

in activity, and we were at that place, but I think it substantially was the defense program.

Mr. HEALEY. A good part of it is due to normal growth. Now, as I understand it, you do not favor curtailing purchasing power in order to prevent any inflation?

Mr. HENDERSON. I do not see the necessity of it at this time. I see the necessity of expansion.

Mr. HEALEY. Now, there is just one other question, and that will be all.

I know that you are pretty familiar with labor and labor problems. Can you state as your opinion whether or not you consider that there is any great shortage of labor now?

Mr. HENDERSON. I think that there is a differential shortage in some of the special skills, and I think that we have got to make various kinds of adjustment for that. As for the general labor, semiskilled, I am quite sure that we have not reached a shortage. You reach it sometimes in an area, and it takes a little time to overcome. Hillman is on just that kind of a trip right now.

Mr. HEALEY. You observed the statement recently made by Mr. Hunter of the Works Progress Administration that there were 150,000 skilled workers on the W. P. A. rolls?

Mr. HENDERSON. Yes, sir.

Mr. HEALEY. Did you observe that statement?

Mr. HENDERSON. Yes, sir.

Mr. HEALEY. And you consider that to be—

Mr. HENDERSON. I consider that their knowledge of workers is better now than it ever was.

The CHAIRMAN. We thank you for your appearance and your very interesting statement.

The next witness is the Honorable Marriner S. Eccles, the Chairman of the Board of Governors of the Federal Reserve System.

Mr. Eccles, will you please give your name and address and the capacity in which you appear to the reporter, please?

STATEMENT OF HON. MARRINER S. ECCLES, CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM 517

Mr. ECCLES. I am the Chairman of the Board of Governors of the Federal Reserve System. My address is the Shoreham Hotel, Washington, D. C.

The CHAIRMAN. You may proceed.

Mr. ECCLES. When I was advised of the committee's request that I appear here today, I undertook to prepare as briefly as possible a general statement of my views on the vitally important tax program which you are engaged in formulating. I would appreciate an opportunity to read the statement first, and then to answer such questions as you may wish to ask. In what I have to say on this subject, I speak only for myself and not for the Board of Governors of the Federal Reserve System.

At the outset I desire to say that I am fully in accord with the proposal of the Secretary of the Treasury that \$3,500,000,000 of revenue needed for defense be raised from taxation. Likewise, I agree with the objectives of taxation policy set forth by the Secretary when he appeared before this committee. As he stated then,

the purpose is to design our tax program, first, so that we may pay as we go for a reasonable proportion of our expenditures; secondly, so that all sections of the people shall bear their fair share of the burden; third so that our resources may be mobilized for defense while reducing the amount of money that the public can spend for comparatively less important things; and finally, so that a general rise in prices may be avoided by keeping the total volume of monetary purchasing power from outrunning production.

As a Nation we cannot get rich by devoting a large part of our energies and resources to producing the things of war instead of the things of peace. Our standard of living must inevitably suffer. That entails sacrifices which should be borne by all of us. No group should be permitted to profit out of this great national emergency at the expense of other groups. Taxation is the most important instrument of government in bringing about an equitable distribution of the costs of defense, in preventing profiteering and price inflation.

We know that as the national income rises through defense expenditures, the incomes of many corporations and individuals will be greatly increased. Taxes should be levied in such a manner as to bring back to the Treasury as much as possible of the Government's expenditures. In keeping with democracy, taxation for this purpose should be based on income and ability to pay. Only in this way can we avoid inflationary developments.

With such general principles we are all likely to agree readily enough. When it comes to applying the principles, as the members of this committee know from long experience, there are always some groups that hope to escape, or hope to shift their fair share of taxation to other groups. In the suggestions I have to make I have sought to apply these principles as fairly and equitably as possible.

Thus, it is my belief that the first source of defense revenue should be the corporation tax and the excess-profits tax because, generally speaking, corporations are the greatest beneficiaries, directly and indirectly, from defense expenditures. The proceeds accruing from the expanding national income tend to become concentrated in the first instance in the possession of business corporations. The most certain way to insure against inflation is for the Government to levy on those earnings and divert the proceeds directly into the defense program before they are distributed into the general income stream through higher wages and higher dividend payments. If these surplus funds are not thus collected in the first instance at the source, but are later distributed through large wage increases and large dividend payments to the community, it becomes necessary subsequently for the Government to abstract excess incomes through the personal income tax, excise taxes, and other forms of mass taxation. The problem is not avoided but only delayed and made more difficult by failure to tap the profits at the source.

High taxation of personal income and excise taxation will be necessary in any event, but the amount needed from these sources will be reduced by a prior collection at the points where the profits originate; namely, in the business units. If excess profits are not tapped, they will lead to demands for higher wages. Apart from the question of equity and the problem of allaying industrial unrest, is the question of going directly to the source of the increased flow of income and diverting it into the defense program before it spreads

out into the community and adds private mass purchasing power on top of the Government's demands springing from the defense program.

With increased surtax rates, especially in the middle income brackets, and in the absence of an undistributed profits tax, there will be a tendency on the part of some corporations to hold back disbursements of earnings. This is a further reason for heavy normal and excess-profits taxes on corporations.

After we have strengthened our corporation taxes to collect a substantial part of the increased national income at its point of origin we should rely predominantly on the individual income tax and on estate and gift taxes to meet most of our remaining revenue requirements. These taxes are based on the established principle of ability to pay. The normal tax and surtaxes on individual incomes have been moderate, compared with other countries, except in the very highest income groups. They can and must be substantially increased. With expanding employment and pay rolls resulting from defense expenditures, it is equitable and necessary that some of the benefits be recovered by the Treasury. Exemptions should be reduced, thereby spreading the base and increasing the number of income-tax payers. This is a more direct and equitable way of raising revenue from the lower income groups than by imposition of indirect excise and sales taxes.

