For Peter

# PRESENT CRISIS
*OF*
# LABOR AND INDUSTRY

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# Thirty Billion Dollars Were Expended by U. S. Corporations in Excess of Net Earnings 1930-1936

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# AT THE CROSSROADS

## RECESSION *or* PROSPERITY

Facts and figures of our national economic structure familiar to a few are quite unknown to many.

For fuller acquaintance with them, certain facts and figures are essential to the preparation of a balance sheet of our country's affairs. Herein you will find statements of national assets, fixed and liquid, of liabilities and expenses, of income and certain details of the source of that income. Not included in the balance sheet, because incalculable in dollars, is our primary asset—our great population, its character, traditions, abilities, method of life, impulses, which are the mainspring of our industry and the stabilizing force of government.

In 1930 this population was 122,750,000 persons.

44,636,000 were classified as farm dwellers,
13,901,000 as residents of villages and towns of less than 5,000 inhabitants; and
64,237,000 as urban dwellers.

The 1936 estimate was 128,200,000.

The 6% increase in population during the past seven years should be borne in mind in the study of all comparative figures.

The 1930 census showed gainful workers to the number of 48.8 million. A present estimate is fifty-one to fifty-three million.

Of the laboring population

8% are professional and semi-professional;
20% clerical and kindred low-salaried occupations;
14% skilled labor;
10% semi-skilled labor;
48% unskilled labor.

Our National Wealth, reduced by the depression by about twenty per cent, was estimated by the Brookings Institution, as of February, 1929, at approximately $460 billions. Of this amount, excluding lands, private dwellings, and personal property, such as household effects, jewelry, motors, and financially non-productive property, they state that there remained national working capital, consisting of productive establishments, equipment and other capital assets of $214 billions.

Of the total $214 billions referred to, there were, prior to depression, items of productive capital assets, as follows:

$53,000,000,000 was credited to manufacturing capital;
58,110,000,000 to transportation and public utilities;
16,110,000,000 to agriculture;
6,000,000,000 to mineral industry;
5,200,000,000 to gold and silver (plus accretions);
10,000,000,000 to foreign investments (varying in value); and

22,600,000,000 to tax-exempt government property, colleges, schools, libraries, etc. (These are largely income absorbing, rather than income producing, assets.)

Our working capital is now about $182 billions (excluding tax exempt government property).

On the debit side:

| | | |
|---|---|---|
| Federal Debts (about one billion in 1915) as of 1935..... | $29 | billions |
| Outstanding public debts of States, Counties and local communities, as of 1935..... | 20 | billions |
| a total, excluding contingent liabilities ..... | $49 | billions |

as of 1935

Federal contingents, largely secured, as of May 31, 1936, were $9¾ billions.

Corporation and individual indebtedness, based on figures of the Brookings Institution (*The Recovery Problem,* p. 320) show totals

| | | |
|---|---|---|
| For 1929 of ..... | $245 | billions |
| For 1933 of ..... | $189 | billions |

(Later figures are not available.)

As debtors and creditors are largely our own citizens, these colossal sums are mostly intra-nation obli-

gations, as there are credits owned by Americans of amounts approximating the indebtedness.

Foreign debts and credits are purposely not detailed.

The National income is calculated variously. The figures are subject to adjustment, but those of the United States Department of Commerce, National Income Division, are as follows:

| | | |
|---|---|---|
| Total..... | 1929..... | $78 billions |
| | 1930..... | 73 billions |
| | 1931..... | 62 billions |
| | 1932..... | 48 billions |
| | 1933..... | 45 billions |
| | 1934..... | 51 billions |
| | 1935..... | 55 billions |
| | 1936..... | 63 billions |

Of these $63 billions income of 1936:

| | |
|---|---|
| Agriculture is credited with..... | $ 4 billions |
| Manufacturing with..... | 14 billions |
| Trade with..... | 8 billions |
| Government, including part of relief wages ..... | 9 billions |
| Transportation and communication.. | 6 billions |
| Finance ..... | 6 billions |

These amounts were received by "nearly 6 million families with incomes of less than $1,000; 12 million with incomes under $1,500; over 16 million with incomes under $2,000; and over 19 million, or 71 per cent of the total, with incomes of less than $2,500. A family income of $2,500 (for an average family of over four persons) at 1929 prices, was a very moderate one,

permitting few of the luxuries of life." (*Income and Economic Progress,* issued by the Brookings Institution.)

