

August 12, 1940

STATEMENT OF EDWARD A. O'NEAL, PRESIDENT, AMERICAN FARM BUREAU FEDERATION
TO
HOUSE WAYS AND MEANS COMMITTEE AND SENATE FINANCE COMMITTEE
CONCERNING
PROPOSED EXCESS PROFITS TAXATION AND SPECIAL AMORTIZATION - 1940

The American Farm Bureau Federation commends the prompt action of the Ways and Means Committee and the Finance Committee in undertaking to formulate legislation with respect to excess profits taxation and special amortization provisions. We recognize the great importance of such legislation to the national defense program.

As spokesmen for farmers representing a large and important part of our citizenship, we feel it is timely to express some fundamental convictions with respect to taxation and profits which we believe are basic to our national security in this time of great emergency.

We are concerned over the frequently recurring reports in the press and elsewhere that the national defense program is being delayed and interfered with by the unwillingness of industrial management to enter into contracts unless this or that assurance is given to industry.

There have also been a few strikes and threats of strikes on the part of minority groups in labor engaged in essential defense industries.

Every reasonable person recognizes that some special provision should be made for an equitable amortization of new or special plant equipment that will be required for defense purposes, and that such action together with excess profits taxes, should be settled as soon as possible in order to relieve business uncertainty and enable it to plan more intelligently. It is further recognized that this emergency should not be used by selfish groups as an excuse for oppression of labor.

But the American people will not tolerate, at a time of such grave emergency, any group, in effect, pointing a pistol at the government and saying they will not produce guns or airplanes or other supplies needed for national defense in this hour of grave emergency unless they are given this guarantee or that guarantee and unless the restrictions are kept off their profits.

National Guardsmen have been called from their jobs or schools to do their part in special training, and if pending legislation is approved, will be called for a year's special service. Congress also has under consideration additional legislation for the conscription of man-power for military training. If we are going to conscript our man-power to serve our country at \$21 per month to train them to shoot guns, operate tanks, and fly airplanes, it is equally essential that the industries which manufacture guns, tanks, planes and other military equipment be willing to do their part in the national defense program.

In such emergency, no industry or groups has any vested right to demand not only their normal profits, but in addition to demand that the government help underwrite their capital risks, take off restrictions upon profits, and let them keep the major part of all excess profits. To jeopardize our national defense by such an attitude, if persisted in, obviously could only result ultimately in forcing the government to conscript industry and labor to get the job done without dangerous or fatal delays. If everyone will do his part, this should not become necessary.

At such a time as this, it is imperative that our people as a whole support the defense program without selfish stipulations. The attitude of every patriotic citizen and group should be: "How can I help promote the national defense?" instead of "What am I going to get out of it?"

American agriculture does not ask for any special preferred position or extra profits out of the war. Farmers are ready to do their part; they are not going to refuse to produce essential food and fiber unless they are guaranteed their normal profits and a liberal share of excess profits as well. Farmers have produced and are continuing to produce an abundance of food and fiber. The fact is, our agriculture is going to suffer tremendously as a result of the present war. Already surpluses are accumulating due to the curtailment of our export markets. We have confined our requests to repairing the damage done by these trade dislocations and to maintaining a parity relationship between agriculture, industry and labor.

We are against profiteering whether it be in agriculture, industry or labor. We issued such a declaration last summer when the Neutrality Act was under consideration by Congress. I quote from the statement issued by our Board of Directors at that time:-

". . . Profits on such transactions, however, should be restricted by law to normal peacetime levels with all profiteering effectively prohibited. As farmers, we ask only for parity prices for our commodities, and we condemn any practice by middlemen of pyramiding commodity price advances into exorbitant prices of food and fiber to the consumer.

"Farmers as a group are opposed to profiteering by industry, by agriculture, or by labor; and will vigorously resist such methods with every means at their command.

"We believe we should hold prices, wages and interest rates during war-time to reasonable parity levels in order to prevent excessive inflation and the ruinous deflation that is the inevitable aftermath of speculative excesses. We invite industry and labor to cooperate with us in a concerted movement to forestall the economic anguish that will surely follow the present war unless effective steps are taken to prevent it."