To the extent that prices are controlled and wages are then increased, corporation profits, subject to the excess-profits tax, are less than they would be otherwise. Federal revenue from this highly productive source would be accordingly diminished, and the Government would, in effect, be paying most of the wage increase. Under these circumstances, it is necessary for the Government to recover some of this loss of revenue. This can be done by broadening the individual income-tax base and increasing the rates.

I am opposed to a general sales tax, or to an increase or imposition of excise taxes except where it is necessary to curtail civilian demand for products needed in defense, thus preventing inflation.

Sales taxes may have been appropriate in poverty-stricken countries of the Old World where governments must extract revenue from their citizens in any fashion that is expedient. They are not appropriate taxes in this country where other sources of revenues are ample and the people are prepared to support an equitable tax program by the payment of direct taxes. Consumer expenditure can be restrained either by an increase in income tax, or by a tax on articles of mass consumption. The difference lies in the fact that the individual income tax does this frankly, directly, and on the basis of ability to pay. A tax on articles of mass consumption does it indirectly and in a manner that makes the tax proportionately heaviest on those the least able to pay. Indirect taxation is taxation by autocracies; income taxation is democratic taxation.

Our existing tax structure is already heavily weighted with regressive taxes. According to the estimates furnished to this committee by earlier witnesses, the income group below \$500 paid 22 percent of its income in taxes of all sorts in 1938-39, while those groups with incomes of from \$500 to \$10,000 averaged approximately 18 percent. Inasmuch as increases in individual income taxes will curtail purchase of luxury and semiluxury goods, it is not advisable at

this time to impose further sales taxes on such articles in the interest of defense.

The only appropriate role for further excise taxes in our present economic situation consists in limiting the civilian demand for durable goods competing with defense.

Selective sales taxes, which would have the effect of reducing demand for such products as automobiles and other articles that compete with defense production for materials, manpower or plant facilities, are justifiable and necessary at this time. Such selective taxes, by curbing demand in specific fields, will release facilities needed for defense production. Sales taxes on foodstuffs, clothing, and other necessities of which we have surpluses are entirely unwarranted, however. They would tend to throw out of work in various localities men who could not be absorbed into defense industries, or to make idle factories that are not needed for defense.

While I am, therefore, in general agreement with the Treasury's program both in its aggregate amount and in the general type of taxation it provides, I wish to suggest certain changes in emphasis with respect to the sources of revenue on which it draws. Accordingly, I should like to describe in some detail the changes that I believe would more nearly realize the objectives which I have set forth.

I. Excess-profits tax.—In my opinion an effective excess-profits tax is the keystone of a well-balanced tax program. Any tax program will have to include a substantial increase in the rates of taxation for corporate incomes in general and for individual incomes. You should not impose increased taxes on the great numbers of business concerns of small and moderate size and on millions of individual taxpayers until you have given them every reasonable assurance that the funds they are being asked to provide will not go to swell the excessive profits of some corporations.

The excess-profits tax now on the statute books does not give any such assurance. If you allow the idea to take root in the public mind that through these vast expenditures a few are being made rich and a few who are already rich considerably richer, the result is bound to endanger the success of our defense effort. In order to prevent an inflationary spiral of price and wage increases, labor should be willing to moderate its demands for increased wages, but labor cannot be expected to follow such a course if employers are permitted to retain excessive profits.

The Treasury has suggested that an additional \$400,000,000 of revenue be obtained by amending the excess-profits tax. I believe \$800,000,000 to \$1,000,000,000 of additional revenue can and should be obtained from this source. The revenue-yielding potentialities of an excess-profits tax were well demonstrated by our own experience during the World War. The present statute could be made to realize those revenue potentialities by changes in a few important respects. I shall mention three.

1. Restrict the use of the income method of computing the excess-profits credit, either by reducing the 95 percent of past average earnings now allowable to 75 percent, or by any other method that may recommend itself to the committee. I agree with Mr. Sullivan's view that all excessive profits, as well as profits directly or indirectly

attributable to the defense program should be subject to special taxation.

2. Increase sharply the rates now applicable to excess profits. In the light of the maximum 80-percent rate in force in this country during the last World War, a maximum rate of 75 percent is not too high. It is also important that the tax brackets used in the present law be revised. I recognize the strength of the arguments for graduating the rates according to the percentage of excess profits to invested capital, the method used at the time of the World War, but if the present method is continued, there is no reason why the maximum rate should not apply to excess profits at a very much lower level than \$500,000. A corporation with that amount of excess profits cannot fairly claim favored treatment as a small enterprise.

3. Reduce the rate of return allowed under the invested-capital method of computing the excess-profits credit from the present figure of 8 percent to 6 percent. The figure of 8 percent was used during the days of the World War. The rate of return that investors could reasonably hope to realize on investment in securities has been materially reduced since that time. We should make a similar adjustment in our ideas about an appropriate rate of return on equity capital.

II. *Surtax on corporation income.*—If the excess-profits tax is revised along the lines I have just indicated, it will then be fair and reasonable to ask American corporate enterprise as a whole to pay the surtax on corporation net income which the Treasury proposes. The argument for enacting a surtax, instead of raising the rate of the corporation normal tax, seems to me to be clear and convincing. Since we have now stopped issuing tax-exempt Federal securities, there is no reason why we should confer additional tax benefits upon holders of outstanding securities by further increasing the normal corporation income-tax rate.

III. *Individual income tax.*—If the tax principles to which most of us adhere are to be effectively implemented, a substantial increase in the individual income tax must play a major part in the tax program now undergoing formulation. I am in accord with the view that the present normal tax and the present earned income credit be retained, and I agree also with the proposal that the present \$4,000 surtax exemption be abolished. I have felt, however, that the Treasury's suggested surtax rates impose too abrupt an increase on the middle brackets of individual incomes. I should recommend, instead, a somewhat less drastic revision in the surtax schedule, combined with a reduction in the married persons' exemption to \$1,500 and in the credit for dependents to \$300. I should like to leave with the committee a detailed schedule of rates which I have had prepared along these lines. No additional defense tax would be superimposed on the tax resulting from the application of these rates. According to our estimates the changes in rates and in exemptions which I propose would yield \$1,200,000,000 of additional revenue.

