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TAXES, PUBLIC EXPENDITURES, AND INCENTIVES TO PRIVATE ENTERPRISE

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The Committee for Economic Development is a unique undertaking in a number of respects, but in none more so than in its way of working. Before talking to you about its tax program, I would like to say a word or two about how that program, and others which will follow it, were developed.

The Committee itself is headed by a Board of Trustees selected by a small group of businessmen called together by Mr. Jesse Jones, Secretary of the Department of Commerce. It was his belief that a business group could contribute to national public policy by making a series of objective studies of the various problems in which the operations and relations of business affect the public interest. His part in the formation of CED was in giving it this initial impulse, in making it easy for the Committee, once formed, to have access to Government statistics and information, and in facilitating access to Government officials for consultation. Aside from this, the CED is completely free from Government control or Government financing. It is an independent business body assisted in some respects by the Government, but not responsible to it or influenced by it.

A group of trustees was selected by the original organizing committee. These trustees are drawn entirely from business life, and to read over the list shows clearly that responsible and public-spirited men in our business life have accepted the responsibilities involved; and I may add that they have accepted them, not merely in words, but with continuous counsel and guidance.

Aside from the Finance Committee, whose task it has been to raise the funds required to support our work, the operations of CED are divided between two committees who play complementary parts in the complete undertaking. That undertaking is the effective stimulation of American business enterprise to the point where it will attain and, without dangerous fluctuation, maintain a high level of productive employment in this country.

The first of these two committees is the Field Committee. Its part lies in assisting individual businesses, large and small, to plan for the postwar period, both for the transition and the later years, in such fashion that each can make its contribution to the total volume of employment and production required if the country is to be materially prosperous. Throughout its innumerable occupations and geographical regions, the end sought and expected is not the development of some large over-all plan, but a sum total of hundreds of thousands, really millions, of individual plans wisely conceived by individuals and individual companies who know their own opportunities and possibilities. The sum total of all these plans (in the aggregate of their failures, partial successes and full successes) will add up to the desired and expected social and economic result. This is a new idea and a new undertaking.

The other half of the work of CED is in the hands of the Research Committee, of which I am chairman. We are concerned with those conditions and forces outside of the individual business itself, which may have a determining effect on the success or failure of the individual plans. Many of these forces are so important and so strong that they can wreck the best-laid plans of the most skillful business group or individual. For the solution of problems connected with these outside forces, which are mostly in the governmental field, it was deemed necessary to carry on a series of studies under the best possible auspices and by the best possible means, and to develop from these studies recommendations on public policy in the field studied.

The Federal Tax policy statement, about which I am to speak tonight, is only one of these projects, though a most important one. Among the other more important ones are the questions relating to the liquidation of war-time controls, the proper balance between agriculture and industry, the place which foreign trade holds in our American economy, and the general problem of avoiding extremes of boom and depression. All of these topics are studied from the same single point of view, that of maintaining a high level of productive employment. This is the fundamental goal on which we keep our eyes fixed in all of these various projects.

I spoke of the uniqueness of the undertaking of the Field Committee. The Research Committee in turn has a unique way of studying its problems and reaching its conclusions. The method we have adopted is the one which we believe is most likely to lead, not to a conventional businessman's conclusion, but to something more nearly approaching objective truth dissociated from our individual prejudices and preconceptions.

The Research Committee itself is made up of businessmen. The Vice Chairman is Chester Davis, President of the Federal Reserve Bank of St. Louis. Another member is Donald David, Dean of the Harvard Business School, but who has recently come to that institution from the presidency of the Royal Baking Powder Company. Other members are Eric Johnston, President of the Brown-Johnston Company and the United States Chamber of Commerce; Ernest Kanzler, Chairman of the Board of the Universal Credit Corporation, Detroit, Michigan; Thomas W. Lamont, Chairman of J. P. Morgan & Company, New York; Raymond Rubicam, recently retired from one of the country's great advertising firms; Beardsley Ruml, Treasurer of R. H. Macy & Company, New York; Harry Scherman, President of the Book-of-the-Month

Club, New York; Gardner Cowles, Publisher of the Des Moines Register; and, ex officio, Paul Hoffman, President of the Studebaker Corporation of South Bend, Indiana; and William Benton, Vice President of the University of Chicago and President of three active business concerns. The latter two men are Chairman and Vice Chairman, respectively, of the Board of Trustees.