The tax burdens on national property and income are ably set forth in the study of the National Industrial Conference Board "Cost of Government," issued in May, 1937.

It shows the cost of government, Federal and State and Local,

in 1923 totalled..... $ 8.9 billions
in 1935 totalled..... 14.9 billions

a per capita increase from $79.96 to $117.09, or 46% in five years.

Of this increase

$3.7 billions is in Federal expenditures
1 billion in State, which in 1935 were $2.23 billions
1.3 billions in local, city and county, wkich in 1935 were 5.86 billions

Agricultural aid, Federal emergency relief, emergency conservation, civil work, administration public works, reconstruction finance, and miscellaneous items expended in 1934, 1935 and 1936 totalled nearly 9 billions.

Tax collections (which would be reported as "earnings" in any private business balance sheet) to meet that part of expenditures not provided for by loans, were as follows:

1923 total $7.23 billions, divided as follows:

| | |
|---|---|
| Federal taxes | $3,032,000,000 |
| State taxes | 917,000,000 |
| Local taxes | 3,285,000,000 |

In 1935 collections totalled $9,717,000,000, divided as follows:

| | |
|---|---|
| Federal taxes | $3,546,000,000 |
| State taxes | 1,875,000,000 |
| Local taxes | 4,296,000,000 |

For 1936 the total of such taxes is indicated as $10.2 billions of which Federal is $3.8 billions. The $10.2 billions is one-sixth of the national income.

Federal receipts for 1936 include the following:

| | |
|---|---|
| Federal personal income taxes | $674,416.000 |
| Corporation income taxes | 738,522,000 |
| Excess profits taxes | 14,509,000 |
| Corporation Capital Stock taxes | 94,943,000 |

Belated returns add to these figures.

Personal Income Tax reports were filed in 1934 by 4,094,420 persons, of whom 1% paid 73% of the total tax.

Included in the Personal Income taxes for 1936 are Capital Gains, and in the Corporation income taxes, the Undistributed Profits levies.

According to the Treasury figures for 1934

| | |
|---|---|
| Capital gains of individuals for that year amounted to | $211,319,000 |
| Capital losses amounted to | 183,762,000 |

The 1935 and 1936 figures do not seem to be completely tabulated or available, although the total capital gains for 1935 is reported as $504,847,000.

Of the capital gains

$115 million are included in incomes under $5,000;

87 million in incomes between 5 and 10 thousand dollars;

These amounts are not subject to the high brackets of tax.

117 million in incomes between 10 and 25 thousand dollars.

Capital gains in 1935 in incomes of over $25,000 were less than $190 million.

The capital gains by the 204 people who reported incomes of from $300,000 to $500,000 totalled only $9,168,000, according to the preliminary Treasury report on 1935 incomes.

While heavy taxpayers are complaining generally of high federal taxes, excessive state and local levies, and the indirect drain upon them of payments made by corporations in which they are stockholders, their supreme grievance is the Capital Gains tax, by which such gains are included as part of ordinary income, forcing surtax payments at high rates, while only $2,000 over gains is allowed as loss credit.

Its critics say that capital gains are not income. They point to the British tax law, while insisting that we are the only country in the world resorting to Capital Gains taxes.

A Capital Gains tax which is a form of capital levy, as distinguished from collections on income, may possibly be justifiable provided it really adds revenue to a Treasury hard driven to balance the national budget.

It is submitted, however, that if all elements of our economic structure are considered, it causes great loss to the Treasury.

It stops industrial recovery at its very source. The addition of capital gains to ordinary income means that men and women of large means must pay 65-80% of any gain as taxes. The result is that there remains insufficient profit incentive to such investors to risk their funds—with a chance of a 100% loss and at most one-third as much gain. Common sense and prudence lead them to either keep funds idle or to buy low-yield tax-free bonds. Investment in labor-employing and income-producing enterprise are generally discouraged.