The middle-income groups include many salaried people and others living on relatively fixed incomes who would be especially hard hit by even a small rise in the cost of living. Too drastic an increase in their tax bill would necessitate many difficult and painful readjustments which it would seem unwise to impose suddenly. It is for this reason that I urge some modification of the Treasury's proposed rates in this range of incomes.

At the same time, I attach great importance to the changes in the married persons' exemption and credit for dependents which I have proposed. Without some such broadening of the individual income tax base, this tax cannot perform its full function in financing defense. An important segment of the national income including the incomes of many skilled workers who are receiving substantial wage increases as a result of the defense program, is now excluded from the individual income tax base. Unless we tax the incomes of the better-paid wage earners through progressive taxation, we may be unable to resist the pressure for taxing such incomes and our very lowest income groups as well, through the inequitable, shotgun method of a sales tax. Any tax program which failed to include such a broadening of our tax base would be unbalanced. Should more revenue be required in the future, a further broadening of the income-tax base would be preferable to additional sales taxes.

IV. *Estate and gift taxes.*—The strengthening of estate and gift taxes is one of the most needed reforms in our whole tax structure. In a message to Congress in June 1935, the President said:

The transmission from generation to generation of vast fortunes by will, inheritance, or gift, is not consistent with the ideals and sentiments of the American people. Such inherited economic power is as inconsistent with the ideals of this generation as inherited political power was inconsistent with the ideals of the generation which established our Government.

The task, begun in the Revenue Act of 1935, of bringing law into conformity with our American ideals should be completed now.

For this reason I am thoroughly in accord with the Treasury proposals, but for this reason I believe also that we should go a great deal further. Even a lowering of exemptions and a considerable increase in the rates of estate and gift taxation are only a part of the task. The avenues for tax avoidance are both broad and numerous under our existing system of estate and gift taxes, and so long as these avenues are allowed to remain open, the task of bringing transfers of wealth within the framework of a progressive-tax structure will remain incomplete. A rather extensive redrafting of existing statutes is, therefore, essential.

Since detailed recommendations on methods of closing existing loopholes can be furnished only by qualified legal experts, I shall merely indicate the general principles which, in my judgment, should guide the revision of our estate- and gift-tax laws. I think there is little disagreement regarding the underlying purpose of estate and gift taxes. It is to subject the passage of wealth—from individual to individual and from generation to generation—to an effective system of taxation at graduated rates. The amount of tax ought not to depend in any significant degree upon the form in which wealth is transmitted—whether directly or through life insurance or through tax-avoidance trusts—nor upon the time of transfer—whether during life or at death. The following proposals are presented with these considerations in mind:

1. For the present exemptions of \$40,000 under the gift tax, \$40,000 under the estate tax and an additional \$40,000 for life insurance—a total of \$120,000—there should be substituted a single, consolidated exemption of \$40,000 applicable to the sum of gifts and estate, including insurance proceeds.

2. Because the gift-tax schedule is 75 percent of the corresponding estate tax rates, many people have inferred that the net saving through transfers by gift is only 25 percent. This inference is incorrect. At present tax liability at the highest estate-tax rates to which an estate would be subject can be avoided by incurring tax liability at the lowest gift-tax rates. This type of avoidance can be prevented only by combining gift and estate taxes into a single tax on transfers of wealth. I prefer to leave to lawyers the explanation of the several possible methods of effecting such a consolidation. If consolidation were effected the taxpayer would be free to choose how much of his property to dispose of during life and how much at death, but his tax liability would not be influenced by his decision. Until this step is taken, the opportunity to save a great deal on estate tax by payment of a small gift tax will remain open.

3. Under existing statutes estate and gift taxes can frequently be either entirely avoided or substantially reduced through the use of various devices involving long-term trusts. This avenue of avoidance should be closed, so that the estate tax may reach all transfers of property from one generation to another.

V. *Consumer taxes.*—For the reasons previously indicated, excise taxes should be imposed only on consumers' durable goods at this time. The rates should be substantial and should be fixed to achieve the required degree of curtailment in civilian demand. Although revenue should not be the primary consideration in fixing the level of rates, the revenue obtained from this source will be large. Adequately high rates on this range of goods should yield close to \$1,000,000,000.

A large part of this revenue can be obtained through taxation of automobiles alone. The automobile industry has already committed itself to curtailing production by 20 percent in its next model year, at a time when the national income and the civilian demand for new cars are rising rapidly. A rise in prices of considerable magnitude is in prospect. The Government should take a much greater share of the increased price people will be paying for both new and used automobiles than the Treasury proposes. A tax of 20 percent on all automobile sales would be more appropriate than the suggested rate of 7 percent on new cars only.

Increases in the tax on gasoline and other commodities that are in abundant supply will make no significant contribution to our defense effort. The proposed check tax is another case in point. Checks, rather than currency, are used to settle some 80 percent of our total transactions. There is no more reason to tax checks than currency payments. For many it will be a simple matter to avoid the tax by using currency instead of checks. Depositors of small means, already subject to bank service charges, will be the group most likely to avoid the tax in this way, but they will thus be deprived of a safe and convenient way of making money payments, as well as a record of receipts and payments. The tax will not come out of bank earnings, but will be charged to the individual accounts.

VI. *Revenue yield.*—The following tables, which I ask permission to insert in the record, summarize the yields from various revenue sources under the suggestions I have made. There is no significant

difference between the aggregate yield of this program and the Treasury proposals.