The thing to observe in looking at this list of names is that they represent a wide range of experience, of temperament and of point of view. The completed result of the deliberations of this group of men cannot be predicted in advance. Arriving at common conclusions of any sort will be a difficult process. Difficult though it may be, however, a conclusion arrived at will have had the advantage of discussion from every imaginable viewpoint and of testing from a wide range of experience.

The composition of this body and the unpredictability of its conclusions are in contrast to the normal approach by businessmen to the study of public problems, in which it is customary for a group of like-minded men to arrive at predictable conclusions. This latter process is comparatively easy. The undertaking we have set for ourselves is difficult, but holds possibilities of superior results.

But the Research Committee does not depend on its own experience, wide and varied though it may be. It set up a Research Advisory Board of social scientists, for the most part economists, who have been picked with the same regard for variety of viewpoint, specialization and temperament that was shown in the selection of the Research Committee itself. There are but two common requirements considered in the selection of all of these men; these were that they should be intellectually honest and that they should be universally recognized by their associates as having a high professional standing. Those requirements have been met, but meeting them has not interfered with the variety of outlook and experience which was sought and obtained.

The Research Advisory Board consists of Sumner Slichter, Chairman, and Lamont Professor of Harvard University; Robert Calkins, Vice Chairman, Dean of the Columbia School of Business; David Cavers, Dean of the School of Law, Duke University; Neil Jacoby, Professor of Finance, University of Chicago; Harold Lasswell, Director of War Communications Research, Library of Congress, Washington, D. C.; William Myers, Dean of the Cornell Agriculture College; Theodore Schultz, of the Department of Economics, University of Chicago; and Ralph Young, Professor of Economics, University of Pennsylvania.

In addition to this, we have a Research staff whose director is Dr. Theodore Yntema of the University of Chicago, who has had many brilliant achievements to his credit, chief of which perhaps was the successful presentation of the case of the steel companies before TNEC investigation in Washington. Not only did he successfully present their case but, more remarkably still, in so doing he excited the admiration of the administration group which had the investigation in charge. Mr. Yntema has with him as Research associates Mr. Gardiner Means and Howard Myers, men of long experience in governmental research, and a number of others to whom special undertakings are assigned.

The history of the tax report will show how this organization operates. Dr. Yntema, first with the approval of the Research Committee, selected the most competent available student of Federal taxation to prepare a monograph on the subject. He selected Dr. Harold Groves, Professor of Economics of the University of Wisconsin. This selection aroused considerable criticism since Dr. Groves has been connected politically with the LaFollette group in his State. The end, however, justified Dr. Yntema's selection. Dr. Groves undertook the presentation of his monograph, but this was not done in academic retirement. His outline and his conclusions were, at an early stage, subject to a round-table discussion in the presence of the Research Committee and the Research Advisory Board. Hour after hour, meeting after meeting, month after month, while the monograph was in process, the questions involved were subjected to detailed criticism by the varied business groups and by the varied advisory groups which had been brought together for this purpose. This process assured us that Dr. Groves would have met almost every conceivable contrary argument to the points of view he would normally hold and express. The final result of these months of discussion was most interesting. The businessmen of the Committee altered their ideas in some particulars. The social scientists of the Advisory Board adjusted their points of view to something nearer a common meeting ground, and Dr. Groves himself wrote a different book than he would have written without these days of criticism and discussion.

Under our arrangement, the completed book is referred to a reading committee of the Advisory Board to assure that it is a technically competent work. Having passed this test, it is put in the hands of the Research Committee of businessmen who have the privilege of adding footnotes of comment or dissent at any point where the book seems to any one of them individually to be going dangerously astray. The manuscript then goes back to the author who may make changes if he desires in the light of the criticism, but the Committee is bound to publish it in the form satisfactory to the author. The professional integrity of the author is maintained. He has expressed his own ideas, and the result is a book which, while it has been in the testing fire of criticism, is the refined essence of the experience and opinion of one single competent man.

When the manuscript has been completed, the Research Committee of businessmen takes up its prime responsibility, which is that of preparing a statement of public policy. The businessmen, as well as the professors, have been through a period of education and shaking down together of varied ideas in the weeks and months preceding. They are, therefore, in spite of their variety, in a much better position to arrive at a considerable measure of unanimity than they would otherwise have been.

A member or members of the Committee are appointed by the chairman to prepare the policy statement. This policy statement in turn goes through the testing fire of discussion by the full committee, by the Advisory Board and by the staff, but ultimately in executive session is amended and adopted by the businessmen themselves. Such a document prepared by such means is this pamphlet before you, entitled "A Postwar Federal Tax Plan for High Employment".