As a practical matter, rebellion against the tax is so extended as to be a menace to National Recovery, at the very time when the governmental programs require support through injection of private funds into industry on the broadest scale. We have an unorganized, but none the less definite and understandable sit-down strike of capital, far-reaching in its results.

Intelligent inquiry will prove that "this is a condition, not a theory," and it should be dealt with at the Special Session of Congress. Each day's delay is hurting industry and increasing unemployment, with all related human suffering.

Because of Treasury needs and realization of the Congressional viewpoint, it may be that modification and not repeal of the law should be sought. My suggestion is that if elimination is not feasible, there should be levied a 12½% tax on all capital gains profits whenever made over current losses, unless the taxpayer declares the profits as part of regular income. The law should allow losses to be spread, at the election of the taxpayer, over a three-year period. There are excellent arguments in favor of the two-year limitation in the 1934 Act by those who claim that the tax is a levy which should not be laid on investments.

Calculation by brackets, using the actual figures for 1936 capital gains, shows an estimated primary loss to the treasury by reduction of the Capital Gains tax to 12½% of not over 65 million dollars.

This figure of 65 million dollars should not be considered as the extent of the drain on the Treasury. It is put forward as a maximum, without speculation as to Treasury gains through realization by stockholders (ultimate taxpayers) who would welcome opportunities to unfreeze their holdings and take profits, otherwise unrealized if the tax were fixed at 12½%, or some other reasonable, non-confiscatory figure. Many believe that the result of sales and reinvestment would be so large that the returns to the Treasury would be much greater than the estimated primary loss. It is also apparent that the released funds would be avail-

able for new enterprises which would in turn become new sources of income, subject to taxation. This would also aid the objective of the Securities and Exchange Commission, to stabilize prices in the security markets, and have a trend to balanced liquidity.

It is submitted that it is of no relative importance whether the result of modification be calculated as a profit or a loss to the Treasury. The vital need is to remove at once the dead hand of confiscation that is paralyzing industry, so that commerce and labor can go marching on confidently.

That Capital Gains tax in its present form is killing the goose that lays the golden eggs. It is borrowing from and diminishing our normal future taxpaying ability, appropriating capital which, left with the taxpayer in whole or in part, could be invested and produce taxable earnings.

For twenty-four years we made the science of taxation subservient to political expediency of the worse type—a condition which the present Administration can cure under courageous leadership.

Reference has been made to indirect individual taxation, through stockholdings in corporations.

A brief reprint of typical figures, presented by the National Industrial Conference Board in its "Cost of Government," 1934-1936, gives food for thought.

Twenty-six steel corporations report aggregate taxes paid, Federal, State and local, as follows:

1929 net income before taxes ..... $356 million
Taxes, 26.9% of profits.
1934 net income before taxes..... 36 million
Taxes, 156.2% of profits.
1935 net income before taxes ..... 111 million
Taxes, 59.1% of profits.

The tax on steel companies referred to above was at the rate of $3.31 per ton of finished steel in 1935.

Statistics (from the same authority) on other companies and trade corporations are even more startling. For example,

> Local, State and Federal taxes of Manufacturing Corporations in 1931 were 349% of their net profits. In 1932 the manufacturing companies bulked together, made no profit in the aggregate, but their taxes, local, state and federal, totalled 647 million dollars.

This gives one pause—to ask what effect high taxes have in destroying our trade in competitive markets, and to what extent taxes are responsible for unemployment and limitation of production, and added relief costs.

It is a vicious circle.

From 1930 to 1934 the corporations of America, in a brave and self-sacrificing attempt to maintain per-

sonnel, meet labor costs and taxes, and to pay some dividends, persistently and deliberately depleted their reserves to an unbelievable extent.

The following table, prepared by the National Industrial Conference Board (based on United States Government reports) shows the actual excess of expenditures of business (other than financial corporations) over earnings:

TOTAL CORPORATE SAVINGS OR LOSSES IN THE UNITED STATES, 1922-1936*

| *Year* | *Million Dollars* | *Year* | *Million Dollars* |
|---|---|---|---|
| 1922 | + 1,747 | 1930 | — 4,255 |
| 1923 | + 2,528 | 1931 | — 7,327 |
| 1924 | + 1,575 | 1932 | — 8,001 |
| 1925 | + 2,957 | 1933 | — 4,481 |
| 1926 | + 2,335 | 1934 | — 2,510 |
| 1927 | + 1,115 | 1935 | — 2,000 |
| 1928 | + 2,479 | 1936 | — 2,000 |
| 1929 | + 2,320 | | |

**Total upbuilding of reserves 1922-1929 inclusive ..... 17.56 billion**

**Total exhaustion of reserves 1930-1936 inclusive ..... 30.574 billion**

* Source: Statistics of Income, U. S. Treasury Department.