(The tables referred to follow:)

Source and yield

Corporation incomes:	
Excess profits tax (lower credits, raise rates).....	\$900, 000, 000
Surtax as proposed by Treasury.....	534, 000, 000
Individual incomes: Increase in surtax rates, reduction of	
married person's exemption and credit for dependents.....	1, 200, 000, 000
Estates and gifts (close loopholes, raise rates).....	500, 000, 000
Excise taxes, primarily on durable goods.....	950, 000, 000
Gross yield.....	4, 084, 000, 000
Less:	
Loss of excess profits revenue due to surtax on corporate income.....	300, 000, 000
Loss of individual income taxes due to increases in corporation taxes.....	150, 000, 000
Total, loss.....	450, 000, 000
Net yield.....	3, 634, 000, 000

Existing and proposed surtax rates

Surtax net income	Existing		Proposed	
	Rate	Total surtax on upper limit	Rate	Total surtax on upper limit
	Percent		Percent	
0 to \$1,000.....	0	0	4	\$10
\$1,000 to \$2,000.....	0	0	6	100
\$2,000 to \$4,000.....	0	0	10	300
\$4,000 to \$6,000.....	4	830	14	530
\$6,000 to \$8,000.....	6	200	18	940
\$8,000 to \$10,000.....	8	360	21	1,360
\$10,000 to \$12,000.....	10	560	24	1,840
\$12,000 to \$14,000.....	12	800	27	2,380
\$14,000 to \$16,000.....	15	1,100	29	2,960
\$16,000 to \$18,000.....	18	1,460	31	3,580
\$18,000 to \$20,000.....	21	1,880	33	4,240
\$20,000 to \$22,000.....	24	2,360	35	4,940
\$22,000 to \$26,000.....	27	3,440	38	6,460
\$26,000 to \$32,000.....	30	5,240	43	9,040
\$32,000 to \$38,000.....	33	7,220	47	11,860
\$38,000 to \$44,000.....	36	9,380	51	14,920
\$44,000 to \$50,000.....	40	11,780	54	18,160
\$50,000 to \$60,000.....	44	16,180	58	23,960
\$60,000 to \$70,000.....	47	20,880	61	30,060
\$70,000 to \$80,000.....	50	25,880	64	36,480
\$80,000 to \$90,000.....	53	31,180	66	43,060
\$90,000 to \$100,000.....	56	36,780	67	49,760
\$100,000 to \$150,000.....	58	65,780	69	84,260
\$150,000 to \$200,000.....	60	95,780	70	119,260
\$200,000 to \$250,000.....	62	126,780	71	154,760
\$250,000 to \$300,000.....	64	158,780	71	190,260
\$300,000 to \$400,000.....	66	224,780	72	262,260
\$400,000 to \$500,000.....	68	292,780	73	335,260
\$500,000 to \$750,000.....	70	467,780	74	520,260
\$750,000 to \$1,000,000.....	72	647,780	74	705,260
\$1,000,000 to \$2,000,000.....	73	1,377,780	75	1,455,260
\$2,000,000 to \$5,000,000.....	74	3,597,780	76	3,735,260
\$5,000,000 and over.....	75		76	

Income tax: Comparison of present and proposed individual income taxes on net incomes of selected sizes; married person, no dependents

[Maximum earned income credit]

Net income before personal exemption	Amount of tax ¹				Effective rates ¹			
	Present law	Treasury	Stam	Eccles	Present law	Treasury	Stam	Eccles
					Percent	Percent	Percent	Percent
\$2,000.....	0	0	0	\$32				1.6
\$2,500.....	\$11	\$72	\$44	70	0.4	2.9	1.8	2.8
\$3,000.....	31	152	97	118	1.0	5.1	3.2	3.9
\$4,000.....	70	312	202	234	1.8	7.8	5.1	5.9
\$5,000.....	110	606	352	370	2.2	10.1	7.0	7.4
\$6,000.....	150	700	502	528	2.6	11.7	8.4	8.8
\$8,000.....	317	1,131	889	898	4.0	14.1	11.1	11.2
\$10,000.....	528	1,628	1,264	1,345	5.3	18.3	13.6	13.5
\$12,500.....	858	2,316	2,013	1,990	6.9	18.5	16.1	15.9
\$15,000.....	1,258	3,073	2,853	2,729	8.4	20.6	19.0	18.2
\$20,000.....	2,336	4,800	4,756	4,429	11.7	24.0	23.8	22.2
\$25,000.....	3,843	6,824	7,055	6,394	15.4	27.3	28.2	25.6
\$50,000.....	14,128	19,540	20,794	19,234	28.3	39.1	41.6	38.5
\$75,000.....	27,768	35,127	36,689	35,184	37.0	46.8	48.9	46.9
\$100,000.....	43,476	52,474	54,124	52,639	43.5	52.5	54.1	52.6
\$500,000.....	330,156	346,122	347,598	354,049	66.0	69.2	69.5	70.8
\$1,000,000.....	717,584	738,086	739,598	744,034	71.8	73.8	74.0	74.7
\$5,000,000.....	3,916,548	3,937,050	3,938,598	3,934,004	78.3	78.7	78.8	78.4

¹ Under the Treasury and Stam proposals, the 10 percent defense tax would be retained; under the Eccles proposals it would be dropped.

The CHAIRMAN. Mr. Cooper.

Mr. COOPER. Mr. Eccles, I would like to inquire very briefly, if I may, please, with respect to your suggestions on the treatment of estate and gift taxes. As I now recall, the tax bill of 1938 as it passed the House provided for one exemption of \$40,000, that is what you are recommending now, is it?

Mr. ECCLES. Well, a \$40,000 gift can be made during the lifetime, without being subject to a gift tax. In addition to that, of course, I think the present law provides \$4,000 a year can be given to any one person, in any one year, that is in addition to the \$40,000. In addition to that, one can have an insurance policy of \$40,000 made payable to beneficiaries, so that those items in addition to a \$40,000 estate exemption compose the \$120,000; that makes it possible to make tax-free transfers equivalent to a \$120,000 estate; and what I was suggesting here was that the total of the three exemptions be limited to \$40,000.

