangers that such borrowing means for the American people.

There has been some misleading talk about justifying the $20 proposal on the ground that the "little folks" have been entirely neglected. Let's look at the record. The $7.4 billion tax cuts last year included an income-tax cut for every taxpayer in America. The cut averages about 10 percent for all the lower income taxpayers but was scaled down to only about 2 percent for the highest bracket incomes. These reductions applied to every single taxpayer in this nation.

Excise taxes were cut by a billion dollars on goods of everyday use. And millions upon millions of Americans got tax reductions in relief provisions for retired people, widows, working parents, and the sick or hospitalized. These reductions were predominantly in the low-income group.

But even more important is the fact that this administration has been slowly getting the Government's financial affairs under control to help the economy expand and so make constantly more and better jobs.

A job is more important than a tax cut.

The investment of money in tools, plants, and equipment which makes jobs has been stimulated. Confidence has increased in the Government and in the maintenance of sound policies in the future as well as in the ability of our free economy under such policies to constantly develop more and better jobs, better living, and more security for all. The economic gains we are now enjoying are firm evidence of the fact that this confidence is justified.

This proposed tax cut is entirely unjustified by firm evidence at this time. If it is paid out of borrowed money requiring additional deficit financing, which is all that is in sight at this moment, it can start us right back on the reckless road of inflation with all its cruel thievery.

Inflation, rampant for several past years, has been checked. The cost of living has not increased now for over 2 years as compared with the fact that it almost doubled in the 15 previous years. This has been worth billions of dollars to millions of Americans.

This checking of inflation has protected not only the full purchasing value of peoples' current earnings but has insured the full worth of

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their savings in savings accounts, insurance policies, pension funds, et cetera, with which they are trying to provide for their own and their loved ones futures.

And let us always remember this: that it is not the rich who need protection against inflation. It is the little folks who suffer the most when inflation takes hold in a land.

I hope the committee will vote out a bill excluding the $20-tax-cut proposal.

The CHAIRMAN. I am glad, Mr. Secretary, to have that statement. I will ask Senator Kerr if he has any questions.

Senator KERR. Yes; I do.

The CHAIRMAN. Proceed.

Senator KERR. Mr. Secretary, on page 1 there, the last paragraph, or rather, the next to the last paragraph, you have a statement that we cut taxes by $7.4 billion.

Secretary HUMPHREY. Yes; I have.

Senator KERR. Would you give me the details of that?

Secretary HUMPHREY. How that was split up in the three bills?

Senator KERR. Itemize the tax reduction there of $7.4 billion.

Secretary HUMPHREY. Yes; I can. The reduction in the individual taxes was approximately $3 billion. The elimination of excess-profits taxes was somewhat less than $2 billion. The reduction of the excise taxes was approximately $1 billion. The tax reduction bill was approximately $1,400 million, or a total of $7.4 billion.

Senator KERR. The revision bill was $1.4?

Secretary HUMPHREY. That is correct.

Senator KERR. You say that "we cut taxes by $7.4 billion." To whom do you refer, Mr. Secretary?

Secretary HUMPHREY. I refer to the Government of the United States.

Senator KERR. The individual income tax reduction of $3 billion, by whose authority did it take effect?

Secretary HUMPHREY. By what?

Senator KERR. By whose authority did that reduction take effect?

Secretary HUMPHREY. They all took effect, Senator, by action of the Congress.

Senator KERR. When was that action taken by the Congress?

Secretary HUMPHREY. That bill was passed—I have forgotten—3 or 4 years ago by a Democratic Congress.

Senator KERR. By a Democratic Congress?

Secretary HUMPHREY. That is correct. We accepted it and did not ask to have it changed. The Republicans did not ask to have it changed. We thought that it had been justified by Republican action in making reductions in expenditures.

Senator KERR. I think that is mighty nice of you to accept and justify that action, and I appreciate your cooperation in that regard.

Secretary HUMPHREY. We did it for the country, Senator, and not for either party.

Senator KERR. I am not arguing about that. I heard your statement that "we cut taxes" and "we cut planned spending," and for the record I would like to have it straight, just who "we" are.

Secretary HUMPHREY. The Congress passes the laws that either put on or take off the taxes. The Congress is the final authority on what the tax laws will be.

Senator KERR. Right.

Of the excess-profits tax, when was the action taken that terminated those? I am just getting the record straight.

Secretary HUMPHREY. That was done about the same time as the other, and those actions were to expire earlier than the others.

Senator KERR. Weren't they to expire at the same time?

Secretary HUMPHREY. I think not. We came in and asked to have the excess-profits taxes extended.

Senator KERR. And that was done?

Secretary HUMPHREY. That was done; after a very considerable amount of discussion.

Senator KERR. You said the excise taxes were reduced by $1 billion.

Secretary HUMPHREY. That is correct.

Senator KERR. Was that on your recommendation?

Secretary HUMPHREY. No. That was against our recommendation.

Senator KERR. On page 2 you tell us that even more important is the fact that this administration has been slowly getting the Government's financial affairs under control to help the economy expand and "so make constantly more and better jobs."

Senator HUMPHREY. That is right.

Senator KERR. Do you have the figures on unemployment as of January, when you came in, and as of January of 1954, and as of January of 1955?

Secretary HUMPHREY. I haven't them here.

Senator KERR. Would you be surprised to know that unemployment figures were considerably greater in January 1954 than they were in January 1953, and that there are some 250,000 or more unemployed today than there were a year ago?

Secretary HUMPHREY. No; I would not be surprised. In fact, I think those are approximately the figures as I remember them.

Senator KERR. Then where are there "more and better jobs"?

Secretary HUMPHREY. What we have doing, Senator, is this: This country a few years ago had a great scare when the Korean war started. It started out spending tremendous amounts of money suddenly and rapidly.

Senator KERR. Now, right there. How much did this Government spend in the fiscal year ending June 30, 1953, and in the fiscal year ending June 30, 1954, and what will they spend in fiscal year June 30, 1955?

Secretary HUMPHREY. I can give you those figures, but they are not of importance in what I was about to say.

Senator KERR. If you were going to talk about the number of jobs due to defense spending, wouldn't there be some significance in the fact that defense spending is about the same?

Secretary HUMPHREY. No. It depends on whether or not you are moving forward into a large expansion of Government spending, or are moving backward into a decline of Government spending. In connection with moving forward into a large amount of Government spending, you have a great tooling-up job and you have a lot of private spending that goes with it in that expansive period, and that is exactly what we were going through at the time Korea became effective, and we moved into a very expansive period with tremendous appropriations and tremendous plans for expansion.

Now, the expenditures were somewhat higher in 1953 than in 1952 and then they began to come down. New obligational authority dropped from 1952 to 1953. The future plans were tremendously reduced, and with the termination of Korea, they were still further reduced.

Senator KERR. But the actual expenditures by the Government for defense are about the same, aren't they, Mr. Secretary?

Secretary HUMPHREY. Let me get the exact figures here. Here are the budget expenditures. I do not have 1952 here. Here are the budget expenditures: 1953 is $74.3.

Senator KERR. Actual cash outlay?

Secretary HUMPHREY. Yes.

Senator KERR. For the Defense Department? The total outlay of the Government wasn't that much.

Secretary HUMPHREY. That is the total outlay of the Government.

Senator KERR. I am talking about the defense expenditures.

Secretary HUMPHREY. Just defense?

Senator KERR. Yes.

Secretary HUMPHREY. Here is defense, $50.3; $54.7.

Senator KERR. $50.3 for what year?

Secretary HUMPHREY. $50.3 is 1953. The estimated expenditure to be spent that year was $54.7. The actual was $46.5 in 1954.

Senator KERR. In 1954?

Secretary HUMPHREY. That is right.

Senator KERR. Do you have the estimate for 1955?

Secretary HUMPHREY. The estimated for 1955 is $40.6.

Just so there is no mistake, let me read them to you, so we get them right.

Actually in 1953 it was $50.3. The estimated for 1954 was $54.7. Actual for 1954 was $46.5, an estimated for 1955 is $40.6, a reduction of about $10 billion from 1953, $14 billion from 1954 estimates.

Senator KERR. You are talking about the actual though?

Secretary HUMPHREY. And $6 billion from the 1954 actual.

Senator KERR. Are you familiar with the memorandum put out by the Riggs National Bank recently in which they reported that factory output rose 4 percent between December 1953 and December 1954, while factory employment declined 4 percent, and that mineral output rose 3 percent while mining employment declined 13 percent?

Secretary HUMPHREY. No. I haven't seen the paper to which you refer.

Senator KERR. You are aware that the production per unit of manpower is increasing?

Secretary HUMPHREY. Yes, and I thank the Lord for it because that is the only way this country makes progress.

Senator KERR. You are aware, while the overall production has been going up, the number of employed has been going down?

Secretary HUMPHREY. No, I am not aware of that. The number of employed is increasing. We had more employed in January of this year than we had in January a year ago.

Senator KERR. Do you have those figures?

Secretary HUMPHREY. Yes, sir. January of 1954 was 59,753,000, and January of 1955 is 60,150,000.

Senator KERR. Do you have the number of employed in factories for those 2 months?

Secretary HUMPHREY. Let me see if I can find that. I do not have factory employment in this table.

Senator KERR. Would you be surprised to know there were 500,000 fewer employed in factories in January 1955 than there were in January 1954?

Secretary HUMPHREY. Not necessarily.

Senator KERR. Would you be surprised to know there were 1,200,000 fewer employed in factories in January 1955 than there were in January 1953?

Secretary HUMPHREY. No. In January 1953 you were right in the height of the Eisenhower boom. At the end of the election we went right into a boom.

Senator KERR. Then, if that was the high point of your administration, how do you make that reconcile with your statement here that you are slowly getting the Government's financial affairs under control to help the economy expand, and so make constantly more and better jobs, when the fact is that they have fewer jobs?

Secretary HUMPHREY. Senator, I will be very glad to explain that to you.

Senator KERR. Now that is fine.

Secretary HUMPHREY. We were in a period of tremendously high Government spending and tremendously high Government deficits.

Senator KERR. When was that?

Secretary HUMPHREY. What?

Senator KERR. When was that?

Secretary HUMPHREY. It was for a period—the deficits had been going on almost every year except, I think, for 3, for 15 years.

Senator KERR. Do you have the figures for the last 7 years, Mr. Secretary?

Secretary HUMPHREY. I have them for 15 years.

Senator KERR. I asked them for the 7 years ending in 1953.

Secretary HUMPHREY. I have them for the last 2 or 3 years. That is the period you are talking about.

Senator KERR. I said the 7 years ending in 1953.

Secretary HUMPHREY. The period we have the other figures for—let's see if we can get them for seven. These figures are all available.

Senator KERR. I know they are. I thought this was a very good source to get them from.

Secretary HUMPHREY. I have to look them up in the same book you do.

Senator KERR. This is not a bad place to put them in the record. Suppose we start with June 30, 1954.

Secretary HUMPHREY. June 30, 1954?

Senator KERR. What was the deficit that year?

Secretary HUMPHREY. The 1953 deficit was $9.4 billion.

Senator KERR. I asked you to start with June 30, 1954.

Secretary HUMPHREY. That is correct. That is for the 1953 budget. The 1954 budget had an estimated deficit of 9.9, and was actually 3.1.

Senator KERR. The 3.1 deficit was for the year ending June 30—when?

Secretary HUMPHREY. 1954.

Senator KERR. That was 3.1?

Secretary HUMPHREY. That is correct. That was reduced from 9.9 estimated—and that is the estimate we had when we got there.

Senator KERR. Does the Treasury pay off on actualities or estimates?

Secretary HUMPHREY. Well, I will put it this way, so there will be no misunderstanding about it:

The 9.9 was the deficit planned by the Truman administration.

Senator KERR. Was it planned, or was it their estimate?

Secretary HUMPHREY. It was planned, and that was the Truman budget that was prepared and presented to the Congress and the Congress had in January of 1953.

Senator KERR. Then what was the deficit on June 30, 1953?

Secretary HUMPHREY. 9.4.

Senator KERR. What was the deficit on June 30, 1952?

Secretary HUMPHREY. $4 billion.

Senator KERR. What was it on June 30, 1951?

Secretary HUMPHREY. Plus three and a half billion dollars?

Senator KERR. What was it on June 30, 1950?

Secretary HUMPHREY. Minus three billion, one.

Senator KERR. What was it on June 30, 1949?

Secretary HUMPHREY. Minus 1.8.

Senator KERR. On June 30, 1948?

Secretary HUMPHREY. That is the time right after the war when the expenses were reduced very rapidly and the taxes weren't, and that was a plus $8.4 billion.

Senator KERR. What was it on June 30, 1947?

Secretary HUMPHREY. 800 million. That is practically even.

Senator KERR. What was that? Plus?

Secretary HUMPHREY. Yes.

Senator KERR. Plus 800 million?

Secretary HUMPHREY. Wait just a minute. Ask me the next year.

Senator KERR. Mr. Secretary, if you do not mind, I will ask my own questions. If you want to make a speech on it, that is your privilege. I won't try to stop you.

Senator MILLIKIN. Mr. Chairman, the witness should be permitted to put in his explanation.

(Secretary Humphrey later supplied the following figures to be included in the record:)

Deficit for year ending June 30, 1946 was $20.700 million.
Deficit for year ending June 30, 1945 was $53.900 million.

Secretary HUMPHREY. The next one in the table is minus $51 billion.

Senator KERR. Was that the last year of the war?

Secretary HUMPHREY. 1944.

Senator KERR. Is 1944 the year before 1947?

Secretary HUMPHREY. No.

Senator KERR. The last figure you gave me was for June 30, 1947, wasn't it?

Secretary HUMPHREY. This sheet bunches it right here. That is the trouble.

Senator KERR. The sheet messes it up?

Secretary HUMPHREY. The sheet puts it together.

Senator KERR. You asked me to let you put in the figure for the year before 1947.

Secretary HUMPHREY. The year 1944 is the year that is on the sheet. It is as illustrative as the others. That was a war year when we were running huge deficits in the war. The first 2 years you refer to were the immediate postwar years when the military expenditures were greatly reduced, and the taxes were not reduced.

Senator KERR. Regardless of what they were, I am asking you to give me the overall figure for the 6 years ending June 30, 1952.

Secretary HUMPHREY. I just gave you that.

Senator KERR. Would you mind adding that up for me, the pluses and minuses?

Secretary HUMPHREY. Do you want 1955 in or out?

Senator KERR. I want the 6 years ending June 30, 1952.

Secretary HUMPHREY. You want to leave out the 9 billion deficit?

Senator KERR. I want the 6 years ending June, 1952, that you called "the years of heavy deficit spending," before you came into office.

Secretary HUMPHREY. You have to put in the 9.4.

Senator KERR. I don't have to. You can put it in.

Secretary HUMPHREY. Let me give you exactly what you want. Do you want 1947?

Senator KERR. Yes; 1947, 1948, 1949, 1950, 1951, and 1952.

Secretary HUMPHREY. The net total is plus 3.8. Now put in the last year. That belongs in. That is minus 9.4.

Senator KERR. That last year, you may put in, if you want, but, as I recall, you boys were in office half that time.

Secretary HUMPHREY. But you cannot change spending in a half year. That spending was all committed. Those bills were all committed, and we paid the bills, and that gave us a minus 5.6 for the period.

Senator KERR. That gives you a minus 5——

Secretary HUMPHREY. Minus 5.6 for the period.

Senator KERR. And a plus 3.8 for the 6 years ending June 30, 1952?

Secretary HUMPHREY. That is right.

Senator KERR. Would you say that that was heavy deficit spending?

Secretary HUMPHREY. I think 9.4 is pretty heavy deficit spending.

Senator KERR. Do you think a net of plus 3.8 for a 6-year period is heavy deficit spending?

Secretary HUMPHREY. I think, Senator, whenever you have these periods—I think we will have it again some day, and I have often said, myself, when people have asked me, "When are you going to start to reduce the debt?" I have said, "I don't think we ought to start reducing the debt when we have these very heavy expenditures for security."

When you strike a period immediately following the war, as we did, when you have a rapid disarmament, when you have a period where your security forces are declining very rapidly, your expenditures under those circumstances will decline more rapidly than your tax take. That is exactly what happened in two of these years.

Senator KERR. We moved out of World War II into an interim period, and then into the Korean war, didn't we?

Secretary HUMPHREY. These, prior to the Korean war.

Senator KERR. June 30, 1952, is prior to the Korean war?

Secretary HUMPHREY. That is what your money was spent—the planned expenditures were prior to the Korean war; yes, sir. You do not have your money spent on any other basis than on plans a year or so ahead, and you cannot change in the middle of a year.

Senator KERR. We were spending, then, for the Korean war before it happened?

Secretary HUMPHREY. No, sir. You were reducing expenditures very rapidly before the Korean war.

Senator KERR. Maybe too fast, don't you think?

Secretary HUMPHREY. I don't know that. But it brought the rapid reductions in expenditures.

Senator KERR. I see another statement about the investment of money in tools, plants, and equipment, which makes jobs having been stimulated.

Secretary HUMPHREY. That is right.

Senator KERR. Isn't it a fact for the first quarter of 1955 the lowest expenditures for new plant and equipment since the third quarter of 1952 is in effect, and isn't it a fact that the expenditures for plants, tools and equipment have been for some time going down, and going down now?

Secretary HUMPHREY. That is right. It would have gone down a whole lot faster except for this action because we are going from a war to a peacetime economy, because your Federal expenditures are being reduced.

Senator KERR. If you stimulated them, and while you have been stimulating them, they have been on a decreasing basis in spite of the stimulus——

Secretary HUMPHREY. That is right, they should be.

Senator KERR. I am not arguing about that. I want to clear this up. Ordinarily, reading this, saying that the investment of money in tools, plant and equipment which makes jobs, has been stimulated——

Secretary HUMPHREY. That is right.

Senator KERR (continuing). One might arrive at the conclusion that these expenditures were on the increase.

Secretary HUMPHREY. Well, if they did, they would be in error, and they wouldn't know what the total facts were, because we have been going from a very high Government spending level to a lower Government spending level. When you go from a high Government spending level to a lower Government spending level, you put people out of work, people working for the Government. The only way the Government can reduce expenditures is to put people out of work, for the great bulk of the saving that is made in Government expenditures.

Senator KERR. I am not arguing that.

Secretary HUMPHREY. Just a minute. You asked a question, and I want to answer it.

Senator KERR. I want the meaning of this sentence.

Secretary HUMPHREY. I will give it to you.

When those people are put out of work, working either directly for the Government or working for people who are selling goods to the Government, so that Government expenditures can come down, they will be out of work unless jobs are made for them. You have to stimulate the other part of the economy, the civilian end of the economy, in order to make jobs for those people, and that is what we have been doing, and those people, as demonstrated today are working. Some of your colleagues a year and a few months ago were howling calamity around here. They were saying that we were going to be in a great depression. It did not occur because of the transfer of people working from the Government to working for industry, and the stimulation of jobs which made it possible for them to go to work.

Senator KERR. I would ask you to insert the quotes from me and my colleagues that we were going into a depression.

Secretary HUMPHREY. I will be glad to have that done.

Senator KERR. Can you give me the name of a single Democrat who said we were going into a depression?

Secretary HUMPHREY. Senator Douglas said it a number of times.

Senator KERR. Didn't he say we were in a recession and he didn't want us to get into a depression?

Secretary HUMPHREY. He said he didn't want us to go into a depression, but he said that was where we were headed.

Senator KERR. You are going to insert those quotes in the record?

Secretary HUMPHREY. I will be glad to.

(The matter referred to is as follows:)

THE SECRETARY OF THE TREASURY

WASHINGTON

Hon. HARRY F. BYRD,
*Chairman, Senate Finance Committee,*
*Senate Office Building, Washington, D. C.*

MY DEAR MR. CHAIRMAN: During the hearing on Monday it was suggested that I should provide quotations to support my assertion that some Democrats had suggested we might be heading for a depression.

I feel that Senator Douglas' letter to the President of February 19 contains some such statements (extracts are attached). The assertion that "to prevent the recession from deepening into a depression" and "a look at the present economic situation indicates, in my judgment, that the time for action is here" would seem to me to indicate a fear that we were heading into a depression. This fear is supported by Senator Douglas' suggestion in the same letter urging the President to advocate immediate increases of $200 in personal exemptions as a solution to the problem. You will recall that exemptions were not increased and that a depression did not occur.

In a story in the Detroit Free Press on November 9, 1953 (excerpts from which are attached) Senator Douglas is quoted as saying "in the last 5 or 6 weeks the industrial slump has been gaining momentum." In a story in the Detroit News on November 9 (excerpts from which are attached) Senator Douglas was quoted as saying he had seen signs of a "growing industrial recession" especially in the automobile and farm equipment fields.

These are among the items which are immediately available on the subject.

Sincerely yours,

G. M. HUMPHREY,
*Secretary of the Treasury.*

Attachments.

EXTRACTS FROM LETTER TO THE PRESIDENT FROM SENATOR DOUGLAS, FEBRUARY 19, 1954, AS PRINTED IN THE CONGRESSIONAL RECORD, MARCH 8, 1954, PAGE A1786

DEAR MR. PRESIDENT: The purpose of this letter is to urge you to reconsider your tax proposals in the light of later clarifications in the economic picture. * * *

A look at the present economic situation indicates, in my judgment, that the time for action is here. At least we should take some initial effective steps to counteract the downward trend. * * *

To prevent the recession from deepening into a depression, it is, therefore, far better to stimulate consumption than it is savings. * * *

Therefore, I sincerely hope that you will see fit to advocate immediate increases of $200 in personal exemptions on individual income taxes and selective decreases in the excise taxes. * * *

Faithfully,

PAUL H. DOUGLAS.

[Detroit Free Press, November 9, 1953]

AUTO SLUMP DUE, DOUGLAS ASSERTS

(By Miller M. Hollingsworth, staff writer)

The breakdown in farm prices has started an industrial recession which will soon strike Detroit in full force, Senator Paul Douglas said here Sunday night. * * *

"In the last 5 or 6 weeks the industrial slump has been gaining momentum," said Douglas in a TV interview and a press conference. He appeared on the television program, Meet the UAW-CIO.

The Senator said he was alarmed over the situation in the farm-equipment manufacturing plants brought on by the slumping agriculture and cattle prices.

* * * * * * *

He expressed alarm over the immediate future of automobile production in the face of slackening demand, particularly in the agricultural areas.

"I have seen dealer after dealer not only with their floors crowded with cars they couldn't sell, but also with new automobiles on their lots," said the Senator. "They just can't sell them."

* * * * * * *

"I don't want to spread alarm, but I'm afraid Detroit is headed for a mighty rough time."

[Detroit News, November 9, 1953]

PERIL SEEN BY DOUGLAS IN TAX CUT

Congress can reduce taxes next year only if the Nation is willing to jeopardize its security, Senator Douglas told a Detroit audience last night.

He also said that in the last 6 weeks he had seen signs of a "growing industrial recession" especially in the automobile and farm equipment fields.

Douglas spoke before the Men's Club of Beth Aaron Synagogue.

Senator KERR. The last paragraph on page 2 states this:

This proposed tax is entirely unjustified by firm evidence at this time. If it is paid out of borrowed money requiring additional deficit financing, which is all that is in sight at this moment, it can start us right back on the reckless road of inflation, with all its cruel thievery.

Assuming that this statement is correct, that this tax cut would be taken out of borrowed money, I would like for you to explain to me the difference of having this tax cut, out of borrowed money, and the tax cut a year ago of the exemption of dividends, out of borrowed money, as to which one is more cruel and which one is more thievery, if either.

Secretary HUMPHREY. Just to get the record perfectly straight on that, the dividend reduction that has been so widely talked about involved about 360 million, and this involves about $2,300 million. That is a matter of amount, but not to your point.

I just wanted to put that in so we all understood what we were talking about. That was all.

The difference is just this, Senator: We started with $9.4 billion as a deficit in 1953. We reduced our expenditures in 1954 $10 billion, over programed expenditures, and our actual expenditures over $6.5 billion in 1954.

That reduction of $6 billion we recommended—and you brought out the point a minute ago yourself—a $6,400 million tax cut, which was almost exactly the amount of money we had reduced our expenditures—not going to reduce them, but actually reduced them.

We reduced them $6.5 billion. We recommended a $6,400 million tax cut. It got to be 7,400 million because the Congress added an extra billion dollars. We recommended, almost to the dollar, that we reduce the taxes by the amount of money we have saved. I think that is the proper way of doing it.

Senator KERR. Just a moment.

Secretary HUMPHREY. By so doing, we made this transition from unemployment caused by Government conduct to employment caused by general public conduct.

Senator KERR. Haven't you told me that you are making a greater reduction in expenditures this year than you did a year ago?

Secretary HUMPHREY. No, I have not.

Senator KERR. Didn't you tell me that the defense expenditures ending June 30, 1954, were $46,500,000,000?

Secretary HUMPHREY. That is right.

Senator KERR. And that for the fiscal year ending June 30, this year, there will be $40,600,000,000?

Secretary HUMPHREY. We haven't realized them yet. That is where we are heading.

Senator KERR. Isn't that a reduction of about $6 billion?

Secretary HUMPHREY. That is right.

It is that anticipation that we took into account in making these previous adjustments.

Senator KERR. If a year ago it was all right to let tax cuts, most of which had been provided by a previous Democratic Congress, go into effect to the extent you were going to reduce expenditures, what is wrong with letting a third or your expected reduction in expenditures go into effect now?

Secretary HUMPHREY. Senator, you are just a year behind. Those were the reductions that we were taking into account in connection with the tax reduction which would be coincident in the year ahead, in this year we are now talking about. Our estimate in 1955 is 40.6. Our estimate for 1956 is 40.5 billion.

Senator KERR. Your actual what?

Secretary HUMPHREY. Our estimate for 1955, that is the year we are in right now, that is 40.6.

Senator KERR. That is your estimate?

Secretary HUMPHREY. That is right. The estimate we are talking about for the year ahead is 40.5, no further reduction to speak of. I hope we will be able to make one, but we haven't been able to estimate one.

Going on right down the hall is a hearing that is objecting to some of the reductions that are in this estimate. So I am not even sure we can make this estimate.

Senator KERR. Last year tax reductions went into effect by action of the Congress?

Secretary HUMPHREY. That is correct.

Senator KERR. Some of which you agreed with, and some of which you disagreed with?

Secretary HUMPHREY. Most of which we agreed with.

Senator KERR. Still, there was a deficit at the end of the fiscal year?

Secretary HUMPHREY. But the deficit we are talking about now is not the deficit for that year, it is the deficit for this year. This moves a year ahead, not a year behind.

Senator KERR. There was a deficit in that year in spite of those tax reductions?

Secretary HUMPHREY. The tax reductions didn't take effect in the year before. They will have to do with the coming deficit, not the past deficit.

Senator KERR. Then there is going to be a deficit this year, isn't there?

Secretary HUMPHREY. That is correct.

Senator KERR. Then the reductions that you did recommend or concur with are paid for in part by a deficit, whether it is last year's deficit or this year's deficit?

Secretary HUMPHREY. Not an increasing deficit. It would have been the same deficit on the trend downward.

Senator KERR. If it is paid for out of a deficit——

Secretary HUMPHREY. On the trend downward; yes, sir.

Senator KERR. It is paid for out of a deficit, isn't it?

Secretary HUMPHREY. That is right.

Senator KERR. I want you to tell me what makes a reduction of $20 for each individual taxpayer and each dependent cruel thievery.

Secretary HUMPHREY. That is right.

Senator KERR. And what makes a reduction of taxes on dividends statesmanship justified, when both of them will be paid out of a deficit?

Secretary HUMPHREY. One is paid out of a deficit in a declining trend, and the other is creating an increasing deficit. That is the difference.

Senator KERR. That reduction of 300 million—was that the estimate you gave us last year?

Secretary HUMPHREY. That was estimated on a declining trend.

Senator KERR. What was the estimate that you gave us last year that that would cost?

Secretary HUMPHREY. Three-hundred-some-odd-million dollars. It was about three-hundred-some-odd-million dollars.

Senator KERR. 362 was the estimate you gave us?

Secretary HUMPHREY. Something of that kind.

Senator KERR. What is it that makes that less cruel thievery when you have to pay it out of the deficit than this other amount that has to be paid out of the deficit?

Secretary HUMPHREY. Because of the effect on the inflationary pressures, and if it is a declining deficit you are making headway against inflationary pressures; if you increase your deficit, you are going in the wrong direction and headed right back toward inflation. That, exactly, is the difference between the two. That is why one is right and the other is wrong.

Senator KERR. I greatly appreciate that answer. I know you gave us the best of your judgment, and in spite of the fact that we don't entirely agree, I appreciate it.

Secretary HUMPHREY. Thank you very much.

The CHAIRMAN. Senator George, do you have any questions?

Senator GEORGE. No. I just came in. I haven't had an opportunity to read his statement.

The CHAIRMAN. Senator Millikin?

Senator MILLIKIN. Mr. Secretary, what have been the total deficits since 1933?

Secretary HUMPHREY. I didn't hear.

Senator MILLIKIN. What have been the total deficits since 1933?

Secretary HUMPHREY. A very large amount of money.

Senator MILLIKIN. Roughly, it is represented by the national debt, isn't it?

Secretary HUMPHREY. That is about it.

Senator MILLIKIN. What is the present national debt?

Secretary HUMPHREY. Over 275 billion.

The CHAIRMAN. The national debt was about 16 billion in 1932?

Secretary HUMPHREY. I think that is true, Senator. It went from there to two-hundred-and-eighty-odd at its peak.

Senator MILLIKIN. What has the administration contributed to that debt?

Secretary HUMPHREY. Our total deficits have been, since we have been in here, and again you have to decide whether you want to count in the 6 months of the deficit that we inherited when we first came in, or whether you want just to count in the 2 that we are responsible for——

Senator MILLIKIN. You can count it in or take it out.

Secretary HUMPHREY. The two we are responsible for fully are $7.6 billion. The one we inherited was $9.4 billion.

Senator MILLIKIN. What was the estimated deficit by the other administration, assuming that it had continued in office?

Secretary HUMPHREY. $9.9 billion. For the 2 years it would have been about $20 billion.

Senator MILLIKIN. And as contrasted with about 7½.

Thank you very much.

The CHAIRMAN. Senator Frear?

Senator GEORGE. May I ask one question, Mr. Secretary?

Secretary HUMPHREY. Yes, Senator.

Senator GEORGE. In estimating the deficits for this current year, you did figure the renewal of the 52 percent rate and the excises that would go out on April 1?

Secretary HUMPHREY. That is right; we did.

Senator GEORGE. So that if those were not continued, it would naturally increase your estimated deficit?

Secretary HUMPHREY. That is correct.

The CHAIRMAN. Senator Frear?

Senator FREAR. Mr. Secretary, what was the cash deficit from 1946 to 1952?

Secretary HUMPHREY. If you will wait a second——

Senator FREAR. I believe it is already in the record.

Secretary HUMPHREY. I believe we put it in. Let me just understand this.

You said the cash deficit?

Senator FREAR. Yes.

Secretary HUMPHREY. What we gave Senator Kerr was the administrative deficit. The cash deficit, as you know, is approximately $3 billion, somewhere around that, either one side or the other, a year different than the administrative deficit, being that much less because of the fact that the money comes from the trust-fund collections.

Senator FREAR. The only thing I am trying to get is the cash deficit from 1946 to date, by years, cash deficit.

Secretary HUMPHREY. You mean cash or administrative?

Senator FREAR. Cash.

Secretary HUMPHREY. Those figures are not in the record. We do not have them here, but I will get them and give them to you.

Senator FREAR. Fine. I would appreciate that very much.

(The figures requested follow:)

*Federal Government receipts from and payments to the public*

[In billions of dollars]

| Fiscal years | Receipts from the public | Payments to the public | Excess of receipts from (+) or payments to (−) the public |
|---|---|---|---|
| 1946 | $43.5 | $61.7 | −$18.2 |
| 1947 | 43.5 | 36.9 | +6.6 |
| 1948 | 45.4 | 36.5 | +8.9 |
| 1949 | 41.6 | 40.6 | +1.0 |
| 1950 | 40.9 | 43.2 | −2.2 |
| 1951 | 53.4 | 45.8 | +7.6 |
| 1952 | 68.0 | 68.0 | (1) |
| 1953 | 71.5 | 76.8 | −5.3 |
| 1954 | 71.6 | 71.9 | −.2 |
| 1955 [2] | 66.6 | 69.0 | −2.4 |
| 1956 [2] | 68.8 | 68.2 | +.6 |

[1] Less than $50 million.
[2] Estimated.

Senator FREAR. From a statement you made a while ago, you said you inherited a nine point something billion dollars deficit.

Secretary HUMPHREY. That is right.

Senator FREAR. In the 2 years, was that $7.4 billion in that time?

Secretary HUMPHREY. This was the 2 subsequent years, $7.6.

Senator FREAR. Those are the 2 fiscal years subsequent?

Secretary HUMPHREY. Yes. That is not cash, that is administrative. The cash in those 2 years would be approximately 2½.

Senator FREAR. Yes. But these figures will differentiate that or give us the cash?

Secretary HUMPHREY. That is correct.

Senator FREAR. Thank you, sir.

The CHAIRMAN. Senator Martin?

Senator MARTIN. Mr. Secretary, the questions I contemplate asking you are the result of my feeling that you are probably in a better position, both from your official standpoint and your past business experience, to answer the questions. Deficit financing is probably the greatest incentive to inflation that confronts us.

Secretary HUMPHREY. I think that is the single most important thing. If you were to pick out one thing and say what is most important, that would be it.

Senator MARTIN. Would you object to telling this committee why you feel that that is true?

Secretary HUMPHREY. Well, what happens is just this, Senator: When you run deficit financing, that means you are simply borrowing from future generations to pay for your current bills. What that means, just flatly speaking is this: We would be borrowing money from future taxpayers to pay the bills that these taxpayers ought to be paying themselves, the current taxpayers. That is what this particular bill would mean. The future taxpayers not only will have to pay the money that these taxpayers get to which they are not entitled, but they will have to pay interest on that money and repay the principal besides, when the time comes that they have to pay it. In the meantime, this Government has to borrow that money from somebody.

A large part of our deficit, as you know, is short-term debt sold to banks. For a long period of time it had to be that because we couldn't sell enough long term. As a matter of fact, it still has to be that to a large extent, because we cannot borrow enough long term. That means that that short-term debt goes into the bank, increasing bank credit and the money supply, and in a relatively short time, if it is a continued program and if it continues to move on up, what it really means is that it is almost equivalent to printing money.

Senator MILLIKIN. It increases their credit base?

Secretary HUMPHREY. That is right. That depreciates the value of the money, which is another way of saying that the cost of living goes up. Money gets cheap and goods get high priced, and that is exactly what happened in this country from the 1930's up until about 2 years ago, and our dollar dropped in half, which was another way of saying that the cost of living went up 100 percent.

As it happens, as the cost of living goes up, it depreciates not only the value of current earnings, unless you spend your money immediately as you get it, but it destroys by whatever percentage it is, by half, the value of savings that were accumulated during that time. A man who saved a hundred dollars in the early thirties, when he came to spend it today, could only buy $50 worth of goods, so he had lost half of it.

This country is based on thrift. The success of this country is based on thrift. Those people who saved their money and put their money aside,, particularly those little fellows who put it into insurance, put it into pensions, put it into annuities, and the kind of things they could retire on or live on or educate their children on, all those little things that the little man was trying to do for his loved ones and for himself in his old age and in time of disaster and sickness, that money was stolen from them by inflation.

I don't think this country ought to do it. I think we ought to stand firm against it, and the fellow who needs that protection the most is the little fellow who cannot afford it.

Senator MARTIN. Mr. Chairman, the Secretary has very well answered my second question, but I want to propound it any way.

Isn't it true that the little fellow with the fixed salary, the man or woman with a fixed income from an annuity or an investment, the man who works at daily wages, is the man who is injured by inflation to a greater extent than what we call the rich man of our country?

Secretary HUMPHREY. Very much more. He needs the protection. He is less able to look after himself and protect himself in cases of that kind.

Senator MARTIN. Isn't inflation an excellent period for a man of means to even become richer at the expense of the little fellow that we have been talking about this morning?

Secretary HUMPHREY. Well, under certain circumstances, that is true, although generally speaking, except for a comparatively few circumstances, very few people who take advantage of this here and there, inflation destroys almost everyone in the country and almost all values.

Look at the many countries where this has happened, where inflation has gotten away from them. And always keep in mind, Senator, that inflation starts slowly and gains in geometric projection. As it gains, it gains faster and faster. The pressures are greater and greater. It is more difficult to stop. As that occurs, it nearly destroys, eventually destroys, a great deal of the wealth of the country, and then everybody loses.

Senator MARTIN. Mr. Chairman, I think it is most unfortunate that all the 165 million people of America haven't had the opportunity of hearing this very fine statement by the very able Secretary of the Treasury. Thank you very much.

Senator MILLIKIN. Mr. Chairman, may I ask a question?

Doesn't the rich man get to the catastrophic point where everything breaks up with greater ability to protect himself in a measure, at least, by the purchase of equities which reflect inflation?

Secretary HUMPHREY. He can do it better, Senator, than the little man because he can move into equities. He can move into real estate, and move into various things that he can keep trading and shifting. A very astute trader can protect himself much better than a man who is not in a trading position up to the point where you get the widespread destruction.