This is a long preamble but the method of preparing the document is, if anything, even more important than the document itself, since it determines its character of this and succeeding statements. I believe you will agree with me that no proposals by businessmen in the field of governmental legislation and administration have ever had such thorough preparation or been subject to such relentless tests as have the policy statements of the Committee for Economic Development.

Now let's get down to the report itself. There were a number of major questions on which we had to come to a conclusion. One of these was determined by the whole over-all purpose of CED. We were bound to make tax policy proposals which would assist in attaining and maintaining a high level of productive employment. This is a new thing so far as legislative purpose is concerned. Economists and businessmen have written, talked and complained about the effect of taxes already in force on employment and production, but here we set out with this subject as a main purpose of a tax structure, coordinate with the fiscal necessity of matching budget with income. We venture to say that never again in Federal legislation will the effects of taxation on employment and production be considered as anything other than a primary consideration.

Another question we had to consider was what we should do about balancing the budget. Three possibilities were open. We could look with regret, but with resignation, on a continuous increase in the national debt, concluding that it is impossible to balance it in the long run. We could aim at balancing it over the ups and downs of the business cycle. Thirdly, and this was the route we chose, we could make a net retirement of public indebtedness, even though small, and with the recognitions that in some years the debt would be increased, while in others it would be still more reduced.

This conclusion led to a difficult research project, which I believe has never been undertaken with the same thoroughness that we have demanded. Thorough though that research was, nevertheless it relates to a problem in which absolutely certain results are impossible, and we have to be satisfied with skillfully determined approximations to the figures we are seeking. That research problem relates to an estimate as to the postwar budget, an estimate as to postwar national income and an estimate as to a tax structure, which, as applied to the estimated income structure, will somewhat more than balance the postwar budget.

For the postwar budget we took a range of from 17 to 19 1/2 billion dollars of postwar Federal expenditures, exclusive of the social security taxes. These figures are on the low side among the many estimates that have been made. They nevertheless do take into account the greatly increased military establishment, the servicing of our enormous postwar Federal indebtedness, generous treatment of the veterans of our armed services, and certain other expenditures which have been incorporated in our national policy. The assumption that Congress will be careful and prudent in its appropriations is the only assumption on which we can base a hope for national solvency.

The second element on which national estimates have to be made is the estimate of net national income. Here the very purpose of CED sets the basic assumption, namely, that we shall have a high level of employment. We have defined that high level of employment as one in which 2 1/2 million people are engaged in a large peacetime army and navy, and 2 1/2 million people are temporarily unemployed at any given time. Those who should be employed only in wartime are back in the schools and homes and, where needed, on the farms. We have the additional assumption of the 1943 price level and a population increase of 500,000 a year and an increase of productivity per worker per hour based on our past performance.

This figures out to the often criticized total of 140 billion dollars per year net national income. Much of this criticism is naive. As an example, there was the case of a Congressman who told me that we got along fairly well a few years back at 95 billion dollars productivity, and higher figures were fantastic. The reply to him would be: Were we to go back to that figure with his political party in power, that party would be thrown out on its neck by the many, many millions of unemployed involved in the figure with which he was satisfied.

The most carefully worked out criticism of this 140 billion dollars (which was arrived at by two or three independent investigations by separate groups inside and outside our own organization) has come from a pamphlet published by Brookings Institution. The author of that pamphlet considers that 127 billion is nearer the figure than 140. So far as I can judge, he leaves out one factor, and that is the hitherto unfailing factor of increase in productivity per man per hour. A 10 per cent increase over prewar conditions is historically justifiable. If this increase were applied to the Brookings figure, the result would be so near 140 billions that there would be no argument between us.

With the national budget of from 17 to 19 1/2 billion and a national income of 140 billion, we are faced with an extremely difficult task. Taxes will have to be very high, and our problem is to raise those high taxes in such a way that our main objective of maintaining a high level of production and employment will not be jeopardized. The margins within which we can work are very narrow. They are more than narrow, they are critical. It has seemed to me in our study of this problem that were the war to last a year longer than we now expect, and were the national debt to increase proportionately, we would be faced with such serious additional requirements for Federal income that it could not be drawn from our citizens in ways which would not seriously hamper employment and production, and thus dry up the sources from which we sought the income. We would, to put it brutally, be faced by the necessity for repudiation in some form, probably by deliberately fostered inflation. A kind providence would seem to have spared us this shameful necessity, though by a margin which we cannot view without a mingling of gratitude and fear.