Mr. COOPER. As I say my recollection is that the 1938 House bill as it passed the House provided for one exemption of \$40,000. That was changed in the Senate.

Mr. ECCLES. Yes, sir.

Mr. COOPER. So you think the House was right then, do you?

Mr. ECCLES. I do.

Mr. COOPER. Of course, with respect to your suggestions about the gift tax, of course if the gift tax is made too high, it simply will mean that they would not make the gift, and we will have to wait until death to get the tax.

Mr. ECCLES. That is right.

Mr. COOPER. Of course, one of the reasons for a smaller gift tax was to try to encourage the making of gifts, to get some of the revenue now instead of having to wait until death to get it.

Mr. ECCLES. It is a pretty fallacious argument, I would say, from the standpoint of economy.

Mr. COOPER. There would be a deferment of that payment?

Mr. ECCLES. That is right. But the encouragement of gifts seems to me to work against the interest of the Government, because, as I stated, the gift tax is made on the basis of a comparatively low rate, and is a means of avoiding payments at the highest rate under the estate tax.

There is a further factor. To the extent that income is divided between two or more people, as a result of gifts, it causes the Government to lose a substantial amount of surtaxes, and it works very much in the favor of the individual and against the Government.

Mr. COOPER. That is true, there is no doubt about that; and I think one of the reasons for allowing that advantage was to try to get more money in now instead of having to wait until after death. In other words, we have always had some pressing need for revenue.

Mr. ECCLES. I am wondering if in the future we will ever have less need than at the moment. I hope so, at least.

Mr. COOPER. I share that hope with you. Thank you. That is all.

The CHAIRMAN. Mr. Robertson will inquire.

Mr. ROBERTSON. Governor, in the present emergency and considering the present wage scales, do you think that we should change the 40-hour week?

Mr. ECCLES. Well, in those areas or industries where we have an excess of labor, there would seem to me to be no occasion to increase the hours. On the other hand, in those areas where there is a labor shortage, it would certainly seem as necessary and as important to increase the working hours as it is to attempt to increase facilities.

Mr. ROBERTSON. And you think it would be a proper study of the Government at this time, to keep in touch with the supply of labor, and when a shortage, or certainly when a national shortage is indicated to take some steps which would have to be taken by law to relax the provisions of the 40-hour week.

Mr. ECCLES. I think it is just as important to study that in the field of labor as it is in the field of materials, where priorities are issued. You cannot get along without labor in production any more than you can get along without facilities and materials; it is all part of the same problem.

Mr. ROBERTSON. The Secretary of the Treasury recommended to us that we should accompany this \$3,500,000,000 tax bill with a \$1,000,000,000 cut in nondefense items. Would you be good enough to comment on that suggestion?

Mr. ECCLES. I had occasion to speak to the United States Chamber of Commerce a day or two ago; in fact last Wednesday, and the subject assigned me at that time was Financial Problems of Defense. At that time I had occasion to refer to that question, and this is what I said:

There is one additional matter of importance in connection with defense financing that should be given consideration. It is the subject of public expenditures for purposes other than defense. I do not believe that agricultural benefits should be curtailed, particularly in those fields where agriculture does not profit as other groups do from defense expenditures, or is adversely affected as the result of the present international situation.

Nor do I believe that we should abandon social efforts on the part of the Government in those cases where the problem is not adequately met by the improved employment situation resulting directly or indirectly from defense expenditures. We are hardly justified in spending billions to aid other countries throughout the world, and tens of billions more in our own defense effort, if at the same time we shut our eyes to any urgent social needs at home that must depend upon Government assistance.

However, reductions should be made wherever this can be brought about through increased efficiency, as well as in those fields of Government activity which utilize men or materials needed in private enterprise or in defense.

Mr. ROBERTSON. Governor, have you made any estimate of about how much we could cut in line with the principle on which you recommend the cuts to be made?

Mr. ECCLES. No; I have not. I would think that they would be substantial, in certain fields.

Mr. ROBERTSON. As much as a billion dollars, you think?

Mr. ECCLES. I could not say. I have made no estimates of that at all. Certainly public works have been very greatly curtailed, and to the extent that they could be further curtailed, they would release certain skilled labor and materials needed for defense.

There is no question that the relief problem is very much less than it was, and it would seem to me that as employment expands in certain areas, very little relief should be necessary in those areas. At the present time there are no doubt still a lot of unemployed people in certain areas, and in all probability they do need some help.

Now, on the agricultural front, there are certain situations that are going to be very greatly helped by defense. There are others, like the cotton situation, the tobacco situation, and the wheat situation that are still difficult problems; whereas the dairy and the livestock industry and certain other agricultural areas are going to be greatly benefited, and will probably need less help, a good deal less help than they have had.

So I think it is not a question of finding a blanket solution, but trying to deal intelligently and fairly with the actual problem that confronts us, and not merely abandoning activities without any good logical reason.

Mr. ROBERTSON. Governor, your Board I thought made a good recommendation about certain controls of credit inflation. Thank you.

Mr. ECCLES. Thank you, sir.

The CHAIRMAN. Mr. Eccles, on page 6 of your prepared statement, under the heading of excess-profits tax, line 4, beginning there, I read the following:

You should not impose increased taxes on the great number of business concerns of small and moderate size, and on millions of individual taxpayers until you have given them every reasonable assurance that the funds they are being asked to provide will not go to swell the excessive profits of some corporations.

Mr. ECCLES. That is right.

The CHAIRMAN. That is very plain. Now, the question I desire to ask you, and the point about which I desire information is this: What is your view when it comes to giving assurance that these people will not be taxed unless it is for the purpose provided; and also what assurance should be given the taxpayer that this \$3,500,000,000 we are being called upon to raise in increased taxes, which

will be superimposed upon taxes that are now considered by him already high, will be used for national defense?

Now, what do you say about these taxpayers being given assurance that every reasonable economy in Government expenditures other than for national defense will be effectuated?