The CHAIRMAN. I think, Senator Martin, you have brought out a very important point. If anyone has a doubt as to the inflationary effect of deficit spending on the value of the dollar, I suggest the Library of Congress can compile figures showing the declining purchase value of the dollar since 1939. It would show in those years of heavy deficit spending the dollar went down as much as 10 cents in 1 year—1945.

Secretary HUMPHREY. That is about right.

The CHAIRMAN. In another year it went down 9 cents, and between 1940 and 1952 the purchasing power of the dollar went from 100 cents to 52 cents, in close ratio to the deficit spending.

Secretary HUMPHREY. I don't think, Mr. Senator, if I can volunteer this, that people realize what a tremendous debt we have in relation to our assets and in relation to our investing power and the amount of money that is available for investment in this country.

As you gentlemen know, we have been trying to extend this debt, to get away from some of the shorter maturities and to move in that direction, because, as you all know, if this country were a business enterprise, we would be broke.

Senator MARTIN. Yes; that is true.

Secretary HUMPHREY. We would be broke. We couldn't meet our maturities if we were a business enterprise. Governments can be somewhat different than individuals for a while, but after all, this

Government is nothing but 160 million individuals, and what is good financing for the individual sooner or later, except for the avoidance of pressures temporarily, sooner or later exactly the same things prevail with respect to Government finances that apply to your own home, to your own business, to yourself, because that is all the Government is, the great mass of all of the people.

When this thing gets away, and we continue to let our currency depreciate, we will run into failure to get the jobs, failure to get the expansion, failure to get the work, failure to maintain the opportunities for people to obtain a living in this country, which would be absolutely disastrous, and we must point out that inflation, which has gone already halfway, must not be permitted to go the other half, because the other half will be a lot faster than the first half if it ever gets started again.

The CHAIRMAN. I would like to take the liberty to insert at this point, when I get the figures, an itemized statement showing the decline of the purchasing power of the dollar from 1939 to 1952. It seems to me it is a matter that we should take full consideration of, that during that period of deficit spending the American dollar went from 100 to 52 percent. (See p. 53.)

Secretary HUMPHREY. Just to follow it up, Senator, in the past 2 years or better, it has changed less than one-half of 1 percent.

Senator BENNETT. Mr. Chairman, since an earlier discussion pinpointed the period from 1947 to 1952, I wonder if we could have in the record a summary which would pinpoint the loss in the value of the dollar over that same period, specifically.

The CHAIRMAN. These figures, compiled for the chairman by the Library of Congress, show deficits and declining value of the dollar by years, 1939–52.

Senator BENNETT. We had a discussion in which the losses and the gains in those 5, 6 years—those 6 years—were balanced, and the Secretary was questioned about it. I think it might be interesting to take the same period and find the total loss in purchasing power, and set that over as a balance against the deficit situation in the period.

The CHAIRMAN. I say to the Senator from Utah, these figures may be examined in that respect.

Senator KERR. I will be glad to have that done, but when you do, you are going to refute what the Secretary has said.

Senator MALONE. I would like to ask the Secretary—I followed very closely what he has been saying about inflation and deficit spending. I take it you do not concur with the Lord Keynes theory, sold to this country along about that period, that the more you owe the richer you are?

Secretary HUMPHREY. I certainly do not. I think that is just a lot of hooey.

Senator MALONE. Some of us thought so then, but we were overpowered.

Secretary HUMPHREY. Too bad, Senator, you didn't prevail.

The CHAIRMAN. Senator Long?

Senator LONG. Would you care to make a statement prior to my questioning?

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Secretary HUMPHREY. I wanted to finish on this question to just point this out: On these relative figures, in trying to extend our debt, we have been seeking an opportunity, when we could, to sell long-term securities to investors without upsetting the economy and without taking money away from business and school districts and municipalities and local governments and all of the things that require financing. We made an effort here just a few weeks ago. We had what we thought was an opportune time in which to try to sell some long-term issues to investors. We had a maturing issue which had been a long-term issue, 20 years at 2⅞, with partial tax-exemption, and we gave investors the opportunity to exchange that for a 40-year 3-percent bond to push it on out. We thought we had an extremely successful exchange, and we got just a trifle less than 2 billion out of the two billion six that was maturing. I thought that was extremely successful. We were advised that if we got a billion and a half, it would be doing very well. We worked diligently and we got almost 2 billion of it extended, invested into these 40-year bonds.

That simply illustrates, when we talk about these huge billions of dollars, that you are talking about things that just do not exist in the investment field, that the money that the people can save in a year and that they have available for investment in a year is in the order of $20 billion, or something of that kind for all purposes, State and local governments, schools, Federal Government, business and everything combined.

That means that we just have to be extremely careful about the extension and the increase in this debt, and the only way you can limit the increase and hold down the increase in the debt, is by spending less than we take in.

If you look at the bills pending in Congress today, if you look at the requests of the people today, the bills that are pending, the Hill bill on the schools, the wage bills that are pending, the present Gore bill on the roads, and add those figures on the expenditures——

The CHAIRMAN. What about the Clay bill? That will spend more money than all of them combined.

Secretary HUMPHREY. Yes, but if it is financed as an earning asset, Senator, we have a chance.

The CHAIRMAN. An earning asset? It doesn't take in a dollar. We will discuss that at a future time.

Senator KERR. I would like to have him tell us the deficit that we would have under the Clay bill as compared to the Gore bill, since he brought it up.

Secretary HUMPHREY. I will be gald to get into that. If we run these big deficits in this country, we can get into a lot of trouble, and we can get into a lot of serious difficulty.

Senator MARTIN. On this matter of roads, I think either the public roads were financed—I had the opportunity of hearing the section on this Clay plan of imposing a 4 cent additional gasoline tax. And I don't know whether it ought to come before Finance or Public Works, but it is really one of the most serious things confronting us, and it is disturbing us very much, and I think we ought to have the opportunity of hearing the Secretary either before Public Works or Finance, I don't know which is the proper place. I apologize for bringing it up.

The CHAIRMAN. Perhaps both committees should consider the proposal.

Senator MILLIKIN. Not in connection with this bill.

Senator MARTIN. I apologize for bringing it up.

The CHAIRMAN. Senator Long?

Senator LONG. Mr. Secretary, I am reluctant to accept any responsibility for the governmental difficulties in 1933, because I was then in high school and wasn't consulted. I came here at the end of 1948. It seems to me that the important thing in this whole problem is not whether the Truman or Roosevelt administration made mistakes—that doesn't justify the Eisenhower administration for any mistakes it may make, and vice versa—the important thing is whether this type of reduction would be good for the country.

Secretary HUMPHREY. I think that is what we are talking about.

Senator LONG. With the possible exception of the chairman here, I don't know of anyone who more consistently has tried to help this administration reduce expenditures up to this point. I believe I have supported practically every reduction the administration has made. I have made speeches for some of them, and offered others myself. I believe they would have spent a little bit less if my views had prevailed.

Now, you have made a lot of reductions toward obtaining a balanced budget, and the important thing to some of us is to see whether or not at the present time we need this type of tax relief to provide more purchasing power on behalf of those who might be buying these enormous quantities of consumer goods that are being produced. Do you feel that we at the present time have too much purchasing power for that, or do you feel that there is more purchasing power needed as far as just the average consumer is concerned?

Secretary HUMPHREY. No, I think, Senator, if you will look at the figures you will see last year people had the highest income after taxes that they have ever had in this country, and that last year you had the highest consumer spending that the country has ever seen. And it was higher in January than it was last year, and it looks as though that consumer spending is going right on up, is going to continue right along.

Senator LONG. Of course, we have had the problem that the farmer hasn't been able to sell his commodities, we have large surpluses of those piling up. We are producing automobiles now at the rate of about 8.5 million a year. Do you believe that we can sustain that rate of production with the amount of purchasing power that is available in the Nation today?

Secretary HUMPHREY. Senator, I have been one of the ones that are skeptical about the rate that we are producing automobiles. Up to date the people in the automobile business point out to us that their sales are keeping up with their production and that it is all moving right along.

Now, whether we are selling the July customer in January, I don't know, but I do know that the statistics all show that the sales are moving properly ahead of production, and have been, and are right up to this week still moving in that direction.

Senator LONG. Insofar as consumer spending is concerned, would you agree with my thesis that generally speaking, if you have a major increase in income for a person in the upper income brackets, he is not likely to go in for a vast amount of additional consumer spending, while the same amount of tax relief in the lower income brackets would result in a substantial increase in consumer spending?

Secretary HUMPHREY. I think that is probably true. On the other hand, one of the things that we have to have in this country if we are going to have jobs in America is investments in tools and plants for people to work with. And we have in this country going on now a perfectly phenomenal thing. We have millions of Americans who don't know it, but they are actually investing a part of their money every week in the purchase of the tools and the power and the machinery and the things that they themselves are going to use to work with. What I mean is just this: There are many Americans in this country today who are participants in various pension plans, savings arrangements, and in the purchase of insurance policies. And they are authorizing the deductions, or taking out themselves, so much a week from their pay and putting it into insurance policies or into savings plans or pension plans of some kind. Those small amounts per week that the great mass of Americans are taking out and laying aside and putting into these plans is being funneled into these plans, which in turn are becoming the largest investors in this country.

Those investments are going for the benefit of those people, for the little folks, the little folks who save so much a week for their insurance and their pensions, that money is going back into business, to purchase equipment, to purchase new plants, to purchase new tools and to give more power in order for those very people to work better and make more goods.

Now, it is a most interesting thing that is going on. And that, in connection with the savings of people who have sufficient income to make some savings other than just their current expenditures, is what is going to make and what has got to make the increasing number of jobs we have got to have in this country. We can't just go along with the same number of jobs, we have got to have more jobs, and they have got to be made currently, all the time.

Senator LONG. Wouldn't you say that insofar as it is to the national interest to make investments more attractive, that this administration has gone a long way in that direction, because at the present time the stock market is at an alltime high? Wouldn't it now appear that insofar as our tax laws are concerned, we should take the emphasis off of trying to make investments more attractive and think in terms of other things, such as, perhaps, expanding consumer purchases?

Secretary HUMPHREY. I think the thing our tax policy should take into account today is our fiscal position. And I think that we should not consider spending any tax money until we know where it is coming from. Now, when we know where the money is coming from, when we can see it in sight, then I am for further tax reductions, and I think they should be made. But I do not think that there should be further tax reductions until we know what we are going to pay it out of aside from borrowed money.

Senator LONG. Should I take it from what you have said that you feel that there is nothing more important than a balanced budget at this time?

Secretary HUMPHREY. No, but I think we have passed the buck to our children and grandchildren and future generations for what we are enjoying today just as far as we want to go.

Senator LONG. With regard to these tax reductions that have occurred, I was the one that argued last year for this type of relief, when we had this $3 billion in individual income taxes. We also had another tax that automatically went up. Some of us weren't noticing that at that time. A man with a family and wife and two children making $3,500 a year, received his 10 percent reduction in income taxes or $16.50, but on the same day his social security tax went up $17, so he was actually paying about 50 cents each year more.

Secretary HUMPHREY. He was paying something for the future. Would you say that because a man took part of his income and bought some stock in the stock market that that should be deducted as something he doesn't get any benefit from?

Senator LONG. I wouldn't say that, but I was thinking of the overall effect. And as far as that part of the public was concerned, the purchasing power was not increased.

Secretary HUMPHREY. But the purchasing power for the whole Nation is the highest it has ever been right now.

Senator LONG. And you feel that there should be no type of tax reduction that might expand the purchasing power?

Secretary HUMPHREY. Not until you know where the money is coming from; no.

Senator LONG. Now, by contrast, there are others in the field who have a different opinion. And without subscribing to it, I believe that is worth noting. I saw by the New York Times of yesterday that a committee that terms itself—headed by Leon Keyserling, he was formerly one of the President's economic advisers contended that if we had tax relief of about twice the amount proposed here that it would be a major factor in increasing the production of this Nation by $30 billion. Do you believe that there might be some merit to the type of tax relief that would increase production and expand jobs? He contended that you would have about 2½ million people more at jobs by the end of the year if you took that direction in tax relief.

Secretary HUMPHREY. I believe that Mr. Keyserling is just 100 percent wrong. I am exactly opposite in feeling with Mr. Keyserling. And I think that if we did that we would cheapen our dollar and lose all that we have gained many times over.

Senator LONG. Do you think that he is wrong insofar as employment problems are concerned?

Secretary HUMPHREY. Yes; I do.

Senator LONG. You believe that it would not contribute to more jobs and more employment?

Secretary HUMPHREY. I think it would not, I think it would not because I think it would destroy confidence, and the people would see where we were heading with an unsound currency, and we would be right on the road that these other countries—that is exactly the same kind of talk that broke China, that broke France, that broke Germany before they had their currency reform. That is just that kind of talk that has gotten almost everybody else in the world in trouble.

Senator LONG. Mr. Secretary, the thing that is troubling me is that we had $3 billion of income-tax relief, less than half the people had any more money after taxes than they had before because of increasing social-security tax, although a person in the upper income-tax brackets, yet a family man making $50,000 was saving about $2,000 net. We had a reduction in excess-profits tax. We had this tax revision bill for reducing taxes on dividends, granting accelerated depreciation, and things of that sort. So far as the average person is concerned, he has not felt much benefit that he can see tangibly.

Now, it might be that there is some satisfaction to him to see the stock market go up, but he wants some tax relief too.

Secretary HUMPHREY. He has got a good job and good pay—I wonder if we have right here that news story about an American Federation of Labor meeting. I would just like to read from paragraphs out of the New York Times story on the American Federation of Labor report.

I will get it and read it to you, Senator, because I think it explains exactly what you are driving at.

Senator LONG. You made the statement that this matter was handled wrong through the House Ways and Means Committee, with no time for thoughtful consideration. Did you have the opportunity to testify before the Ways and Means Committee?

Secretary HUMPHREY. I did.

Senator LONG. Do you know whether anyone else had the opportunity of testifying before the Ways and Means Committee?

Secretary HUMPHREY. As far as I know, I was the only one.

Senator LONG. What would your attitude be toward this matter? Do you feel that we should give it very careful and thoughtful consideration before we enact it, and study all aspects of it?

Secretary HUMPHREY. I don't care how soon you reject it.

The CHAIRMAN. Senator Douglas is present, and the Chair recognizes him. His name was mentioned by the Secretary.

Senator DOUGLAS. It has been reported to me that the Secretary early in his testimony stated that I had declared last year that we were in a depression, or predicted that we would go into a depression——

Senator KERR. In order that the Senator may hear it, may the reporter read it to you?

The CHAIRMAN. I suggest that Secretary Humphrey just repeat what he said.

Secretary HUMPHREY. What I said, as I recall it, in answer to Senator KERR, was that some of his associates expressed the opinion that, a year or just a little over a year ago, that we were headed into a depression, and that did not prove to be the case, and that we had a great deal of discussion and talk about it, that I appeared before you and had a lot of discussion with you on that subject.

Senator DOUGLAS. And that I had said that we were headed for a depression and we were in a depression.

Secretary HUMPHREY. We were headed for one, is what you said.

Senator DOUGLAS. May I have permission to read passages from four statements on this matter that I made at that time, and then have the entire text of the statements, together with other data which I may submit, included at the end of my statement?

The CHAIRMAN. You may make any statement you please.

Senator DOUGLAS. This is a statement that I made over the Mutual Broadcasting System on Sunday, January 3, 1954, for the Northwestern University Reviewing Stand. The first two sentences are as follows:

We are certainly not yet in a depression and we all hope and pray that we may not slide into one.

At the same time, if we try to face facts honestly we must admit that we are now experiencing a recession.

Those are the opening two sentences. The concluding paragraph is as follows:

We should not be frightened but we should be alert and the watchman who gives a warning to the people in due time so that they can protect their interests is serving the public more faithfully than he who administers sleeping tablets to get people to believe that all is well and nothing need be done—only to find that the danger later bursts upon an unprepared public.

And this is a statement which I made over WGN-TV in Chicago on February 14, 1954, which is also appropriate:

First let me say that I, in company with all other Democrats, want from the bottom of my heart to prevent a depression from developing. We Democrats want to regain or retain prosperity even if it means keeping the Republican Party in power forever. For the human consequences of a depression are too severe for us to go through one again. We Democrats want to join with our Republican friends in preventing a depression. At the same time, no one can prevent a sickness from developing into a chronic disease if the man who is sick insists that he is absolutely well and needs no treatment and no care. We all know that in the last 4 months there has been a marked contraction of employment and production which is especially acute in the farm equipment, auto, radio, television, and steel industries and which has carried freight-car loadings and sales very much below last year at this time. Unemployment has increased markedly.

* * * * * * *

Only if we face the facts are we ready to act. That is all I have been trying to do—namely, for us to see things as they are and then without fear or hesitancy to act in a positive and constructive fashion when the need arises.

And in a supplementary statement to the Report of the Joint Committee on the Economic Report, supplemental views of Senators Sparkman, Douglas, and Fulbright, and Representatives Hart, Patman, and Bolling, there is the following statement:

Name calling, charges of treason or near treason, cries about "doom and gloom" only becloud public thought and divide cousnel at a time of peril. And we venture that inevitably it will kick back on those who would solve problems by name calling. We who have persisted in pointing out the current dangers claim no monopoly of patriotism, nor do we admit such a monopoly to those who would becloud the true facts.

We have never predicted a depression, and do not now. We recognize that there are sustaining forces in the economy. Moreover, during the past 20 years we have provided for stabilizing factors, euphemistically called "institutional improvements" in the committee report. We are pleased to note that the administration does not propose to repeal any of these.

While there may well be a seasonal upturn in March, there is no assurance that it would mean the end of the recession. In deciding in March whether any upturn has occurred, we must be careful to distinguish between a real and sustainable revival and temporary upward movements due solely to normal seasonal changes.

In the face of the evidence before this committee, prudence demands immediate, effective action to insure against the danger of further deterioration of the national economy.

And then Congressman Bolling and I produced a still further supplementary report in which we outlined in detail what had been happening to the economy during the preceding months. Toward the end, we stated as follows:

We suggest that those who take a rosy view of the potentialities of this tax program—of which my colleague has just spoken—consult across the country with the farmers and the dealers in the products of Ford, General Motors, International Harvester, Caterpillar, machinery and appliances, as to which is most needed: consumer buying power or more productive expansion.

We go on to say:

We believe that what is needed now is a sound tax program, one which is fair to all taxpayers and one which will build up mass purchasing power and help to get this Nation out of its current recession.

Now, Mr. Secretary, I want to say in all kindness that what you must have been doing is reading the publicity handouts from the Republican National Committee rather than reading what I have actually said. And I think it is about time to make it clear, once and for all, that neither I nor any other leading Democrat ever said that we were in a depression or were headed for one. We did say we were in a recession, that is true, and so we were. We did urge that we should take steps to prevent the recession from becoming a depression, and I submit that we were serving the public interest and that I did not deserve the remarks that were made about me.

Secretary HUMPHREY. I am sure I never read any handouts from the Republican National Committee. I didn't know they had them. Your reference to our conversation and your position comes entirely from a morning that you and I spent together, about 3 hours, before your committee, in which you questioned me and chided me for not doing the things that had to be done to stop the direction in which we were moving, and we ought to do a lot of things that we weren't doing, did not do, and never have done.

Senator DOUGLAS. I never predicted a depression and never said that we were in one; I merely said that we were in a recession and that we should have a constructive program to prevent things from sliding further.

Secretary HUMPHREY. Or else.

Senator DOUGLAS. I don't remember using the term "or else." I am sure I never did so.

Senator KERR. The Secretary told me that he would put into the record the quotes of me and my colleagues that we were howling that we were going into a depression.

Secretary HUMPHREY. I didn't include you, Senator Kerr. I didn't even recall you were on the committee. Your colleagues.

We spent about 3 hours, you recall, Senator Douglas, in a discussion before the Joint Committee on the Economic Report, didn't we?

Senator DOUGLAS. You testified before that committee.

Secretary HUMPHREY. I testified before that committee.

(The information previously referred to follows:)

STATEMENT FOR NORTHWESTERN UNIVERSITY REVIEWING STAND, BY UNITED STATES SENATOR PAUL H. DOUGLAS (DEMOCRAT OF ILLINOIS)

We are certainly not yet in a depression and we all hope and pray that we may not slide into one.

At the same time, if we try to face facts honestly we must admit that we are now experiencing a recession. Thus a severe decline in farm income set in last spring and summer. Cattle prices fell markedly though feeding and operating costs remained virtually as high as ever. Last summer most of the wheat farmers in Illinois received only from $1.60 to $1.85 a bushel though the nominal support price was supposed to be $2.31. In the fall, the corn growers only received from $1.30 to $1.36 instead of the supposed support price of $1.61. The first group therefore only received from 65 to 73 percent of parity and the latter only 74 percent instead of the 90 percent which they were both supposed to be guaranteed under the existing law.

This decline in farm income caused the farmers to buy much less farm equipment and fewer automobiles. This has now caused heavy unemployment in the farm machinery industry centered as it is in the Rock Island, Peoria, and Chicago regions. It is leading to appreciable unemployment in the automobile industry. The decline in this and in other industries have in turn caused a decrease in steel output which for the week ending December 19 only operated at 67 percent of capacity as compared with 84 percent for the previous week and 102 percent for the same week of last year. There are other signs of trouble. Sales by a leading mail-order house were off 16 percent from the same period last year. Freight-car loadings were down 12 percent, and one of the big railways laid off 6 percent of its force.

While the numbers of the unemployed are given by the Department of Commerce as only 1.4 millions for November or the same figure as last year, there are signs that this may be an appreciable understatement. (1) A real decline came from November on and may be still greater now that the extra help hired for Christmas in the stores and post offices have been laid off. (2) The figure of the unemployed is obtained by subtracting the numbers employed from a hypothetical figure of the labor force. The size of this force was set at 63.6 millions for November 1952 but at only 63.3 millions for November 1953. This decrease of 300,000 in the numbers said to be available for work, in spite of the fact that in the past there has been a normal yearly increase of about 700,000 seems somewhat strange. There may, therefore, be a real understatement of the present working force and slight errors in these totals will cause very large errors in the figure of residual unemployment. For example, if it should develop that the normal growth rate had continued, the actual labor supply would be 64.3 millions and the unemployment 2.4 instead of 1.4 millions.

Let me make it clear that I am not saying this is the real figure. It is instead the maximum size of the possible error. But such considerations as I have mentioned need to be taken into account.

The danger in all this is that the decline in production, employment and purchasing power may serve to "trigger off" a chain reaction of cumulative breakdown which will spiral downward into a depression. There is far less danger of this than there was in 1929. For beginning in 1933 the Government, under the party of which I am a member, introduced many stabilizing influences into the economy. These include unemployment compensation, the guaranty of bank deposits, the lessening of speculation, the placing of a floor under farm prices, etc. These should help to lessen any cumulative breakdown and should now be welcome even by those who formerly opposed them. There is still, however, some danger of a vicious downward spiral developing unless further steps are taken. These should include action by consumers to keep up their purchases of consumers goods, by businesses to keep up the volume of investment, and by alert and positive action by Government should the present recession develop into a depression.

We should not be frightened but we should be alert and the watchman who gives a warning to the people in due time so that they can protect their interests is serving the public more faithfully than he who administers sleeping tablets to get people to believe that all is well and nothing need be done—only to find that the danger later bursts upon an unprepared public.

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## Statement by Senator Paul H. Douglas (Democrat of Illinois), February 14, 1954, WGN-TV, Chicago, Ill.

First let me say that I, in company with all other Democrats, want from the bottom of my heart to prevent a depression from developing. We Democrats want to regain or retain prosperity even if it means keeping the Republican Party in power forever. For the human consequences of a depression are too severe for us to go through one again. We Democrats want to join with our Republican friends in preventing a depression. At the same time, no one can prevent a sickness from developing into a chronic disease if the man who is sick insists that he is absolutely well and needs no treatment and no care. We all know that in the last 4 months there has been a marked contraction of employment and production which is especially acute in the farm equipment, auto, radio, television, and steel industries and which has carried freight car loadings and sales very much below last year at this time. Unemployment has increased markedly. If you don't know this, then I invite you to talk with those working in these industries or to read the Wall Street Journal—one of my favorite papers.

But most of our Republican friends are refusing to recognize reality or to face the facts—just as they refused from 1929 to 1933—and pretended that all was well. But if you do this, then you stop yourself from taking effective action to prevent a sickness from becoming a disease. Only if we face the facts are we ready to act. That is all I have been trying to do—namely, for us to see things as they are and then without fear or hesitancy to act in a positive and constructive fashion when the need arises.

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## Supplemental Views of Senators Sparkman, Douglas, and Fulbright, and Representatives Hart, Patman, and Bolling

In submitting our supplemental views, we do not detract from the report of the committee. In general we agree with it. Under the guidance of our very able chairman, the hearings were conducted in a highly nonpartisan spirit, in a thorough and constructive manner. We have noted with genuine approval the degree of cooperation between the committee, the chairman, and the staff.

The committee report itself, the staff report, the testimony in the hearings, the factual evidence in the President's economic report, and economic developments since January clearly demonstrate that the Nation's economy is now, and was in January, in a more serious situation than the economic report or the administration admits. It is by no means merely a minor contraction. To provide a democracy of opportunity for all, our economy must expand sufficiently to promote jobs for new workers and those displaced by improvements in productive techniques.

The cornerstone of our national economic policy, therefore, must be based on maximum and widely distributed purchasing power, and effective competition in enterprise. These are prerequisites in order to provide maximum production and maximum employment opportunities as required by the Employment Act of 1946. Only under such conditions can savers, investors, wage earners, farmers, and small-business men enjoy the democracy of opportunity, the fair returns and adequate rewards that are the hallmarks of our way of life. These policies will insure that savings do not lie idle but will be transformed into productive investment. An expanding economy will make possible a balance of the national budget and promote economic stability.

One of the witnesses before the committee estimated that achieving only a moderate growth pattern instead of a program of maximum growth could well involve a loss of $330 billion by 1960 (Alvin H. Hansen, hearings, February 18, 1954).

Regardless of the question of the precision of calculation, no one can quibble with the large loss to the economy which would result from a failure to achieve sustained economic growth.

Never before in the history of this country did an incoming administration inherit an economy so prosperous and in so strong a financial condition as did the administration that took office in January 1953.

During the preceding 2 years, the economy of the United States was—

"(1) Mounting a substantial military offensive in Korea halfway around the world,

"(2) accumulating a vast store of military 'hardware' for an apparently imminent World War III,

"(3) building a broad industrial base for fighting such a war or maintaining * * * the lead in scientific and engineering development, and

"(4) doing all that, we still were maintaining a standard of living for the masses of our people higher than that of any previous time or any other country (Edwin G. Nourse, hearings, February 18, 1954)."

In that period the American economy underwent an expansion of "solid growth which left the economy strong, in sound financial condition and in good balance" (Alvin H. Hansen, hearings, February 18, 1954).

During 2 years, 1951 and 1952, of solid expansion in employment and output, we also achieved relative price stability. "It would be difficult to find any period in our history where so high a degree of price stability combined with so large a growth in output * * *." (Alvin H. Hansen, hearings, February 18, 1954.)

Indeed, during the 13 years from 1939 through 1952 disposable personal income in real terms (1953 prices) increased from $1,067 per capita to $1,517 per capita. This real increase in income after taxes of 42 percent, represented a sustained improvement in national living standards of over 3 percent per annum.

With this record of solid, well balanced expansion behind us, we question the President's report posing the problem of "readjustment," a transition from "war and inflation" to "peace and monetary stability." Inflation of prices resulting from the Korean war had, in fact, subsided in early 1951.

The American economy needed no purging. It did not "have to have a readjustment." There is nothing healthy about more unemployment, less production, and smaller incomes.

The administration's abrupt increase of interest rates in early 1953 to accomplish a "hard money" policy quickly brought a tremendous shock on the economy. This shock was so profound and the action so poorly timed that it was quickly found necessary to reverse this policy. A candid admission of this grave error is contained in the report, as follows:

"The restrictive monetary and debt management policies pursued in the early months of the year had, however, a more potent effect than had generally been expected."

This Congress is confronted with the first serious challenge to carry out the mandate of the Employment Act of 1946, which is contained in the declaration of policy. It reads that—

"The Congress declares that it is the continuing policy and responsibility of the Federal Government * * * to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining * * * maximum employment, production, and purchasing power."

An expanding economy requires a policy of action, not inaction, and surely we agree with Senator George, who has said that we should not wait until the economy "falls flat on its face" before taking preventive action. An expanding economy requires a program for the period in between the very short-run outlook and the longer run opportunities that population increases, rising living standards, and technological innovations will make possible.

We have not noted in the Economic Report of the President the same degree of "courage and candor on the part of Government officials" which the report itself correctly advances as the necessary foundation for any economic program. Quite the contrary tendency prevails, we believe, in the report—a persistent policy of "glossing over" the economic facts of life.

The American people are hardy enough to face these facts. Mr. Martin Gainsbrugh of the National Industrial Conference Board testified that such facing of facts by business economists had already had beneficial effects on business decisions. We believe Government officials should display at least as much courage in facing realties in the raw. If the administration's advisers persist in hiding from realities they may put us in the position of a man who refuses to admit his illness, or to accept diagnosis, and who is therefore in double danger.

Name calling, charges of treason or near treason, cries about "doom and gloom" only becloud public thought and divide counsel at a time of peril. And we venture that inevitably it will kick back on those who would solve problems by name calling. We who have persisted in pointing out the current dangers claim no monopoly of patriotism, nor do we admit such a monopoly to those who would becloud the true facts.

We have never predicted a depression, and do not now. We recognize that there are sustaining forces in the economy. Moreover, during the past 20 years we have provided for stabilizing factors, euphemistically called "institutional improvements" in the committee report. We are pleased to note that the administration does not propose to repeal any of these.

While there may well be a seasonal upturn in March, there is no assurance that it would mean the end of the recession. In deciding in March whether any upturn has occurred, we must be careful to distinguish between a real and sustainable revival and temporary upward movements due solely to normal seasonal changes.

In the face of the evidence before this committee, prudence demands immediate, effective action to insure against the danger of further deterioration of the national economy.

### WHAT WE PROPOSE

We propose that we adopt that realistic "courage and candor" advocated in the economic report.

In addition to a more effective program of public works including coordination of planning, modernized unemployment compensation, more efficient and humane disposal of farm surpluses, as advocated in the committee report, we believe that the most effective immediate steps to be taken are in the field of taxation

The Congress should enact, and the President approve, a tax program that will set off a "chain reaction" of consumer buying that will reduce inventories, provide jobs, and renew public confidence. The "trickle down" theory which is the core of the administration tax program is, we believe, wrong in concept, wrong in equity, and incapable of doing the job. We cannot "fatten the herd by feeding the bulls."

A. We advocate an immediate increase of mass purchasing power by increasing the personal income tax exemption from $600 (current) to $800. This, at a basic tax rate of 20 percent, would give the average family $160 a year additional income to spend on goods and services. And the average family would spend it, not sterilize it in banks. This suggestion, a modest one, would immediately release, on an annual basis, $4.5 billion of consumer purchasing power into the markets and help to restore employment and production.

B. We advocate a drastic reduction of all excise taxes on necessities and semiluxuries to increase the purchasing power of the consumer's dollar. (The excise tax on a moderately priced automobile is sufficient to buy a refrigerator, a radio set, and a wrist watch.)

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## Additional Views of Senator Douglas and Representative Bolling on Report of the Joint Committee on the Economic Report

Although we approve in general of the committee report, and wholeheartedly of the supplementary views of the minority, we believe that the report prepared by the President's Council of Economic Advisers needs somewhat fuller treatment.

To begin with we should like to call attention to the following lines of the economic report:

"Under the circumstances, governmental policies must either be flexible, adjusting to new and unforeseen developments, *or run the peril of courting disaster.* But flexible policies, *adapted with promptness and vigor,* require *courage and candor* on the part of Government officials." (Economic Report of the President, January 1954, p. 51.) [Emphasis added.]

As pointed out in the supplementary views of the minority there seems to be almost an utter lack of "courage and candor on the part of Government officials" (see above) which the report itself correctly advances as the necessary foundation for any economic program. On the contrary, "glossing over" economic facts prevails.

The lack of candor and courage in the economic report which the President's advisers have furnished him has led to three fundamental defects beyond those specified in the committee report:

(1) A failure to analyze correctly the facts of the rapid recession in economic activity during 1953 as they were known in December 1953 and January 1954 when the report was written;

(2) The prevalence of a pollyannish "prosperity is just around the corner" attitude, which largely ignores present difficulties and talks about some remote long run economic paradise; and

(3) A failure to propose a bold program for dealing with the immediate, pressing, problems of Operation Big Switch (see below).

### FAILURES OF ANALYSIS

The basic contradiction, into which the lack of candor and courage in the economic report led, are at the very outset in the summary of developments during 1953 in chapter 2. The report starts correctly by pointing to the continued economic advance during the early months of the year. Then comes the statement:

"Perhaps never before in their history have the American people come closer to realizing the ideal of high and expanding employment, without price inflation, than in 1953."

This is promptly followed by this complete contradiction:

"But some sections of industry, notably farming, failed to participate in the widespread prosperity. The index of consumer prices inched a little higher in spite of some decline in food prices. And economic activity, taken as a whole, receded somewhat toward the close of the year."

In other words, prosperity wasn't so widespread, prices did go up as far as the consumer was concerned, and economic activity as a whole actually declined during the year. In point of fact, instead of "high and expanding employment" the report itself (see for example, table 3, p. 14; table 7, p. 30; table G–16, p. 184; and charts 4 and 5) contains the data to show that employment and production were declining by the year end. The report itself shows:

(1) Industrial production declined on the average by 6.6 percent between July and December 1953 with declines in individual major industries ranging from 0.6 percent to a high of 13.2 percent (table 3, p. 14).

(2) Unemployment rose from 1.8 percent of the civilian labor force in October to 3 percent in December, an increase in 2 months of 59 percent (table G–16, pp. 184–185).

(3) Employment in nonagricultural establishments, adjusted for seasonal movements, fell by 1 million, or 2 percent, "after reaching a peak in July" (p. 20).

(4) "On a monthly basis, personal incomes reached a peak in July and declined 1 percent by the year's end" (p. 20).

(5) Retail sales were down 3 percent from February to December after allowing for seasonal movements (table G 29, p. 197).

(6) Business failures by December 1953 were 39.5 percent above December 1952 while current liabilities of such failures were up 87 percent (table G–48, p. 218).

The parade of evidence could go on almost indefinitely. The overwhelming weight of the evidence, however, falls in the direction of a reversal from "high and expanding employment" to *lower and declining employment.*

The classical division of the business cycle, as postulated by Dr. Wesley C. Mitchell and accepted by Dr. Arthur F. Burns (present Chairman of the Council of Economic Advisers to the President) is: Revival, prosperity, recession, depression.

In early 1949, we had what all admitted to be a recession. Then came "revival" and "prosperity." Revival began in the second half of 1949 with recovery fully attained before the Communists attacked in Korea and forced us into a war economy in June of 1950.

The present state of affairs, it seems to us, does not at all warrant the use of optimistic or soft-pedal terms which are sowed throughout the economic report:

"The minor contraction of recent months (p. 19); readjustment, some contraction, imbalance between production and sales (p. 20); curtailing operations contraction, inventory adjustment (p. 22); structural readjustment (p. 54), settling economic activity, readjustment, slight decreases of production, readjustment process, reducing excessive inventories, and moderate contraction (p. 59)."

We cite this brief glossary of glossovers because we feel that the "courage and candor" called for in the Economic Report of the President has not shown up in that document itself. Nowhere in the document do we find a bold analysis of the facts cited in the report and a courageous admission that as of January 28, 1954, the date of transmittal to the Congress, the Nation's economy *was in a recession.*

The latest data now available amply confirm this conclusion which the President's advisers should have reached in January. For example:

*General index of production (Federal Reserve).*—In July 1953 it stood at 137; January 1954 at 125.

*Automobiles.*—Detroit and Toledo classified as distress areas. Unemployment in Detroit alone in January numbered 107,000. Sales in January 1954 declined about 12 percent from January 1953. Production is now about 128,000 per week compared to 146,188 per week in February 1953.

*Farm equipment.*—Production down 29 percent between January 1953 and January 1954.

*Heavy construction.*—Value of engineering contract awards were down 59.4 percent in January 1954 from a year earlier.

*Steel production.*—Down to 1.8 million tons per week from 2.2 million tons in February 1953 or from 99 percent of capacity in February 1953 to 74.4 percent now.

*Textiles.*—Production is down 20 percent from peak of May 1953.

*Farm prices.*—1953 monthly average of prices received by farmers down over 10 percent below 1952 monthly average.

*Mail-order sales.*—Off over 13 percent below a year ago.

*Freight car loadings.*—Down 11 percent from a year ago.

*Business failures.*—Weekly number up almost 50 percent during the past 12 months, while liabilities of failures have almost doubled.

*Inventories.*—Total business inventories down $1 billion between the end of September 1953 and the end of December 1953.

*Unemployment.*—Between October 1953 and January 1954, unemployment rose by 1.2 million—an increase of 100 percent in only 3 months. Under the new census method, unemployment amounted to 3.1 million in January and there are indications that it is still rising.

*Temporary layoffs.*—Census figures, 275,000. These men are to all practical purposes unemployed, though they still have the hope of jobs. But if they were to return uninvited to the factory gates the work would not be available, until called.