Preliminary estimates of Savings or Losses represent net earnings retained after distribution of dividends, or amounts by which corporations had to draw on surplus or go into debt in order to maintain their payments of salaries and wages, interest, dividends, etc.

Every business man knows the effect of impairing reserves. It is unnecessary to detail how far impairment reacts on corporate capacity and corporate functions, including continuance and expansion of activities, and payrolls of employees.

This condition of reserve exhaustion might have been curable in time, except for the enactment of a new device, "The Undistributed Profits Tax."

When it was proposed, its stated objective was to compel corporations to disgorge earnings, and destroy an alleged conspiracy between companies and their rich stockholders whereby stockholders were avoiding high bracket taxation. It broadened existing tax laws, penalizing unnecessary reserves, without providing adjustability for business needs, to meet debts and capital impairment of recent years or proposed capital outlays. A fairer way might well have been to deal with the tax-evaders of closely held corporations without hampering general business.

The figures and facts, presented above, were, in all probability, never brought to the attention of Congress. They certainly were not brought to the attention of the public.

It is apparent that the law is in conflict with the anti-monopoly policy of the Administration.

It prevents corporate saving essential for extension of businesses of small or moderate size. It is a bulwark for big business with ample capital or banking connections.

Next to the self-made, successful man, our pride is in the growth of small concerns. This tax closes the door of opportunity to the man with a small capital.

Suggested devices to pay out dividends by stock issues or fancy notes, to maintain corporate earnings and the avoidance or decrease of Undistributed Profits Taxes, are all repellent to sound commercial and accounting standards, and have many latent dangers to credit ratings.

A recent summation of the effects of the tax, by the head of a great economic group, was as follows:

It means:

1. Loss of employment of millions of people
2. Loss of income to producers of capital goods
3. Loss of productive capacity for the future
4. Loss of future taxable income—both individual and corporate.

The National Industrial Conference Board, Brookings Institution, and other economic scientists, agree that sound national business policy requires that at least 1/6 of each year's national income be set aside for reserves, such as added buildings, machinery, extensions, repairs and related cash capital needs.

The record of attempted upbuilding of depleted corporate reserves, through new capital issues (according to the Commercial and Financial Chronicle) is reflected in the following tabulation:

NEW DOMESTIC CAPITAL ISSUES IN THE UNITED STATES, 1922-1936.

| *Year* | *Million Dollars* | *Year* | *Million Dollars* |
|---|---|---|---|
| 1922..... | 2,211 | 1930 | 4,483 |
| 1923..... | 2,635 | 1931 | 1,551 |
| 1924..... | 3,029 | 1932 | 325 |
| 1925..... | 3,604 | 1933 | 161 |
| 1926..... | 3,754 | 1934 | 178 |
| 1927..... | 4,657 | 1935 | 404 |
| 1928..... | 5,346 | 1936 | 1,194 |
| 1929..... | 8,002 | | |

Figures issued November 1, 1937, by the Securities and Exchange Commission list net proceeds of proposed new issues for the first nine months of this year classified as designed to provide new capital to add to plant and equipment as ..... $359,600,000

Estimated net proceeds to increase working capital..... 772,200,000

Total .....$1,131,800,000

Over half the registrations were in the third quarter of this year. Undoubtedly many of the securities have remained unissued or unsold because of market conditions. Sixty-nine issues for varied purposes involving $200,000,000 have postponed effective dates. The fourth quarter will in all probability be very small —far less than the $297,000,000 for new issues proposed in that period of 1936 for like purposes. It seems fair to suggest, therefore, that the amounts provided for this year's reserves will probably not exceed the total for 1936.