That was brought to our attention by the Secretary of the Treasury, and it made a very definite and favorable impression upon my mind. I would like to have your opinion upon that point.

Mr. ECCLES. As I stated here, repeating what I said before the chamber of commerce, I thoroughly believe in economy and in efficiency.

Economy is largely a question of definition. I think that there may be, although I am not an authority on the subject, a good many fields in government where we could economize, and by that I mean get satisfactory results with less expense. Just slicing off some lump sum, or simply saying that you can cut all expenditures except defense expenditures, does not seem to me to be an intelligent way to approach the problem.

The CHAIRMAN. Has anybody made such a suggestion?

Mr. ECCLES. I have read a good many of them in the press; I think that the United States Chamber of Commerce and several of the business organizations have made proposals certainly as strong as that all of the nondefense expenditures, that is outside of the regular expenses of Government should be cut. They have suggested a cut of as much as \$2,000,000,000.

Well, now, I would be glad if that were possible, but certainly I cannot see that you can cut anything like that without doing injustice to certain classes and groups. When we appropriate \$7,000,000,000 for the lease-lend bill, and tens of billions for defense purposes, it seems to me that we have got to give some thought, and some consideration to those classes of our people in the agricultural area, and people in some of our cities who have not yet been employed and who may be down and out.

There are lots of people who need help, and I do not believe that it makes very good sense to be penny-wise and pound-foolish. I think that morale and unity are essential to democracy, and I do not think that democracy can completely discard the social responsibility that it has to its people, merely to save a small amount for defense purposes, in the light of these essentials.

Now, that does not mean that I am not in favor of true economy. I have been a businessman most of my life, operating for profit, and I know what economy and efficiency mean in a business enterprise, and what they must mean in order to make profits; I believe in economy and I believe in efficiency, but I do not believe in saying flatly that we cannot give any more farm benefits, and we cannot give any more relief, and we cannot do this, and we cannot do that. If the need is there, then I think that we have got to recognize the need. However, I do not think that the need is there to the same extent as it has been, and no doubt there can be some substantial reductions.

The CHAIRMAN. Of course, none of us think that we should just go at it blindly and undertake to cut off relief or any of the expenditures of the Government without due consideration for the necessity of those benefits.

You have come here, and we appreciate it. It will be helpful to us in writing a tax bill. You have undoubtedly given this subject considerable thought. You have undoubtedly given great consideration to the subject.

Now you recall the testimony of the Secretary of the Treasury, where he suggested we might effect a saving of \$1,000,000,000 per annum in nondefense expenditures. He specified to some extent where he thought those savings could be brought about. Have you given a detailed study to that phase of this question?

Mr. ECCLES. No; I have not. I do not say that a billion dollars cannot be saved; I am not taking issue at all, it may be that it is possible; I have not made a study of it. It would depend upon the conditions as to whether or not I thought a billion dollars could be saved.

I am sorry, but I did not see, and I have not analyzed the items from which the Secretary would cut the billion dollars, and I do not want to appear to be either agreeing or disagreeing as to the amount that it may be possible to cut. I would be glad to make some studies, as I see the problem, and furnish them to the committee, if they want to give me a little time to do it.

The CHAIRMAN. That might be helpful. Would you be in agreement with the position, or the thought, that every possible or reasonable economy in nondefense expenditures should be put into effect by the Government in this emergency while we are increasing taxes, and before we increase our borrowing.

You see, we are increasing taxes and at the same time we have got to increase our borrowing in order to meet this great emergency. Is it your view that the taxpayers would more readily and more complacently pay these increased tax burdens if they had the assurance, which you speak of here in your statement, that greater economy during this emergency was the duty of the Government, more so than in ordinary times?

In other words, would you differentiate as a matter of economy between normal times and conditions of emergency as they exist today?

Mr. ECCLES. I do not believe that I would differentiate. I believe in economy and efficiency at all times. Under normal conditions or depressed conditions, I believe thoroughly in economy; economy in depressed periods means to utilize manpower that otherwise would be idle. That is economy, and economy is not merely the saving of money.

So that I do not know that I would approach the problem of economy and efficiency differently now than I would at any other time. I would still be in favor of getting the very maximum amount out of the money that is expended, and I would be in favor of spending as little as was necessary in the interest of the national well-being, which after all is the final objective of the economy as a whole.

The CHAIRMAN. You do not see any special reason for economizing now on account of the extraordinary expenditures the Government must necessarily meet on account of this national defense program?

Mr. ECCLES. No; I do not see any reason to economize for that purpose. As I stated, I certainly would eliminate or would not employ people on nondefense Government projects that can be employed by

private industry or can be employed by the Government on defense operations. I would not employ them on other Government operations if there was employment available elsewhere.

The CHAIRMAN. It is more a matter of opinion, in your judgment, about economy than it is a matter of policy?

Mr. ECCLES. Most people think of economy purely in the sense of reducing the expenditure of money. I think of economy in terms of manpower and materials, real wealth, and not in money terms.

The CHAIRMAN. I receive letters every day, many letters expressing a willingness to pay increased taxes for the national-defense program and to meet the emergency, but they couple that with a statement that they believe there can be a large amount of money saved to the taxpayers of the country by cutting off or curtailing nondefense expenditures. I am fully in accord with that view.

Mr. ECCLES. I believe that is true. I certainly think that under these conditions there is not the same need for public employment; the requirements of the works program, the W. P. A., the P. W. A., the C. C. C. are less; I do not know about agricultural benefits, but certainly there are smaller requirements on the Government for assistance and help than there would be in the absence of large defense expenditures.

Certainly wherever the expenditures can be intelligently reduced I would be in favor of it, but not a mere arbitrary slicing without justification and need.

The CHAIRMAN. I do not think any of us are in favor of an arbitrary horizontal cut in expenditures.

Mr. DINGELL. Governor, I would like to pursue a couple of questions here. There seems to be a rather perfect alinement of some of your views with those expressed by Mr. Henderson, the preceding witness.