*Part-time workers: (Census).*[1]

| | | |
|---|---|---|
| (*a*) | Less than 15 hours per week | 1.9 millions. |
| (*b*) | 15 to 21 hours per week | 1.7 millions. |
| (*c*) | 22 to 29 hours per week | 1.6 millions. |

If we include agriculture, about 1.5 million were working part time involuntarily.

In sum, nearly 5 million persons, or between 7 and 8 percent of the total labor force, are either jobless, laid off, or involuntarily working only part time.

If we haven't on our hands a recession, what is it? Certainly not a depression. No Democrat has ever said that. Certainly not revival, nor prosperity as millions of workers, farmers, automobile dealers, builders, railroad men, and small-business men know well. Conservative business economists, appearing before this committee during our hearings, plainly thought we are in some kind of a recession. Our position is that we cannot Dr. Coué ourselves out of a recession. Dr. Coué was the French psychologist who won fame by arguing that if we kept saying to ourselves "Every day in every way I'm getting better and better," we would really get better. That was tried and failed in 1929–32.

While we believe we are in a very definite recession, we still do not predict a depression. We have erected many safety nets during the past 20 years to prevent the bottom from dropping out of the national economy. We have farm price supports, minimum wages, unemployment compensation, collective bargaining, social security, assistance to the needy, aged, blind, and dependent children, insured savings deposits and housing programs, to mention a few of these safeguards. But while they may very well cushion the heaviest impact of a depression such as the one which began 25 years ago, that is about as far as they can go. they, by themselves, will not stop the economy from getting into a tight situation.

We cannot escape reality. We must face it with "candor and courage."

## THE POLLYANNA OUTLOOK

Having glossed over the current situation, the administration is led naturally into a Pollyanna outlook toward possible developments and their implications for public policy. The report concludes "The current readjustment seems likely to be brief and self-correcting" and though the present "situation must not be viewed with complacency," nevertheless "Our economic growth is likely to be resumed during the year, especially if the Congress strengthens the economic environment by translating into action the administration's far-reaching program."

We distinctly disclaim any powers of economic prophecy. But we do believe economic statesmen should follow the dictum stated in the economic report:

"The best we can hope for is to minimize errors of miscalculation through making full use of available data, and to give due recognition to those elements of uncertainty that attach to both the present and the future."

Unfortunately, the economic report does not follow its own advice. Evidence is replete that one prime instance of a policy failure due to lack of "recognition of elements of uncertainty" and to "errors of miscalculation" turned up in the "hard money" policy.

The cursory statement in the economic report about this grave error is symptomatic of the attitude of the administration report. It is the case of the soft pedal with the loud push. Had these policies, embarked upon so blithely, not been quickly eased, we might have been in a really serious situation months ago. Such "playing it by ear" is extremely dangerous to a highly complicated, delicately balanced economy.

Even more obvious is the attitude exhibited in analyzing the current situation. We are asked in effect to wait and see. After all, the economy is in a transition from high to lower defense spending—hence some "readjustment" is to be expected. The recent decline in the "second half of the year was *slight*" [italic added]. The "current economic readjustment seems likely to be brief and self-correcting" so that "our economic growth is likely to be resumed during the year * * *."

[1] Working less than 30 hours per week (exclusive of the unemployed and temporarily laid off) 5.2 million or roundly 10 percent of those employed in nonagricultural industries.

This bright optimism leads to a concentration on long-run policies at the expense of measures for short-term stability. Perhaps such optimism will turn out to be justified. But, it clearly does not accord with the rule quoted in regard to allowing for uncertainties nor with the report's own statements:

"Impressive as are the factors which justify confidence that the current settling of business activity will stay within relatively narrow limits, it should be recognized that periods of readjustment *always carry risks with them.* [Italics added.] Continued imbalance could result in cumulative effects, as one sector of the economy reacts upon another. Such reactions are partly psychological in character, but they are nonetheless real. A relatively slight fall in the level of activity, if interpreted as a harbinger of further declines, could lead consumers whose incomes have remained unchanged to start curtailing their purchases because they either fear a loss of income or hope for bargain prices later. If businessmen regard the first dropping off in orders as an occasion for curtailing their programs of capital investment, they could spread and intensify the difficulties they fear (p. 72).

"Prudence as well as zeal for economic improvement require that public policy contribute both to the *immediate strength of the economy* [italics added] and to its long-term growth (p. 75)."

Plainly, such prudence was not exercised before the economic report was submitted to the Congress. According to Prof. Alvin Hansen of Harvard University, early in 1953 the American economy was basically sound, in no need of purging and did not "have to have a readjustment." But when the decision for quick reductions in defense expenditures was taken, thus creating a temporary problem of "transition," the administration, as pointed out above, simultaneously, if not previously, adopted a policy of "hard money" and credit restriction through debt management. Although this latter mistake was soon too obvious to go on unreversed, nonetheless the administration, even in January 1954, still did not set forth a bold policy to meet the problems of transition—a transition which it had already allowed to reach recession proportions.

It is not enough to point to the risks of uncertainty in economic forecasting. Action must be taken to insure against such risks.

Moreover, the fact that we may, in March or April, experience an upturn, does not rule out such action in the slightest degree We must be alert not to read a seasonal upturn, which may occur in the overall pattern of recession, as a permanent turn to the better. Most recessions have been marked by varying degrees of fluctuation, while the general pattern was one of a receding economy.

## "OPERATION BIG SWITCH"

Dr. Edwin G. Nourse, formerly of the Brookings Institution and former Chairman of the Council of Economic Advisers, in testimony before this committee correctly characterized the administration's fundamental premise:

"If I may resort to military vernacular, I would suggest that the net effect of the economic report is to portray this situation as 'operation little switch' whereas in fact it will prove to be 'operation big switch.'"

The faulty premise that this transition is an easy, self-regulating small magnitude operation lies at the heart of the faulty policy proposals of the administration. Nowhere in the administration's report do we find –

1. A concrete program to boldly move forward *now* to prevent a worsening of present conditions, but rather a tendency to wait until the situation develops further. We wonder, how long?
2. A farsighted conception of the responsibilities for moving forward economically, in order to continue that expansion of purchasing and production necessary to provide jobs for the some 600,000 new members who will probably move into the labor force this year Rather, there is an implied tendency to talk of the long-run need for sustained economic growth while, without saying so, surrendering in the immediate short run to "contraction" or "readjustment" without saying how far this process is acceptable before the attainment of long-run goals become a distant mirage.

We agree thoroughly with the basic concept of the report that production and jobs are the primary responsibility of private initiative and industry. We cannot accept, however, the implication that a depression must be upon us before government should take some remedial action, especially when, as at present, a substantial part of the depressive forces grow out of governmental policies.

We regard the Executive's report as wholly inadequate in scope and wrong in he theory of the remedies it proposes. No one quarrels with the sincerity of the administration

We believe that the administration proposals are so hedged with a series of "ifs" that there is displayed a reluctance to seize the initiative and act resolutely. Economic upheavals do not wait for "certainties" in administrative minds.

In fact, in speaking of the administration program, the Economic Report states (p. 76):

"It is not a legislative program of emergency measures, for the current situation clearly does not require one."

We challenge this assumption.

Later (p. 113) the report sets forth the basic principles which it says will guide it in meeting the situation. We call attention to the fact that in some particulars the basic principles do not square with the broad statements quoted above.

"The first and foremost principle is to take preventive action as was done during the past year and as is further recommended in this report" (p. 113).

This refers to the tightening, then loosening of the interest-credit screws last year, and passes over the fact that the sum total of the action taken, in timing and other details, seriously jolted the economy.

"The second principle is to avoid a doctrinaire action," etc. (p. 113). Nobody questions the broad principle of these words, but taken in total, they amount to a plea in abatement. Actually, they are fine writing and no more.

"The third basic principle is to pursue measures that will foster the expansion of private activity, *by stimulating consumers to spend more money and businessmen to create more jobs* [italics ours], so that the economy will resume its growth with new strength" (p. 113).

That is exactly what we Democrats propose to do, if the administration will lend its help with a will and conviction. But we are convinced that the administration program will never achieve this noble objective, and we shall soon show why.

"The fourth principle is to *act promptly and vigorously if* [italics added] conditions require it" (p. 113).

Agreed. If not now, when? Must a depression be storming down upon us before that "if" time is reached? We think not.

The Democratic Party has traditionally stood for prosperity, and fought against depression no matter which party held power. We believe we will give the President our support on prompt and vigorous action. We would rather have prosperity and have the Republican Party in power forever than have this Nation undergo the catastrophic upheaval of another depression, with all its terrible social consequence.

The objectives above, read against the business conditions I have recited from official sources, and against the very uncertain fate of the President's foreign trade expansion program in this Republic Congress, compel us to believe that remedies are due NOW.

We have discussed the "trickle down" theory which is the core of the administration tax program in the supplemental views of the minority. It was tried in 1926–27–28–29–30, and everyone knows the results. They were disastrous. This concept is to give tax relief to the upper brackets, who will save more, invest more, expand industrial plant, create more jobs, and therefore expand purchasing and consumption.

In normal times, this concept has a reasonable working validity. There will be some expansion.

But these are not normal times. In periods of business uncertainty, savings flow into the banks, and there tend to become sterilized. Under increased business hazards, banks do not lend, and borrowers will not seek loans. Both sit tight and ride out the uncertainties. We also urge this additional thought. The inventory situation shows that presently we do not need plant expansion so much as we need more purchasing power to absorb the products existing plants are capable of producing. This point is completely admitted by the language of the Economic Report, third basic principle underlined above.

On a full year basis, about $2 billion capable of plant investment was released to corporations by expiration of the excess-profits ta tax provided by law by the 82d Congress; another $3 billion to individuals by expiration of the income tax 10 percent increase, offset, however, by an increase of $1.3 billion in the social security tax, which became effective simultaneously on January 1, 1954.

Now the administration proposes to revive business by a "trickle down" program of additional tax cuts for the higher brackets and for business for investment and plant expansion.

The administration bill briefly provides this—

(1) $250 million of reductions for individuals through more liberal credits for medical charges, baby sitters' deductions for working widows and widowers, income-splitting for heads of households, and other small similar benefits.

(2) $1.8 billion of reductions for business.

(3) $1.2 billion of reductions for recipients of dividends.

Investors and business would get 12 times as much tax relief as individuals with earned incomes, But that doesn't tell the whole story. The average individual would get $6 in tax relief, while the average dividend recipient would get $200 ($1.2 billion divided by 6 million stockholders). That is 33 times as much. But it should be noted that less than 4 percent of the taxpayers receiving dividends (the group with incomes over $10,000) get more than 75 percent of all dividends. (See Treasury Release No. H-266. October 8, 1953.) Moreover, recent studies have shown that less than 1 percent of all American families own 80 percent of all publicly held stock.

We regard as unconscionable the provision for a 15 percent credit against taxes (in the third year) to dividend recipients. If the credit were against taxable income, there would be less inequity in the proposal. But, this credit is so arranged that a man earning $12,000 a year from dividends (4 percent on $300,000 of stocks), with a family of 3 (wife and 2 children) would have a credit of $1,800 (15 percent of $12,000). This would not be credited against his $9,600 taxable income ($12,000 minus $2,400 personal exemptions under current law). It would be subtracted from the approximately $2,100 of taxes due, leaving him $300 to pay. But his neighbor—a lawyer, doctor, merchant —with the same family, the same income, and working hard for it, would have to pay the full $2,100 of taxes.

This is "trickle down" with a capital T. It outdoes anything of the 1920's. It is inequitable and grossly so.

It will never solve the problem of "stimulating consumers to spend more money and businessmen to create more jobs;" it will not add basically to purchasing power, because, as we have shown, the $1.2 billions of tax relief to dividend earners will go mostly to the 4 percent of taxpayers who have incomes of over $10,000. The $1.8 billions of deductions for business will go primarily to a segment of the economy that has already received $2 billion of relief on the excess-profits tax, and that is already searching for markets for the products of present plants rather than worrying about expanding capacity.

We suggest that those who take a rosy view of the potentialities of this tax program consult across the country with the farmers and dealers in the products of Ford, General Motors, International Harvester, Caterpillar, machinery and appliances, as to which is most needed: consumer buying power or more productive expansion.

We believe that what is needed now is a sound tax program, one which is fair to all taxpayers and one which will build up mass purchasing power and help to get this Nation out of its current recession. We advocate an immediate increase in the personal income tax exemption of from $600 (current) to $800 and drastic reductions in excise tax rates. Such a program would pour additional purchasing power into the economy and hence increase sales, production, and employment.

There are other steps we can take.

Congress has appropriated for $83 million advance planning of State and local public works. In addition, it is estimated that by the end of the current fiscal year, $1.2 billion of authorized Federal civil public works projects will be planned to the stage where construction could be started. Another $3.5 billion is in the planning stage. Other plans should be ready for a worthwhile program of highways, roads, schools, hospitals, and other needed projects when they are needed to sustain the economy. We note with deep approval the constructive section of the majority report on the necessity of having these programs ready to go. We believe that the Congress should seriously consider one further step in this field: The enactment of legislation to create a specific agency to harmonize Federal-State-local plans, to keep such plans up to date, and to manage and direct public construction programs when they are instituted. Such agency should be under the direction of the President, and should have the cooperation and facilities of all other Federal agencies at its support. Perhaps we shall need an additional appropriation for this purpose.

The appropriate committees of the Congress should consider legislation to encourage the States and give them incentives to modernize unemployment compensation payments under a standardized procedure. This modernization might include 26 weeks of compensation at 50 percent of a worker's average pay in the 3 months preceding layoff, with a maximum of $35 to $40 a week, should the committees, after hearing evidence, decide that this standard was desirable.

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We should have energetic governmental efforts to remove the overhanging farm surplus without disrupting domestic or foreign markets.

A. Authorize the use of commodities to *supplement* the rations of those on relief, aged pensioners, and those in hospitals, orphanages, and public and private eleemosynary institutions.

B. Provide an expansive foreign relief program through such private and/or public agencies as Congress may find suitable to handle this program.

C. Authorize and provide for the extensive exchange of commodities for strategic minerals: uranium, tin, manganese, rubber, mica, etc. Amendment of the law is necessary to expand the program and provide for processing and shipping.

D. Use surplus commodities as a means of psychological warfare wherever deliverable by various means.

These are definite steps which we can employ to stop the economic downtrend and put the Nation back on the track of prosperity. We are firmly convinced of the basic economic health of the country and that we should not look at the future with trepidation. But we must keep alert to the danger signs and move to counteract them as they arise. For if we ignore them, we can get ourselves into real trouble.

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(The following letter was subsequently received for the record:)

UNITED STATES SENATE,
*Washington, D. C., March 1, 1955.*

Hon. HARRY F. BYRD,
*Chairman, Finance Committee,*
*United States Senate, Washington, D. C.*

MY DEAR SENATOR: Thank you very much for allowing me the opportunity to appear before the Senate Finance Committee this morning to contradict the unjust and mistaken charges of the Secretary of the Treasury that I had been in early 1954 predicting a depression.

In addition to the documents from which I read excerpts and which I requested be printed in their entirety in the record of the hearings, I am glad to submit for the record the full text of a letter which I addressed to President Eisenhower at about that same time, on February 19, 1954, bearing on this same subject. I released it to the press on February 22. In that letter as in my other statements, I categorically stated in two places that I did not predict a depression, but was urging positive action to take the country out of the recession and prevent its worsening.

Additional research would undoubtedly reveal other similar statements of mine, but I shall appreciate your inclusion of this letter with the other material which I specifically referred to this morning.

Faithfully yours,

PAUL H. DOUGLAS.

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FEBRUARY 19, 1954.

The Honorable DWIGHT D. EISENHOWER,
*President of the United States,*
*The White House, Washington, D. C.*

DEAR MR. PRESIDENT: The purpose of this letter is to urge you to reconsider your tax proposals in the light of later clarifications in the economic picture. I believe, after careful reflection, that you will agree with me that increasing personal exemptions for income tax purposes to $800, and drastic reductions in taxes on consumer goods (excise taxes) would be far more just and stabilizing than the current administration proposals which are primarily aimed to stimulate savings through tax reductions to corporations and to the upper income groups.

I hope that, by now, you realize that my attempts during the past 3 months to alert the country on the need to be on guard against depression neither mark me as a "prophet of doom and gloom," nor represent any desire to "talk the country into a depression." Perhaps it is true that my party would get more votes this fall if the country were to go into a depression. But, it seems obvious that if our motives were selfish and political, the course I would have followed would have been to remain silent and let it happen. I would rather the Democratic Party remain out of power perpetually rather than return to power in the wake of the mass misery of a Great Depression.

So far as my being a prophet is concerned, I have not predicted a depression. But I have, as emphatically as I could, tried to keep our Nation on its toes and ready to act to stop a worsening of the economic picture.

A look at the present economic situation indicates, in my judgment, that the time for action is here. At least we should take some initial effective steps to counteract the downward trend.

The Census Bureau now estimates that there were 3.1 million unemployed in January, or 750,000 more than they had estimated a few weeks before. There is no doubt, therefore, that unemployment has increased markedly in the last few months. In addition the Census figures for January estimated that there were 275,000 temporarily laid off who were counted as having a job although they drew no pay and would not have been permitted by their employer to work had they showed up at their former jobs. Employers have also put large numbers on part time in order to spread the work and reduce the payments which they would otherwise have to make to the State unemployment compensation funds. During the month of January the Census estimates that there were 1.9 millions of workers outside of agriculture who actually worked less than 15 hours a week, 1.7 millions from 15 to 21 hours and 1.6 millions from 22 to 29 hours. In all, therefore, 5.2 million workers, or 10 percent of those employed in nonagricultural occupations, worked less than 30 hours a week. Some of this lost time was caused by absenteeism, sickness and voluntary abstention from work, but a large proportion was undoubtedly involuntary and caused by the employer putting the workers on part time.

The ratio of farm prices received to prices paid by farmers is hovering at its lowest point in 12 years. Steel production has dropped to only 75 percent of capacity compared with 99 percent a year ago, and is 21 percent below last year in physical volume. Freight car loadings are down 10 percent. Mail order sales are over 13 percent below last year and retail sales have fallen off somewhat. Business failures have risen by almost 50 percent.

While I believe we are in a very definite recession, I still do not predict a depression. We have erected many safety nets during the past 20 years to prevent the bottom from dropping out of the national economy. We have farm price supports, minimum wages, unemployment compensation, collective bargaining, social security, assistance to the needy aged, blind, and dependent children, insured savings deposits and housing programs, to mention a few of these safeguards. But while they may very well cushion the heaviest impact of a depression such as the one which began 25 years ago, that is about as far as they can go. They, by themselves, will not stop the economy from getting into a tight situation.

Thus, I am urging you, as an immediate step, to alter your tax proposals. I know that you are subjected to tremendous pressures to grant the vast majority of tax relief to business, investors, and those in the upper income brackets generally. But what is needed as a stabilizing force in the economy is a tax policy to stimulate purchasing power. Increased purchasing power will mean more consumption, sales, services, production and employment. In short, it will mean more business activity which will do much to reverse the downward trend.

I know it has been argued that stimulants to business and investors are what is needed to keep the economy up. It is argued that by giving such incentives, business will expand production and hence increase employment. But, under such a premise, who will buy the goods? Only adequate monetary purchasing power broadly distributed can do this.

A reduction in taxes to the upper income groups and to corporations would probably stimulate savings. In normal times, savings are converted into investments and give each worker more capital with which to work. This in turn leads to increased productivity and to higher real wages.

But in times such as these while savings may flow into banks, they do not flow out to the same degree in the form of actual investments since businesses are afraid to borrow and banks are afraid to lend. With the large supply of idle industrial equipment on hand business in general does not want to borrow to add to it. The savings therefore tend to be in large part sterilized and do not expand production and employment as they would in normal times.

To prevent the recession from deepening into a depression, it is therefore far better to stimulate consumption than it is savings.

The idea of giving tax relief only to business and investors as a stabilizing force is simply the old "trickle down" theory or "what's good for business is good for the country." Such policies, followed in the twenties, ended up with the greatest depression this Nation ever had. What is necessary is a "trickle up" theory or "what's good for the country is good for business." If people have money to buy, business will have markets and persons will have jobs.

The present administration tax proposals, when in full effect, give investors and business 12 times as much relief as individuals. Individuals would get only $250 million in the form of such items as baby sitter allowances and an increase in allowable medical deductions. Recipients of dividends would get $1.2 billion and businesses would get $1.8 billion, for a total of nearly $3.0 billion.

Yet saying that individuals would get only one-twelfth of the relief given to investors and business is vastly to understate the disparity. Let us analyse this further.

The average individual would get $6 in tax relief ($250 million divided by 39 million tax returns showing taxable income) while the average dividend recipient would ultimately get $200 ($1.2 billion divided by 6 million stockholders) or 33 times as much. The discrimination is still understated since less than 4 percent of the taxpayers receiving dividends (those with income over $10,000) get more than three-fourths of all taxable dividends (see table I of Treasury Release No. H-266, Oct. 8, 1953). If we consider families rather than tax returns, we find that less than 1 percent of the American families own 80 percent of all publicly held stocks.

This seems unfair, and I believe it is. Yet the cause I am pleading is based not only on justice, but on the economic needs of the Nation. For tax relief to individuals means increased purchases and business activity.

Let us consider a family of four—husband, wife, and two children. Increasing personal income tax exemptions by $200 would give total extra personal exemptions of $800. At the lowest tax rate of 20 percent, this would mean tax savings of $160 a year, enough to buy a major appliance, or any one of several dozens of goods and services on the market. It would mean an increase of about 8 cents an hour in take-home pay.

Lower taxes on consumer goods, meanwhile, would leave more money for the purchase of other items and hence greater purchasing power.

Therefore, I sincerely hope that you will see fit to advocate immediate increases of $200 in personal exemptions on individual income taxes and selective decreases in the excise taxes.

When I advocated such measures while representatives of your administration were before the Joint Committee on the Economic Report, they seemed to have little sympathy for them. I have hitherto advocated such policies in radio and television discussions, and in talks before and with businessmen of my own State of Illinois. I found in most cases that there was a wide public appreciation of their merit.

I should like also to call your attention to a reasoned, powerful statement made in the Senate today by Senator Walter F. George of Georgia, ranking minority member of the Committee on Finance and its former chairman. Senator George recognizes, and ably stated the case, that the situation calls for tax relief for the millions of individual taxpayers, and an expansion of purchasing power. He advocated, as have I, an immediate increase of at least $200 in the personal income exemption. His competence as a tax authority commands the most serious consideration of his views.

If you adopt these suggestions, I believe Congress will enact them. There may be some opposition in the ranks of your own party, but we Democrats, I believe, will provide the force you need to enact such tax revisions, just as we have helped to provide the necessary support for the main lines of your foreign policies.

Faithfully,

PAUL H. DOUGLAS.

The CHAIRMAN. Proceed.

Secretary HUMPHREY. May I just read this editorial that I was going to read to Senator Long? This is the New York Times story on the report of the economists of the American Federation of Labor:

[From the New York Times, February 1, 1955]

AFL REPORTS PAY AT POSTWAR PEAK—FINDS STABILIZED PRICES HELP MAINTAIN BUYING POWER—JOB PERILS DISCERNED

(By A. H. Raskin, special to the New York Times)

MIAMI BEACH, January 31—The American Federation of Labor reported today that unionized workers had fared better on the wage front in the "recession year" of 1954 than in any other postwar year.

A research report was given by the federation's staff economists. It said higher hourly wages and stable living costs had given most workers their greatest postwar gain in purchasing power.

This was true, the report said even though the average pay rise of 5 to 9 cents an hour had been modest by comparison with the increases in previous years. Last year the wage earner got the full benefit of his fatter pay envelope. In other years inflation gobbled up much of his gains, the economists explained.

The report was prepared for submission to the AFL executive council. The group opens its midwinter meeting at the Monte Carlo Hotel here tomorrow.

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Senator LONG. Can you tell me the name of that economist?

Secretary HUMPHREY. This is a quotation from the New York Times.

Senator LONG. I would be curious to know your judgment of that economist.

Secretary HUMPHREY. I don't know; it is simply a quotation from the New York Times.

Senator LONG. Do I take it that you feel that it is advisable to follow his advice?

Secretary HUMPHREY. I don't know anything about it, but he was talking awful good sense when he made this statement.

The CHAIRMAN. Are there any further questions?

Senator Williams.

Senator WILLIAMS. Mr. Secretary, the Senator from Oklahoma asked this question a few minutes ago, but unfortunately I was called to the telephone. I want to be sure to get it straight. The question was about the deficit that accumulated in the preceding several years immediately prior to this administration. What were those figures, the administration deficit?

Secretary HUMPHREY. I am sorry, we didn't know we were going into a lot of statistical data at this time, or we would have brought it. Can I get them for you and give them to you?

Senator KERR. I have them, if you want me to read them.

For the fiscal year ending June 1947, there was a plus $800 million; June 30, 1948, there was a plus $8 billion.

Senator WILLIAMS. I had some of those figures, but I thought you put an overall figure.

Senator KERR. The overall figure beginning with 1947 and ending in 1952, the Secretary said was $3,800 million-plus.

Secretary HUMPHREY. And including the next year it was $5,600 million-minus, as I recall.

Senator WILLIAMS. That is beginning in 1947?

Senator KERR. Beginning with the fiscal year ending June 30, 1947, until the fiscal year ending June 30, 1952. That was 6 years.

Senator WILLIAMS. I was figuring the period beginning July 1, 1946, because that didn't tabulate with the way I understood it.

What was the national debt on June 30, 1946, and the cash on hand figure, and what was the national debt and the cash on hand figure on June 30, 1953, which was the end of the last fiscal year for which the other administration had the responsibility?

Secretary HUMPHREY. I am sorry, I will have to get them. We haven't got the data here.

Senator WILLIAMS. I had these figures from the Library of Congress, and I will just incorporate them into the record. They show that while it is true that the national debt dropped between June 30, 1946, and June 30, 1953, by a total of $3 billion; the cash on hand

June 30, 1946, was $14,237,900,000, and the cash on hand June 30, 1953, had dropped to $4,607,200,000, and cash had dropped $10 billion, the national debt dropped $3 billion; and at the same time the unexpended appropriations, which are a direct obligation of the Government, had increased from $28 billion on June 30, 1946, to 83¼ billion on June 30, 1953, which gives you a figure for expenditures during that 7-year period totaling $62 billions more than the income of the National Government, national appropriations.

Secretary HUMPHREY. That is right. And I am grateful——

Senator WILLIAMS. I think we should get that record straight, because the mere fact that the debt dropped $3 billion in that period does not tell the picture, it does not explain the other $65 billions which offsets. And I would like to incorporate this report, which was prepared by the Library of Congress, in the record at this point.

The CHAIRMAN. There is no objection.

(The report referred to follows:)

THE LIBRARY OF CONGRESS,
LEGISLATIVE REFERENCE SERVICE,
*Washington 25, D. C., September 28, 1953.*

Hon. JOHN J. WILLIAMS,
*United States Senate, Washington 25, D. C.*

DEAR SENATOR WILLIAMS: In reply to your recent inquiry for various Federal financial data, the following information is submitted.

*1. Unexpended appropriations (general and special accounts)*

| | | | |
|---|---|---|---|
| June 30, 1946 | $28, 022, 633, 816 | May 31, 1953 (actual) | $91, 280, 853, 215 |
| June 30, 1947 | 17, 720, 154, 104 | June 30, 1953 (estimated) | 83, 298, 436, 271 |
| June 30, 1948 | 19, 632, 952, 700 | | |

*2. Gross public debt (as of June 30)*

| | | | |
|---|---|---|---|
| 1946 | $269, 422, 099, 173 | 1948 | $252, 292, 246, 513 |
| 1947 | 258, 286, 383, 109 | 1953 | 266, 071, 061, 639 |

*3. General fund balance (as of June 30)*

| | | | |
|---|---|---|---|
| 1946 | $14, 237, 900, 000 | 1948 | $4, 932, 000, 000 |
| 1947 | 3, 308, 100, 000 | 1953 | 4, 607, 200, 000 |

*4. Rescissions of appropriations and contract authorizations by the 80th Cong.*

| | 80th Cong., 1st sess. | 80th Cong., 2d sess. | Total, 80th Cong. |
|---|---|---|---|
| Appropriations | $4, 111, 339, 814 | $79, 681, 845 | $4, 191, 021, 659 |
| Contract authorizations | 132, 000, 000 | 205, 071, 294 | 337, 071, 294 |

With regard to the effect of congressional recission of appropriations on the public debt, such action did not directly bring about a reduction in the total Federal debt. Indirectly, the public debt was affected in that it did not rise as high as it might have, had Federal expenditures been at the high level originally provided by Congress.

Sincerely yours,

ERNEST S. GRIFFITH, *Director.*

Senator WILLIAMS. I don't think we should leave the country under the impression that the previous administration was operating under any balanced budget principle.

Secretary HUMPHREY. There is one thing further that should be added, that should be taken into account. I can't give the exact period of incidence, but just prior to the Korean war, right at that time, there was a substantial increase in taxes, from which money was received prior to the time when money was expended.

Senator WILLIAMS. That is true.

Senator KERR. I would like to ask the Secretary this question: what is the President's power with reference to freezing appropriations or ordering reductions in expenditures which have been authorized by the Congress but not consummated by one of his agencies?

Secretary HUMPHREY. I don't think I know exactly what you mean, Senator. You mean, has he the power to change them?

Senator KERR. I asked you what his powers in that regard were.

Secretary HUMPHREY. I can't tell you. I don't know.

Senator KERR. Would you be surprised to learn that he does have the power to freeze unexpended appropriations?

Secretary HUMPHREY. No, I wouldn't. I would expect probably that that was right.

Senator KERR. You think he does have?

Secretary HUMPHREY. I would think probably that is correct, but I don't know it for sure.

Senator KERR. Would you find out and put in the record, so that we may know, whether Mr. Eisenhower, when he became President, had the authority to freeze authorized expenditures that had not actually been made?

Secretary HUMPHREY. Yes; I will. But, of course, you realize that the theoretical possession of power and its practical application are two entirely different things.

(The requested information follows:)

Statutes which are mandatory in requiring the use of appropriated funds in fixed amounts, are comparatively rare. An example was section 3694 of the Revised Statutes, which imposed a mandatory duty on the Secretary of the Treasury to devote a certain fund to the retirement each year of 1 percent of the public debt. On the other hand, in making ordinary appropriations Congress expects the Executive to return to the Treasury such amounts as can be saved through efficiency, and so there is certainly no mandate in such cases to spend the whole amount appropriated.

Senator KERR. When he became President was he just theoretically in power?

Secretary HUMPHREY. No; he wasn't theoretically in power, he was actually in power.

Senator KERR. What would you refer to there, then, as the theoretical coming in power?

Secretary HUMPHREY. I will tell you exactly what I mean. If this administration, or any other administration in the ramifications of this great country and the delicate balance of our economy, comes in and takes a precipitous action too quickly and to too great an extent, it will upset the balance of the economy of this country; and it will go into a tailspin. And I don't care how much power you have got, you have got to use common sense and judgment and care in its application.

Senator KERR. But you will admit that he had the power to have frozen any authorized expenditure that he didn't think should have been made?

Secretary HUMPHREY. I don't know.

Senator KERR. You think he did?

Secretary HUMPHREY. I would assume he would, but I will have to check and see.

Senator KERR. Will you check as to whether he did have or not, and put it in the record?

Secretary HUMPHREY. I will. (See p. 51)

The CHAIRMAN. That is, assuming that it was obligated?

Secretary HUMPHREY. That is assuming that it is obligated. Of course, an assumption of power hasn't anything to do with the practical application whatever.

Senator WILLIAMS. One other question. This proposed tax reduction that would be incorporated under this $20 proposal would have to be financed entirely out of borrowed money?

Secretary HUMPHREY. That is correct, as far as we can see today.

Senator WILLIAMS. And in order to borrow the money, you would have to increase the ceiling on the national debt further than otherwise would be the case?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. If the proposed reduction is going to be adopted by the Congress, we recommend at the same time that we incorporate in the same bill a provision that we authorize you to borrow the money to give the tax reduction; isn't that the only way we can exist and continue to pay our bills? They would have to go together?

Secretary HUMPHREY. If we are to pay our bills.

Senator FREAR. I can't refrain from asking a question, if I am permitted by the chairman.

Is that the only way it is possible, Mr. Secretary?

Secretary HUMPHREY. As far as we can see today.

Senator FREAR. By reducing the expenditures, wouldn't that do it?

Secretary HUMPHREY. If we can do it.

Senator FREAR. If we people up here have fortitude enough to reduce the appropriations, we can balance the budget and also get a tax decrease; is that not true?

Secretary HUMPHREY. Well, Senator, it is hardly a matter of fortitude enough. It is a matter of what is practical and a matter of what is wise, in the judgment of you gentlemen, and all of us, as to what is required for our security. That is the big item here. And that is the vague imponderable. That is the most difficult thing there is to judge. And as you know, the President has recommended certain reductions in military posture, which in his opinion do not in any way lessen our security, which in his opinion permit the continued increase of the strength of our security and of our position.

That is in controversy right down the hall in other committees of the Congress as to whether or not they will let us make that reduction.

Now, as I say, I don't think it is just a matter of fortitude, it is a matter of judgment as well.

Senator FREAR. Mr. Secretary, what I wanted to imply is that I want to place the burden just as far as I can, as a Democrat, on the administration, but I don't want the present administration to take any of the blame for which we are responsible in Congress.

Secretary HUMPHREY. Senator, I don't feel that from my point of view this is a matter of putting blame, or taking blame. What we are trying to do is give a sound administration of the finances of this country. I am trying my best to propose those things that I believe are sound, I am trying to urge them on you gentlemen for your serious, thoughtful consideration. And between us I hope that we can give America a sound financial base on which it can go forward.

Now, I do not think it is sound to have a bill of this kind that comes out of a clear sky on a Saturday morning from outside sources brought in and handed to a Ways and Means Committee that had entirely different plans, and to have them get their orders to change on Monday what they are going to do, and then have that bill passed through the House by a five-person majority and brought over here.

And I just hope—and I believe that this committee has the responsibility—and I believe it has the wholehearted support of the people of the United States—to look after their money and their money interests for them, and to give them a sound economy to live in.

I believe this committee will do what is sound and right about it, and that we won't run through a phony.

Senator FREAR. Thank you. I apologize to my colleague for this.

Senator WILLIAMS. Of course, Mr. Secretary, I might say that we are in complete agreement on the question of whether or not we should extend this tax reduction at this time, because I have never felt that we should give reductions on borrowed money, and that is the principle today.

I also point out that we were in a slight disagreement last year on some of them, because I think that we might have withheld some of those last year, and maybe we would have balanced the budget. I think it is important to get this budget balanced.

Secretary HUMPHREY. I remember that, Senator. And the only difference occurred in the effect on economy, where you and I differ, that is the only place.

The CHAIRMAN. In connection with the question asked by Senator Martin relative to the inflationary effect of deficit spending, I have the figures, and I would like to take a moment to read them in the record.

Senator MILLIKIN. Are you going to put that in the record, Mr. Chairman.

The CHAIRMAN. I will put it in the record. It has been said that deficit spending is unquestionably the greatest factor in the cheapening of the dollar. So I ask consent to insert this statement in the record in detail.

(The statement referred to follows:)

| Year | Purchasing power of the dollar as measured by index 1935-39=100 | Fiscal year deficits (−) or surpluses (+) in billions | Year | Purchasing power of the dollar as measured by index 1935-39=100 | Fiscal year deficits (−) or surpluses (+) in billions |
|---|---|---|---|---|---|
| 1940 | 99.8 | −$3.6 | 1948 | 58.2 | +8.4 |
| 1941 | 95.1 | −5.1 | 1949 | 58.8 | −1.8 |
| 1942 | 85.8 | −19.6 | 1950 | 58.2 | −3.1 |
| 1943 | 80.8 | −55.8 | 1951 | 53.9 | +3.5 |
| 1944 | 79.6 | −49.6 | 1952 | 52.7 | −4.0 |
| 1945 | 77.8 | −53.9 | 1953 | 52.3 | −9.4 |
| 1946 | 71.7 | −22.0 | 1954 | 52.1 | −3.1 |
| 1947 | 62.7 | +.7 | | | |

These are official figures compiled at my request by the Library of Congress. It should be noted that the purchasing power of the dollar is measured by the 1935–39 index equaling $1.

Beginning with 100-cent dollars in 1939, the purchasing power of the dollar dropped 5 cents in 1940 and 1941 when combined deficits totaled $8.7 billion.

Despite wartime controls it dropped 17 cents under the pressure of war deficits, and under postwar deficits it has dropped another 26 cents.

As compared with the 1939 dollar, the 1954 dollar was worth 52.1 cents.

Despite all of the financial disaster suffered by many European nations during the war, not many of them experienced a 10-percent loss in the value of their money during one year, as we did in 1942.

In 1944, with a deficit of $49 billion, the value of the dollar went down 2 cents. In 1946, with a deficit of $22 billion, the value of the dollar went down 6 cents more.

The three surpluses we have experienced in 26 years were by accident and not by design. Those in 1947 and 1948 resulted from cancellation of war contracts after huge war-end bond issues had been sold. The surplus in 1951 occurred before Korean war spending caught up with Korean war tax increases.