From the above figures of new capital issues—which do not include refunding issues—it is apparent that industry provided but 2 or 3% in 1934; 5 to 6% in 1935; 12 to 13% in 1936, of the prescribed reserve of national income which, as stated above, should be 1/6 of such income.

On first examination of these figures, the thought was that with war expansion and post-war depression, we had all the factories, mills and utilities we required. The economists prove this is an error.

The Brookings Institution states, and others agree, as follows:

> "When current requirements are added to the accumulated deficiency, the needs for durable goods over the next five years indicate an average annual production at current prices of approximately 33 billion dollars whereas actual production in 1936 is running at the rate of about 21 billions. In terms of employment, the difference of 12 billion dollars represents the addition of some 8 or 9 million persons on a full-time basis. This exceeds by a considerable margin the portion of the now unabsorbed labor force allocated to durable goods. Hence, to effect the indicated production program in durable goods, it would be necessary to encroach heavily upon the working personnel allocated to non-durable goods and direct services."

The statistical base for these conclusions is convincing.

It should be clear, therefore, that creation and use of industry's reserves, offer a future opportunity for business, capital and labor, making possible a prosperity such as this country has never enjoyed.

It means, if so treated, a gradual end of excess unemployment, a more abundant life for labor, increased tax receipts without increase of rates, the balancing of the budget, and possible reduction of the national debt.

To obtain this consummation requires two things—

(1) General knowledge by the people of these economic problems, personal to each of them, and a wise approach to their solution;

(2) Immediate restoration by the Government of public confidence promptly indicated in most certain terms.

Our people should be brought to a realization that taxes and national economic questions are non-political; that the interests of capital and labor, rightfully considered, are identical and not separate, and that capital and labor should learn to deal one with the other fairly, with a determination to unite for national interest, which is always their common good. They might also be told of the history of the tragic effects of error in tax legislation.

The unfair employer, the unwise labor leader, the man or woman defaulting in citizenship duties—are all sabotaging our future.

Our spirit should be that witnessed from the gallery of the House of Commons in August, 1914, when the vote was about to be taken on the hundred-million-pound appropriation for the conduct of the Great War—Asquith, Bonar Law and Lloyd George arose, stood side by side and together said, "In this struggle we know no party, no politics, ONLY BRITAIN."

We are at the cross-roads between recession and prosperity. The situation is as critical and as far reaching as any that has ever faced our country. A sound solution, we can prove the efficiency of our democracy, avoid Fascism and kindred evils, to the benefit not alone of ourselves, but of the world generally.

We must act now,—with resolution to tolerate no partisan politics in dealing with the economics of recovery.

EDITORIAL FROM THE
*New York World-Telegram*
November 1, 1937.

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# YOU CAN HELP GET ACTION ON TAX POLICY.

This nation's industry grew through a process of plowing back. Instead of declaring into dividends all profits each year, some considerable portion was retained for reinvestment and reserve. A peanut stand must remain a peanut stand and nothing else if all earnings are dissipated every twelve months. Furthermore, some rainy day the peanut stand will be washed out unless it has reserves.

So, plowing back and building reserves became standard practice throughout all the years of this country's industrial and commercial development. Many failures have been a part of the story, but, net, America's industry has grown as has that of no other country in the world.

Suddenly this process was stopped by a law. The effect of the law is to compel the declaration of all profits each year into dividends by prohibitive penalties. It wiped out the idea of plowing back any of reserves.

Result:—A blight on industrial and commercial development at the very time when such development is most needed, when public spending is being curtailed and private business is being depended upon to take up the slack to provide the jobs that will absorb the unemployed and the volume by which federal revenues to balance the budget may be raised.

This tax policy is now bringing about industrial and commercial doldrums. It is time for a change—double-quick. If you don't believe it, ask around town. Capital is being frozen and business stymied by this loose fiscal policy.

Congress meets in special session November 15. Authorities within and without the administration are agreed that change is called for. But large bodies move slowly, and time is vital.

Modification can be accomplished before the first of the year if the seriousness of the situation is fully realized.

Your Congressman is about to start for Washington. Register with him before he leaves. Then follow up by mail or wire. The slump this country can't stand can be stopped if the correction is applied and made effective for the calendar year 1937.