Mr. ECCLES. I think that we are in agreement on a lot of points.

Mr. DINGELL. I do not know whether you have conferred or just collaborate naturally.

Mr. ECCLES. I have known Mr. Henderson ever since I have been over here, and I know a good many of his views, and I think that he does mine, and in a general way we agree, though we may disagree in some detail. Now, I have talked to Mr. Henderson a little with reference to coming up here on the Hill; I talked to him about his testimony, and I told him some of the things that I had in mind, and he likewise advised with me.

Mr. DINGELL. I think that there is a perfect union of opinion as regards the question of tax on automobiles, which I want to discuss.

Mr. ECCLES. It is a strange thing, I heard him express 20 percent. There was no previous discussion of the rate so far as we were concerned at all.

Mr. DINGELL. Do you think that the proposal which he discussed here with me, of going to 20 percent, and jumping to 25 percent, and even going higher, is fair and equitable to that great industry?

Mr. ECCLES. I think that when automobile production has to be curtailed to free materials and machines for defense production, whatever rate of tax may be necessary to help curtail demand and give the Government the benefit of the scarcity price, should be put on automobiles.

Now, I do not think that it necessarily is going to hurt a great industry. I know some of the automobile people themselves; they are very much in favor of a high tax on automobiles.

Mr. DINGELL. I have not heard from any of those people as yet, and they generally tell me about how they feel regarding these things.

Mr. ECCLES. I have talked to some of the leaders in the industry, and I know that they feel that an increased price through a high tax will tend to curtail the demand.

Mr. DINGELL. I do not think that there is any question but that it will stifle production under the proposals that are made.

Mr. ECCLES. It will do this: If you do not do it, you may have 5,000,000 people wanting 4,000,000 cars. Now, the problem of trying to allocate 4,000,000 cars among 5,000,000 people would be a very difficult job. Although Mr. Henderson did not say so, I cannot imagine that Mr. Henderson would let the price of automobiles skyrocket any more than he would let the price of steel skyrocket; and if you fix the price of automobiles, then the problem comes of trying to allocate a reduced supply to a market which is greater than the supply.

Now, instead of controlling the price, and having the job of allocation, which would be an impossible one, you had better let the price go up and let the Government recover the increase through a taxation program.

I do not believe that this is necessarily going to impose any great hardship on the automobile industry, anymore than a hardship may be imposed upon the boys that have to go into the Army or into the Navy. The war period is certainly not a period where people should expect to avoid hardships, and it seems to me that the automobile industry, with the very large amount of defense contracts that they are now having, and they are likely to get, will be as fully occupied, and more fully occupied possibly, than they would be producing automobiles.

Mr. DINGELL. Of course, I am familiar with that; but, on the other hand, when you talk about allocations being difficult to control you are also going to have certain other factors that are going to be as hard or more difficult to control, such as labor costs.

Mr. ECCLES. We should avoid all of those that we can.

Mr. DINGELL. And engineering costs, but you cannot control them. You cannot stop them. At least we have not found any method by which we could stop them thus far.

As I calculate the thing, you take an ordinary car of \$900 value, which has already risen in price as a result of labor and material costs, about \$50 per car on the average, and that will very likely be increased in price at least \$100 if and when we further cut the production from the reduced 4,000,000 cars per annum to 3,000,000 cars. The engineering costs alone will make the difference; that will bring our cost of a \$900 car today to \$1,050. And in Michigan we pay a 3-percent sales tax, which would add \$31.50 to that amount, and with a 25-percent Federal tax of \$262.50, as tentatively suggested by Mr. Henderson, that would raise your car price from \$900 to \$1,344, plus the well known f. o. b.

Now, that would practically increase the cost of your car 50 to 60 percent or more, and I do not think that there is any justification for it, to single out the motorcar industry because there are other heavy industries that might well be made to make similar sacrifices.

Insofar as the profits are concerned, I am in entire agreement with you that we ought to skim off every dime of excess-profits which come as a result of the defense program. But if we kill the goose that lays the golden eggs, we are not going to get any revenue from the automobile industry, from the manufacture of automobiles, because there is not going to be any profit.

Mr. ECCLES. They will be manufacturing something else that will be giving them a profit, and you will build up a big backlog for the period after defense is over, which is desirable.

Mr. DINGELL. Let us hope that we benefit by that later.

Mr. ECCLES. If the inventory of automobiles is reduced, by adding to it fewer new automobiles for a few years, there will be a terrific backlog of demand built up, which may serve a very useful purpose later on.

I am not for penalizing the automobile industry; I am not thinking of a tax for the purpose of penalizing any industry. I would favor putting a heavy tax on any industry whose output is directly competitive with the defense program, whatever amount is necessary to curtail it. It may be 10 percent or 20 percent or 30 percent or whatever amount may be necessary.

Mr. DINGELL. I think that if they will apply that principle uniformly to those competitive industries, then I think there will be some basis of reason for it, but otherwise I think it is plain discrimination; and I think it is unfair; and I think that it might tend to bring about economic dislocation in the automobile industry.

However, I do not intend to pursue that question any further. There is one interesting observation that you expressed with regard to the reduction of exemptions for married people. You believe in a \$1,500-tax exemption?

Mr. ECCLES. At this time; yes, sir.

Mr. DINGELL. Now, you are a married man, Mr. Eccles?

Mr. ECCLES. Yes, sir.

Mr. DINGELL. And you have children?

Mr. ECCLES. Three. Two are past the dependent age.

Mr. DINGELL. It is the dependents that I am very much interested in. You made a recommendation here to reduce for the time being the exemption, the credit exemption, for dependents to \$300?

Mr. ECCLES. That is right.

Mr. DINGELL. And the cost of maintaining your children was certainly not \$300 per year?

Mr. ECCLES. That is correct.

Mr. DINGELL. Do you think it is entirely fair in this day and age to ask people in the moderate- and low-income brackets to try and raise their children on an allowance of \$300? It is already low enough, \$400, at the present time. How much revenue would that difference bring?