I do not contend that deficit spending is the sole cause of inflation, but this table shows the close relationship between deficit financing and declining purchasing power of the dollar, and it clearly indicates that deficit spending is the greatest single factor in cheapening the value of our money.

There may be some who regard these facts and figures lightly, but to me loss of half the purchasing power of its money in 14 years should be a serious warning to any nation.

Cheapening money is inflation, and inflation is dangerous business. It robs creditors, pensions, wages and fixed incomes. Once started, it is exceedingly difficult to control.

Public debt is not like private debt. If private debt is not paid off the obligation is met by foreclosure and liquidation of assets. But if public debt is not paid off with taxes, liquidation takes the form of disastrous inflation or national repudiation. Either would destroy our form of government.

Secretary HUMPHREY. There is just one thing, Mr. Chairman, that I would like to add, if I may, and that is, that it is not only the current deficit spending, but the trend in deficit spending. And the things that Senator Williams brought out, the appropriations and the excess of anticipated expenditures, there is always a lag in those things, so that your anticipation of what is going to happen has a bearing on what actually does happen, and sometimes there is a lag in its actual operation.

The CHAIRMAN. Senator Smathers.

Senator SMATHERS. Mr. Secretary, I presume we would be correct in assuming that you advised with the President the night before the state of the Union message on those matters which had to do with taxes.

Secretary HUMPHREY. I did.

Senator SMATHERS. And where he said, "I am hopeful that such reductions can be made next year," you knew, of course, that that was in there, and approved of that?

Secretary HUMPHREY. I did.

Senator SMATHERS. If such reductions could have been made next year, what sort of reductions did you have in mind?

Secretary HUMPHREY. I was asked that many times on the Ways and Means Committee hearings, Senator, and I don't think that there is any way to say how you are going to handle a distribution of funds until first you know where they are coming from, and second, you know how much they are.

Now, until we know what our savings are, until we have savings in sight, or until we have additional income in sight, until we have an estimate, and something sufficiently clear so that we could really feel we could rely on it to know where the money is coming from, or how much it was going to be, I don't know any way to say in advance how you would distribute it.

Senator SMATHERS. Would you agree that if your estimates held roughly accurate, on which you base this statement, I am hopeful that such reductions can be made, would you agree that if the income picture looked good enough, and tax relief could be granted, that it should be granted first to those in the low-income groups?

Secretary HUMPHREY. I think it depends entirely on how much you are talking about and how relatively it should be distributed.

I just cannot and will not guess ahead what should be done, until we can see what it is we are taking about.

Senator SMATHERS. I cannot conceive, can you, of a recommendation of a lower corporation tax, for example, next year, without at least laying some sort of a recommendation for lower income tax payments.

Secretary HUMPHREY. No, I wouldn't think of it.

Senator SMATHERS. You could not conceive of recommending that all the excise taxes go off without at the same time making some recommendation that there should be a relief of those in the low-income groups?

Secretary HUMPHREY. I don't know. The excise presents a real problem that requires quite separate consideration from income taxes. I, myself, believe that there should be a broadening of excises if it could be accomplished.

Senator SMATHERS. You believe, do you not, in a tax program based on the ability to pay as sort of a general proposition?

Secretary HUMPHREY. As a general proposition, yes, sir.

Senator SMATHERS. So, therefore, would it not be correct to presume that if you could recommend some sort of a tax reduction for next year, if the situation warrants it, that those people in the lower income tax groups will receive some benefits?

Secretary HUMPHREY. They will.

Senator SMATHERS. And that was recommended, and according to the President, hope was held out for next year?

Secretary HUMPHREY. That is the following year after this—our estimates, you see, for the coming year that you now have the budget for is the year of 1955–56—it begins with 1955 and ends in 1956——

Senator SMATHERS. 1955–56.

Secretary HUMPHREY. We gave those estimates and we have been unable to estimate the reduction in expenditures that we would wish, and so we are talking about our estimates and how things look for the following year. In other words, we are always looking a year ahead.

Senator SMATHERS. When the statement was made, "I am hopeful that such reductions can be made next year," you actually had some in mind, so that nobody could charge that that was an irresponsible statement?

Secretary HUMPHREY. No, I did not have any in mind, and it isn't irresponsible at all to just hope and not have any specific figure in mind. I have said and repeated time and time again that I think our taxes in this country are too high, that I think our taxes should come down, but they should only come down when you can see that the amount of the cut is justified by a reduction in expenditures and increase in income.

Senator SMATHERS. As you of course well know, the corporation tax which we are considering in this bill, is due to expire, that is, the high rate, on March 31, and each year we continue it on the recommendations of the administration, or in the wisdom of the Congress.

Now, do you find anything wrong with that particular principle of continuing these taxes?

Let's put it this way: Do you find anything wrong with having an automatic effective date of relief until the Congress takes action to set aside the effective date or to continue it for a year?

Secretary HUMPHREY. Yes, I do. I think that to hold out a hope of tax relief with the thought that maybe you will repeal it, is 100 percent phony. And I don't think you ever ought to do it. I don't think you ever ought to hold out specific relief unless you honestly believe you can do it, and you know where the money is coming from to pay for it with.

Senator SMATHERS. Then how can we justify "I am hopeful that such reductions can be made next year"?

Secretary HUMPHREY. Because there is no specific amount mentioned or when it will be, and if you will go right on and read what he said and finish it up, he said that it would only be in the event that it was justified by an increase in income or a reduction in expenditures of an appropriate amount to pay for it.

Senator SMATHERS. That is according to your statement. I don't have him quoted in there. You have, yourself.

Secretary HUMPHREY. It is right in his quotation, and every time he has mentioned it, it is in there.

Senator SMATHERS. Let me ask you this question: Were the estimates of income which were the basis on which the President made his message, are they living up to expectations?

Secretary HUMPHREY. Excuse me.

Senator SMATHERS. I asked, are the estimates of income which were used when the President wrote this message, are they living up to expectations?

Secretary HUMPHREY. We are checking them very carefully. It is pretty difficult to tell. They look pretty good right now. They look as though we would not be too far off. For a while it looked as though maybe we had estimated it too high, that they would be considerably lower than our estimate, but our later checking indicates that they might be pretty close.

Senator SMATHERS. So if that is the correct situation all the way through the balance of the year, if your estimates do hold up, then we can be hopeful of a tax reduction next year, as we stated?

Secretary HUMPHREY. No. I have just stated to you, Senator, it is not based on your estimates for 1956, it is the following year. We have got to see where we are going the following year before we can make estimates of a tax reduction. You are a year ahead. You are just too quick.

Senator SMATHERS. I am a year ahead, but all I am trying to do is just get the language that was used in the budget.

Senator HUMPHREY. That is right. Let me read you a little of it.

Here is the state of the Union message:

Last year we had a large tax cut and, for the first time in 75 years a basic revision of tax laws. It is now clear that defense and other essential Government costs must remain at a level precluding further tax reductions this year. Although excise and corporation income taxes must, therefore, be continued at their present rates, further tax cuts will be possible when justified by lower expenditures and by revenue increases arising from the Nation's economic growth. I am hopeful that such reductions can be made next year.

Senator SMATHERS. Let me ask you this question: This bill that the House of Representatives has sent over here, and this called for $20 credit to the taxpayers and dependents as of January 1, 1956, according to your statement that would cost the Treasury about $2,300 million.

Secretary HUMPHREY. That is right, in a full year.

Senator SMATHERS. What would be your position if that were postponed, say, another 6 months, or possibly a year?

Secretary HUMPHREY. I think the further you postpone it the further you are getting into the realm of speculation, when you know less and less about what you are doing.

Senator SMATHERS. Would that be the case if you postponed it to July of next year, which would afford the Congress an opportunity to come in here and hear you and get a recommendation of the President and look at the world situation, to see whether or not we should let it become effective or whether or not we should postpone it again?

Senator HUMPHREY. Senator, I think you know less about what is going to happen in July than you do in January, and I don't think either you or I know what is going to happen in either one of those months. I think to take action now, as I said a minute ago, where you offer something to people as a specific item and hold in contemplation that when you approach it you are going to take it away from them, I think it is strictly phony. I think the way to do it is to wait until the proper time comes when you do know what you are going to do and then do it, rather than to say now that a tax reduction will be made, and tell the people that you know what you are going to do, and then later jerk it away from them.

Senator SMATHERS. Why not have the corporation rate at what it is now, 52 percent, and not have an effective cutoff date of March 1, if that is your belief?

Secretary HUMPHREY. I would be perfectly willing to let it be extended indefinitely, as far as I am concerned. And last year we asked for it. And that was our recommendation to you gentlemen on the excise taxes, that they be extended indefinitely. And you gentlemen put the due date on it, and I thought that if that was the way you wanted to do it, we will live with you.

Senator SMATHERS. Would you agree that if we have a cutoff date, as we have done on the high corporation tax and the continuation of the excise tax, that at that time we should also consider the possibility of lowering taxes for the low income taxpayers? In other words, why don't we write such a bill as will put them right on the same date, so that when we have the effective cutoff date for the one, then we can consider the whole tax problem at that time as a package deal?

Secretary HUMPHREY. Well, I have expressed my opinion to you now twice about your offering something and then jerking it away. I think that is strictly phony. And here is the position that you are going to find yourselves in if you do what you are saying. You are going to find our revenues cut $5,100 million on July 1, because the $2,800 million will expire, and the $2,300 million will become effective. So that you are saying now, today, when you don't know what you are doing, and I don't, either, and you have no idea of it, that 14 or 15 months from now we can absorb $5,100 million.

Now, I think that is absolutely unjustified. I don't think you have got a shred of proof to put it on, except mere hope. And I have as much hope as you do.

Senator SMATHERS. I hope we can do it, but I don't understand how last year we could justify, according to what you are saying, a recommendation of tax relief which amounted to $7,400 million, when we didn't know then——

Secretary HUMPHREY. But you did know then. The recommendation was $6,400 million, and we had actually saved and saw where savings of $6 billion were coming from. And we not only saw where they were coming from, we actually made them. And there is all the difference in the world between doing it when you know what you are doing and doing it when you don't know what you are doing.

Senator SMATHERS. Then you believe that if we could reduce the asked-for appropriations this year by maybe $1 billion we would then be in a position to justify a tax relief program to the low income groups for about $1 billion?

Secretary HUMPHREY. I think you have to see where your money is coming from, as I have said. You have got to judge, estimate, and see exactly where it is coming from, and have sufficient confidence in it so that you know where you are going to make good on it. If you don't, you are doing irreparable damage when you make people think that they are going to get something, that you are going to snatch away.

Senator SMATHERS. Let me change the subject just a minute.

You made the statement a minute ago that the House Ways and Means Committee got its orders to do just so. I didn't know that the House Ways and Means Committee took orders. I wonder if you would care to elaborate on that?

Secretary HUMPHREY. No, I think perhaps I ought to withdraw that statement.

What happened was that I had discussed this with several members of the Ways and Means Committee. I knew exactly where we were going, and they thought they knew where we were going. Saturday morning something happened that changed it Monday.

Senator KERR. It is entirely possible that they did it on their own initiative.

Secretary HUMPHREY. It might be. I should not have made that remark, Senator, and I withdraw that particular phase. I just stand on the statements of facts.

Senator SMATHERS. You don't know actually what happened?

Secretary HUMPHREY. I do not. I have a pretty good idea.

Senator SMATHERS. You also know that many of those men, however, did vote for this same principle last year, even though it was not adopted as a part of the bill?

Secretary HUMPHREY. I don't know that. I don't think they did. As a matter of fact, I don't think it was raised in the House.

Senator SMATHERS. I think some of them did.

Senator KERR. Did they have a vote last year on increasing the personal exemption at the time the 1954 act was passed?

Secretary HUMPHREY. My memory might be in error, Senator, but as I recall it was the exemption that was defeated in the House, and that this phase did not come up.

Senator KERR. Isn't that essentially the same provision?

Secretary HUMPHREY. No; but it is similar.

Senator KERR. Isn't it substantially the same?

Secretary HUMPHREY. No; it isn't. It is quite a little different, and quite a little different in money involved, but it is a similar thought.

Senator KERR. But isn't it substantially the same?

Secretary HUMPHREY. No.

Senator KERR. I think you will find it is about the same.

Secretary HUMPHREY. But it is entirely different.

Senator KERR. But it increases the personal and dependency exemption by $100.

Secretary HUMPHREY. Yes.

Senator KERR. You give every taxpayer a minimum of $20 on each dependent, on each exemption he gets?

Secretary HUMPHREY. That is right. And you give some taxpayers a lot more than others.

Senator KERR. That is the identical provision of this bill, isn't it?

Secretary HUMPHREY. No; it operates quite differently in the different brackets.

Senator KERR. Isn't there a tax cut of $20 for each one?

Secretary HUMPHREY. There is $20 for each one, but if you increase the exemption——

Senator KERR. If you increase the exemption, that gives them at least $20 on each one.

Secretary HUMPHREY. It is at least, but it might be more. It might be several times.

Senator KERR. But it is at least?

Secretary HUMPHREY. Yes.

Senator KERR. Would you have your staff tell us the difference in the cost of the money between this and the——

Secretary HUMPHREY. The difference to the taxpayers in dollars?

Senator KERR. Let's have what it is.

Secretary HUMPHREY. The total dollars—it is distributed——

Senator KERR. Each one would get at least $20, under the other?

Secretary HUMPHREY. That is right.

Senator KERR. And each one would get $20, under this?

Secretary HUMPHREY. And some a lot more.

Senator KERR. What is the difference?

Secretary HUMPHREY. About $200 million.

Senator KERR. In other words, then, this would cost $2,300 million, and the other would cost $2,500 million?

Secretary HUMPHREY. Something of that kind.

Senator KERR. Mr. Secretary, isn't that substantially the same?

Secretary HUMPHREY. As I have said right along, it is a similar provision, but a different method.

Senator KERR. It is as near the same as $2,300 million is to $2,500 million?

Secretary HUMPHREY. It is just a different division between taxpayers, that is all.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. Mr. Secretary, I have been trying to analyze this $20 tax exemption, tax reduction, or tax cut, and I was wondering if we were starting out on a new philosophy of reducing taxes on a dollar basis instead of staying with the methods that we have used since we enacted this income-tax law, to levy them on a progressive basis. In other words—I may be wrong on this, but it seems to me that if we start this policy of giving tax credits on a cash basis, that we might start levying them on the same basis. And I can't see anything more inequitable or more unsound or more unjust.

For instance, as I see it—and I would like to have the Secretary clarify my thinking—this would cost the Treasury over $2 billion. Assuming we needed to raise $10 billion, would anyone conceive the idea of adding $100 to every taxpayer? I just can't see it, Mr. Secretary. I think it is an unsound principle, and it is dangerous for the future. Maybe I am wrong.

Secretary HUMPHREY. I think you are entirely right, Senator. I think, before thinking of this kind is indulged in, it takes a great deal of study, because, as you say, you go up one way and you go down another, and when you go up one way and down another, you can get into a lot of trouble, and there has to be some very definite reason for making such a great movement, and you can have great injustices where it moves into figures where it counts.

Senator CARLSON. Mr. Chairman, it seems to me that that is one of the things that we ought to get some consideration on. We have been levying taxes progressively, and certainly we ought to give some thought to giving reductions on the same basis, because it may upset our entire tax structure.

That is all, Mr. Chairman.

Secretary HUMPHREY. I would like to say this, Senator. In the personal income tax reduction of last year, it was done on the basis that you are suggesting. It was proposed and actually enacted on the basis of coming down in the same way you went up.

The CHAIRMAN. Senator Barkley.

Senator BARKLEY. Mr. Secretary, when you began to read your statement, you made the announcement that we—and I assume you meant by "we," the administration——

Secretary HUMPHREY. I meant, Senator, the Government as a whole. We are all involved in this. And when I said "we," I was talking about facts, actual facts.

Senator BARKLEY. There has been a lot of confusion and misunderstanding and dispute, not only in the Congress, but in the country, as to how much of this $7,400 million was actually provided for by previous Congresses by way of automatic termination of taxes, and how much really represents a new decrease of taxes by the present administration.

Could you clear that up?

Secretary HUMPHREY. Yes. I thought Senator Kerr brought that up. I think that the individual tax cut was putting into effect the action of a previous Congress. The excess profits tax reduction was the action of a previous Congress which had been extended and then took effect at a later time by action of last year's Congress. And the other was the—the last was the——

Senator BARKLEY. How much did both of these aggregate in actual taxes?

Secretary HUMPHREY. The first was strictly the operation or the action of a previous Congress, and that was about $3 billion. But you have to keep this in mind, Senator, that unless that reduction that was enacted by the previous Congress had been justified by the actions of the subsequent Congress, and the administration as a whole, in making the reductions and expenditures, it would have had to be repealed and could not have been put in effect. So it is a combination of the two.

Now, the excess profits tax reduction is a little less than $2 billion, and that was to lapse, by action of the previous Congress. We came in and asked that it be extended, and after a good deal of discussion it was extended, and then finally lapsed at the time the last Congress provided for it to be extended. The income tax cut was the only one that took effect without change.

Senator BARKLEY. So that of the $7,400 million by which we reduced the taxes last year, approximately $5 billion of this represented reductions previously provided for by Congress.

Secretary HUMPHREY. No, only three. The second one expired earlier than it did, and the later Congress made a new expiration date for it.

Senator BARKLEY. But that had been provided previous to expiration?

Secretary HUMPHREY. That is right.

Senator BARKLEY. So that it represented actually about $5 billion?

Secretary HUMPHREY. As I say, the later Congress fixed the expiration date.

Senator BARKLEY. It doesn't make any difference who did it, that is what is represented by the $7,400 million?

Secretary HUMPHREY. Yes. The only thing that was not provided by the previous Congress was the reduction in expenditures which would make it proper to do it.

Senator BARKLEY. Of course, the net result is that new tax reductions recommended by the present administration amounted to about $2 billion or more.

Senator KERR. I said that a billion of that, if I may interrupt you, was a reduction of the excise tax, which the Congress did over the opposition of the administration.

Senator BARKLEY. I understand.

Senator KERR. But that is another bill which they didn't recommend. They opposed that bill.

Secretary HUMPHREY. That is right.

What we recommended was the reduction of the—well, we recommended all, we recommended that they all be put into effect, we recommended that some be extended, we recommended that some be extended at the time, we made the suggestion that some be extended, because they had made some savings to justify that. And then we recommended a new bill.

Senator BARKLEY. Last year, as I recall it—I was then out of political life, and was not here—but my reading of the proceedings of the Congress reminded me that last year the amendment increasing the exemption from $600 to $700 per individual was offered as an amendment in the Senate and not in the House. Is that not correct?

Secretary HUMPHREY. It was offered in the Senate Finance Committee, defeated on the Senate floor, and offered in the House.

Senator KERR. It was also defeated in the House.

Senator BARKLEY. Defeated in the House, and offered in the Senate.

Secretary HUMPHREY. Well, it first came up in the House, and after a very considerable discussion it was defeated in the House and then was subsequently offered, as I recall it, on the floor of the Senate.

The CHAIRMAN. It was offered in the Finance Committee where it was rejected. Later it was offered on the floor of the Senate.

Secretary HUMPHREY. That is correct.

Senator BARKLEY. Offered but not agreed to in the Senate committee, as I recall, and offered again on the floor of the House, as an amendment by Senator George, who was the ranking minority member.

Secretary HUMPHREY. I think you misspoke yourself, not offered in the House, but on the floor of the Senate.

Senator WILLIAMS. I think that is correct. That amendment was offered by Senator George, but am I correct in my understanding that the exemption as amended from 5 to 6 came down from the Republican 80th Congress by the veto of the President?

Secretary HUMPHREY. I think that is correct.

Senator WILLIAMS. I think we have got the historical record of it.

Senator BARKLEY. Can you regard the offering of that amendment, either on the floor of the House or the floor of the Senate, as evidence of financial irresponsibility?

Secretary HUMPHREY. I opposed it all the time.

Senator BARKLEY. You opposed it, but decry it in public as evidence of financial irresponsibility.

Secretary HUMPHREY. No, because at that time it was a question of how the reduction—we had a saving we had made that would justify a reduction, and the question at that time was not whether any reduction at all was justified, it was a question of how would the reduction be made that had been justified by the saving in expenditures. Now, there is no saving in expenditures here this time.

Senator BARKLEY. Did the opponents of this amendment, either in the House or the Senate, make a statement that it was an evidence of political cowardice because they had not offered it in a separate bill instead of as an amendment to a tax bill then pending? Do you regard it as such?

Secretary HUMPHREY. It was an amendment to a tax bill then pending.

Senator BARKLEY. Did you or any member of the administration define that as an act of cowardice?

Secretary HUMPHREY. Not that I know of.

Senator BARKLEY. What is the difference between this and that?

Secretary HUMPHREY. I didn't say it was an act of cowardice.

Senator BARKLEY. You said this was an act of financial irresponsibility.

Secretary HUMPHREY. Yes. I think when you come in on Saturday morning and change your program on Monday afternoon, and you propose a reduction when you have got nothing to pay it out of, and no evidence of hope to pay it from anything except to borrow the money, I think that is absolutely irresponsible.

Senator BARKLEY. You recognize the right of either House to offer amendments to bills that come from the committees?

Secretary HUMPHREY. Yes.

Senator BARKLEY. Or that come from either House?

Secretary HUMPHREY. I do, if they have proper foundations.

Senator BARKLEY. They have the right to do it.

Secretary HUMPHREY. They have the right to do it, but if they do it without foundation, it is still irresponsible, even though they have the right.

Senator BARKLEY. Last year you had a bigger deficit than this year; isn't that right?

Secretary HUMPHREY. No; I think it is going to be the opposite. I think that our deficit this year will be larger than it was last year.

Senator BARKLEY. Well, it was considerable last year.

Secretary HUMPHREY. It was $3,100 million.

Senator BARKLEY. And you recommended the reduction in the taxes in spite of the fact that there was a deficit?

Secretary HUMPHREY. I did.

Senator BARKLEY. And this year you oppose a reduction——

Secretary HUMPHREY. I do.

Senator BARKLEY. Except here——

Secretary HUMPHREY. The difference was that one was accompanied by $6 billion of reduction, and the other one isn't.

Senator BARKLEY. Let's see now about inflation. I think I am as much opposed to inflation as you or any other man can be, because I have been a victim of it, as we all have. Let us suppose that this amendment for a $20 reduction, which is practically the same as would have occurred last year if the $100 increase in the exemption had been granted. Take a family of 5, with an increase of $100 in the exemption, there would be $500 increase in their total exemption.

Secretary HUMPHREY. Yes.

Senator BARKLEY. So that a family under this last year's amendment of 5 people would have saved $500, and under this amendment they will save exactly $100; isn't that it?

Now, if all these taxpayers should take that saving and freeze it, put it in a box somewhere and just go off and forget they have it and not spend it, that would not cause inflation, would it?

Secretary HUMPHREY. I don't know. I don't see what difference it makes particularly.

Senator BARKLEY. If they don't spend this extra money they save out of this $20—I am not committing myself for or against it——

Secretary HUMPHREY. No, but if we have to borrow the money——

Senator BARKLEY. Let's confine ourselves to the individuals first. If these taxpayers do not expend that money that they save as a result of this $20 reduction, they will not contribute to inflation by it.

Secretary HUMPHREY. They would not put pressure on purchasing, no.

Senator BARKLEY. They would not?

Secretary HUMPHREY. They would not.

Senator BARKLEY. It is inconceivable that they would do that, but that is the situation if they do not spend it. But if they do spend it, they create jobs, don't they, by increasing consumption in the purchase of articles of all sorts they would increase jobs?

Secretary HUMPHREY. That is right.

Senator BARKLEY. How do you balance the equation of inflation that you contend this $20 would bring about and the increase in jobs brought about by the expenditure?

Secretary HUMPHREY. I will tell you exactly, and I will just do it in a simple way. Let's just take it as the wages of one man. If the Government has a man working for it and is paying him wages, and they continue him working for it, and then they borrow the money and give you the amount of his wages to spend, then they are creating a pressure on purchasing that is not offset by an increase in production. The way it was done last year was that this man, who is collecting wages from the Government, was put out of work by the Government, and you were given the amount of his wages that the Government saved, so that you could hire him and put him back to work. And you had the same purchasing power, and we didn't have an excess of purchasing power over production. It is just that simple.

Senator BARKLEY. I was dealing purely with the individuals in the aggregate——

Secretary HUMPHREY. You can multiply him by millions, it is the same thing.

Senator BARKLEY. Let's take the Government. Let us assume that it is compelled to buy a certain quantity of things in order to operate the Government. If it has that money in the Treasury and can pay for it in cash—or if it borrows that money to pay for it in cash—what is the difference in effect on inflation if the Government must pay it anyhow? They have to either borrow it or—they would buy it anyhow, and the purchase of things creates inflation.

Secretary HUMPHREY. If they get the money by taxes, that takes that amount of money away from people who would otherwise spend it to buy other things, and then the Government uses that money to buy its things, and therefore you have the same amount of money spent. If you borrow it you have that money also to buy things, and the Government buys its things too, and you have got two people buying things instead of one.

Senator BARKLEY. That sounds simple on the surface, but it isn't that simple, in my judgment.

Secretary HUMPHREY. And you multiply it by 160 million, and that is America.

Senator BARKLEY. Your contention is that if the Government has to borrow the money because it has given it back to some taxpayer——

Secretary HUMPHREY. That is right.

Senator BARKLEY. That the taxpayer will be buying $20 worth of stuff and the Government itself will be buying $20 worth of stuff, and the 2 of them create competition.

Secretary HUMPHREY. Exactly right.

Senator BARKLEY. Wasn't that true last year as well as this?

Secretary HUMPHREY. No; because we had saved $6 billion.

Senator BARKLEY. You hadn't saved enough to destroy the deficit.

Secretary HUMPHREY. We saved the amount that we gave up. And it was just about an even Stephen. And that is why it was all right lasr year and that is why it isn't right this year.

Secretary BARKLEY. Can you anticipate without revealing any secrets—which I wouldn't want you to do—can you anticipate the increase in the expenditures of our country for defense, assuming that we do not get into an actual war?

Secretary HUMPHREY. What do you mean, Senator?

Senator BARKLEY. Supposing we go along as we are, and the world situation is tense and uncertain. You have got to keep up the expenditures for defense, and maybe increase them. Is there any way to estimate how much that increase would be, or where it will be?

Secretary HUMPHREY. Well, that, of course, is a matter of judgment. In my own opinion I still think that there should be some reduction. I still believe that there are some reductions available. And at the same time those are not reductions in defense, they are reductions in the expenditure of money, because you know perfectly well you don't just do things by spending money. You have got to have something more, you have got to spend money wisely, effectively and efficiently, and not waste any. I think there is still some room for reduction in our expenditures and at the same time to increase our defense posture, by a little management, a little elimination of waste, a little better planning, and by a recognition of the kind of war that the next war is going to be and how it has to be fought.

Now, those are matters that are under a lot of discussion at the other end of the hall. I don't pose as a military expert, but from a money point of view I still believe it is possible.

Senator BARKLEY. Last year you asked for a $15 billion increase in the debt limit.

Secretary HUMPHREY. I did.

Senator BARKLEY. You got $6 billion.

Secretary HUMPHREY. That is right.

Senator BARKLEY. Are you going to ask for one this year?

Secretary HUMPHREY. I am going to ask for another debt increase this year.

Senator BARKLEY. Why is that?

Secretary HUMPHREY. Because we have been spending more money than we have been collecting, it is that simple.

Senator BARKLEY. You mean you are going to ask to go up to $290 billion?

Secretary HUMPHREY. I don't know what it will be, I will have to see the figures.

The CHAIRMAN. The $6 billion was just temporary, it expires on June 30.

Secretary HUMPHREY. That is right. And we will be back borrowing——

Senator BARKLEY. You will be back asking to make it permanent?

Secretary HUMPHREY. I don't know, Senator.

Senator BARKLEY. For some more on top of it.

Secretary HUMPHREY. I just don't know.

Senator BARKLEY. It sounds like irresponsibility to me.

Senator FREAR. Mr. Secretary, would you have asked for that $6 billion increase if we had not granted the $7 billion in taxes?

Secretary HUMPHREY. I think so, perhaps even more.

Senator FREAR. In other words, that increase has no bearing on that?

Secretary HUMPHREY. I don't think so.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Mr. Chairman, I don't want to prolong this, but I think there are some related figures that perhaps the Secretary would want to get in the record. If he has them with him we can get them now; if not, I think they should be sent up.

Senator Kerr raised the question of the interest rate to cancel commitments. And I would like the Secretary to show the committee, (*a*) if the President actually canceled any commitments approximately upon his assumption of his office, or soon thereafter, or if so, how much; and also I would like the Secretary to put in the record the amount by which our outstanding commitments have been reduced since the time the Republican administration took over up until the present time.

Isn't it true, Mr. Secretary, that if we spent all of our appropriations in the year for which they were appropriated, we would have no carryover commitments, and you could directly relate the appropriations to your problem of providing money to pay the bills?

Secretary HUMPHREY. That is right.

Senator BENNETT. Isn't it true that you not only have to face the current appropriations but you also have to face the commitments that come due some time sooner or some time later than was expected? Can you give us a general answer to the question, Have the outstanding commitments balances been reduced?

Secretary HUMPHREY. The first thing, Senator, that Joe Dodge and the Treasury did on taking office was to send out a circular, or whatever you want to call it—Joe Dodge sent it out—a circular for the examination of all authorizations for future expenditures, even those on which some money had already been expended, to see to what extent the commitments had been made, how involved they were, and how much delivery had already been made on them, because in some cases it would be impractical to cancel, the losses would be greater than the gains. And as a result of that study I will have to verify this—it runs in my mind that it was about $12 billion reduction in appropriation balances. Now, as I say, I want to verify that figure. But there were a large number of appropriations that were canceled.

Senator BENNETT. And it runs in my mind that it was $14 billion, but again, I am not more sure than the Secretary.

Secretary HUMPHREY. I will have to look it up.

Senator BENNETT. So I hope you will get that figure for us and put it in the record. At the same time, can you put into the record the—maybe the thing to do is to have kind of parallel columns which show the amount of actual new appropriations——

Secretary HUMPHREY. There has been a very marked decrease in the carryovers.

Senator BENNETT. If the appropriations are less, even though the necessary expenditures stay high, we are in a process of reducing the cost of Government.

Secretary HUMPHREY. I have got that right here. The 1953 actual was 78 billions; the 1954 actual was 68, down 10 billion. The 1955 estimate is 53.9; and the 1956 estimate is 49.6. These are June 30 carry-overs.

Senator BENNETT. So you expect to go down $15 billion more in this fiscal year?

Secretary HUMPHREY. We expect to go down from 78 to 49.

Senator BENNETT. In 4 fiscal years?

Secretary HUMPHREY. That is right. Three—In 3 years.

Senator BENNETT. Sixty-eight.

Secretary HUMPHREY. 78. 68 in 1954. And 49 in the period.

Senator BENNETT. Well, isn't that——

Secretary HUMPHREY. One is a beginning and one is an end. It is 3 years in between.

Senator BENNETT. Isn't that the basis on which you can claim a hope that eventually you will reach the point where we can justify a reduction in taxes and where it will not be too difficult to balance the budget? Isn't it true that if the Eisenhower Administration had been able to cut off cold on the 1st of January, 1953, and had no obligations or previous commitments, that by its own record up to that time it has more than balanced the budget, if it were held only to the appropriations that have been made in the 3 fiscal years since?

Secretary HUMPHREY. Well, I really can't tell you. You get so mixed up between annual appropriations and carryover from 1, 2, and 3 years—some of these things last 3 and 4 years, you know—and just which year's money appropriation you are spending, is pretty hard to tell. But you are entirely correct in this, that unless the carryover of appropriations continues downward—if it does not—there is no way that you can cut your expenditures down. The expenditures will follow the reduction in carryover of appropriations at some point.

Senator BENNETT. Maybe my analysis isn't accurate, and I would be happy to correct it if it is not. But I would expect by the end of 1955 to have reduced the carryover by $29 billion from 78 to 49.

Secretary HUMPHREY. That is right, by June 30, 1956.

Senator BENNETT. Your deficits in that period haven't been anything like $29 billion?

Secretary HUMPHREY. No.

Senator BENNETT. How much have they been?

Secretary HUMPHREY. As I recall it, they would be around 9 to 10 billion.

Senator BENNETT. Then on that kind of a basis, we have moved $19 billion closer to the time when we will have our actual cash outlay in balance with our actual current income?

Secretary HUMPHREY. That is correct.

Senator BENNETT. Mr. Chairman, I have appropriated a copy of your speech in the Congressional Record which contains the figures on inflation to which you were referring, and I would like to put my particular analysis of it into the record: Between fiscal 1947 and fiscal 1952 the purchasing power of the dollar dropped from 62.7 to 52.7, a drop of 10 cents in that period. And I wanted to get that into the record.

That is all I have, Mr. Chairman.

Senator BARKLEY. Mr. Secretary, may I ask one question. Back in the thirties I recall that Secretary of Commerce Lemont, who was a very able man, made a statement before the committee that the loss of $10 million in production of goods and services in this country was equivalent to the loss of a million jobs among workers. Are you able to verify or to comment on that as to whether that would be accurate?

Secretary HUMPHREY. I am not, Senator. I just don't know. I never heard that statement before.

Senator BARKLEY. It has some relationship to what we were discussing a moment ago, about if $2,300 million is given back to taxpayers and the Government borrows an equal amount to buy things and they both spend all of that, that would be $4,600 million. How much would that represent in employment, if both the Government and the taxpayer paid that all out for the things that they wanted or needed?

Secretary HUMPHREY. I can't tell you. I don't know.

Senator BARKLEY. It would increase employment, wouldn't it?

Secretary HUMPHREY. Well, you can get into a good deal of discussion about that, because if you carry that to its logical conclusion you are running a deficit-financing economy, and how much of that will dry up substantial investments elsewhere I don't know. My own feeling is that if this country deliberately turned, as advocated by some economists—somebody referred to one in the newspaper the other day—if we deliberately turn to that sort of a procedure, we will deliberately dry up other expenditures to offset it, but I am not an economist. I am just an ordinary businessman.

Senator BARKLEY. Two or three years ago I was invited to address the New York State Bankers' Association at their annual meeting. While we were waiting for me to begin one of the New York bankers and I were in conversation. He said, "Do you know the latest definition of an economist?"

I said, "I would like to hear it".

He said, "The latest definition of an economist is a financier without any money who wears a Phi Beta Kappa key at one end of his watch chain and no watch at the other end."

[Laughter.]

Senator KERR. Senator Bennett said that from the end of 1947 to the end of fiscal 1952 the value of the dollar was down from 62.7 to 52.7. Is that correct?

Senator BENNETT. Yes.

Senator KERR. And that was the period, Mr. Secretary, in which you stated that the overall budget had a surplus of $3,800,000,000.

Secretary HUMPHREY. That is right.

Senator KERR. That proves to what degree deficit financing reduces that.

Secretary HUMPHREY. No, it doesn't, Senator. I have tried to explain to you a number of times today that there are lags in things.

Senator KERR. It is going to take quite a bit of explanation, I just want to make it clear, as I said today, the value of the dollar went down 10 cents during that period. During that period we had an overall surplus of $3,800,000,000, according to the figures you put in the record. I am just asking you if those are the figures that have been put into the record.

Senator BENNETT. Let me just go back once more to clear up that point.

In the year 1946 the deficit was $22,000,000, and the loss in the value of the dollar for that one year was 9 cents. So there is the other side of the story.

Senator WILLIAMS. And, Mr. Secretary, in line with what the Senator from Oklahoma points out, that in this period the national debt dropped $3 billion, we reduced our cash an even $10 billion, which means that we spent in that one year $7 billion more than we took in, and at the same time we ran up appropriations, contract authorizations to industry, from $28 billion to $83 billion.

So in effect during that period in which we dropped our national debt $3 billion, you actually authorized and spent $62 billion more than we took in.

Secretary HUMPHREY. It was one of the most inflationary periods we had.

The CHAIRMAN. I would like to point out that the purchasing-power figures are on a calendar-year basis while the expenditure figures are on a fiscal-year basis. But the fact remains that during this deficit period when we spent nearly $200 million more than the revenue, the dollar went down to 52 cents.

Secretary HUMPHREY. That is correct.

The CHAIRMAN. I am not criticizing anybody for the expenditure of this $200 million, I think most of it is due to the war. I have always thought we could conduct all of our operations with less money. But here are the facts, and, to the extent it is involved, you can trace the relation of dollar depreciation to deficit spending.

Secretary HUMPHREY. It is not the only cause, but the main cause, it is No. 1 among the causes.

Senator LONG. Mr. Secretary, if we should undertake here to reduce the spending by an amount equal to the tax relief, or if we should raise offsetting revenue to the extent that we give relief here—although we may thereby create other differences of opinion—the facts that you have given here would not apply, would they?

Secretary HUMPHREY. That is correct. If you know where the money is coming from and you provide it, then you can disburse it.

Senator LONG. Or if you can reduce spending by an equal amount.

Secretary HUMPHREY. That is the same thing, if we can reduce it.

Senator FREAR. May I ask a question, Mr. Chairman?

I believe Senator Bennett put in the figures that were agreed to by the Secretary as to the reduction in expenditures in four periods. I wonder—three periods—I wonder if the corresponding revenue income to the Treasury for these three periods could be placed in the record?