Again, when the National Defense Tax was under consideration this year, we reiterated that declaration, as follows:

"We wholeheartedly support steps being taken by the President and Congress of the United States to strengthen our defenses in the present emergency. We recognize that this will impose new burdens upon the finances of this country and feel that the farmers and people of the country will willingly pay taxes that are levied equitably and expended efficiently for this purpose. We feel that it is important that burdens be imposed in accordance with ability to pay and that adequate tax provisions be made to check all profiteering."

Recommendations

With respect to the "Proposed Excess-Profits Taxation and Special Amortization--1940" contained in the Report of the House Ways and Means Subcommittee, we respectfully submit the following recommendations:..

1. We endorse the general principles of the proposed legislation with some qualifications and exceptions, hereinafter referred to. As a safeguard to industry during the emergency, a reasonable amortization of extra costs of plant expansion due to defense, should be permitted, provided due account is taken of the extent to which such risks are assumed by private capital.

2. The enactment of an equitable excess-profits tax to prevent war profiteering and to recapture excess profits to help finance the national defense program, should also be speedily enacted as a part of this legislation.

3. In the formulation of excess-profits taxes, there should be some ceiling, above which all profits would be considered excess profits. One important weakness in the pending proposal is that it will permit inordinate profits by corporations which enjoyed a favored position during the period 1936-39, while corporations which were making only modest earnings during that period will be much more rigidly restricted in their profits. In other words, the company which profited on the public due to lucky circumstances or to monopolistic controls, during this base-period, will be allowed to continue to profiteer up to the same level before it is subject to excess-profits taxes during this emergency.

This situation is permitted under the so-called "average earnings" option, wherein a corporation is allowed to take as a credit against its net income, an amount equal to its average earnings for the base-period, 1936-39. The other option allows a credit equal to the percentage of its invested capital for the taxable year which its earnings during the base-period bears to its invested capital for the base-period, but not to exceed 10 per cent or be less than 4 per cent.

The unequal effect of these two options as applied to some of our leading industrial corporations, is illustrated in the attached analysis which was published in the Wall Street Journal on August 8. (Exhibit I).

In order to correct this defect, it is suggested that the average earnings option be safeguarded by adding a reasonable over-all limitation on earnings, above which all earnings would be considered excess profits. The average rate of earnings for 1936-39 is not a satisfactory limitation. It is an open invitation to the exploiter to continue to exploit in the name of national defense. It should be borne in mind also that many corporations which do not obtain national defense contracts will profit from the increased purchasing power which will result from large defense expenditures.

4. The proposed rates for excess-profits taxes are too low and should be increased. In the first place, very liberal exemptions are provided before any such taxes are levied; then the rate begins at 25 per cent and the maximum to be levied is 40 per cent, no matter how great the profiteering on national defense.

Thus, a corporation is allowed to write off its entire extra investment due to defense at the rate of 20 per cent per year so that at the end of five

years (or less if the emergency ends sooner) it has paid in full for its additional plant expansion out of the proceeds of government contracts; and during this period, it is exempted from any excess-profits taxes on all its earnings which do not exceed its average earnings during 1936-39, no matter how high these earnings were; and finally, on the earnings in excess of this amount, the government will recapture, at the very maximum, only 40 per cent of all excess profits no matter how great they may be.

Clearly, the public is entitled to greater protection from war profiteers than this. Surely, every patriotic industry should be content with reasonable profits, in this time of grave emergency, and not demand the opportunity to make extortionate profits. This is a time which calls for sacrifice instead of profiteering.

5. It is further recommended that Congress instruct the Treasury to continue its studies of the problems involved in these tax proposals with a view to improving and perfecting such proposals during their first year of operation. We recognize that there are many complex and difficult problems involved in formulating such legislation. The Committee and the experts who have assisted it are to be commended for the progress made toward the solution of some of these problems.

6. We renew the recommendation made to Congress at the time the National Defense Tax was enacted, namely, that Congress, with the assistance of the Treasury Department, immediately undertake a thorough study and revision of our Federal tax structure with a view to providing the additional revenue that will be required for national defense and for necessary domestic requirements and to distribute the burden of such taxes on the basis of ability to pay and benefits derived.