Our problem then becomes that of distributing the tax burden for raising this enormous amount in such a way as to be equitable, produce the required income and yet not have it a serious deterrent to high production and employment. As just indicated, this task was not an easy one. The conclusions we came to are given in our tax study.

The major decision we had to make was as to whether the main dependence should be placed on the corporate income tax or on the personal income tax. We decided unquestionably on relieving the tax burden on business and putting its major weight on persons.

There is a question of equity involved. You cannot tax business as a business independent of the persons who own it. No matter how directly or indirectly you are taxing business, you are really taxing persons. More than that, you are taxing them inequitably, particularly since under our present law those who receive dividends are taxed twice, once before the dividends are paid out by the company and again after they are received by the stockholder.

In reducing the burden of corporate taxes and avoiding double taxation, our plan is to set a rate for corporate taxation equal to the rate on the lowest bracket of the personal income tax, leaving the corporation to act as the collector for the stockholding recipient, who gets credit for the collection made. There are various ways of doing this and possibly the particular method we propose may be improved, but fundamentally we set the corporate rate at the basic individual rate.

Depending on whether the higher or lower budget of 17 billion or 19 1/2 billion is voted by Congress will depend the corporate rate and the basic rate for individuals. For the lower budget, the tax rate will be 16 per cent; for the higher it will be 20 per cent. It must be brought home to all concerned that higher budgets call for higher rates and higher rates tend to dry up the wealth from which it is sought to derive the national income.

The main consideration in deciding between business and personal taxes was, however, that to tax business, rather than the income personally received from it, was to put a definite brake on business expansion. While much thought was given to the part played by the individual in investing risk capital, it became clear to us that the inescapably heavy load would better be borne from the standpoint of employment by a tax which did not burden the operations of business but did apply when it had been received in spendable form by persons. This major decision has a good statistical basis. About 2/3 of business expansion is financed by plowing back earnings. The higher incomes in general invest in blue chip securities rather than by risking their capital. A large percentage of the higher incomes is in trusts of one form or another, for which risky ventures are taboo. Most of the new risk capital appears to come from the middle income groups, and for them the possibility of the expansion of the enterprises in which they venture, without these enterprises being held down by restrictive taxation, offers the needed relief for the revival of the old-time spirit of venture.

I am confining my talk almost entirely to this question of personal and corporate taxes because the major decisions had to be made in this field. Some of the other subsidiary proposals are more controversial than are the main elements of this tax program. Some of them may be subject to changes of opinion at a later date and in the light of more information on the part of the members of the Research Committee, but I am sure that we feel solid ground under our feet in the major determinations which I have just described.

Above all, we must not fall into the error which we practiced in the late 20's and early 30's, in which time we decreased tax rates in boom and increased rates in depression. It would have been better to have done the reverse, to have increased them during the boom and decreased them during the depression. Political and administrative difficulties are involved in a rapid and accurate adjustment of tax rate to a fluctuating business cycle. We will have made a long step in advance if we can learn to hold them steady at some figure which will make a net retirement of the national debt, however small, over the swings of the ups and downs of business.

To sum up, the tax load must be far heavier than we ever imagined it possible to bear in our prewar experience. It must be so adjusted as not to prevent the expansion of employment and production. Correspondingly, it must be so adjusted that it will not dry up the production of wealth from which the tax income is drawn. Finally, it can be so adjusted and with a structure such that the burden on all kinds and conditions of men and women will be reduced below that which they are called upon to bear in wartime.

Since there seems to be some possibility that these tax policies will be adopted in part, at least, it is important from your standpoint to consider how they will affect the demand for business credit and the safety of business credit.

In the first place, it may be expected that net profits of business enterprises will tend to rise. This in itself would decrease the demand and increase the safety. There is, of course, nothing new about this, since there has, I suppose, always tended to be an inverse relationship between demand, or at least need, and safety.

The full addition of the tax relief to net profits, however, cannot be expected. There will doubtless be an increase in dividends paid. A certain share of what would be increased net will also go to higher wages. A part of it also should be absorbed by lower prices of products. In other words, the advantage gained by lower taxes will be distributed over dividends, wages, and prices. All of this should, however, make for a healthier business situation and one which is expanding, and should, on the whole, result in a net improvement in the demand for bankable credit.

Let us hope that we can handle our future so wisely that all these good things will come to pass.

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