Senator KERR. May I say to the Senator that I didn't so understand the figures he referred to, they were the amounts of appropriated or authorized funds to be spent in the future——

Secretary HUMPHREY. The amount of carryover.

Senator KERR. The amount of carryover?

Secretary HUMPHREY. That is right.

Senator KERR. And it was not a figure that represented expenditures, that authorized appropriations that had not been expenditures?

Secretary HUMPHREY. That is correct, the figures that I read for the carryover authorized some expended balances.

Senator KERR. And it is entirely possible that the termination of the Korean war might have had something to do with it?

Secretary HUMPHREY. It did have something to do with it.

Senator FREAR. Then I suppose that the only figures that you would like to have would be for those periods, the income to the Treasury and the expenditures of the Treasury, and I believe you gave us cash figures in the beginning that will answer that question too.

The CHAIRMAN. A member of the committee wants this information: If the personal exemption for calendar year 1956 is increased to $650, what would be the loss in revenue; if the exemption were increased in 1957 to $700, what would be the loss; and in 1958, to $800. A member of the committee has requested this information, and assuming that we shall meet this afternoon, we would like to have it at that time.

Secretary HUMPHREY. The effect of an increase in exemption of $700 applicable to the calendar year 1956, $750 applicable to the calendar year 1957, $800 applicable to the calendar year 1958. We will get that for you.

(The requested information is shown in the following table:)

*Effect of increases in exemption at specified dates*

[In billions of dollars]

| | Increase exemption to— | Revenue loss | | | | |
|---|---|---|---|---|---|---|
| | | Full year effect | Fiscal-year effect | | | |
| | | | 1956 | 1957 | 1958 | 1959 |
| Jan. 1, 1956 | $650 | 1.3 | 0.4 | 1.3 | 1.3 | 1.3 |
| Jan. 1, 1957 | $700 | 1.2 | | .4 | 1.2 | 1.2 |
| Jan. 1, 1958 | $800 | 2.0 | | | .7 | 2.0 |
| Total | | | .4 | 1.7 | 3.2 | 4.5 |

Source: Office of the Secretary of the Treasury, Analysis Staff, Tax Division, Feb. 28, 1955.

The CHAIRMAN. Are there any further questions?

Senator DOUGLAS. May I clear up a further point?

The Secretary identified the time that I was alleged to have said that we were headed for a depression as the occasion when he was testifying before the Joint Committee on the Economic Report. I have the report of those hearings before me. The Secretary's testimony runs from page 51 to page 105. I have read the testimony very, very carefully, several times, and I have not found in it any statement that I made that we were in a depression or were headed for a depression. The Secretary will have to reread those pages, or have one of his assistants reread them, and see that the discussion started on the basis of the steel figures, and I commented that the steel industry had been operating at approximately 100 percent of capacity the preceding year but had gone down to less than 75 percent in January 1954.

The Secretary said that we should take as a measure the decline in production, not in percentage of capacity. Those figures, I pointed out, showed that the decline had been 20 percent, but it was still a very appreciable decline.

The only page in which the question of a recession was directly involved was the one in which I quoted the Wall Street Journal. I would like to read from page 63. [Reading:]

Representative BENDER. I gather from the gentleman's remarks that we were in a declining era to such a degree that it was alarming.

Senator DOUGLAS. No. I simply quoted from the Wall Street Journal, Mr. Bender, since you brought this up, and I do not believe that the Wall Street Journal will be accused of being in league with the dark forces of disorder. I read the first paragraph next to the right-hand column in yesterday's issue, February 1, which says as follows:

"Little more than a glance at the headlines in today's issue of this newspaper is needed to know what is the principal question facing business today. It is, as has been the case for many weeks, how long the recession—" and then I interjected, "not rolling readjustment, not mild contraction, but," and then continued with the Wall Street Journal: "how long the recession, which started 6 months or so ago, is going to last, and how deep it will go."

Then I said:

"I did not bring this up, but since the Representative from Ohio did, I think it is proper that I should state exactly what I said, and everything I stated this morning was taken from the pages of the Wall Street Journal."

I now challenge the Secretary to find any statement that I made that we are either in a depression or headed for a depression. I think the Secretary is an honorable man, and after he has gone over this he may wish to apologize and correct himself.

Secretary HUMPHREY. Mr. Senator, I will just say this right now, that if I and a great many other people weren't justified in drawing the conclusion and the impression from the various things that you have said a year or so ago, that we were heading into great trouble——

Senator DOUGLAS. I think you were not justified.

Secretary HUMPHREY. If I was not, then I have been very seriously misled.

Senator DOUGLAS. I think you were misled, and I ask that you study these quotations and that you make a proper apology.

Secretary HUMPHREY. I will be glad to check it and see.

Senator MILLIKIN. Having participated in a number of debates with the distinguished Senator from Illinois, the texture of the debate was gloom and doom, and I make no apology.

Senator DOUGLAS. My good friend from Colorado, I believe you were imputing to others an emotional intensity which was the opposite of your own overoptimistic attitude toward the economy.

Senator MILLIKIN. I still say I make no apology, and I think there was a distinct impression of doom and gloom.

Senator DOUGLAS. You will not find any statement of mine to support that; any such conclusion is purely Republican propaganda.

Senator MILLIKIN. There were books produced that the Senator had written that said if certain points in unemployment were reached or approached, that was the time to bring into play all sorts of emergency measures, and we debated that at some length. That was a part of the gloom and doom which never materialized.

The CHAIRMAN. Are there any further questions of the Secretary?

Senator DOUGLAS. Mr. Chairman, I would greatly appreciate it if the Finance Committee, in its further deliberations on this tax bill, would give consideration to an alternative proposal of mine which would retain the $20-per-person deduction voted by the House, but recapture for the Federal Treasury from other sources a large part of the income that would be lost from this deduction.

I would suggest to the committee that the reduction of $20 in income tax for each taxpayer and dependent should be coupled with the removal of the 4 percent tax-exemption credit on dividends which the Republicans put through last year. There would be two immediate effects of this proposal: First, it would reduce the loss of revenue from the $20 deduction for the first half of next year to a negligible amount. This would shift the issue away from whether the budget should be further unbalanced, to that of which group in our Nation should get tax relief. Second, it would do away with one of the most unjust provisions in our tax structure. I should like to address the remainder of my remarks to these two issues.

The dividend exemption is unjust and improper. It establishes the principle that income earned from property gets special treatment over income earned by work and effort. It means that the man with a $5,000 income from dividends has his taxes reduced by $200. The man whose income from dividends is $10,000 pays $400 less in taxes, the man with $100,000, $4,000, and so on. This credit is applied, directly, to reduce the amount of actual taxes paid and not just the amount of taxable income.

This favor was class legislation at its worst. It was granted to the small proportion—only 8 percent—of the American people who own American stocks and the still smaller proportion—1 percent—who own any considerable amount. Over 85 percent of the benefits went to those with incomes over $5,000. It was unjust and it did not result in any increase in the amount of capital invested. In fact, capital investment is now about 10 percent below the 1953 levels.

If we assume that cash dividends will run at the rate of about $10 billion a year, which is the current figure, the Government will lose approximately $400 million a year from this exemption. If this exemption is canceled and the date of cancellation is moved back to January 1 this year, we would recapture approximately $600 million in revenue which is now lost.

According to the estimates of the House Ways and Means Committee, the revenue loss from the $20 deduction would amount to $815 million from January 1 to June 30, 1956. Canceling the dividend exemption and making it retroactive to January 1, 1955, would result in a total loss of revenue of only $200 million.

Even this difference could be eliminated and an increase in revenues could be provided by another provision. This could be done by taxing interest and dividends at the source, as is now applied in the case of wages and salaries, by means of a withholding tax. It is well known that we lose at least $300 million a year in income taxes through failure to apply the same treatment to dividends and interest as we now apply to wages and salaries. By closing this loophole we would introduce a greater degree of fair play in our revenue system.

Our Republican friends are fond of calling us Democrats "demagogic," but last year they put through a "plutogogic" tax bill. Over $5.7 billion—72 percent—of last year's tax cuts went to corporations and individuals with incomes over $5,000. Only $1.7 billion—23 percent—went to those on incomes less than $5,000.

My proposals would have the effect of righting this injustice. Last year the favors went, overwhelmingly, to the owners of American corporations. This year let us give these benefits, instead, to the American people and, particularly, to the lower- and middle-income groups who now bear an undue share of Federal excise taxes, State sales taxes, and local and State general property taxes. In addition, this injustice could be righted without placing an additional burden on the budget.

The CHAIRMAN. Thank you, Senator Douglas.

Senator George has requested permission for the committee to sit this afternoon. If there is no objection, the Chair would like to have a meeting at 2:30.

The meeting is adjourned until 2:30 p. m.

(Whereupon, at 12:50 p. m., the committee recessed, to reconvene at 2:30 p. m.)

# $20 TAX CREDIT

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**TUESDAY, MARCH 1, 1955**

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

The committee met, pursuant to recess, at 10:10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), George, Kerr, Frear, Long, Smathers, Barkley, Martin, Williams, Flanders, Malone, Carlson, and Bennett.

Also present: Senators Douglas and Dworshak.

Elizabeth B. Springer, chief clerk, and Colin F. Stam, chief of staff, Joint Committee on Internal Revenue Taxation.

The CHAIRMAN. The meeting will come to order.

Senator CARLSON. Mr. Chairman, before the witness starts his testimony, I would like to mention that our Post Office and Civil Service Committee meets at 10:30, to report out some pay bills for postal and classified people, and I feel it will be necessary for me to attend the meeting, and ask to be excused today.

Senator GEORGE. Mr. Chairman, as I explained yesterday, I will not be able to stay because of the Foreign Relations Committee meeting at 10:30.

Mr. Keyserling, if I have to go, you will understand that I regret I cannot stay, but I am due to go to that committee very shortly.

The CHAIRMAN. The witness this morning is Dr. Leon Keyserling, former Chairman of the Council of Economic Advisers.

Dr. Keyserling, we are glad to have you here.

## STATEMENT OF LEON H. KEYSERLING

Mr. KEYSERLING. Mr. Chairman and members of the committee, in order to save your time, and particularly in view of what Senator George has said, I would appreciate the chance to read my statement, which will only take a short time, and then answer questions, at your convenience.

The CHAIRMAN. All right, sir.

Mr. KEYSERLING. I deeply appreciate the opportunity to appear before you to discuss an important tax proposal which bears upon the condition of the American economy and the finances of the Federal Government. To save you time, and in deference to your knowledge, I will not discuss matters that you obviously know more about than I possibly could—such as the details of this particular tax proposal, or calculations of its particular impact upon various groups of taxpayers or upon Federal revenues at any assumed level of national income and production.

Nor will I discuss the important question of equity in the imposition of the tax burden. Considerations of equity, while necessary, too often descend into the false assumption that one type of taxation benefits one group, while another type benefits another group. I prefer the economic viewpoint that we are all Americans, and that the tax policy which is best for the economy and for the country is best for us all in the long run.

*Principles of tax policy*

This brings me immediately to the central question upon which I want to concentrate attention: What type of tax policy, in broad generality, will now contribute most of our economic stability and growth? For it is commonly realized that national tax policy is designed not only to raise revenues, but also to promote economic progress by helping to maintain a balance between inflationary and deflationary pressures. To put this axiom in what seems to me a preferable form, the tax policy which best promotes economic stability and growth will also be best from the viewpoint of revenue yield, because the bigger the pie of our total national output, the bigger will be the revenue yield represented by a tax slice of any given percentage size, and the better will the economy be able to stand a tax slice of that size.

I should like to call your attention to the fact that this general principle of sound national taxation is fully recognized in the January 1955 Economic Report of the President. On page 49, this report says:

> The budget * * * must also be used to promote stable economic growth. Properly coordinated with other measures, a reduction of expenditure or increase in taxes can restrain inflationary tendencies, just as a reduction of taxes or increase in expenditure can at times be an effective check on recessionary forces. There will, therefore, be occasions when the Government's accounts are out of balance in one direction or the other.

This sound principle is also fully recognized by conservative businessmen. Many businessmen have made the valid point that one of the most important considerations in connection with taxes is what effect they have on the levels of business activity. But in my long governmental experience I have noticed that when prudent businessmen become officials of the Treasury—in both Democratic and Republican administrations—they become obsessed with the books of the Federal Government and lose sight of the larger and more vital books of our national economy. The trouble is not that they are not good businessmen, but rather that when they get into the Government, for some strange reason they stop being good businessmen, lose vision and perspective, and become departmental bookkeepers.

My basic thesis today is that the American economy is operating under conditions of severe slack—highly excessive unemployment, and highly excessive idleness of our full productive capacity. Further, it is my basic thesis that the most recent economic trends, right on down to today, make it clear that great deflationary dangers loom ahead, while the danger of inflation—short of a drastic upsurge of Government procurement in some new international crisis—is negligible. If the facts support this basic thesis, and I am morally convinced that they do, the stimulation of the economy through appropriate tax reduction is sound economic policy and consequently sound fiscal policy.

I trust that the committee will realize that I approach this appraisal of the economic situation objectively, and without political bias. I state this particularly because I noticed in some of the newspapers yesterday that I was called spokesman for the Democrats. It was a matter of widespread public record that, just after I left the chairmanship of the Council of Economic Advisers in early 1953, I predicted that 1953 as a whole would be the biggest economic year on record. I did not seize upon the advent of a new administration to prophesy doom. Further, in early 1954, it was a matter of widespread public record that, still not a prophet of doom, I stated that 1954 as a whole would be somewhat lower than 1953, but within 5 percent lower. This turned out to be the case. I may be wrong in what I say now, but I am trying my best to be right, and to furnish this committee with objective analysis.

*Great slack due to unemployment*

My first main point with respect to the economic situation is that unemployment is much too high, has risen recently, and promises to rise further this year unless Government exercises its appropriate role in helping to stimulate the economy.

In 1954 as a whole, as we all know, full-time unemployment was twice as high as in 1953, as a whole, rising from 1.6 million to 3.2 million. Taking account of part-time unemployment due to slack production, and translating this into its full-time equivalent, the true level of unemployment rose from about 1.8 million in 1953 to about 4.1 million in 1954, an increase of more than 120 percent.

Despite the widespread impression that the unemployment situation has improved recently, due in part to the tendency of Government press releases in any administration to paint a rosy picture, the unemployment situation has not improved appreciably. Seasonally adjusted, full-time unemployment in December 1954 was about 3 million, and the true level of unemployment—translating the part-time unemployment into its full-time equivalent—about 3.7 million.

Further, the unemployment situation worsened substantially in January 1955, the last month for which we have statistics. According to the official statistics, full-time unemployment in January was more than 500,000 higher than in December. It reached in January a level of 3,347,000, or 5.3 percent of the total labor force. This was the highest figure since the spring of 1954. Counting part-time unemployment, the true level of unemployment now is close to 4 million, or much higher than in December.

It is highly erroneous to ascribe this increase in unemployment by more than 500,000 in January to seasonal factors. To be sure, there is usually some seasonal increase in unemployment in January. But if we were now in the midst of a genuine and sustained economic upsurge, it would obviously cut across seasonal trends. For so long as trends follow the seasonal pattern, there is no basic change. Thus, so large an increase in unemployment—more than one-half million—in the most recent month is absolutely inconsistent with any claim of basic improvement, even allowing for seasonal factors. Furthermore, it should be noted that full-time unemployment in January of this year was more than 250,000—more than one-quarter million—higher than in January 1954, a year earlier, despite the fact that by January 1954 most of the absolute downturn in the industrial production index and in total production due to the recession had already taken place. And I want to emphasize that point because it is particularly important.

This last point is extremely significant in its bearing upon the future, because it shows that unemployment remains static—stationary—or even rises, not only when business activity and production decline in absolute amounts, but also when business activity and production do not increase enough to keep up with a growing population and labor force, and with an advancing technology and productivity per man-hour worked.

The most striking illustration of the long-term rise in chronic unemployment, which I believe is now characteristic of the economy, is to be found in the following set of facts, which in some respects are the most important set of facts I have to offer. Considering all manufacturing, all mining and all construction together, which are certainly three basic areas of our economy, production in the fourth quarter of 1954 was higher than in the fourth quarter of 1953, but employment was down more than 1 million, or more than 5 percent. In other words, more than a million people had been disemployed in the very industries where production had shown some rise, but not enough rise. And we are now on the threshold of a new industrial revolution, popularly called automation, which is rapidly accelerating the rate of mechanical and technological advance. It exists not only in automobiles but is spreading to other industries and to clerical activities and the office, as well, and it is going to spread faster this year and in the years ahead. With the economy moving sideways or expanding so insufficiently, men in increasing numbers are being displaced by machines.

*Business upturn likely to slow down*

Starting with the established fact, and I think it is an established fact without question, that unemployment is now—not 6 months ago or 3 months ago, but now, in January 1955, the last month for which we have figures—rising and not falling, despite a slight but insufficient business upturn, we are confronted also by the distinct likelihood that even this insufficient business upturn is unlikely to continue at its recent speed.

After remaining fairly constant for the first three quarters of 1954, the gross national product—our total output or product—in the fourth quarter of 1954 rose from $355.5 billion to $362 billion, a gain of only $6½ billion, or less than 2 percent. Even with this gain the national product was still far below the level just prior to the recession. But it is more important to note that more than half of the rise from the third to the fourth quarter of 1954 was due to inventory change rather than to fundamental improvements in primary investment or consumption. Further, a major part of the rise, including the inventory rise, was due to a great upsurge in the automobile industry at new-model time—and the competitive race among the makers of cars—with impact upon steel and other industries; and it is commonly acknowledged—I underscore "commonly acknowledged," because you will find that stated in almost any trade journal—that the automobile companies are producing at a rate perhaps 30 percent above what they can sustain for a full year, and that there are likely to be very serious cutbacks in automobile production and employment later on this year.

You will find exactly that same pattern in 1953. As we all know, in the middle of 1953 it was the sharp cutback of automobile production that was the touchoff, the spring, of the general recession which spread outward to other industries.

In summary of this phase of my analysis, the so-called upturn in business thus far has not even been sufficient to prevent unemployment from rising, as technology advances and the labor force grows; and even this shallow business upturn is likely to lose momentum in short order. Meanwhile, there is common agreement—I emphasize "common agreement"—that productivity is increasing faster than ever, and that the increase in the size of the labor force this year will be extraordinarily large in the neighborhood of a million men—not only because of the growth in population, but also because of some now contemplated reductions in the Armed Forces.

This means, under current trends and policies, more unemployment. I would expect it to rise from a true level of around 4 million now to a true level of about 5 million before the end of the year. The true level includes the full-time equivalent of part-time unemployment.

I would like to have the committee verify this statement that I now make: Most business analysts, even those who expect a good level of profits and sales, join in the view that unemployment is going to increase this year. At the opening of the hearings before the Joint Committee on the Economic Report there were 8 witnesses, drawn largely from big business corporations, McGraw-Hill, the National Industrial Conference Board, et cetera. As you gentlemen all probably noticed in the press, there was a majority agreement among these 8 witnesses that unemployment this year is very likely to increase further.

No Government analyst that I know of—and I underscore the word "analyst"—has predicted a decrease in unemployment this year. I do not want to speak for them, but I can say in good conscience that I know that the vast majority of Government analysts are anticipating a substantial increase in unemployment this summer and later on in the year. The January 1955 Economic Report of the President can be read line by line, and nowhere in it will be found an assertion or even a tentative forecast that unemployment is likely to decrease this year. It is curious to witness in some quarters assertions of rising confidence, coupled with the stark fact that even the official figures show clearly the unemployment is rising toward new peaks.

*Great current slack in national production*

So much for the slack in employment, and the excess of unemployment. Now, what about the slack in national production, reflecting idle plant and other idle resources besides manpower—lack of opportunities for business brains, lack of opportunities particularly for small business on the periphery of the economy, and lack of opportunity for big business as well.

This slack is serious, measured even against the absolute standards of the past. The gross national product is now running at an annual rate more than $5 billion lower than before the recession started. The industrial-production index, seasonally adjusted, is now six points below the peak reached in early 1953. The steel industry is

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now operating at only about 85 to 90 percent of capacity, compared with 95 percent in 1953. Freight-car loadings are now running about 13 percent lower than the 1953 average. I understand—and I say this subject to correction—that it is the anticipation of the leaders of the steel industry themselves that for this year as a whole they will operate at somewhere between 80 and 85 percent of capacity.

But these absolute comparisons with a year or two ago are gross understatements as indications of our current production slack; and such comparisons with the past are the great error of those who voice complacency, or who say that we have stabilized the situation because production or business activity is as high or even slightly higher than a year or two ago. For the truth of the matter is that par for the course in the dynamic American economy rises from year to year. Productivity per man-hour increases by about 3.7 percent a year, conservatively estimated. Due to the growth of the labor force, minus the long-term trend toward reductions in the workweek, the amount of total labor application at maximum employment rises by about 0.8 percent a year. Thus, the economy needs to expand by about 4½ percent a year to hold its own, and to avoid rising unemployment and rising disuse of productive equipment and other resources.

I might say to the committee that while some of my figures on productivity increase have been challenged or even jeered at in the past, I note now in the business magazines a recognition that productivity is on the march, and I noticed recently that a leading business magazine accepted the 3.7 percent rate of productivity growth.

Measured by this vital test, we have been steadily losing ground since mid-1953, and we are still losing ground. The slack in the economy, from the viewpoint of our productive resources is still growing—and that is why unemployment is still rising.

As of now, the gross national product is about $362 billion, at an annual rate. But if we were fully employing our productive facilities and our labor force, it would be above $390 billion. A vivid illustration is this: In 1939—and I take a Democratic year so as not to appear biased—we had a higher level of national output than in 1929, measured in uniform prices. So if you measured it that way, you would say 1939 was a fine year, higher than the most prosperous year we had.

Senator WILLIAMS. What about unemployment in 1939?

Mr. KEYSERLING. That is what I am trying to get at. That is the point I am making. In 1939, we had 8 to 9 million unemployed. The reason was, although the economy was higher, it had not begun to keep up with the growth of productivity and the labor force.

Senator MALONE. We cured that unemployment with a war, right after that; didn't we?

Mr. KEYSERLING. Unfortunately, the decrease of unemployment to very low levels did not occur until after the advent of the war. But I am now pleading for a set of national policies which will restore maximum employment in times of peace.

Senator MALONE. Another war would do it.

Mr. KEYSERLING. Another war would do it, but I don't want it to happen that way.

Senator MALONE. It has been happening regularly for 22 years.

Mr. KEYSERLING. Senator, I am not arguing that point one way or the other. I am analyzing the current economic situation. Another war would restore full employment, but I am pleading for consideration of the economic situation in order that we may have full employment without war.

Let me say here that there is necessarily some disagreement as to whether $390 billion is a little high or low, but you will find the vast majority of the economic analysts and businessmen in agreement that if we had a fully functioning economy with full employment and production, we would be somewhere in the neighborhood of a $390 billion national output.

The difference of about $30 billion might be called our current annual national economic deficit. This $30 billion, representing the output slack in our economy, is an irretrievable waste and loss of goods and services which we might be enjoying—whether we translated this additional utilized productive power into national security, or consumer enjoyments, or more schools, or some combination of these and other purposes.

Manifestly, this $30 billion loss in our annual national product means a loss of several billion dollars in annual tax revenues. Even more important, it translates, on an annual basis, into a loss of $575 on the average for every American family; a loss of about $15 billion in wages and salaries, and about $3 billion in farm income; a loss of about $12½ billion in the sale of consumer goods; and a loss of about $5 in corporate profits. I do not need to stress, before this Committee, that loss of production is the greatest of all economic and financial losses, because production is the core of our Nation's economic wealth and strength.

*Current fiscal policy is uneconomical*

It is manifest commonsense and conservative business prudence, under these circumstances, to design Government fiscal policies in a way which will close this $30 billion annual deficit in our national production, and simultaneously reduce the true level of unemployment which at 4 million is now more than 2 million higher than it ought to be. But for some strange reason, the Federal Government has cut spending far more than taxes have been reduced, thus using a deflationary financial policy in the face of a substantial recession. The new budget submitted for fiscal 1956 shows a determination to continue this policy, despite wide agreement—I should say majority agreement—that unemployment threatens to rise substantially, and that there is room for a great expansion of output without inflation.

Even from this viewpoint of balancing the Federal budget, which is an important long-range consideration, the current policy is unwise. In the calendar year 1954, the estimated conventional Federal budget deficit of about $4 billion was about $5 billion less than the estimated deficit for the calendar year 1953. But comparing the same 2 years, unemployment doubled, and the deficit in our total national output rose from about $3 billion to more than 27 billion; it rose almost 5 times as much as the Federal deficit was reduced. So the American people as a whole lost $27 billion in national output, which, as I have said, is our real economic wealth and strength, in order that the books of the Treasury might look somewhat better. Moreover, a fiscal policy better adjusted to economic stability and growth would have made the books of the Treasury look still better.

Examination of the Federal budget for the fiscal years 1955 and 1956 indicates that the conventional Federal budget deficit for calendar year 1955 may be about $3½ billion, or only about half a billion less than in calendar 1954. This may be a serious underestimate. The Government originally estimated the deficit for the fiscal year 1955 at less than $3 billion, but now estimates it at about $4½ billion. The Government overestimated the amount of economic expansion which its policies would produce, and underestimated the effect of an unbalanced economy upon Federal revenues. But even if the Government should succeed—and it may—in reducing the size of the Federal deficit by half a billion dollars in calendar 1955, this would be a trivial gain compared with the effects of policies which are likely to produce a considerable rise in the level of unemployment, and the addition of another $15 billion or so to the $30 billion current annual deficit in national output.

In sharp contrast, a budgetary policy designed to reactivate the economy is not only sounder economics, but also better designed to balance the Federal budget. If we take up the slack in unemployment and in our other productive resources, we can without inflationary strain lift the national product from $362 billion now to an average close to $380 billion for 1955 as a whole, and above $400 billion in 1956. It is manifestly clear that this will not only enable us to service better our essential national security and domestic needs, but also provide the best assurance of restoring a balanced budget at reasonable levels of taxation and without sacrifice of national defense or other essential outlays.

*Desirable kind of tax policies*

To make a better appraisal of what kind of tax policies will help to stimulate this degree of economic growth, it is desirable to break down the desired growth into its various components. In broad approximation, even allowing for some increases in Federal outlays which would be desirable to meet national security and domestic needs such as education and highways, the great expansion must come in the area of personal consumption and private investment. Within a year or so, to restore maximum employment and production, we need to lift personal consumption expenditures by about $16 billion and gross private investment by about $7 billion, at annual rates.

The central key to this problem is in the expansion of consumption, because in the American economy in relative peacetime the consumer is king. If consumption expands sufficiently, the increase in business investment will be forthcoming. As a matter of fact, as you gentlemen have observed, business investment has tended to be very buoyant when consumer markets have been expanding. In fact, most of this increase in business investment would be represented by a shift from inventory liquidation to inventory accumulation.

The central question of tax policy, therefore, is whether tax reduction should be used to stimulate consumption. It is my belief that it most assuredly should, because there are no signs that consumption on its own momentum is expanding sufficiently. Consumption has expanded less than $3 billion, at annual rates, since the insufficient business upturn started; and even most of this expansion—and I want to emphasize this—has been supported by a drawing down of personal savings and by an expansion of credit rather than by a growth in consumer disposal incomes after taxes.

*Tax proposal not inflationary*

It is calculated that the tax proposal now before the committee would add less than a billion dollars to consumer incomes in the first half of calendar 1956, and only about 2 to 2½ billion at annual rates when its full effects became felt. This is so small a fraction of the expansion of consumption needed to restore maximum employment and production, and to take up the serious slack in the economy, that it is little short of preposterous to say that this proposal has inflationary dangers. How, in the name of reason, can it be inflationary to add $1 billion or so, or even $2 billion or so, to consumer incomes through tax reductions, when there is now $30 billion of slack in the economy?

If administration officials differ with me as to the economic outlook for the year ahead, that is a matter open to sensible debate. But when administration officials depict a grave inflationary danger in so modest a tax supplementation of consumer incomes, under current and foreseeable economic conditions, they are taking a position that is utterly indefensible in terms of economic analysis or plain horse sense.

In fact, Treasury policy during the past 2 years has been designed to stop an inflation that ended in 1951. For 2 years now, we have had a terrific decline in farm incomes at the base of our economy (a 20 percent decline in farm income), a rise in the true level of unemployment from 1.8 million to about 4 million, the emergency of a $30 billion annual slack in our total national output—and still the Treasury is seeking desparately to stop inflation. Inflation threatens only when excessive total demand presses against scant resources; there is no threat of inflation when throughout the economy there are surpluses everywhere—surpluses of manpower, surpluses of farm products, surpluses of plant capacity—and when these surpluses in the long swing are threatening to rise further rather than to fall. A recession fought with anti-inflationary weapons could grow into a depression if perverse policies persist.

A Federal deficit does not produce or threaten inflation, when there is so much slack in the economy. If a Federal deficit of about $9 billion in the calendar year 1953 did not produce any inflation, even when the economy was almost fully employed, how in the world is a Federal deficit of about half that size in the calendar year 1955 or 1956 going to produce inflation when the economy is so far from being fully employed? The tax reduction involved in the pending proposal is pointed squarely at a great national need—the stimulation of consumption, particularly among lower income families. The most rational criticism of this proposal would be that it is not large enough nor fast enough to respond adequately to the rising threat of unemployment and national economic deficits.

Certainly, this kind of stimulus to consumption is far preferable, on economic grounds, to the emphasis which the administration has placed upon stimulating business investment. Business investment, indeed, is important. But most of the stimuli which were offered to business investment through tax concessions last year were wasted. Business investment since then has not grown; it has contracted; and the reason for this is that business investors were suffering not from inadequacy of funds or incentives, but rather from an inadequacy of consumer markets. On the other hand, the tax reductions granted to consumers last year translated themselves almost entirely into an increase in consumer buying—and this the administration fully admits.

Let me underscore this. You have a practical example of what the stimulation of consumption through tax concessions at the right point in the economy will do. Insofar as the tax concessions last year were directed to the personal income of consumers, they were translated almost dollar for dollar into an increase in consumer buying and business sales, and the administration, itself, points to this as one of the major supporting factors in the economy.

On the other hand, the concessions to dividend holders and to corporations, while they may have had some desirable features as part of a long-range structural change in the tax structure, did not translate themselves into increased spending by business.

The only inflationary threat now, in the American economy, is in the stock market, which has been zooming upward at a breathtaking pace even while the general economy has been losing ground. There is no inconsistency in this, because the same economic maladjustments, and the same defects in national economic policy, which contributed to the economic recession have also pushed the stock market upward. The stock market has moved upward because too much funds have accumulated in some parts of the economy, while the base of consumer income and consumer buying has not been sufficiently strengthened. If anyone thinks that this is unusual, the experience in the late 1920's is relevant.

In final summation, the argument that I have made for the stimulation of consumer buying is founded upon my analysis of the current economic situation and the economic outlook. In this connection, it is extremely strange that, while the January 1955 Economic Report of the President has a generally optimistic tinge, the careful reader will find in it a forecast for the year hardly more optimistic in detail than my own. On page 24 of the report, the Economic Advisers have presented materials which indicate that there may be a further decline in Federal expenditures, that the prospects for plant and equipment spending are uncertain—and "uncertain" is their word, and most of the forecasts are that it will go down slightly—and that the expansion of consumption must depend upon these other factors. There is nothing in the Economic Report, carefully read, which adds up to anywhere near enough economic expansion to reduce the level of unemployment, or in fact to prevent it from rising, or to swing back into actual production our great productive resources.

This would be serious under any circumstances; but it is doubly serious when the Communist menace, now redoubling its efforts to expand production—and may I say here that it seems, from what I read in the newspapers, that the whole fight going on over there is whether they shall allocate more of their economic resources to the building up of the war complement. They are stripping consumption even more, and they are straining to build the industrial base for an even more rapid expansion of war material and war goods. This calls upon us to bring forth fully the great nonsecret weapon of our free economy and our free society—our ability to use and not to leave idle in disuse (and this is the essence of economics) the finest tools, the best brains, and the most skilled manpower in the world, to increase our economic strength at an unrivaled pace. Under this world threat, quite aside from our domestic needs, complacency in the face of 4 million unemployed and a $30 billion deficit in national production seems to me unthinkable.

Thank you very much, gentlemen.

The CHAIRMAN. Thank you very much, Doctor, for your contribution.

Senator George, do you have any questions?

Senator GEORGE. I haven't time to go into it.

Doctor, as I get your basic philosophy, economic philosophy, it is that the true wealth of this Nation is in the profitably employed time of the worker.

Mr. KEYSERLING. There is no question of it.

Senator GEORGE. And that it is not possible to have that unless there is a continuing expanding economy, because otherwise the capacity to produce, which you say is now partially idle, will far outrun the consumptive demand, unless you have mass purchasing power.

Mr. KEYSERLING. That is absolutely correct, Senator.

May I make one amplifying statement? I always use the term "full employment" to include not only the worker, but our plants, our farms, our business skills, and our enterprise.

Senator GEORGE. I understand. Mr. Keyserling, I think you are quite right in that. I agree basically with your philosophy. My great trouble now is that if we are going to undertake any tax policy which will meet the situation ahead of us, it is not in this very hesitant approach made in this bill. I don't see how that can do very much good.

Mr. KEYSERLING. Senator, I may say to you there in all frankness that I do not believe the current proposal sufficient or adequate to the economic situation confronting us. I support it because I believe it is far better than no action on the front of stimulating consumption.

Senator GEORGE. Ordinarily a half loaf or a quarter loaf or a tenth loaf is better than no loaf, but sometimes it isn't.

Mr. KEYSERLING. Sometimes it isn't, but in this case I think it is.

Senator GEORGE. Sometimes it isn't. I fear this is a time when it is not. That is my viewpoint of it. I am not supporting the House proposal because I do not see how it can do any real good. On the contrary, it may do harm in creating a psychology that will be bad. Basically, as I have long since concluded, the wealth of the country is in the profitably employed time of the workers, using the term in its broadest sense. It may be possible to stabilize the economy at or in the neighborhood of its present level, but it isn't possible to maintain an expanding or growing economy, and that is precisely what we must do, if this country remains prosperous over the long period of time, unless we can increase mass purchasing power.

You estimate a million new workers in the market the current year, but suppose it is only 700,000 or 750,000. That new working force is coming into the market annually. The capacity to produce is already high, already great if it were fully used. I do not see how it can be fully used, myself, without a general stimulation in the mass consuming power. It isn't the consuming power of a group. It is your mass consuming power.

That is my basic philosophy. I stand with you in that philosophy. But I frankly do not believe that this approach would accomplish anything.

I fear it might have the psychological ill effect that I have just suggested.

I am sorry I have to go to the other committee. I am not leaving because I wouldn't like to hear you further.

The CHAIRMAN. Senator Martin?

Senator MARTIN. Mr. Chairman, as the senior member of the minority side of this committee, I want to express our great appreciation of the doctor's presentation and his statement this morning, which will not only be very helpful for us in the consideration of the immediate work before us, but in work of the future.

Doctor, I would like to ask you 2 or 3 questions. I would really like the opportunity, Mr. Chairman, to go into several of these things, but I want to be fair, because every member of the committee will probably want to ask some questions.

You made reference to the unemployment because of the closing down of mines. Take for example, the fact that the heaviest unemployment in America is in Kentucky, West Virginia, and the Pennsylvania coalfields. A lot of that is due to the importation of cheap oils, and particularly residual oils.

Have you gone into the matter as to whether we ought to give consideration to a quota on the importation of oil in order to aid our coal economy?

Mr. KEYSERLING. No, Senator; I have not gone into that question. I will say to you, in all frankness, that I am deeply concerned and sympathetic with respect to the chronic problem of rising unemployment in the coal areas. I think that it even gets beyond general economic conditions. I think it is a problem that we would have and to which we should train our best resources even if we had a fully employed economy.

However, I do think that these industries, and other particularly vulnerable industries, are hurt more relatively by an economic slack than the stronger industries which are best able to take care of themselves.

Therefore, I think a stimulatory economic policy would be helpful to all industries, including the one you mentioned, although I must frankly say that the problem of the coal industry goes far beyond the ups and downs of what we sometimes call the business cycle.

Senator MARTIN. Mr. Chairman, the reason I am bringing this up is we may not have the opportunity of the doctor's presence at some hearings in the future which will relate not only to this—this not only affects the coal industry, but also affects the railroads and certain types of steel industry.

Then, Doctor, there is another feature to it. The mechanization of mines has put a lot of the small-business men out of business. They cannot afford to purchase this very extensive machinery. Do you think there ought to be anything done to aid that group?

Mr. KEYSERLING. I certainly do, Senator. I think that small businesses are in a peculiarly vulnerable position. They become even more vulnerable when there is slack in the economy. I have studied the small-business problem quite a lot, although I am sorry to say I haven't gotten to the coal problem specifically, much. I have reached this conclusion: There are two kinds of measures that can be taken to help small business. One is specific measures. I think they should have more availability of credit, because while credit in general in the economy is abundant, it isn't yet gathered in places which are particularly sympathetic toward the advancement of credit to small business. That is partly due to traditional patterns of behavior.

I think small business should have more funds for research, for mechanization (to which you refer), and for liquidity and maneuverability. Quite aside from that, and second, I think that small business, not because it is less efficient, but simply because it is smaller and consequently weaker, is much more hurt by any slack in the economy. That gets back to my general central thesis here.

Let me give just a couple of figures on that. In the second quarter of 1954 the profits of corporations with assets of $100 million or over were 10 percent higher than in the same quarter in 1953. Let me not be misunderstood. I don't quibble about increases in profits in a growing economy. I think that is sound. But this happened in a recessionary period.

In that same period of time, the profits of corporations with assets of $250,000 or less declined by 43 percent, and, in between, the profits of the group with assets between $250,000 and $100 million declined 25 percent.

So what is clearly shown is that the thing which helps small business most, even more than the specific measures which I agree with that you have cited, is a full economy.

There are two groups in the economy which are hit hardest by economic slack. One is agriculture. The other is small business. Aside from the people who are unemployed, of course; they are hit hardest.

Senator MARTIN. Mr. Chairman, while I realize this doesn't particularly apply, although in a general way it does apply, to the problem confronting us, but to have a man like the doctor present—now we have a lot of unemployment in Pennsylvania, West Virginia and Ohio—and I am putting Ohio in now, where there are small industries like glass, pottery, china, gloves, lace, and things like that. That is hand-blown glass. The man who does that kind of work gets about $2 an hour in America. In our competing countries it is about 30 cents—Czechoslovakia, Belgium, and so on. Those men are out of employment. There are not many of them. It isn't a big number, but they are just like lawyers and doctors. That is the only thing they know how to do.

One of the things, Mr. Chairman, that I have always wanted to see, every man in America who wants to work, gainfully employed. I really think that we have to be selfish enough in our country—and a lot of people say to me—the assertions that I am making right now to you, Doctor, will be very much criticized by a large number of people in the Commonwealth of Pennsylvania. They are consumers. They want to buy as cheaply as possible. But, on the other hand, in doing that, we put a lot of small concerns practically out of business, and I feel that it is our duty, as Americans, to protect those little fellows. They cannot do much for themselves.

Mr. KEYSERLING. Senator, I think you are entirely correct. Sometime when you have the time and at your convenience, I would like to talk to you more about the relationship between what I call full employment and the fate or welfare of small business, because small business, next to the American farmer, is in the most vulnerable spot in the economy.

If you will look back over the past 5 years or 10 years, or any period you will take, you will find when we have what I call full employment, which you rightly say you agree with, small business usually makes good progress and good earnings. But the situation changes as soon as the economy gets slack—as I say, we now have a slack in the economy of about 5 percent unemployment, and we have a slack of national production, this $30 billion national economic deficit—and I think Senator George is entirely correct in saying that is what really counts—which amounts to a slack of about 7 or 8 percent.

When that slack occurs, it doesn't affect everybody evenly. Some people do very well even during that slack, because they are stronger. There are some who say we want the survival of the fittest. I say we want the survival of all Americans who want to work and earn a decent living and want an opportunity to go into business and stay in business, even if it is small.

You get this 5 percent unemployment slack and 7 percent national economic slack, and the small-business man gets hurt relatively much worse, because he just doesn't have the resources to ride it out.

That is why the figures I cited on corporate earnings are so relevant to what you are talking about. If we compare 1953 to 1954, when we see the extent that small business has been victimized by an inadequate stimulatory policy, the need to restore a full economy becomes even more evident.

One word about prices. You know much more than I do about the prices of specific commodities in the cases you referred to. I don't know what has happened to all the prices of all the commodities you are talking about. But here is a very curious thing. We talk about inflation, we talk about high prices. There has been no appreciable reduction in the price level for consumer goods during this 2 years of recession. The industrial production index is higher. The consumer price index is about the same.

Let me say one word about figures. One of the Senators inadvertently referred to my figure of a million coming on the labor force. None of these figures is mine; only the interpretation being mine. I have to make the interpretation. The figures come from official sources. These figures that I have quoted on prices are official figures. I think that in all the talk about inflation that we hear, we should look at these facts, and when we do, we will see this: From 1951 to 1953, when we had relatively full employment, the price level had no more of an inflationary bias than between mid-1953, when the recession started, and today. This ties in with your small-business problem in this way. When we have this kind of economic slack before it becomes very serious, the strong people in the economy can protect themselves. They not only can protect their sales, they can also protect their prices.

Therefore, there has not been a decline in the general level of industrial prices, which obviously is determined largely by the large concerns.

Let me say here that I am not blaming them; I never have in my economic career. I think large concerns have made strikingly strong contributions to our kind of American economy. I don't object to their being able to maintain their prices or maintain their profits. We would be even worse off if they, as well as others, were moving down hill.

But I say it is not good enough when so many others are moving down hill. I say it is not good enough when, according to the example you gave, small business is faring so poorly even while the general economy is still at fairly high levels. I say a policy of stimulating consumption, of stimulating buying at the base of the economy, is the surest road to opening up markets not only to the strong, but also to others who are deserving; not only to big business, but to small business as well.

Senator MARTIN. Mr. Chairman, I apologize for taking more than my share of the time, but when the doctor brought up the matter of unemployment in the coal fields, which affects so many of our States, and to my mind, about the only way that we can aid it is probably to limit the importation of cheap fuel, because coal is such an important thing in our economy, we are going to get back to the use of coal some of these days.

We are now going into the use of oil and gas for domestic consumers, but we may not have the supply to do it later.

So it is an important thing in our economy.

Mr. Chairman, I again apoligize for taking so much time. I have taken entirely too much time. Thank you very much.

Mr. KEYSERLING. Thank you, Senator. I share your concern.

The CHAIRMAN. Senator Kerr.

Senator KERR. Mr. Keyserling, do you have the figures on total employed today?

Mr. KEYSERLING. Yes, sir; in January 1955 (the February figures are not out yet) total civilian employment, as listed here in the official report of the Council of Economic Advisers prepared for the Joint Committee on the Economic Report, was 60,150,000 persons.

Senator KERR. Do you know what it was in January 1953?

Mr. KEYSERLING. I am sorry, but these figures do not carry 1953 back on a monthly basis. The yearly average for 1953 was 62,213,000.

Senator KERR. 62,213,000?

Mr. KEYSERLING. Yes, sir. I can get you the figure for January 1953.

[NOTE.—January 1953 civilian employment was 61,003,000 persons.]

Senator KERR. Do you have it for 1952?

Mr. KEYSERLING. 61,293,000.

Senator KERR. 61—how much?

Mr. KEYSERLING. 61,293,000 in 1952; 62,213,000 in 1953. Currently, in January 1955, 60,150,000.

The CHAIRMAN. We should like to have figures for 1939 at that point.

Mr. KEYSERLING. In 1939 civilian employment was 45,750,000. Of course, there were two things then. We had a smaller population and a smaller country, and as I have said, unemployment was high in 1939.

Senator KERR. The labor force is actually 2 to 3 million greater today than it was in 1953.

Mr. KEYSERLING. Let me illustrate that, Senator.

Senator KERR. It wouldn't be that much higher in 1953. It would be a million and a half to 2 million above 2 years ago.

Mr. KEYSERLING. I can give you that. If we look at the employment figures, the January 1955 employment figure is 2 million below the 1953 average and 1¼ million below the 1952 average. The 1954 average employment level of 61,238,000 was a million below the 1953 average. So by a test of that kind, it is bad. That isn't the whole test, because you also have to factor in the growing size of the labor force.

Senator KERR. That is what I was getting at.

Mr. KEYSERLING. So that unemployment has increased far more than employment has decreased.

Senator KERR. It runs between 750,000 to a million a year added to the labor force?

Mr. KEYSERLING. That is correct.

Senator KERR. I want to thank you for the statement that you have made, Doctor Keyserling. I want to say that, as Senator George does, I agree with your basic philosophy that the wealth of our country depends upon the productivity of our country and its people.

I must say that I also agree with your recommendations. I think the proposal before us is inadequate, but I certainly think that it is better than none.

It is inconceivable to me that men would say that the proper way to handle a measure which is wholesome but inadequate, is to destroy it. It would seem, if you were going to do anything to it, you would increase rather than eliminate. I want to say you have fully substantiated your position, and I think your recommendations are vital and valid.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Keyserling, I gathered that you have endorsed this $20 tax credit, but reluctantly, only to the extent that you think it should be more; there should be greater relief; is that correct?

Mr. KEYSERLING. Yes, I think the stimulation to consumption at this time should be greater.

Senator WILLIAMS. What figure would you suggest?

Mr. KEYSERLING. Senator, I always try to draw a line between the legislative function and the analytical economic function. I am not trying to evade your question, in any way. I wouldn't feel it very responsible on 30 seconds' notice to describe the exact contours of what would be the right tax reduction.

Senator WILLIAMS. I recognize that.

Mr. KEYSERLING. Broadly speaking, to try to answer your question fairly and frankly, I think that the size of the consumer supplementation by tax reduction that was under consideration last year, but not enacted, would be desirable in the current economic situation.

In other words, I think that a tax reduction roughly equivalent to what would have been achieved in the form of a lifting of the personal exemptions by one or two hundred dollars would give the economy a powerful and desirable stimulant.

I do not mean by that to imply that this is a better form of tax reduction than a per capita tax credit. I think there is a good deal to be said on both sides of that question.

Senator WILLIAMS. Lifting the exemptions $100, if I am not mistaken, costs around $2 billion.

Mr. KEYSERLING. I think lifting the exemptions by $100, once it took full effect, would have approximately the same effect—roughly the same effect as the tax credit.

Senator WILLIAMS. The tax credit of $20?

Mr. KEYSERLING. Yes, sir; roughly speaking.

Senator WILLIAMS. Which approach would you recommend?

Mr. KEYSERLING. I think that the arguments as between the two are so closely balanced that I have never been able to formulate, in my own mind, a clear conclusion as to which is preferable.

Senator WILLIAMS. Then you are not opposed to the principle of tax relief in the form of a tax credit, whether it be $20 or $30 or $40; is that correct?

Mr. KEYSERLING. That is right. That is a proposal that has a large measure of equity in two respects. In the first place, it relates to the size of the family, which I think is an equitable proposition, and secondly, while it grants on a per capita or dollar basis the same amount of tax relief, regardless of income, obviously, in its real effect, it grants the larger relief as you get progressively lower in the income structure, because a $20 or a $40 or $100 tax credit as against the large income means not much, and as against a smaller income, it means progressively more.

Senator WILLIAMS. If it is equitable to enact such credit as a tax reduction, it would also be equitable to impose such a tax if and when the time ever came to impose taxes? I assume you would agree to that; is that correct?

Mr. KEYSERLING. I don't think it would be equitable in an inflationary situation to impose——

Senator WILLIAMS. Assuming that the conditions were such that we were all in agreement that taxes should be raised, would you advocate raising taxes in this principle, or do you only advocate it in the principle of reducing taxes?

Mr. KEYSERLING. I don't think this principle is similarly applicable if you had an inflationary situation and needed to raise taxes, because nobody would propose that you impose more taxes on a family as the family size became larger.

Senator WILLIAMS. Suppose you were not raising the taxes to check inflation, but you were raising them in an expanding economy to raise revenue?

Mr. KEYSERLING. I can hardly conceive of a situation where the tax should be geared progressively to tax the larger families more. Therefore, I don't think this particular proposal——

Senator WILLIAMS. You would recommend it as a medium to reduce taxes and oppose it as a medium to raise taxes?

Mr. KEYSERLING. This particular device. I don't think the pattern of tax reduction in a given set of economic circumstances is always the same as in other circumstances.

Senator WILLIAMS. I just wanted to know.

Mr. KEYSERLING. Yes, sir; that is my answer.

Senator WILLIAMS. You say you would equally be in favor of raising the exemptions. Is that on the basis that raising the exemptions would create more employment?

Mr. KEYSERLING. I mean lowering the taxes at this time would create more employment.

Senator WILLIAMS. That it would create more employment at this time if we lowered the taxes?

Mr. KEYSERLING. I believe definitely that it would. The great area for the expansion of consumer buying, as Senator George, I think, properly indicated, is among the great mass of consumers, where their spending relates very closely to their disposable income.

In other words, you always have enough total purchasing power somewhere to provide full employment, but if the purchasing power gets allocated through the process of economic development in certain ways, too much of the purchasing power converges at points where the people do not spend proportionately more as they have higher incomes, and therefore you get an excess of savings over investment.

I think that is happening now and I think the stock market boom is one clear indication of it.

Senator WILLIAMS. Then if in theory reducing taxes would expand the economy and expand the employment picture, then increasing taxes would have an adverse effect in the period of unemployment; is that correct?

Mr. KEYSERLING. In a period of high unemployment, increasing taxes, generally speaking, would have an adverse effect.

Senator WILLIAMS. I noticed in 1929–30 when there was the depression, following those years, in the succeeding years beginning with 1934, there were five consecutive tax increases, and no reductions, and in 1939 we ended up with 9 million unemployed. Do you think that unemployment could be charged to bad fiscal policy in raising taxes during that period?

Mr. KEYSERLING. Let me answer your question in two parts. I think you will conclude when I have finished my answer that I have given you a fair answer.

Part one, I think the fiscal policy of those administrations in seeking to increase taxes during a serious business depression was one of the biggest economic mistakes they made. Let me say here, Senator, that I hold no brief for mistakes. I don't care whether they are Republican or Democrats. I think the policy of raising taxes during the period following 1933 was a wrong economic policy. That is my answer to the first half of your question.

Coming to the second half of your question: As to whether this tax policy was responsible for the very high level of unemployment. I never ascribe a high or low level of unemployment exclusively to one area of economic policy.

Senator WILLIAMS. I should have said a contributing factor.

Mr. KEYSERLING. I think unemployment would have been reduced more rapidly if taxes had not been raised; however, if you take the whole complex of national economic policies at that time, I would not imply that the totality of those policies on net balance was undesirable. I think some of the policies were very good. I think some of them were poor. I think on net balance they helped the economy. I don't think they helped it enough, and I agree with you that those particular tax policies seem to me undesirable.

Senator WILLIAMS. In 1948, a time when the Federal budget was in balance, Congress enacted a tax reduction bill which raised the personal exemption from five to six hundred dollars. At that time you were economic adviser to the President. Were you in agreement with his opposition to that action?

Mr. KEYSERLING. Let me answer that question in two parts, and when I get through I think you will feel that I have given you a fair answer to both parts.

One, looking backward—and I hope we all profit by looking backward and gaining from experience—I think it now appears that the tax reductions which the Congress enacted at that time were wise and desirable, and that they had a beneficial effect upon delimiting the scope of the 1949–50 recession.

In other words, looking backward and trying to gain continuously on the basis of experience, I think now that those tax reductions were desirable. At the time I was part of an administration which opposed those tax reductions.

Senator WILLIAMS. You were in agreement with the opposition at that time, were you?

Mr. KEYSERLING. I have always taken the position that I would not testify as to whether or not I differed with the President whom I served at that time. I was serving him, and I think that is a fair and reasonable canon of responsible public service; however, I am willing to say now that looking backward, Congress was right and the position taken by the administration was wrong.

Senator WILLIAMS. Are you speaking freely as an individual today or are you representing someone today?

Mr. KEYSERLING. I am speaking freely as an individual. I think I always tried, insofar as I could, to speak freely as an individual even when I was in the Government service. I certainly never stultified myself.

Senator WILLIAMS. I have no further questions at this time.

The CHAIRMAN. Senator Long?

Senator FREAR. I yield to Senator Long. He has to leave.

Senator LONG. I would like to ask you about the statements you made on page 13 where you said that the tax relief given thus far during the previous Congress actually had the effect that was desired. I wonder if I got that from your statement. For example, do you feel that the predictions and the anticipations that there would be large additional investments in plant and equipment actually occurred as a result of the reduction of the excess-profits tax and the reduction of the tax on dividends and the allowance of accelerated depreciation for industry?

Mr. KEYSERLING. I am going to up the score one and answer that in three parts.

First of all——

Senator KERR. You refer to the statement in which Dr. Keyserling said that the tax reductions granted the consumer translated themselves——

Mr. KEYSERLING. First of all, there were several kinds of tax reductions.

Senator LONG. Have I properly stated your statement there? I might have stated what I drew from it rather than what you stated.

Mr. KEYSERLING. The question is properly stated. First of all, as to the reduction of taxes which flow directly to consumers; that is, the taxes which supplement consumer disposable income, which is personal income after taxes. Those tax reductions did have a salutary effect. In other words, the size of the tax reduction was translated almost 100 percent into increased buying by consumers. In other words, the value of that type of tax reduction was somewhere in the range of $4 billion-plus and the stimulation of consumer buying by those tax reductions was somewhere in the nature of $4 billion-plus.

There was also a second type, if you want to call it that——

Senator LONG. May I get the first part straight. You say the amount of reduction that occurred through giving the consumer tax relief directly was reflected in that same amount.

Mr. KEYSERLING. Approximately the same amount of increased consumer spending.

Senator LONG. Some people would urge that if you had a reduction of taxes, let us say, of 2 or 3 billion dollars in consumer taxes, that would result in even more spending, by a sort of second and third turnover. Do you place emphasis on that?

Mr. KEYSERLING. I do, indeed. I was talking about the immediate increase in consumer spending. I think consumer spending has a multiplying or galvanizing effect throughout the economy. If you get 2 or 3 billion dollars more of consumer spending, it has an effect on business investment.

If, on the other hand, you take the tax reductions which were directed toward business investment directly—and I include within that the dividends credit, the carryover of corporate losses and certain other changes in business taxes——

Senator LONG. Excess profits?

Mr. KEYSERLING. And excess profits. Let me separate that out because I want to comment on the excess-profits tax separately.

Those reductions in so-called business taxes or investment taxes did not correspondingly show an increase in business investment. In other words, the decline in fundamental business investment, in plant and equipment, has continued despite those reductions.

What is the reason for that? As I analyze it, the reason is this: There are certain periods when business investment is stifled by an inadequacy of funds and retained earnings and profit incentives. In such periods, a reduction of business taxes will stimulate business investment. There are other periods when the lag in business investment is caused not by an inadequacy of funds or incentives, but by an inadequacy of consumer markets, and the way I analyze it, that has been the situation since the commencement of the recession, and even now.

I think one who looks fairly at the level of retained earnings, at the level of profits, at the level of dividend payments throughout the recession, will join in the conclusion that the downturn in this business investment has related to available consumer markets and not to an inadequacy of funds.

Senator LONG. What is your attitude toward the excess-profits repeal, at least the expiration of it?

Mr. KEYSERLING. As I understand it, that is not a current economic issue, because I don't think there is widespread sentiment for the reimposition of the excess-profits tax. You are referring to this very recent removal, not the removal just after World War II. I think the removal after World War II was a mistake.

My own personal view, which I expressed publicly—and a lot of my friends disagreed with me on this—as of the time the excess-profits tax was removed, is that the recent removal of the excess-profits tax was correct. I do not regard, except in highly inflationary periods or semiwar conditions, the excess-profits tax as a particularly good kind of tax. There are a lot of differences on that. I was not opposed to the removal of the excess-profits tax.

Senator LONG. I was in favor of removing the excess-profits tax; however, I am trying to find what the results have been. Do you think that is one of the factors that contributed, for example, to the large increase in the share prices on stock market?

Mr. KEYSERLING. I think that a combination of factors have contributed to the increase in the stock market, and I want to mention some of them, because I think it is very relevant to the matter we have under discussion here.

In the first place, I am not so concerned—I want to emphasize this this point—about the current level of stock prices as I am about the rate at which they have been rising. There are 2 entirely different things involved there, and are due to 2 entirely different factors. If you look at the current level of stock prices, I think, allowing for the change in the price level since before World War II, allowing for the increased size of the economy, allowing for the fact that stock market prices had lagged, allowing for the greatly increased amount of institutional capital available in the market, I am not at all sure that the current level of prices is too high in general.

Let me come to the second and even more important part of the question, because we live in a dynamic economy. I do think that the rapid increase in stock market prices at the pace at which they have increased since the stock boom started, whether it was 8 months ago or a year ago, has been excessive, has been disturbing and is, I believe, dangerous.

Let me illustrate that. I think it is due to approximately the same economic causes that I have been analyzing here. In other words, this is what happens. First, you had this advancing productivity which reduced production costs, particularly in a large business enterprise. As your production costs reduced without a corresponding passing along of buying power to the consumer, either through lower price or sufficient wage changes, this tended to run up the profitability of the large so-called blue chip concerns. That is point one.

Second, the combination of the excess profits tax repeal, of the dividend tax changes of last year, which I regarded as undesirable as to timing, and certain other tax changes which I regarded as undesirable because they wasted precious tax revenues at a point where they wouldn't do much good, the combination of all these tax concessions conspired to increase blue-chip profitability and also to increase doubly the disbursal of dividends because, with the fundamental trouble in the economy, business investment was moving downward. When business investment moves downward, before you get a very serious cumulative downturn, you have a smaller part of retained earnings being used by corporations for basic imvestment, and the passing out of more of it in dividends, so all the factors which were creating the imbalance between production and consumption and causing unemployment to rise, conspired in the short run to push the stock market upward.

There is nothing new about that. That happened between 1927 and 1929. I don't mean to intimate that we are in as serious a situation now as we were then. There are lots of reasons why we are not in as serious a situation now. There are more supports in the economy. The stock market isn't supported as largely on credit. But although the situations are not strictly similar, there is a strong point of analogy. A booming and zooming stock market at a time when farm income is going down, when personal income is wavering, when unemployment is rising, indicates imbalance in the economy.

If through the stimulation of consumer buying by tax measures of that now under consideration, and in other ways, you got a better balance, you would have a rising level of employment and fundamental business production, you would have a rising level of business investment and you would have a more stable investment in the stock market.

Senator LONG. Then you do not believe that these reliefs, the relief on dividend and the accelerated depreciation, at the time they were given, had the desired effect of increasing plant expansion to the degree that we hoped for it?

Mr. KEYSERLING. The figures have definitely shown that they did not.

Let me say one thing. I want to ask the indulgence of the committee if my answers are too long, but the questions are very penetrating.

I am not against business investment. If anybody looks at the record, going back to the Korean war, I was a strong advocate of fast business investment. I favored the accelerated tax amortization at the beginning of the Korean war, when many of my friends opposed it. I thought we needed a vast expansion of our productive facilities, so that in the long run we would be able to carry both the defense burden and consumer supplies in the face of a long defense emergency.

I recognized that this fast stimulation of business investment in that period would add somewhat to short-term inflationary pressures, but it was a wise thing to do in the long run; therefore I favored the accelerated amortization, and I favored many other measures to stimulate business investment.

I think, as a matter of hindsight, that this turned out very well. The very people who had looked with ridicule upon an idea that I had that the American economy could be expanded enough to carry this defense burden, looked backward 2 or 3 years later and saw that it could be done and in fact was done.

Now we are in an altogether different kind of economic situation. We are not confronted with the need to raise business investment and business production and business tools further and further ahead of the need for an expansion of consumption. We have an overinvestment in tools and equipment relative to the consumer take.

I think that the first economic job now is to bring consumption up to a higher level, and then business investment will move and grow on a more stable and more healthy basis.

Senator LONG. In other words, it is your theory that before we undertake any further tax relief calculated to make business more profitable, and to try to create more plants and equipment, we better try to give the type of relief that would expand purchasing power so as to bring into actual productivity those plants that we already have?

Mr. KEYSERLING. Absolutely. That is not because I am against business profits. Any fair analyst knows that when an economic downturn gets going in earnest, business profits decline faster than anything else. Business profits declined faster after the middle of 1953 than consumer income did. That was bad. But you have to look at the cause and result. It wasn't the decline in business profits that initiated the economic downturn. It wasn't the decline in business investment that initiated it. Consumer markets failed to keep up with our growing productive power and, in consequence of that, business declined. As everybody knows, business bases its investment plans primarily upon current and prospective markets; this is such a truism that I sometimes wonder why it needs to be debated.

The businessman wants to sell his goods. Whether he is an automobile manufacturer or a steel manufacturer, what he and his research people and his analysts are looking at is what are the prospects for the sale of his goods.

I can say without fear of challenge that there has never been a time in recent economic history, even with the high taxes that were necessitated by war conditions, that business investment has not expanded handsomely when the demand for goods was expanding.

Senator LONG. Can you answer just one last question for me:

To your knowledge, can you tell whether the economists of this country feel that this addition of perhaps a billion and a half dollars in consumer spending as a result of tax reductions would have a disastrous inflationary result?

Mr. KEYSERLING. Senator, I try to speak frankly for myself. I will not undertake to name other people and ascribe to them their views. In general, my view is that the majority of objective economists would not say that a billion and a half or 2 billion or 3 billion net addition to consumer spending at this time would be inflationary. I am sure that is the majority view. But I am not going to appear before a congressional committee and say what Mr. X thinks. It is not fair to him.

Senator LONG. We certainly have on hand surpluses of a great number of things, and we have the productive capacity to produce surpluses of just about everything else; do we not?

Mr. KEYSERLING. There is no question about that. The very thing that the Senator from Pennsylvania here cited in the coal industry is happening now in other sectors of American economy. It isn't happening to the same degree, but the same process of mechanization which took place in coal is taking place in automobiles. It is taking place in other parts of the economy. It is taking place in automobiles. The fact that employment was more than a million lower now than a year earlier, although production is higher, is not primarily due to the coal situation. It is due only fractionally to that. I think only about a hundred thousand or less is due to that change in coal. It is due basically to manufacturing and construction, and it is due very basically to what is happening in mechanization and technology in the automobile industry and in similar industries. Automation is on the march. It can be an enormous asset to the American economy; it doesn't need to be a liability.

I get very worried when I find Americans regarding advancing technology as a liability because we have two and a half million idle men, the most skilled and productive in the world, or because we have idle plants and idle equipment, when the Communist menace is increasing its output and its productivity so rapidly.

I get worried about that. I get worried when experts—and I think I can say this fairly—almost without exception feel that we ought to have a somewhat higher level of defense outlay and when it is said that we can't afford it, not on the ground that we don't need it from the viewpoint of the national security, but on the ground that we cannot afford it. That concerns me. I am concerned when we have an attitude on the domestic front with relation to things as basic as roads and schools that we cannot afford it, when we have unemployed manpower and unemployed resources.

I am not disparaging Senator George when I say that he is a conservative economist. I think I am in many respects. There is nothing more conservative in the world than to say that the real resources of a country are in its people and plants and farmlands and tools. When you have them idle to the amount of 4 million men or $30 billion of national product, that is your real central economic problem, and every effort to balance the Federal budget, while neglecting that problem, is putting the wrong priorities first, and, secondly, will not balance the Federal budget because you will not be able to balance it in a period of increasing economic slack. If unemployment rises, you will have more costs of all kinds.

Senator LONG. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Flanders?

Senator FLANDERS. Dr. Keyserling, I would like to ask you some questions which will enable us to discover how far we go along together.

The first question I would like to ask you is this: Would you think it a satisfactory statement of our national economic objectives if we say that they look toward a sustained expansion of employment and production?

Mr. KEYSERLING. Yes, sir.

Senator FLANDERS. That is item No. 1 off.

Item No. 2: Can we agree that the returns from business flow into investment and consumption, and that the real problem is to see whether there is the proper balance between them, whether the proper amount goes into each of those?

Mr. KEYSERLING. I agree completely with that.

Senator FLANDERS. That is No. 2.

No. 3: Of the funds that go into investment, is there a little difference in character between those which go into the simple expansion of existing means of production and those which go into what we may call development, the one being a simple expansion by increasing the hours, increasing shifts, hiring more men, what have you, or even an expansion of existing types of plants, on the one hand, and the other, which goes into the type which involves research and invention, new ideas, new developments of all sorts. Would you say that the type of expansion which goes into simple expansion is more nearly automatic under proper relationships between investment and consumption than is the development phase which requires some new thinking, some new undertaking?

Mr. KEYSERLING. I think, as the Senator says, there is a distinct difference between the two. The differences are manifold, and their exact character would depend upon more of a refinement of what is meant by development.

For example, I think that funds which go into the improvement technologically of machinery have a different kind of effect than the funds which go merely into plant expansion, because insofar as they go into the actual improvement of machinery rather than into plant expansion in the traditional sense, they tend to increase productivity at a faster rate. I do think that while the level of business investment now has veered somewhat downward, I think—I couldn't substantiate this in detail, because, as you know, it is hard to get at the figures—that relatively more is going into the kind of basic investment, that even larger productivity and technological advances are resulting, and therefore we are getting, even more intensively than in earlier periods, a rapid expansion of productivity ability per man employed, which is what I was talking about in my earlier statement.

Senator FLANDERS. I do not have to join you in your analysis in whether too many or too little is going into those types. I was merely inquiring as to whether you agree that there was some difference.

Mr. KEYSERLING. There is a decided difference.

Senator FLANDERS. There does seem to be. I have always felt the developmental end of it depended more on psychological factors and the expansion end of it depended more on market factors.

Mr. KEYSERLING. I would agree with that.

Senator FLANDERS. It is hard to draw a distinction.

Mr. KEYSERLING. I think if you change the word "psychological" to "future expectation," I would agree completely that what a man does in one area depends more on future expectation, and what he does in the other area may depend relatively more on current markets. In the final analysis, both depend on markets.

Senator FLANDERS. My purpose in asking these questions was to make it easier for me to analyze the presentation you have made here this morning by trying to find out whether in many respects we both start from the same point of view.

I have one question which I wish to ask which is in this line of trying to find out how far we agree.

The question I would like to ask is whether the point of view that you hold leads toward permitting a stabilization of the debt, leads toward an increase in the debt, leads toward, say, an increase in the debt faster than the increase in national production or leads to an increase of the debt which has no particular ceiling.

Mr. KEYSERLING. It is my view—and I want to emphasize this, and I am glad the Senator asked the question—that a fiscal policy which helps to maintain full employment and full production produces a budgetary surplus, and therefore permits some reduction of the national debt, but in any event reduces the size of public outlays relative to the size of the national product, which I regard as the prime test of whether either the debt or Federal outlays are getting too large. In other words, I believe that if a rounded recovery program were adopted—and I certainly agree that this tax proposal alone is not a rounded recovery program, nobody could call it that—we would so enlarge the national output through the restoration of full employment and full production, that we would shortly find a budgetary surplus at generally existing levels of taxation and outlays. We would find that the Federal budget on the expenditure side was assuming a decreasing proportion of the total national product, and we would find the capacity for further tax reductions without unbalancing the budget further.

It is true nonetheless that the immediate book consequences of and change in taxes is to unbalance the budget further if you propose the reduction of taxes, and to balance the budget further if you propose an increase in taxes. But I say that is an astigmatic view, not in perspective, and not related to the general economy.

Let me give an extreme example to illustrate my point. Suppose someone said we should now increase business taxes by $15 billion. From the viewpoint of the immediate look at Federal bookkeeping, that would obviously produce a big Federal surplus right away, but going beyond that to the impact on business and profit levels and incentives, an immediate $15 billion increase in business taxes would, in my judgment, soon result in economic devastation and a bigger deficit.

I use this merely to illustrate the point, that it is always true that any proposal for tax reduction in its immediate bookkeeping effect unbalances the budget further. If you reduce taxes, it seems on first glance to further increase the deficit, while if you raise taxes, it seems to reduce the deficit. But we must look beyond that to the long-term effect on the economy and consequently on the Federal budget.

I have uniformly maintained a position that the ratio of Federal expenditures and taxation to the size of the economy should be reduced below the levels which existed at the peak of the Korean war. They are lower now than that. I think they should be still lower. But I want to see them brought lower along the lines of an economic use of resources that reconciles the Federal budget with the national budget, which reconciles the books of the Government with the books of the economy; and I would always put first what I understand Senator George put first, that tax policy which offers the best hope of enlarging the employment of manpower, wedded to the proper utilization of our tools and skills.

That will always increase the national product and will always lessen the budgetary problem at any level of expenditures dictated by our national needs.

Senator FLANDERS. Thank you. No other questions, Mr. Chairman.

The CHAIRMAN. Senator Frear?

Senator FREAR. Mr. Chairman, Dr. Keyserling, you are now, I gathered from the previous statements, making statements as an individual.

Mr. KEYSERLING. That is correct.

Senator FREAR. Whereas back in 1948 you may have been making them as part of an administration team.

Mr. KEYSERLING. But still as an individual.

Senator FREAR. But still as an individual. I think you further stated a while back that your views in 1948 as viewed today may be in error of some of the tax programs at that time. Do you suppose that your views 2 or 3 years from now may prove your statements today to be in error?

Mr. KEYSERLING. They certainly may, or they may not. I have a lot of respect for people who learn from experience. I have made no general confession that my views were generally wrong. I think, as most intelligent men think, that their views are generally right.

I have said on certain occasions, it turned out that some of the things that were done by the administration I served might better have been done otherwise. It seems to me that that is something that anyone can say very proudly. Other things being equal, I would rather trust the judgment of a man who says that, than the judgment of somebody who says he was always right.

Senator FREAR. That I surely agree to now. I compliment on your statement that you made that you do now think some of those things might have been in error, which I must admit gives me more confidence in what you are saying today.

Mr. KEYSERLING. I think the experience in 1949 is very much in point. I think the stimulation of consumer income through the reduction in taxes in 1948 did provide a powerful and helpful bulwark against the recession which occurred in 1949, and if anyone examines the statistics on what happened before the advent of the Korean war, he will find the effect of that tax policy was helpful to the economy, even in terms of the Federal budget.

Senator FREAR. That lessened the recession. It had an effect of lessening the recession.

Mr. KEYSERLING. I think it did.

Senator FREAR. Last year, Mr. Keyserling, before this committee, we had testimony which resolved itself into whether the tax reduction should fortify increasing purchasing power or expanded facilities. I happened to be one who thought the increased purchasing power was more favorable to our economy than those on the opposite side. I was responsible, for sponsoring a bill to increase personal exemptions, along with Senators George and Kerr.

Is it not a fact, in your opinion, that there are times when you had better give tax relief for increased expansion of the purchasing power of individuals versus the increased expansion of productive capacity, and there may be times when the exact opposite may be true?

Mr. KEYSERLING. That is absolutely correct. I am sorry, Senator, that a little while back you were temporarily out of the room when I elaborated considerably upon that. I wanted to emphasize the fact that we shouldn't take a doctrinaire attitude toward these matters. I have never liked the idea of ranging people into two camps, where one says we should always stimulate consumption and the other says we should always stimulate investment. I believe in a free and flexible economy, where it isn't desirable to do the same things all the time. If it were, we wouldn't have to think and judge from our past experience.

I gave the example of the Korean situation where it seemed to me highly desirable to stimulate a vast expansion of investment. I think the current situation and the situation last year call for an expansion of consumption as the right road to economic restoration and toward a full economy.

Senator FREAR. I think you answered my next question just then, which was that you have the same view now as you had last year regarding any reduction in taxes, that it should be for the increased consumption power.

Mr. KEYSERLING. I have the same view. Let me say this: It is marvelous what press releases can do. It is perfectly marvelous. The American people have the general impression that we are in a decidedly better economic situation now than a year ago. I say in all earnestness we are not. In the first place, when chronic unemployment is increasing, it is a serious situation. When people have been unemployed for a longer period of time, it becomes serious. If we look at the absolute figures on the level of output, we are only $5 billion or $6 billion higher than when we were at the low point, and we are $5 billion or $6 billion below where we were at the high point in 1953.

But that is not the whole story at all. We had more national output in 1939 than in 1929. You have to measure where we have been against the par for the course, and with 750,000 to 1 million new people coming on the labor force every year, with productivity increasing by 3.7 percent or more every year, the par for the course is determined by increased productivity and labor force, and measured by this we are further behind than a year ago. It is an alarming situation, particularly when you analyze the individual factors in the economy.

Let's look at how this recent upsurge in business occurred. First of all, if you trace it back to the automobile and the effect of automobiles upon steel, you will find a very large and powerful part of it there. Then pick up any business journal, pick up any trade magazine, and try to find anywhere a belief that automobile production can continue at anywhere near current rates for the remainder of the year. You will find production now at an annual level of between 8 million and 9 million cars and trucks, and the projected schedule is somewhere around 6 million to 7 million—on the high side. There is bound to be a decline, it seems to me and to most others.

Second, we hear about the tremendous fashion in which retail sales held up over the Christmas period. They did hold up as measured against last year or 2 years ago, but they didn't show any appreciable increase, and we had this additional population and labor force and productivity. So we were further behind par for the course.

Then you have inventory change. Of the whole change in the business situation between the third and fourth quarters of the year, over half of it, is represented by inventory change.

What does that mean? That means from the third quarter to the fourth quarter of last year you had a shift from an annual rate of inventory liquidation at about 4½ billion to 1½ billion, if I remember the figures correctly. That is not a basic change in fundamental investment and consumption. That is a situation that moves up and down in a jagged line, unless you hit a cumulative snowball one way or the other.

Most of that change in inventory traces back again to the automobile industry and the corresponding effect on steel and other industries.

We had eight economists before the Joint Economic Committee a month or so ago. They weren't economists from the last administration or from this administration. I happened to have been one of them. There was a man from McGraw-Hill. There was a man from the National Industrial Conference Board. There was a man from the National City Bank. The clear majority opinion reflected faithfully in the headlines of the newspapers was that unemployment is likely to rise this year.

Senator FREAR. I have gathered from previous statements you made that you saw very little difference, as far as the increasing of the purchasing power of the country was concerned, between a $20 or a set sum credit to taxes versus increases in personal exemption. I understood that correctly, did I not?

Mr. KEYSERLING. I don't mean to indicate that they are exactly the same. No two things are exactly the same. If I were making an extended economic analysis applied to the current economic situation, I might find some variance of preferability between the two. What I said was that, broadly speaking, they are both correctly pointed toward the stimulation of consumer economy and, broadly speaking, either would be a desirable form of stimulation at this time, and that, broadly speaking, a $100 increase in the exemption very roughly equates with the $20 tax credit.

Senator FREAR. In your opinion, there is an ample supply of capital to increase the productivity capacity of this country? There was last year and there is at this time?

Mr. KEYSERLING. Except for the peculiar problems of small business, yes.

Senator FREAR. I think you gave that example. I think you also said that the Communist countries, especially Russia, today are using all of their resources toward the line of increasing or expanding their productivity of the country versus any purchasing power of the individuals over there. Would that lead to the downfall of Russia in an economic system such as they have if they continue to do that?

Mr. KEYSERLING. I profoundly believe that any dictatorship which bleeds the people to support itself and to support a military machine will in the long run cave in. But the long run is a long time. There are a lot of intermediate dangers.

Senator FREAR. The final question is: It appears from magazines and from State agencies that they do not have available to them sufficient resources in order to carry on the State programs as far as capital is concerned, either through taxation or otherwise. There isn't an availability of capital in State financing, yet on the other hand, we seem to have an oversupply of capital for the increase of the productivity capacity in this country.

Is there any reason why the States cannot have more money for their needs as well as industry in this country?

Mr. KEYSERLING. The States did build up considerable reserves during the World War II period generally, but I think that we should bear in mind that the States in very important areas of the economy are carrying a very large part of the load.

Take, for example, education. If I recall the figures correctly, the State expenditures for education at the primary and secondary levels are somewhere in the neighborhood of $10 billion a year. As we all know, the Federal outlays toward that end are fragmentary and miniscule. Of course, I believe in a local and decentralized system of education, and not in a Federal system of education. Nonetheless, I do believe that all the young people who are being brought up are citizens of the United States, and some of them even decide to move from the States where they are born to the States in which they function when they grow up.

In view of that extreme burden carried by the States, this is one area in which the Federal Government might do somewhat more. The Federal Government has enormous revenue-producing powers that the States do not have.

Senator FREAR. I said the previous question was the final one, but you brought up another to my mind.

Is it better for the Federal Government to do the taxing and make grants to States rather than leaving an area to the States for taxation and permitting them to levy taxes and spend their own money?

Mr. KEYSERLING. I wouldn't make such a broad proposition. It would be inconsistent with our whole history. I belive in history. You cannot write on a clean white slate. I am in favor of a system of local responsibility and an appropriate Federal responsibility. I am in favor of a system of local and State taxation and a Federal system of taxation. I wouldn't dream of proposing such an extreme as the Federal assumption of the whole tax and spending burden. I think we have a good system in its broad outlines.

Senator FREAR. We have increased our field of Federal taxation in the past few years because of the war and other economic conditions, but we have given the States the opportunity of coming to Uncle Sam for assistance when in my own personal opinion they should rely on their own taxation and their own system of good judgment, and provide their own resources for their State expenditures, schools or highways or whatever it may be in that line.

We have continued to increase this in the Federal Government. Sometimes we have exerted influence over the States, in my opinion, unduly at times, but the trend has been to go to more centralized taxation and centralized grants. Do you concur in that continuation?

Mr. KEYSERLING. You cannot answer a question like that yes or no. I am not trying to duck questions. You talk about a trend. One would have to analyze the trend more carefully. You would have to separate it into its discreet and separate parts. If you asked me about education, I would say that I believe the Federal Government should bear more of the educational load than it has been bearing. If you ask about certain other things, I might say the reverse. I am for a system, for our American system, of division of responsibilities, among the States, the Federal Government, and the localities.

I don't believe that anybody can devise a precise mathematical formula that is good for all time. We have to be pragmatic. We have to look at the facts, we have to keep away from stereotyped formulas.

I do say that this is not exactly—I am glad you asked the question and it is relevant—what we are basically discussing here. We are here basically discussing areas wherein the basic economic policy is manifestly within the Federal area. Nothing I proposed is a State function. The only question is whether you should effectuate now or soon certain types of reductions in Federal taxation as a stimulant to the economy, or whether you shouldn't.

There is no way that the States can answer this question either yes or no. And so far as the Federal Government does use those broad fiscal policies which are clearly a Federal responsibility to reactivate the economy, the States as well as the Federal Government have, out of increasing income, increasing employment, more funds from which to draw tax revenues for the legitimate exercise of their functions.

Senator FREAR. I am sorry I took so much of your time. You just opened up an area. Perhaps I should ask you these questions someday when we can sit down in private.

Mr. KEYSERLING. We can do both.

Senator FREAR. Thank you very much.

Thank you, Mr. Chairman.

Senator SMATHERS. I wonder if we might make one more statement. We have invited another witness to appear, Mr. Ruttenberg, and we have also agreed to stop these hearings at 12:30. I know that Senator Barkley has to go to a luncheon at the White House, I believe it is, and I just would like to make an appeal that in order to cover the testimony of the other witness, since we started 10 minutes later, we could continue for 10 additional minutes past 12:30, and if no one objects, I hope we can do that, so we will have a chance to hear the second witness.

Senator MALONE. I will be unable to be here and I do want to ask a question or two. I see no reason why we cannot stay here until 1 o'clock.

The CHAIRMAN. The Chair will be glad to continue this hearing until 2:30.

Senator KERR. 2 o'clock.

The CHAIRMAN. The time for the afternoon meeting has been changed to 2:30, Senator, because Senator Barkley cannot be here until that time.

Senator BARKLEY. I accepted an invitation extended by the President to all of the young junior Senators here to come to a luncheon today. It will be impossible, without being discourteous to him, to get back by 2, unless I got up and left in the middle of the meal, which I am not going to do. I don't think we have to follow a rigid pattern here. We could meet at 2:30. Obviously, I won't get to ask Dr. Keyserling any questions before I have to leave, and I wouldn't mind asking him questions at 2:30 if we get back then.

The CHAIRMAN. The Chair doesn't suggest that we stay in session until 2:30, but the Chair is willing to stay for testimony that will throw light on this question.

Senator BARKLEY. I think that the testimony of Dr. Keyserling has been very interesting and very illuminating.

The CHAIRMAN. The Chair is willing to extend the hearings.

Senator SMATHERS. I am willing to waive my questions.

The CHAIRMAN. Suppose we proceed with the regular order and see what develops.

Senator Malone?

Senator MALONE. Mr. Chairman, addressing my remarks to the witness, as I gather here, his idea generally is that when there is unemployment, as there obviously is at the present time, your idea is to reduce taxes on the greatest number of people possible which, in turn, creates a demand for greater production and results in actual production increases that will take up the unemployment. Did I follow you?

Mr. KEYSERLING. That is correct; yes, sir, especially as to taxes on middle-income and low-income consumers.

Senator MALONE. I take it that your principle has not changed over the years, that that is the principle that you generally follow.

Mr. KEYSERLING. Yes; I have been generally in favor of that type of economic policy.

Senator MALONE. When did you go to work for the administration, the past administration?

Mr. KEYSERLING. For which administration?

Senator MALONE. Are you working for this one?

Mr. KEYSERLING. I think I am helping them. I am not working for them.

Senator MALONE. Are you getting paid?

Mr. KEYSERLING. No, sir.

Senator MALONE. When did you start getting paid from the other one?

Mr. KEYSERLING. In 1933.

Senator MALONE. And you drew pay until when?

Mr. KEYSERLING. Until 1953. That is coincidental with certain other events.

Senator MALONE. That lays the foundation for my question. Thank you.

In 1934 what was the unemployment in the United States?

Mr. KEYSERLING. In 1934? I have the figures here.

Senator MALONE. Yes, I would be glad if you would put them in the record.

Mr. KEYSERLING. I will be glad to put them in the record.

Senator MALONE. Please give me an answer here as to 1934.

Mr. KEYSERLING. I don't have the figures in my head for each year separately all the way back that far, but let's see if I can find it right here.

Senator MALONE. An estimate will do.

Mr. KEYSERLING. I want the estimate to be correct. Here we are. In 1934 unemployment was 11,300,000.

Senator MALONE. 11,300,000?

Senator MARTIN. What was the population of the United States at that time?

Mr. KEYSERLING. I don't have the population figure, but let us say we subtract on the rough average, that is 20 years ago, I should say, somewhere around 135 million, maybe.

Senator MALONE. What was the unemployment in 1940?

Mr. KEYSERLING. Unemployment in 1940 was 8,120,000.

Senator MALONE. Do you have the partially unemployed number at that time there?

Mr. KEYSERLING. No; because those figures were not computed at that time.

Senator MALONE. I can furnish that a little bit later—it was in the neighborhood of 8 million.

Mr. KEYSERLING. I would like to have them.

Senator MALONE. What was the unemployment figure in 1950?

Mr. KEYSERLING. 3,142,000.

Senator BENNETT. Will the Senator yield for a clarification question?

Senator MALONE. Yes; we should have the figures before the war started.

Senator BENNETT. Is that the end of 1950 or the middle of 1950 or the beginning of 1950?

Mr. KEYSERLING. That is for the year as a whole. I don't have them broken down. That is the figure for the year.

Senator BENNETT. People are unemployed as of a given date.

Mr. KEYSERLING. They are also unemployed, Senator, at a given second. I cannot give you the figures for a given second.

Senator BENNETT. These statements you have given; are these gathered at the end of these years?

Mr. KEYSERLING. I am gathering these figures from the Economic Report of President Eisenhower. If you feel that for 10 years back or for 20 years back they should have been broken down on a month-to-month basis, I would agree with you.

Senator BENNETT. You misunderstood my question. I am trying to find out at which point in the year that figure was gathered.

Mr. KEYSERLING. I don't have the breakdowns month-by-month going that far back. They are not in the published manual. They can be obtained.

Senator BENNETT. You are apparently still misunderstanding my question. Is that the average for the year?

Mr. KEYSERLING. That is the average for the year.

Senator BENNETT. O. K.

Senator BARKLEY. Mr. Chairman, may I ask you to yield there? What was the unemployment for 1933?

Mr. KEYSERLING. Unemployment for 1933 was 12,830,000 and for 1934 it was 11,340,000. Of course, I do recall, in response to the Senator's question, because of some of the highlights, that during part of 1932, for example, the figure was much higher than the average for the year. So the Senator is correct to that extent, but I couldn't out of my memory——

Senator BENNETT. My concern was not with 1932, but with 1950, because the Korean war began in 1950 and undoubtedly unemployment was less the first part of the year than it was the last part of the year.

Senator KERR. Greater, you mean.

Senator BENNETT. Yes, greater. The unemployment was greater.

Senator MALONE. What was the unemployment in 1949?

Mr. KEYSERLING. 3,395,000.

Senator MALONE. I expect that would help the situation.

Mr. KEYSERLING. In 1952—1952 was at least a quasi-peacetime year—unemployment was only 1,637,000.

Senator MALONE. What do you mean by quasi-peacetime year?

Mr. KEYSERLING. It was a year which was not a year of general war, although we did have in the economy some factors based upon the mobilization.

Senator MALONE. That was when we had the police action?

Mr. KEYSERLING. Yes. In 1951 unemployment was 1,879,000. In 1952, 1,673,000. In 1953, unemployment was 1,602,000. So that for the 3 years running from 1951 through 1953, unemployment, it seems to me on a quick glance, averaged about 1,700,000 plus. In the first half of 1953 unemployment was 1,634,000. In the second half of 1953 it was 1,570,000. In 1954, as I said, it was 3.2 million. Currently it is about the same. This refers only to full-time unemployment.

Senator BENNETT. About the same. Weren't the 3 years you just read to us the years of actual fighting in Korea when the Military Establishment was stepped up and the supply of munitions and war material for the Government was stepped up?

Mr. KEYSERLING. That is true, Senator. Let me say this. I am not trying to make the point that a war economy does not provide full employment. Obviously, a war economy does provide full employment. All I am saying is that the American people want to and deserve full employment, even when we don't have a war economy, and the task of economic policy is to see how we can get it. I am not challenging the point that there was full employment when we have had war.

Senator MALONE. You gave the unemployment as 3,142,000 in 1950. My challenge was your use of the term "quasi-peacetime" when we were at war in Korea.

Mr. KEYSERLING. That was not the same kind of economic situation as existed in 1944. It was obviously a period that could be called quasi-wartime or quasi-peacetime.

Senator MALONE. You hold the theory that it was a police action, not a war?

Mr. KEYSERLING. That is right, it could be called a police action or a small or localized war.

Senator MALONE. The Korean war killed 35,000 or 40,000 boys and wounded about 200,000, but that was a police action; however, I would understand from your philosophy, if you were allowed to run the Government now and put your policies into effect, there would be no question of unemployment. We would have no unemployment.

Mr. KEYSERLING. There certainly would be some unemployment. I would not be any more infallible than other people. It is a hard, tough problem, and requires the joint brains and good will of lots of people. Fortunately, we live in a free country where no one person even claims he has all the answers, or the authority to apply his answers.

Senator MALONE. I gained from your testimony that you had nearly all of them. I did not detect any hesitation in your voice. Would you say that the tax system is all to blame for this unemployment or would you say that imports from low-cost labor countries might have some effect on the unemployment situation?

Mr. KEYSERLING. I think there is no more fallacious reasoning than to ascribe either prosperity or depression to any one factor. There are a lot of factors at work. Tax policy is one of them, and there are many others.

Senator MALONE. Would you say that the trade policy, foreign trade policy followed since 1934 of continually reducing the duties on articles produced in the United States and putting the low-cost labor in more direct competition with the high-standard-of-living workingmen in this country would have an effect, an appreciable effect, on unemployment, in increasing it?

Mr. KEYSERLING. No. I am rather inclined in that particular matter to agree very heartily with the current administration in its efforts to reduce trade barriers.

Senator MALONE. You call them trade barriers?

Mr. KEYSERLING. They call it trade barriers.

Senator MALONE. What did you call it?

Mr. KEYSERLING. Trade barriers.

Senator MALONE. Let's get this all straight. What is a trade barrier?

Mr. KEYSERLING. An obstacle to a free flow of trade.

Senator MALONE. Would you call it a trade barrier if the duty as called for in the Constitution of the United States simply made up the difference in the wage standard of living and the taxes and the cost of doing business in this country as compared to the chief competitive country on each product? Would you still call it a barrier if it made up that difference and was flexible to keep pace with it?

Mr. KEYSERLING. Anything that restrains trade is a trade barrier. That doesn't mean that every trade barrier is undesirable or unconstitutional. The word "barrier" is not a word of praise or opprobrium. It is simply a descriptive word. Anything that interferes with the flow of trade is a trade barrier. Some of those barriers may be desirable and some may be undesirable.

Senator MALONE. I understand. A barrier, however, is somehow made to sound bad—much worse than a flexible duty to just make up that differential of cost due to the difference in wages, taxes, and cost of doing business.

Mr. KEYSERLING. If if reduces——

Senator MALONE. Just a second. You can at least control your line of conversation while we are asking you a question.

Mr. KEYSERLING. Thank you.

Senator MALONE. I would ask you if you consider it a barrier when it simply equals the difference in the wage standard of living and the cost of doing business including the taxes in this country as against the cost of doing business in a chief competitive country on each product, we will say, glassware, for instance, a particular kind of glassware. Would you consider that a barrier?

Mr. KEYSERLING. If the device reduces the amount of trade below what it would be without the device, then it is a barrier. That is my definition of a barrier, anything that stops or impedes or retards is a barrier. I am not passing judgment on the merits of it.

Senator MALONE. Without the duty or the barrier as you describe it, our own workmen could be put out of business. Would you give me your idea of the merits of such a barrier.

Mr. KEYSERLING. I happen, Senator, not to favor your proposal as you stated it. I happen to agree with the current administration in this matter.

Senator MALONE. You think it is an undesirable duty or barrier if it merely equals the difference in the wages paid, effective wages paid, and the taxes and cost of doing business here as compared to the competitive country?

Mr. KEYSERLING. As a general proposition; yes. That proposal as a general proposition is the exact antithesis of what we think of as free trade. I am not for absolutely free trade, but I am for a substantial measure of free trade, and therefore I feel that barriers in the form which generally and without qualification seek to impose tariffs, making up for all the differences in production costs, would be an undesirable international trade policy.

Senator MALONE. In other words, then I think that is entirely clear, as has been your position for a long time. I simply wanted to get it into the record here. So then you do not believe that such a theory of free trade contributes to unemployment here. If an article can be made cheaper in a foreign cheap-labor country than the same article produced here due to the lower wages and due to the lower costs of doing business in another country, bringing it in without protection does not contribute to unemployment here; that is what I understood you to say?

Mr. KEYSERLING. It contributes to some short-term unemployment in some limited areas, but it is my personal belief that in the long run that kind of freer trade policy enlarges employment opportunity in both of the trading countries in the same way as in the United States. I believe, the absence of trade barriers between the States has increased and enlarged the welfare and well-being of all States, although some of them have had lower production costs than others.

Senator MALONE. You obviously place the foreign countries in the same category as our own States. I think that is the first time you have ever really made your position clear before this or any other committee of Congress.

Senator BARKLEY. This discussion is no barrier to my leaving, is it?

Senator MALONE. I think not.

The CHAIRMAN. Be back at 2:30. It won't be any barrier, because your amendment comes up first.

Senator BARKLEY. I will try to be back by 2:30.

Senator MALONE. Your position is: You believe in allowing the low-cost labor nations to bring in their products in competition with our own because by averaging the wage standard of living, by bringing the labor rates of pay together, both countries will benefit in the long run.

The standards of living will tend to average and come to a common level and you think that is good.

Mr. KEYSERLING. I believe in it to the same extent and to the same degree that the current administration does.

Senator MALONE. I do not know what the current administration believes, because there is no one man who represents the current administration. There are several of us in the current administration and helped to elect each elective member of it from the President down through the ranks. If you are naive enough to think that any one man's idea will prevail, it would be well for you to observe a true Republican representative government at work. There are many of us in this administration. Because you centered the power in one man should not give you the idea that it will continue. We have three branches of government—at least we had three.

My question was: Do you believe in the leveling of the wage standards of living of our country with the countries or country with which we do business? Do you believe that we should have no duty or barrier as you call it, to make up the difference in the wage standard of living, the taxes, and the cost of doing business here, and in the chief competition on each product. Many of these foreign products manufactured by machinery paid for by our taxpayers? You believe there should be no such evener, and that we must average in the long run the wage standards of living of our country with the countries with which we deal.

Mr. KEYSERLING. Let me try to refine my answer a little more, because I am merely covering the same ground you are covering.

Senator MALONE. I would appreciate it if you would cover it.

Mr. KEYSERLING. I realize that no one person represents the administration.

Senator MALONE. Whom do you represent now?

Mr. KEYSERLING. In general parlance, I regard the President of the United States, when he sends programs to the Congress, as speaking for his administration. That is the way the term is usually used.

Senator MALONE. That is the way you used it for 20 years. It could have had something to do with your loss of your job.

Mr. KEYSERLING. Others have generally used it, too, that the President generally speaks for his administration. I do not regard President Eisenhower as a dictator. I regard him as a fine and sensible man. Insofar as I can understand the position I am taking with respect to trade policy, that is the position he has taken.

Senator MALONE. Define your position. I did not ask you about the administration. It has little resemblance to the former administration.

Mr. KEYSERLING. My position——

Senator MALONE. I am for Mr. Eisenhower. He is my President. We elected him. I am not asking you to make a speech about the President, since I already know our level of agreement and disagreement. I am asking you to make your position clear as to what you believe. Please answer my question.

Mr. KEYSERLING. My position is that the liberalization of trade barriers and the increase of trade among free countries is mutually beneficial to them all in the long run, both economically and politically, and from the viewpoint of their common security.

Senator MALONE. Now I will ask you the question again. There can be no question but what with that theory, we ultimately average living standards between our country and the competitive nation and eventually arrive at the same common level of living standards; is that not your position?

Mr. KEYSERLING. No. I do not believe that a freer trade between the more advanced and less advanced economic countries will sink the higher ones to the level of the lower ones. All history defies that. We had what was called a China trade for a hundred years or more. It contributed to the prosperity of the United States. Our level of living didn't sink to the level of the Chinese because we had free trade with China. You couldn't have any international trade——

Senator MALONE. On what did we have free trade?

Mr. KEYSERLING. On many articles.

Senator MALONE. Any articles that we produced to an appreciable extent? We never did have free trade with China on articles that we produced in an appreciable amount. It should not be necessary for me to tell you that, you should know it already. You are an economist. We do have many free trade articles, maybe more than 50 percent of our articles produced have never had a tariff. But they are noncompetitive articles. We have never had free trade on articles produced to an appreciable extent in this Nation, until you started it in 1934. Your administration through the 1934 Trade Agreements Act aimed toward free trade. Your position is very clear in the record. But I wish you would confine your statements to the record.

Mr. KEYSERLING. You know, Senator, I have a clear impression of the function of American democracy, and I don't think that because you and I are sitting on opposite sides of this panel here that you have any more right to say that I make misstatements than I would have to say that you made misstatements. We interpret the situation differently. I have tried to observe courtesy toward this committee, and I do not think you have made misstatements, and I do not think I have made misstatements. It is clear that we disagree as two gentlemen on the question of the correct policy with respect to international trade.

Senator MALONE. I refer to your statement that we had free trade with China. Those statements should not be made by a responsible witness.

Mr. Chairman, I was trying to ask the witness whether he thought the tax reduction in 1941 when we had 8 million unemployed to start the Second World War, and we had 16 or 17 million partially unemployed at that point, whether the tax reduction had more to do with curing unemployment or the Second World War.

Mr. KEYSERLING. Well, I think that one of the Senators here correctly pointed out that before World War II we were not following a policy of tax reduction. We were following a policy of tax increase, and I said very candidly, although it had been done under an administration of which I was a part, although at that time I had nothing to do with economic policy, I said I thought that was a mistake in policy. I do not have this fervor to defend everything that a particular administration does.

Senator MALONE. I read your statement pretty faithfully there when you were in the White House, while we were getting into world war III, or anything you want to call it, where we butchered about 35,000 of the boys, and it seemed that the war had more to do with employment than your tax policies. Mr. Sawyer said we sure cured it a few months after the war started. I asked you again if you had followed your tax policy whether it would have had the effect of curing unemployment in the absence of a second World War.

Mr. KEYSERLING. Senator Malone, a frank discussion of unemployment in the years immediately after 1933 would necessarily involve a discussion of the level of unemployment in the years immediately before 1933 and how rapidly any country, once it has allowed unemployment to rise to very high levels, can restore the situation. I don't want to get into that kind of discussion for two reasons. I don't know how relevant it is to the inquiry today. But more important, I don't want to get into a political discussion of the relative responsibilities of Mr. Hoover and Mr. Roosevelt. I think they are both out of the picture now. I want to analyze the current situation.

Senator MALONE. Mr. Truman is also out of the picture along with his advisers.

Mr. KEYSERLING. At least today I am in the picture here.

Senator KERR. Mr. Chairman, may I rise to a point of personal privilege?

The CHAIRMAN. The Chair recognizes the Senator from Oklahoma.

Senator KERR. I don't think the great Senator from Nevada wants to ask questions on the basis of embarrassing the witness, and I would personally urge him to ask his questions on a basis that would elicit any information or opinion, but free from a manner that serves to embarrass not only the witness but the members of the committee who brought him here.

Senator MALONE. I was here yesterday when the distinguished Senator from Oklahoma was questioning a cabinet officer and noticed the tension building up as the questioning progressed. When this witness makes a statement that we had free trade with any country on products which we produce to a considerable degree, it did increase the blood pressure of the Senator from Nevada. If the distinguished Senator from Oklahoma wants to clear the matter up then we can proceed.

Senator SMATHERS. Mr. Chairman, let me say I don't want to get into an argument between these two great Senators, because we don't want to get into that kind of a contest if we can avoid it.

Senator MALONE. No one wants to avoid such a situation more than the Senator from Nevada. However, we must clear up certain unsupported statements.

Senator SMATHERS. I think yesterday it was agreed we were not going to discuss the excess tax matter, except as it related directly to this point of a $20 tax cut. I think it was the thinking of the committee to give 2½ hours to the sole question of whether or not this particular tax credit was a good thing or a bad thing. I thought that was the intent of the committee meeting. I do hope that my good friend from Nevada, who feels sometimes as keenly about some things as I do, and we all feel that way, but if we could confine this to this particular point, we have another witness we want to get through with. I think we can expedite the matter.

Senator MALONE. I have the most kindly feeling in the world for my distinguished colleague from Florida, but since the witness has brought many extraneous matters to the discussion in hand it is necessary to clear the record. You have taken this opportunity to air your views and you have done a good job of it, but I want to know, since you were the one who brought up the unemployment factors, what you considered were the main factors that caused the unemployment and whether or not you thought the tax situation had more to do with it than the imports from the low-cost production countries under the policies inaugurated by your administration. I asked that question, and I think you made your position clear, that you are a free trader, that you believe in it, and you believe that it is going to raise the standard of living of the other countries along with ours, that it will not reduce our standard of living, and that is all I have asked you to do. Your position is very clear.

Mr. KEYSERLING. May I say two things to the Senator from Nevada, for whom I have the most friendly feeling. I did not say exactly that I was a free trader. I said I was for freer world trade. Let me say one thing that comes more closely to the hearing here today.

You asked what caused unemployment. I think that the causes of unemployment prior to 1929 are in some ways connected with the current situation, and I would like to call the Senator's attention to an article in the last month's or a recent month's Fortune magazine, which I regard as a thoughtful, conservative business journal. In this article in Fortune magazine the basic explanation which they gave of the depression which followed 1929 was the inability of our consumption capacity and ability to keep up with our growing production strength, and that interested me particularly because in the years gone by, being only human, I was a little concerned when I talked this so-called consumption economics, and there was a lot of criticism of it. If you will read carefully this article in Fortune magazine——

Senator MALONE. I have read it.

Mr. KEYSERLING. Which was an extensive study of the causes of the 1929 depression and the central point of that article was the inability of our consumption to keep up with our productive ability. It cited that as the basic central cause of that economic collapse.

Senator MALONE. I would only say to you, Mr. Keyserling, that we have done the same thing to Europe with our taxpayers' money that we are doing for ourselves. We have overbuilt their production. It is now greater than their capacity to consume, so we must buy their goods even if it causes unemployment here under your ideas of free trade.

I read the article in Fortune, and I read a good deal of the material put out by Fortune and Time and others on economic world publications. They agree with your theory of free trade which means that by tearing down our own standard of living, we will raise that of the foreign low wage countries.

Of course, some of us believe that you are going to average the standard of living under the system you espouse. What you are going to do is average it, the standard of living—ours with the nations of the world. We have 160 million people and compared to 2½ billion people in the world. So the average must necessarily be somewhat below our own.

That is all, Mr. Chairman.

Senator SMATHERS. I merely repeat that I appreciate very much the witnesses coming here. He came on short notice. It is testimony to his great ability because even though he only had a few hours notice, he has done a splendid job of presenting his particular point of view, and I want to emphasize that he has pointed out that you can be for this type of tax reduction program and still be responsible. I think he has rendered a service to the committee and to those people who are interested in this question. He has pointed out there are two sides to it, and whether we agree with him or we don't, he has been helpful.

Senator MALONE. I will say right on the heels of that remark that I agree with my distinguished friend from Florida, and I have waited a long time to find out exactly what the views of Mr. Keyserling were, and I think he has done a great service by appearing here and putting them on the record. It is going to be very helpful.

The CHAIRMAN. The Chair wants to say to Dr. Keyserling that he has been very frank in his testimony. He has presented very valuable information. The Chair doesn't agree with him entirely but the committee thanks him for coming.

Senator MARTIN. Mr. Chairman, there has been a great deal of discussion about unemployment in the various years, and Senator Williams has compiled here some information that I think ought to go into the record at this time. It gives the unemployment by months for the years 1948, 1949, and 1950, and it gives the yearly average of 1939 to 1935, inclusive. I think that the fact that we have been discussing those things, and we will have it before us, will aid us in consideration of this matter.

The CHAIRMAN. That will be made part of the record.

(The information submitted by Senator Martin follows:)

*Unemployment figures submitted by Senator Martin*

| Month | 1948 | 1949 | 1950 | Month | 1948 | 1949 | 1950 |
|---|---|---|---|---|---|---|---|
| January | 2,065 | 2,664 | 4,480 | July | 2,227 | 4,095 | 3,213 |
| February | 2,639 | 3,221 | 4,684 | August | 1,941 | 3,689 | 2,500 |
| March | 2,440 | 3,167 | 4,122 | September | 1,899 | 3,351 | 2,341 |
| April | 2,193 | 3,016 | 3,515 | October | 1,642 | 3,576 | 1,940 |
| May | 1,761 | 3,289 | 3,057 | November | 1,831 | 3,409 | 2,240 |
| June | 2,184 | 3,778 | 3,384 | December | 1,941 | 3,489 | 2,229 |

YEARLY AVERAGES

| | | | |
|---|---|---|---|
| 1939 | 9,480 | 1947 | 2,142 |
| 1940 | 8,120 | 1948 | 2,064 |
| 1941 | 5,560 | 1949 | 3,395 |
| 1942 | 2,660 | 1950 | 3,142 |
| 1943 | 1,070 | 1951 | 1,879 |
| 1944 | 670 | 1952 | 1,673 |
| 1945 | 1,040 | 1953 | 1,602 |
| 1946 | 2,270 | | |

Senator KERR. Would you tell us the source of that information?

Senator WILLIAMS. This was compiled by the Joint Committee on Internal Revenue Taxation from figures furnished to them by the Department of Commerce.

Senator MARTIN. May I make a statement here at this time? We are very sorry that Senator Millikin, the senior Republican on this committee, was unable to attend this morning because of a very important meeting of the Interstate Commerce Committee.

Senator BENNETT. Interior Committee.

Senator MARTIN. I feel that ought to be on the record.

The CHAIRMAN. The Chair has received for the record a statement of Senator McNamara from Michigan, in which he states he favors the $20 tax credit and concludes with this statement:

> I strongly urge this committee to report out the proposal with a strong recommendation that it pass the Senate, as the very least the people have a right to expect.

I ask that the complete statement be put in at this point.

(The statement of Senator McNamara is as follows:)

STATEMENT BY SENATOR PAT MCNAMARA, OF MICHIGAN IN SUPPORT OF THE $20 TAX CUT PROPOSAL, TUESDAY, MARCH 1, 1955

Mr. Chairman, I appreciate this chance to support the proposal to cut income taxes by $20 for each taxpayer and each of his dependents.

I am for this proposal because it helps those who most need a tax cut, the low income families of this country. While it also helps the upper income taxpayer, this is one of the lesser features of the proposal.

If this tax cut is made, the man who has a wife and two children will pay no Federal income tax unless his income is at least $3,110 per year. It is important to keep in mind the fact that the cost of providing such a family with a minimum of comfort and convenience is 40–50 percent more than this man now earns. The few dollars of income tax we are now squeezing from him represent necessities of which we, the Government, are depriving his children.

Freedom from the Federal income tax will not mean that this low income family will escape taxes altogether. There are still the State and local sales taxes and the payroll taxes now imposed by so many States and communities, as well as the familiar property and excise taxes that most families must pay. I want to separate myself as clearly as possible from those people who insist on dipping into a $60 per week paycheck for another tax—the Federal income tax—when the burdens on that paycheck are already so great.

The tax cut given even the $5,000 and $6,000 per year family will go right to the store to buy something a farmer grows or a city worker produces. Everyone, including the businessman and the tax collector, will benefit.

In Michigan, as in other farm States, farm incomes are shrinking. I am sure that a large part of what each city worker gets in his tax cut will go into food and fiber purchases, and thus into better incomes for farmers. At the same time, there will be fewer layoff slips passed out in the factories and stores of this country because farm incomes are stimulated both directly and indirectly through this tax cut.

The economy needs this stimulation. While this tax cut will not provide jet propulsion for an economy the size of ours, it will provide purchasing power to save the jobs of 300,000 to 400,000 workers who might otherwise be unemployed.

It is particularly fitting that this tax cut be made, since such big tax cuts were given the upper income taxpayers and the corporations last year.

During 1954, taxes were reduced by approximately $7½ billion. Nearly half that amount went to the corporations. The elimination of the excess-profits tax alone gave the corporations a tax cut of more than $2 billion—as much if not more than will be given all the individual taxpayers in the country through this proposal. It seems to me that the proposal before this committee is the least the people have a right to expect.

The administration's budget message shows that by 1956, corporation taxes will be $4½ billion lower than they were in 1954, a reduction in the tax burden of 21 percent. However, the revenue from income taxes in 1956 is expected to be slightly higher than in 1954.

For each dollar of Federal budget receipts, individual taxpayers are expected to pay 7 cents more than in the last budget submitted by President Truman; the corporations will contribute 12 cents per dollar less. Even the proposal we are her discussing will not achieve for individual taxpayers as great a reduction, either in amount or percentage, that the corporations have already gotten.

Much was said last year about the new deductions adopted for individual taxpayers. Among low income families the proportion of taxpayers who itemize deductions is very small. For most of these families the new deductions adopted last year were empty promises. The proposal to raise personal exemptions by $100 was the first proposal of substance offered to them. This committee has both the opportunity and the responsibility to give this session of Congress the chance to provide what the last session, under Republican leadership, refused to provide.

It has been aruged by some that we Democrats are playing politics when we offer people this tax cut. If it is politics, it is the best kind of politics, since it justifies the faith of the people in the party they chose to lead Congress this session. But basically, who are the Republicans, who slashed Government revenues by $7½ billion in the face of a large Federal deficit, to cry "politics"? Their tax cuts were made in an election year, and the cuts they made, phony as well as real, were exploited to the hilt during the last political campaign.

However, this is not an election year. The tax cut we are proposing is to help people, to stimulate the economy, to restore to our tax program a small part of the equity that was hacked out of it by the Republican attack last year.

I strongly urge this committee to report out the proposal with a strong recommendation that it pass the Senate, as the very least the people have a right to expect.

Senator BENNETT. Mr. Chairman, I want to come back to what I think is the heart of this problem. As I understand Mr. Keyserling's testimony, it was to the effect that he felt that from substantial additional spending power for consumption would be necessary to support full employment, but he felt that this recommended tax relief would go part way, but it was not adequate.

I wonder, Mr. Keyserling, if you could suggest the full amount that you think should be supplied by the Federal Government to give you full employment in 1955?

Mr. KEYSERLING. Well, first of all, Senator, I believe that in discussing that question before and without attempting to duck it in any way, I think that there is a difference between testifying here on a limited proposal and stating a broader proposal that would go further. I do not think that the current proposal before this committee, taken by itself, is a program that will carry us forward to full employment and full production.

I do think, however, that it is a decided step in the right direction, that it is much better than nothing, and that this is a case where the general proposition that half a loaf is better than none, does apply.

I want to make my position clear on that. You ask me what would be a satisfactory complete proposal. First of all, I want to say that I do not believe that tax policy by itself can stabilize the American economy.

Senator BENNETT. My question didn't relate only to tax policy. I said money supplied by the Federal Government, either in increased appropriations, decreased taxes, any other device. But as I understood your suggestion, it was that there must be more money pumped into the economy on the consumer level in order to provide this employment about which you talk. How much more money must be pumped into the economy, assuming that the provate sources are already doing everything they can, or at least are operating in their normal pattern, and we cannot expect any dramatic new funds coming from there? That leaves the Federal Government. How much more money, either in taxes or in substantial stepped up appropriations should be pumped into the economy this year to provide the full employment?

Mr. KEYSERLING. First of all, I want to say, Senator, that I have been here discussing this tax proposal and not discussing a general rounded program for economic restoration. But in response to that question, if the committee wants to carry over this hearing on this tax proposal into a general discussion of the whole range of possible and plausible economic programs, that would be more or less --

Senator BENNETT. What you are saying to me is you have no specific figure.

Mr. KEYSERLING. No, I am not saying that. I am simply raising the question whether in fairness to the committee and to other witnesses waiting to be heard it is not for me to decide—we want to engage at this time in a general discussion of all facets and phases of economic policy. I am perfectly willing to do it.

Senator BENNETT. That is impossbile. So you are saying to me that without time to explain and qualify what you would say, you are not prepared at this time to give me a categorical answer with a specific figure.

Mr. KEYSERLING. I cannot give you a categorical answer because it has taken almost 3 hours to answer frankly and fully the questions of the committee on this limited proposal. Manifestly, it would take a great deal of time to discuss all facets of economic policy. I don't believe it would be fair to me or to the committee to do it in a few minutes.

Senator BENNETT. My memory is that you testified that in your opinion there are 4 million unemployed at the present time.

Mr. KEYSERLING. Counting full-time unemployment, which is reported officially as 3.3, and counting the full-time equivalent of part-time employment due to shortening of the work opportunity over the week, to spread employment, I say that the current level of true unemployment is about 4 million.

Senator BENNETT. How much money would those 4 million people be earning if they were employed at the average being paid to industrial workers in the United States today?

Mr. KEYSERLING. Let us say that the average is about $3,500. In that event, our national wage bill would be, figuring it quickly, $14 billion higher than it is now, if you wanted to reemploy all 4 million.

Senator MALONE. You and I do not multiply 4 million by 3,500 and get the same answer.

Mr. KEYSERLING. I may have multiplied it wrong.

Senator BENNETT. I got 1,400 million, not 14 billion. This proposal would put——

Mr. KEYSERLING. Let's see who is right on that. You may be right.

Senator BENNETT. I figured it 2 or 3 times, but I am never quite sure of my arithmetic.

Mr. KEYSERLING. A million times a thousand is a billion, and, therefore, 4 million times three and a half thousand, I should think would be 14 billion.

Senator BENNETT. It is $14 billion. O. K. I thought I counted up my ciphers. I see where I made my mistake. I multiplied 4 times 35 and got 14 instead of 140.

It will take 14 billion then, and that is the figure that I am using. I am not going to hold you to it. It will be my figure and not yours. It would be necessary to pump that amount into the economy to provide that amount of wages for the people who are now unemployed.

Mr. KEYSERLING. If you are talking about pumping $14 billion into the economy through Federal spending and Federal tax reductions, you completely misinterpret everything I have said, because most of that $14 billion in expansion would come through the reemployment of people in private industry and through wages paid by private industry. The Federal Government through mild changes in the tax and spending policies exercises a stimulating effect which becomes magnified, so that most of the gain in total purchasing power is through private reemployment.

I am not proposing that the Government employ these 4 million people, at all. In fact, only about 2½ million new jobs are needed; there must be some fractional unemployment.

Senator BENNETT. I am still trying to approach some idea of the amount of money that you feel the Federal Government should put into this. You now say they don't have to do it all because it will be multiplied. By how much will it be multiplied? Suppose this committee determined to set in motion your program which you believe would in the end produce full employment. How much Federal money would this committee or the administration or the Congress have to pump into the Federal economy?

Mr. KEYSERLING. I don't think you can express that as a dollar figure with any certainty. I think the next order of priority ought to be given to tax reduction to stimulate employment, other things being equal.

Other things being equal, I think the first way to try to stimulate the economy is putting more spending power back into the hands of the people through the reduction of taxes. That is the proposal I am favoring today.

I would like to have a stimulatory economic program in the form of tax reduction to stimulate consumer spending; but then you do not do everything in a day. You move along from there to see how effective it is, and then see what other things might also be done. I believe other things are also necessary, even now.

Senator BENNETT. Has there ever been a time in the history of the country when we have had this ideal of full employment?

Mr. KEYSERLING. Oh, yes. We had full employment, let us say, in 1952.

Senator BENNETT. Which was the middle of the Korean war.

Mr. KEYSERLING. Well, who is in disagreement here? The administration, at least speaking through the President, and if I may couple myself with a great name, the President and I both say that we want full employment in time of peace. There is no disagreement about that.

Senator BENNETT. Let me change my question. Has there ever been a time in the past where we were not engaged in war where we have had anything approaching full employment?

Mr. KEYSERLING. I don't think actually, that the full employment, let us say, in 1951 and 1952, especially in 1952, or at the very start of 1953, was due primarily to the Korean war. I think it was due primarily to the spending and investment by American businessmen and consumers. That is a long subject in itself, Senator. It requires a considerable analysis. But I think we had a very large measure of full employment in 1952 and early 1953.

Let's take another example. In 1945, which was the last full year of spending for war, the expenditures of the Federal Government for war and related purposes at the present price level was, say, about $115 billion. By 1946 and 1947 it was shaved by about $90 billion and more at present prices to about $27 billion in 1946 and to about $15 billion in 1947. Despite the fact that $90 billion and more had been slashed from war outlays, we then had reasonably full employment for most of the time between 1947 and the time of the impact of the Korean war.

Then we had the Korean war.

Senator BENNETT. We actually had a recession in 1949 before there was any thought of a Korean war.

Mr. KEYSERLING. We didn't have full employment then, and that was bad.

Senator BENNETT. As one who was in business through the war years and the years immediately afterward, I remember two things. I remember a prediction by the then administration that we were going to have 12 million unemployed, and I remember that during the war years, because of the restrictions that were imposed on war materials, many consumer goods could not be manufactured. So isn't it a fact that the full employment that followed in the years immediately after the war was consumed in taking up the slack created by the war years when consumer goods could not be made available?

Mr. KEYSERLING. Senator, I am here to answer questions and not to ask them. So I will simply ask a rhetorical question to clarify the situation, in order to better answer your questions.

Is the general line of your argument that full employment in a free American econony is impossible without war?

Senator BENNETT. No, that is not the general line of my argument.

Mr. KEYSERLING. I don't comprehend what your point is, then.

Senator BENNETT. I asked you if there had been full employment, and I gave you an example in a period of wartime. That is your point of view.

Mr. KEYSERLING. I gave you an example of what happened after we had a tremendous slash in war expenditures after 1945. I gave you an example of very early 1953 when I don't think that full employment was supported mainly by defense outlays, but rather by other factors. I can give you numerous other examples.

Senator BENNETT. You and I are in disagreement as to the effect of World War II on the period that followed, the effect of World War II on the civilian demands that followed when the allocations and restrictions were taken off.

Mr. KEYSERLING. I think we are in some disagreement as to the interpretation of the events between 1946 and 1953.

Senator BENNETT. I was interested in a statement you made earlier, that the dividend tax relief was entirely for the benefit of investment. Don't you believe that part of that dividend tax relief was spent by dividend holders who welcomed that kind of relief and used the money for consumption?

Mr. KEYSERLING. I think that the proportionate amount of the dividend tax relief spent for consumption was very much lower than the proportionate amount which would be spent for consumption in a tax concession to middle- and low-income groups. I think that definitely can be established.

In other words, the leverage power of the dividend relief as a stimulant of consumption was very low, and the leverage power of the reduction in effective taxes on middle- and low-income groups toward the stimulation of consumption would be very high, and that is really the essence of the point being made here today.

Senator BENNETT. That is right. But I just wanted to get past the point where you automatically put all dividend relief in the field of investment, and wiped it out as having no value in this situation. Do you have any way of guaranteeing, or do you know any way by which it can be guaranteed, that these tax reductions, if they are made, will go directly into consumption rather than to savings, or to paying off of existing debt?

Mr. KEYSERLING. "Guarantee" is a strong word. All analysts and observers feel that tax reductions granted to middle- and low-income families are translated almost dollar for dollar into an expansion of consumer buying. I gave as an example today those portions of the tax reductions last year which were made that affected the disposable incomes after taxes of middle- and low-income families. The increases in spending for consumption almost paralleled that reduction in taxes.

Senator BENNETT. Wasn't there also a reduction in borrowing, increase in consumer debt?

Mr. KEYSERLING. Sure, because the economic program that was adopted was not sufficient. That is one of the very points I am making, that the stimulus which was injected into the economy was insufficient, that it was insufficient to prevent unemployment from rising.

One of the consequences of that situation was insufficient consumer buying power, and you had to support too large a part of the buying power by an expansion of credit. That is one of the unhealthy things.

Senator BENNETT. Isn't it a fact that there is no way of pushing the money into consumption? Different people use it according to their own needs. There is reason to expect that some of it will go into savings and some of it will go into paying off existing debt.

Mr. KEYSERLING. Well, sure, but actually the rate of saving has decreased very substantially in the last year and a half. Saving out of current income has decreased from about 8.6 percent to about 7.2 percent, which is another indication of the pressure on middle- and low-income consumers.

Senator BENNETT. Do you have any concern about the social and political effects of taking 5 million people off the Federal tax rolls?

Mr. KEYSERLING. Frankly, Senator, other things being equal, I would like to see everybody paying taxes, but when other things are not equal, then you have to weigh competing objectives. I would like to see everybody paying taxes by having in our kind of productive American economy a high enough standard of income and of living to pay taxes.

I think that is the constructive approach. Other things being equal, the general political theory that everybody should pay taxes, is good. But when you have to choose between collecting taxes from people whose incomes are less than $2,000 or $1,500 a year with substantial families, I think on balance, particularly in a recessionary period, it is better economic policy to surrender part of the political theory in favor of the hard impact of economic and social facts.

Senator BENNETT. I am sure you and I are going to disagree on the next question. I assume we are. I hope we are not. Isn't it a fact that over the long run every tax shows up in the price of something, so that the consumer eventually pays all the taxes?

Mr. KEYSERLING. On that theory, a reduction in taxes should result in a reduction in prices.

Senator BENNETT. Except for the fact that there are other forces in existence which tend to push prices up, and there are others that tend to push them down.

Mr. KEYSERLING. Then what is the point that the Senator is making about the relationship between taxes and prices?

Senator BENNETT. The point the Senator is making is that if you remove these people from the actual personal experience of paying Federal taxes, but you don't eventually remove them from the responsibility of carrying their share of the Government by paying the taxes indirectly, and therefore, I cannot see too much argument for the theory that we must push this money out at this level.

Mr. KEYSERLING. I see what the Senator is really saying. As I gather it, it is, if these people get these reductions in taxes, it will be inflationary and prices will go up correspondingly and therefore, they will be paying it out in prices. That is the basic argument made yesterday, I believe, by the Secretary of the Treasury, and by others. I think that argument is entirely and completely fallacious.

The resources in our economy are now so slack that this tax reduction will not produce inflationary pressures. If we had a tight economy with unemployment of a million and a half and our resources were strained, then that would be the case. But with 4 million people unemployed and with a $30 billion slack in our national production, it just seems to me unrealistic—I use the word "preposterous" advisedly in my prepared statement—to say that this modest, fragile, inadequate expansion of consumer income at this time is going to be inflationary——

Senator BENNETT. At what point would a substantial increase in the Federal deficit become inflationary under the present circumstances?

Mr. KEYSERLING. When unemployment has gotten down to a million and a half or lower, and when we are straining against our productive resources.

Senator BENNETT. We went over yesterday, with the Secretary of the Treasury the record of the 20 years during which Mr. Keyserling has served in the Federal Government, which was a record of almost continuous inflation, and does Mr. Keyserling want to tell me that it is not inflationary when we have deficits under a Republican administration, but it is inflationary when we have them under a Democratic administration.

Mr. KEYSERLING. I hope that in the course of my excessive wordiness I have tried to make it clear that I am not speaking in a political vein. A Federal deficit is inflationary when Government spending plus business spending and consumer spending is in excess of the supply of goods and the supply of manpower. You have to look at the whole economy. If the Federal deficit occurs at a time when Government spending plus business spending, plus consumer spending is not enough to take up the slack in employment and is not enough to use our productive facilities, then it is not inflationary.

Let me give you some specific examples. In 1953, on a calendar-year basis, the Federal deficit was $9 billion. That was not inflationary because that added to investment by business and spending by consumers was not in excess of the supply of goods. We had no inflation in 1953 and we had a Federal deficit of $9 billion.

On the other hand, we had a Federal surplus—a substantial Federal surplus—in 1948, and for other reasons, there was substantial inflation.

The only point I am making is that you cannot understand this problem of bookkeeping of the Federal Government, of Federal economic policy, unless you have set it in the perspective of the whole economy. A Federal deficit is almost always stimulative, but let's not confuse the word "stimulative" with "inflationary."

The Federal deficit, which is stimulative, is inflationary if you are already at a full economy. It is not inflationary but stimulative if you are far short of a full economy. That is the essence of the matter.

Senator BENNETT. We have gone now for 20 years, 23 years; during during most of that time we have had Federal deficits. We haven't been able to get any sustained period of full employment except in times of war. Are we to go further down the path of Federal deficits on the theory that they will be stimulatory now when they haven't been stimulatory in the past?

Mr. KEYSERLING. I thought you said they had been stimulative. A thing may be stimulative without being inflationary, but it cannot be inflationary without being stimulative.

Senator BENNETT. They have been inflationary in the past, but now we can go down that same program and it is beneficial and we will call it stimulatory without any risk?

It seems to me, Mr. Chairman, that there is another factor in this—and with this statement, I am through. I apologize for staying with it so long. We operate on the theory that this is all a matter of money when, as a matter of fact, we have the very real aspect of individual faith and confidence in the Government, and it seems to me that much of the patience of the American people during the last 2 or 3 years, last 2 years, in this period of mild recession, represents a manifestation of that faith.

Thank you very much.

The CHAIRMAN. Thank you very much, Doctor.

Mr. KEYSERLING. Thank you very much.

The CHAIRMAN. I understand there is another witness.

Senator LONG. Mr. Ruttenberg.

The CHAIRMAN. We will proceed with Mr. Ruttenberg.

## STATEMENT OF STANLEY H. RUTTENBERG, DIRECTOR OF RESEARCH AND EDUCATION OF THE CIO

Mr. RUTTENBERG. My name is Stanley H. Ruttenberg and I am director of researdh and education of the national CIO.

I am the chief economist and also the director of the CIO's committee on economic policy.

The CHAIRMAN. You may proceed, sir.

Mr. RUTTENBERG. I have appeared before this committee in years gone by on many occasions, to testify on taxation. I know the hour is late and I appreciate that everybody is tired and you are ready to go out and have lunch before you start your afternoon session. So I will try to briefly present some supplementary remarks to those which Mr. Keyserling made this morning.

I regret that I do not have a prepared statement, but I was on other business in New York yesterday when I got a call at 11 o'clock last night to come back to Washington to appear this morning.

I have only some notes, and I regret that.

I should like to talk to two basic issues which have been raised in connection with the discussion of the $20 tax credit issue. One is the issue of fiscal irresponsibility, the issue that relates to the budget question, and the second is the question whether such a proposal is inflationary and what effect will it have upon the economy?

I want to address myself to those two questions. On the first question, on the budget story of fiscal irresponsibility I should just like to say that in my judgment it is fallacious reasoning—and I should say the height of fallacious reasoning—to come to the conclusion that it is fiscal irresponsibility.

I should like to review with you a few figures. From 1946–47, which would be fiscal year 1947, there was a conventional budget surplus—not the cash budget, which showed an even greater surplus, but the conventional budget—of $800 million, a little less than $1 billion. During that same fiscal year, according to the Department of Labor's consumer price index, consumer prices, or the cost of living, rose 11 percent. Wholesale prices during that same period rose 18 percent. We had a budget surplus, but we also had terrific price inflation.

Senator WILLIAMS. Might I ask a question at that point. Was not that the period in which the controls were lifted after having a period immediately prior to that of substantial deficits where the prices had been held down in preceding years?

Mr. RUTTENBERG. That is precisely the point I want to make. Price controls were removed in June of 1946. They were removed, in my judgment, prematurely. They were removed at a time when inflation was bound to occur, because (1) of surplus spending, excess past and present income over the availability of goods that was there for sale, and (2) it occurred at a time when there was great pent-up demand for goods which were not available during the war. It is those kinds of situations that produce inflation, not necessarily the budget situation.

The budget is incidental.

Then, let's look at fiscal year 1951, when there was a conventional budget surplus of three and a half billion dollars. But during that same period, retail prices increased by 8 percent—that is, the cost of living—and wholesale prices increased by 12 percent. Here we have again, price inflation with a budget surplus.

Let's take a look at the reverse situation. In the last 6 months of 1954, those 6 months which we have just gone through, according to the Treasury, there was a reported deficit of $9.3 billion, that was during the last 6 months of 1954, which were the first 6 months of fiscal 1955.

That was a $9.3 billion deficit. What happened to prices? Prices fell from an index of 115.2 in July to 114.3 in December. Prices declined by 1 percent with a budget deficit of $9.3 billion during that 6-month period.

Might I also make one further point on this question of the budget, regarding the charge of irresponsibility. It ill behooves me to make this remark. If I might humbly say to the committee, sir, that in fiscal 1955, the fiscal year ending on June 30, a budget deficit of $4.5 billion is expected. It is during that period when the administration proposed to cut taxes and did cut taxes in their Tax Revenue Act of 1954 by $1,400 million. With the tax proposal which was made and comes to the Senate from the House floor, with the tax credit going into effect on January 1, 1956—with that proposal added to the anticipated budget deficit for fiscal 1956—the deficit will be $3.2 billion which is more than a billion and a third less than it is in the current fiscal year. So even after accounting for the effect of the $20 tax credit, the fiscal 1956 deficit will be less than the fiscal deficit was in the year in which the administration made a $1.4 billion tax reduction in the Revenue Act of 1954.

So much for the budget picture. I should like to address myself just a little to the question of inflation and what causes inflation.

This was dealt with in great detail in questions to Dr. Keyserling this morning. I would just like to supplement it in this way, that inflation, if we look back over the period of years, has occurred in specific periods of time. Inflation occurs during an anticipated build-up for a war situation such as we had both at World War I and World War II and in the Korean period.

It occurs, secondly, with premature removable of controls at a period when demand is in excess of the supply of goods. This was the situation in 1946. Or it occurs in a period when the productive capacity of the Nation is insufficient to meet the demands of the American consumer. That is what causes inflation.

What kind of a situation are we in today? We are today confronted with this general situation. The automobile industry can produce 11 million automobiles a year with existing capacity, with existing plant capacity and facilities. In 1954 they produced 5½ million and in 1955, Mr. Curtice, the president of General Motors anticipates that the automobile industry will produce between 5.8 million and 6 million cars, considerably less than its capacity.

I don't think we can expect, with additional income from the $20 tax credit in the hands of consumers to buy automobiles, that this will produce inflation when the capacity is so considerably in excess of current demand.

Let's look at another industry, the steel industry. The current rate of capacity in the steel industry is 125 million tons a year. Last year we produced 88 million tons of steel in the United States; 88 million as against a capacity of 125 million. Mr. Fairless, the chairman of the board of the United States Steel Co., estimates the probable capacity production in 1955 will be in the neighborhood of 80 percent; 80 percent of 125 million tons means that we will produce in the neighborhood of about 95 or 96 million tons.

We are not even beginning to tax the capacity of this industry.

Let's look at the television industry, the radio industry, the rubber-tire industry, industry after industry, existing plant capacity is more than sufficient, more than sufficient to meet present demand, and to meet the demand which may be increased by the enactment of the tax credit.

Senator LONG. If I might interpose there, we are trying to do something for the farmers, who are struggling to get a few more acreage allotments to produce almost all farm products which are now produced in surplus. We have surpluses running out of our ears. So we are familiar with the surplus capacity.

Mr. RUTTENBERG. The same applies to the farm situation that applies to the television, automobile, and other industries. We could discuss the situation in zinc and lead and nonferrous metals—if Senator Malone were here.

Aside from the tariff issue, we have discussed this with Senator Malone on various occasions.

The capacities of these industries are in excess of demand.

I should like to make one other comment in relation to what was discussed yesterday in the committee. I think it was said by the Secretary of the Treasury that if we are not careful, a tax credit now could produce the kind of inflation that was ruinous, that ruined Germany in the 1920's. I am not quoting him directly, but I think he implied something to that general effect.

To compare potential inflation in America with what happened in Germany in the 1920's is, I think, an extremely unfortunate kind of comparison, because what is it that caused the inflation in Germany in the 1920's? What caused it? The destruction of property during the war. Insufficient capacity to meet the demands of the German people. The destruction of capital equipment, again, as a result of the war, inability to produce what the people wanted.

Thirdly, because of the war and the injuries and the deaths, a shortage of manpower in Germany and fourthly, and not the least important, is the large reparations which the Allies insisted upon getting from the German Government.

When you combine all these factors, it was inevitable that inflation, particularly with the operation of the printing presses, that Germany would have inflation. But our situation in America today is excess capacity over consumer demand, an excess of manpower in terms of unemployment and part-time employment. We have no reparations to pay in terms of any war situation and we certainly have all of the excellent first rate, topflight capital equipment and the intelligence and genius of modern American industry to produce more products with a fewer number of workers.

I just wanted to make these comments as they related to these two basic issues which were discussed yesterday. I would like to go on if there were time—and I will not go on—but I would like to have gone on to develop these points which I will just mention in terms of a general outline and approach.

I would like to show you detailed figures that indicate the relationship of industrial production to unemployment and total production, where production has gone up over the last 4 years almost seven and a half percent, while manufacturing employment has declined by over a million and a quarter.

I should like to discuss the general situation that compares, let us say, the last half of 1953 to the last half of 1954, when in this comparison we find production, employment, income all declining with profits, both before and after taxes, increasing by substantial amounts.

I would like to also discuss what the economic outlook is for the current year 1955. If it is agreeable, I will submit some additional information for the record.

(The following was subsequently received for the record:)

## Supplementary Statement of Stanley H. Ruttenberg

As I read the facts concerning the national economy, I am convinced that the charge of an immediate inflationary danger is utterly fallacious and without foundation.

Despite the pickup in production since last September, the economy is still operating far below full capacity. The national economy today is nowhere near a level of full production and full employment. Furthermore, there is no indication that a level of full production and full employment is anywhere in sight during the months ahead.

With no sector of the economy being pressed by excessive demand—and when the current situation is one of under utilization of our labor force and productive capacity—where are the facts to substantiate even a remote possibility of inflation arising from forces within our domestic economy?

Let us examine the record.

When we look at the available employment figures for January or any recent month, we find a clear picture of stagnation on the job front—certainly, no indication of current or developing inflationary danger. In January 1955, the level of industrial production was almost 5 percent greater than in January 1954, but nonfarm employment was down 300,000 and manufacturing employment was down 500,000.

| | Industrial production index | Unemployment | Nonfarm wage and salary employment | Manufacturing employment |
|---|---|---|---|---|
| January 1954 | 125 | 3,100,000 | 48,100,000 | 16,400,000 |
| January 1955 | 131 | 3,300,000 | 47,800,000 | 15,900,000 |
| Percent change | +5 | +6 | −1 | −3 |

Source: Federal Reserve Board and U. S. Departments of Labor and Commerce.

In addition, manufacturing employment in January was below the level reached in the Januarys of 1954, 1953, and 1952; and it was the same as in January 1951 4 years ago, when the industrial production index was more than 7 percent lower than at the beginning of this year. Nonfarm employment, as a whole, in January 1955 was below the previous two Januarys.

| | Industrial production index | Unemployment | Nonfarm wage and salary employment | Manufacturing employment |
|---|---|---|---|---|
| January 1951 | 122 | 2,500,000 | 46,000,000 | 15,900,000 |
| January 1952 | 121 | 2,100,000 | 47,100,000 | 16,000,000 |
| January 1953 | 134 | 1,900,000 | 48,800,000 | 17,100,000 |
| January 1954 | 125 | 3,100,000 | 48,100,000 | 16,400,000 |
| January 1955 | 131 | 3,300,000 | 47,800,000 | 15,900,000 |

Source: Federal Reserve Board and U. S. Departments of Labor and Commerce.

When we compare employment last January with August 1953, before the downturn set in, we find the following shocking facts:

| | Total employment | Nonfarm wage and salary employment | Manufacturing employment |
|---|---|---|---|
| August 1953 | 63,400,000 | 50,000,000 | 17,500,000 |
| January 1955 | 60,200,000 | 47,800,000 | 15,900,000 |
| Change | −3,200,000 | −2,200,000 | −1,600,000 |

Source: Departments of Commerce and Labor.

Neither adjustments for seasonal changes nor lengthy discourses can explain away the simple fact that in the 17 months between August 1953 and January 1955, total employment dropped by 3.2 million, nonfarm employment by 2.2 million, and manufacturing employment by 1.6 million.

The facts fail to square with any declarations concerning an immediate or developing threat of inflation. They reveal economic stagnation, not inflationary danger.

The recent pickup in production rests on rather insecure ground. Much of it reflects high levels of auto production which have had an effect on steel, rubber, glass, and other industries. We cannot depend on the auto industry, however, to maintain high levels of production through the rest of the year.

During the first quarter of this year the auto industry expects to produce over 2 million cars, according to Ward's, the industry journal. That is an annual rate of some 8¼ million cars. But even the optimists in the auto industry do not expect passenger car sales in 1955 to exceed 5.8 to 6 million.

It is quite obvious that the current automobile production rate cannot be maintained through the year. Inventories are already building up to the all-time record peak.

Business Week reports that auto inventories are already above 500,000. The industry journal, Ward's, states that current production and sales trends will bring auto inventories close to the all-time peak by the end of March. Indeed, Ward's prediction may well be conservative.

With inventories rising, a continuation of present production and sales trends means that auto production will inevitably drop within the next few months. Such a decline in auto production will be accompanied by layoffs and part-time work in the auto industry, especially among the independent producers, and by cuts in production and employment in related industries.

Should auto and related production fall off some 3 or 4 months from now, the general level of economic activity may decline. As a result, there is no evidence for confidence in the continuation of even the present level of economic activity through the entire year.

On the basis of these facts, it seems apparent that the present "threat of inflation" is simply a bugaboo without any connection to reality. The economic problem today is not one concerning inflation; rather is it one of stimulating economic growth by broadening and strengthening the mass consumption base of the American economy.

*Federal Government budgets and price changes*

BALANCED BUDGETS AND RISING PRICES

| Period | Administrative budget | Cash budget | Wholesale price index | Consumers' price index |
|---|---|---|---|---|
| | *Billion* | *Billion* | *Percent* | *Percent* |
| Fiscal 1947 | +$0.8 | +$6.7 | +18 | +11 |
| Fiscal 1948 | +8.4 | +8.9 | +10 | +8 |
| Fiscal 1951 | +3.5 | +7.6 | +12 | +8 |

UNBALANCED BUDGETS AND DECLINING PRICES

| Period | Administrative budget | Cash budget | Wholesale price index | Consumers' price index |
|---|---|---|---|---|
| | *Billion* | *Billion* | *Percent* | *Percent* |
| Fiscal 1953 | −$9.4 | −$5.2 | −2 | 0 |
| Fiscal 1954 | −3.1 | −0.2 | −1 | 0 |
| Fiscal 1955, first 6 months | −9.3 | −8.2 | −1 | −1 |

Source: Treasury Department, Bureau of the Budget and Department of Labor.

Mr. RUTTENBERG. But suffice it to say that the outlook for the current economic situation in the year 1955 is one which will produce a higher level of unemployment in 1955 than we had in 1954. This is not a prediction of doom or gloom. This is not a prediction of a depression or even a recession. It is an indication of the facts that even with a slight increase of total goods and services produced in the economy, a small increase in the gross national product, there will, in spite of a slight increase here, be an increase in unemployment.

With the unemployment situation increasing, the tax approach, purely in the field of taxes, should not be the approach of last year, which was to encourage investment by depreciation reductions, by dividend concessions, by tax loss carryovers. This didn't produce increased investment and reduction in unemployment, as the Secretary of the Treasury predicted. Therefore, I think the situation today demands the opposite approach to the tax picture and instead of putting it, as the Secretary did, in the form of a trickling down, by allowing for corporate loss carryovers and dividend reductions, instead of putting it in at the top, put it in at the bottom as a tax credit for American families.

I would like to develop more of these facts in detail, but I know the hour is late.

Thank you very much.

The CHAIRMAN. Senator Long?

Senator LONG. In view of the late hour, I won't question the witness. I would like to make one brief statement at the conclusion of the witness' testimony.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. No questions.

Senator LONG. Mr. Chairman, may I state for the record that my attention has been directed by an officer of the A. F. of L. to the Secretary of the Treasury's statement in which the Secretary referred to the fact that during the year 1954 there was an increase in real income of labor. I believe it would be unfair to those who issued the statement which the Secretary read without reading into the record certain other statements that were in that publication which the Secretary referred to.

The first statement was:

1954 was a year of recession. 1955 is expected to be a year of recovery, although unemployment is likely to continue at an unduly high level.

I read now another quote taken from context, but if I don't it violates the spirit of it.

Despite its relatively short duration it caused incalculable damage to the economy and cut deeply into the living standards of millions of workers.

This statement appears on page 3:

A drop in sales, liquidation of inventories, increases in bankruptcies and the falloff of business spending for plant and equipment represent a few of the ways in which the decline in business activity was transmitted throughout the economy.

Then on page 4, there is this statement:

These three points make clear the critical importance of consumers in their expenditures with a declining rate of spending by the Government and only a slight increase in business expenditures, it is consumer spending that must increase substantially if the Nation's economy in 1955 is to achieve a sustained high level of employment. Consumer expenditures comprise approximately two-thirds of the total expenditures in the economy.

I simply felt that it must be necessary to read these statements in order to make clear that the Secretary's statement was taken out of context, that actually the view of those who issued the publication from which the Secretary read was that we should undertake to expand consumer expenditures.

The CHAIRMAN. The meeting will recess until 2:30.

(By direction of the chairman, the following is made a part of the record:)

AMERICAN AUTOMOBILE ASSOCIATION,
*Washington, D. C., February 28, 1955.*

Hon. HARRY F. BYRD,
*Chairman, Finance Committee,*
*United States Senate, Washington, D. C.*

DEAR SENATOR BYRD: Reference is made to H. R. 4259, a bill now pending before your committee which, among other things, provides for a continuation of Federal excise taxes on automotive products and motor fuels and oils.

While we understand that no public hearings are to be held by your committee on this measure, we nevertheless wish to place before your committee the views of the American Automobile Association as regards these levies.

Our association, which is made up of 750 affiliated motor clubs and branches, and a membership of more than 4½ million individual motorists, is opposed to the Federal Government levying excise taxes on motor vehicles and their accessories.

In addition, the association is opposed to Federal excise taxes on motor fuels and motor oils. We have consistently taken the position that this area of taxation should be left entirely to the State, and this policy position was reiterated at our last annual meeting on October 21, 1954.

If in the course of the development of this legislation it is later decided to hold public hearings, we respectfully request an opportunity to be heard on this issue.

Sincerely yours,

ANDREW J. SORDONI, *President.*

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CHAMBER OF COMMERCE OF THE UNITED STATES,
*Washington, D. C., February 28, 1955.*

Senator HARRY F. BYRD,
*Chairman, Senate Finance Committee,*
*Senate Office Building, Washington, D. C.*

DEAR SENATOR BYRD: The Chamber of Commerce of the United States reluctantly has reached the conclusion that corporate and excise taxes, now scheduled for reduction April 1, 1955, should be continued at their present levels for 1 more year. We oppose the proposed $20 tax credit for individuals and dependents

The chamber members believe that the Federal budget should be balanced at lower levels of expenditure than those projected for either fiscal 1955 or fiscal 1956. Such a balance should be effected during a period such as the present when the Nation is moving toward new high levels of economic activity.

The economy would benefit greatly from much lower rates of tax on both individuals and business.

But the need for budgetary balancing is urgent.

The national chamber therefore recommends that your committee:

(1) Approve a 1-year extension of the existing rate of tax on corporate income and a similarly limited extension of the excise-tax rates scheduled for reduction on April 1, 1955.

(2) Delete from H. R. 4259, as passed by the House, the proposed $20 tax credit for each taxpayer and dependent. That proposal would delay the attainment of a balanced budget and lessen the interest in that goal on the part of the 5 or 6 million people who would be taken from the tax rolls.

It is our hope that such action, coupled with strong measures of expenditure control over all areas of Federal activity, will provide the incentive necessary to achieve long overdue fiscal stability.

Cordially yours,

CLARENCE R. MILES.

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NATIONAL ASSOCIATION OF MANUFACTURERS
OF THE UNITED STATES OF AMERICA,
*New York, N. Y., February 25, 1955.*

Hon. HARRY FLOOD BYRD,
*Chairman, Senate Finance Committee,*
*United States Senate, Washington, D. C.*

DEAR SENATOR BYRD: The members of this association are becoming increasingly disturbed that year-to-year developments in the tax area always serve to postpone or moderate relief from the discriminatory rates of income tax.

This attitude is reflected in the recent policy decision of the association's taxation committee and board of directors, groups which together number over 450 industrialists representing most industries and all sections of the country, to stand firm on policy adopted last October calling for effectuation without further postponement of the 5-percentage-point reduction in the normal corporate tax as rescheduled from March 31, 1954, to March 31, 1955.

To avoid any misunderstanding as to the reasons for this action, the committee adopted the attached explanation. I call your particular attention to the figures on page 130, and ask you to consider their implications in regard to achieving the volume of capital formation necessary to continue the advance in the national standard of living and to provide good job opportunities for new workers who will number up to a million a year in the decade ahead.

I also call your attention to the compounded discrimination which will exist in regard to corporations affected by the prepayment of corporate taxes beginning in September, if the 52-percent rate is continued.

I have addressed a similar letter to the other members of the Senate Finance Committee.

On behalf of all industry, and in the cause of economic progress which means so much to the well-being of all citizens and the preservation of our national strength, I urge the committee to give the most serious study to the dangers of continuing the 52 percent rate to April 1, 1956.

Sincerely yours,

HENRY G. RITER 3d.

EXPLANATION OF ASSOCIATION POLICY ON 5-PERCENTAGE-POINT REDUCTION IN THE NORMAL CORPORATE TAX (ADOPTED BY THE NAM TAXATION COMMITTEE, JANUARY 25, 1955)

The association's policy, as revised in October 1954, is that the 5-percentage-point reduction in the normal corporate rate now scheduled for March 31, 1955, should be effectuated without further postponement.

The taxation committee has reviewed this policy in light of the administration's recommendation that the 52-percent rate be continued for another year.

Its conclusion is that the policy should stand, as further extension of the 52-percent rate would compound the tax discrimination against American industry and have an adverse effect on economic growth.

Tax discrimination comes both from the steepness of the 52-percent rate, and the fact that there already has been 1 postponement of the 5-percentage-point reduction originally set, in the Revenue Act of 1951, for April 1, 1954. Prior to March 1954, the association's policy had called for termination without any postponement. Policy was revised to accommodate some continuation of the 52-percent corporate rate, but it was specifically provided that the 5-percentage-point reduction should not be postponed for more than 1 year.

This action was taken to strengthen industry's support of the Revenue Act of 1954, although a large part of the relief provided was of no direct benefit to industry. A major influence was the dividend credit included in the revenue legislation which, however, was later scaled down from 10 percent to 4 percent.

It will be recalled that the initial postponement of the 5-percentage-point reduction followed a 6 months' postponement of the termination of the excess-profits tax; a tax which came to be almost universally recognized as being unsound in principle and inequitable in application.

The postponements of corporate-tax terminations are in sharp contrast to attitude and action in regard to the individual tax reductions scheduled for December 31, 1953. There was no thought of postponing these reductions; rather there was considerable sentiment for moving up the effective date. These reductions provided only scaled down relief in the higher tax brackets.

Tax discrimination against American enterprise is further compounded by the speedup in corporate tax payments. The original speedup, the so-called Mills plan, will be completed with payments of 100 percent of corporate-tax liability in March and June of this year. The 1954 legislation provides for a further speedup as regards corporations with estimated tax liability in excess of $100,000, namely, prepayment in September and December. The law provides for a 10-percent prepayment in 1955, rising to 50 percent in 1959. The result of the two speedups is to move up nearly a year the payment of one-half of corporate-tax liability. During the 5-year transition, the effect on corporate finances of the new speedup will be roughly equivalent to a 10-percent increase in the corporate rate. Unlike the situation when the individual income tax was put on a pay-as-you-go basis, there is no forgiveness of corporate tax to smooth the transition.

The request for further postponement of the 5-percentage-point reduction poses a vital issue for the American people. If the national standard of living is to continue to advance in the face of population increases estimated at 20 million a decade, and good jobs are to be provided for new workers who will number up to a million a year, an increased volume of capital formation will be required in the years ahead. Capital formation has a double effect in regard to employment. First, the process itself provides jobs. Second, the plant, equipment, and other facilities produced both improve the productivity of existing jobs and provide jobs where none existed before.

The most critical element of capital formation is venture or equity capital, the two principal sources of which are retained earnings of business and savings in the middle and higher income group. It is the pressing need for an increased flow of venture capital which has led the association to develop its new plan for orderly reduction of the high and discriminatory rates of both individual and corporate tax over a 5-year period. The 5 percentage point corporate reduction is a first step in this plan.

There is no room for complacency over continuation of the 52-percent corporate rate on the notion that the burden is largely passed on to consumers. The record since 1948 indicates quite the contrary. The years since 1948 have been one of substantial growth in every respect—except for net corporate profits which have remained virtually unchanged.

During the 7 years in question, net profits have varied over a range of only $1 billion—from a high of $18.2 billion to a low of $17.2 billion. During the same period, the volume of corporate sales has risen from less than $400 billion to over $500 billion. The statistical record, as published by the United States Department of Commerce except for the 1954 estimates, is as follows:

[In billions of dollars]

| Year | Profits (after tax)[1] | Corporate sales |
|---|---|---|
| 1948 | $18.1 | $388.7 |
| 1949 | 17.7 | 370.1 |
| 1950 | 17.2 | 431.9 |
| 1951 | 17.4 | 488.4 |
| 1952 | 18.2 | 498.7 |
| 1953 | 17.3 | 523.5 |
| 1954 [1] | [2] 17.7 | [3] 510.0 |

[1] Profits are shown excluding inventory profits. However, inclusion of this element would leave the point of the tabulation unchanged—profits would still show no growth from 1948 to 1954.
[2] Estimate by Council of Economic Advisers.
[3] Advance estimates by NAM, based on published figures for 1st 9 months of year.

In 1948, the top corporate rate was 38 percent; it has been 52 percent since 1951 (leaving out the excess-profits tax, 1950–53). This amounts to a 36.8-percent increase in the corporate tax and accounts in large measure for the stagnation of net profits in recent years.

In the face of this record, it is clear that the association would fail in its leadership responsibilities if it acceded to further continuation of the 52-percent rate. The 5-percentage-point reduction will do little if any more than offset the impact on finances of affected companies of the speedup in corporate taxpayments to begin in September. This offset should be afforded by allowing the reduction which was provided for in the 1951 law and which already has been once postponed.

(Whereupon, at 1:25 p. m. the committee stood in recess until 2:30 p. m.)

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