Mr. ECCLES. What I am suggesting here is dealing with the tax problem in relation to ability to pay. A married man, with two children, would pay no taxes until he has received more than \$2,100, according to the proposal. That is, so far as income taxes are concerned.

I do not say that that is an excessive income, but based upon what the average family or person in this country has been getting for a

long while, it is way above the average. Now, therefore, we have got to deal with the practical problem. We have here a question of alternatives, it seems to me.

I have proposed putting on corporations some pretty heavy taxes—a 75 percent excess-profits tax is a pretty heavy tax. I have proposed not to apply sales taxes, because they are a shotgun method of taxation.

Mr. DINGELL. I am mindful of that.

Mr. ECCLES. All right. It seems to me that you either have to accept some excise taxes that have no relationship to either defense needs or ability to pay, or you have got to broaden the income-tax base somewhat. That is a much more direct and intelligent way to deal with the tax problem, and even though our hypothetical family with something over \$2,100 of income would pay some taxes, it seems to me it is treating them more fairly than if you simply apply sales taxes as a means of getting revenue, which completely ignores the fundamental principle of ability to pay.

Mr. DINGELL. I agree with you there; but let me ask you this question and then I will be through: You are opposed to sales taxes, an I am in agreement with you; you are opposed to certain excise taxes, and I agree with you there. Now, you feel that we can get a substantial amount of additional revenue from the excess-profits taxes which ought to be skimmed off, as a result of the defense program; is that right?

Mr. ECCLES. That is right.

Mr. DINGELL. If we get a sufficient amount of money, additional money—and I think that we can—if we devise a plan under which we will skim off every legitimate dollar of excess-profits taxes, then I do not think it would be necessary to reduce the exemption for dependents?

Mr. ECCLES. Now, the schedule that I have here calls for a \$900,000,000 increase in the excess-profits tax in addition to what we get from the present rates. The Treasury has talked about a \$400,000,000 increase, and I propose \$500,000,000 more than the Treasury from that source.

Mr. DINGELL. Now, if we can get the money from another source, you would not insist upon a cut in the dependents' exemption, would you?

Mr. ECCLES. I do not think it is possible unless you go to some sales tax, or unless you hit your middle income tax from, say, \$3,000 to \$10,000 heavier than you propose.

Now, you can either do one of two things here. The individual income tax schedule which I propose here would give an estimated yield of \$1,200,000,000. The Treasury calls for a little over \$1,500,000,000, I think, so that I am recommending approximately \$300,000,000 less from that source. If you do not lower exemptions as proposed, it would further reduce revenue from that source.

It would therefore probably have to be made up in sales taxes, and I am proposing this reduction as an alternative and not because I think that \$300 or \$1,500 is an amount that gives people very much luxury.

Mr. DINGELL. In other words, you are not sold on the necessity for this if we could do without it; is that right?

Mr. ECCLES. That is right. I certainly would not advocate it under normal conditions.

The CHAIRMAN. Are there any further questions?

Mr. CARLSON. I want to compliment you on being the first witness at this hearing that has recommended or at least presented a proposal that eliminates the 10-percent defense tax. It seems to me that that should be worked out in this tax proposal, and I have been surprised that no one has brought in proposals that eliminated it.

I take it that you worked that into your suggestions?

Mr. ECCLES. That is right.

Mr. McKEOUGH. I have just one observation. Following the questions of Mr. Dingell, Governor, if it could be constitutionally developed in the tax law to increase the tax of married couples without dependents, to offset any relief as a result of growing children, you would have no objection to that relief?

Mr. ECCLES. Now, state that again, Mr. McKeough.

Mr. McKEOUGH. In other words, with regard to married couples without children, if it could be constitutionally provided in a tax law that their exemption would be sufficiently increased to contribute to the relief that Mr. Dingell points out is advisable, for the children of married couples, you would have no objection to transferring that relief?

Mr. ECCLES. Well, that is a social problem that I would not want to get into.

Mr. McKEOUGH. It is an economic one in addition to its social aspect, because after all the family unit is the one of defense; it is one of contribution to the expansion and development of the Nation's growth, whereas the childless marriage is certainly without that contribution.

Mr. ECCLES. Yes; I get your point.

Mr. McKEOUGH. I do not want to press you on that.

Mr. ECCLES. I would like to think a little about that, before making an answer.

Mr. McKEOUGH. What I have in mind of course is that the family unit is the one that must be looked to in an emergency to defend the country if they reach the age of the draft law at the time the emergency develops. Now, then, in the process of that contribution, obviously they have made a greater contribution to the development of the country than the childless marriage does, and the sacrifices that are attendant on it.

Mr. ECCLES. There are some countries, of course, which do everything to encourage population growth, and under normal conditions in this country the exemptions should certainly be much greater than what I have indicated here.

I am thinking of the reduction of these exemptions as an alternative to sales taxes. I recognize fully the importance to the future of the economy of the proper care of children, and for that reason I have been a strong advocate of a public-health program, and of adequate schooling, supported by the Federal Government, so I am in accord with that.

Mr. McKEOUGH. In other words, while I share my friend's worry about the automobile industry, I realize that he is in Detroit and is familiar with it, I am on the other hand, more willing;

and I am quite sure that he would be, to impose something on the automobile industry that would serve as a handicap, than to impose it upon the family unit with children.

The CHAIRMAN: We thank you, Mr. Eccles.

Mr. REED. I have just one question. Mr. Eccles, first I want to compliment you on your very fine presentation here, and I want to ask you a question as to this: As a result of your study, is it your opinion that the schedules adopted or proposed by the Treasury will raise more than \$3,500,000,000?

Mr. ECCLES. Well, I do not want to be presumptuous, but the Treasury has in the past been very, very conservative, and properly so, in making their estimates, and what has actually happened has been that the revenues collected have been in excess of the estimates.

Now, that has been particularly true as the economy has been advancing; that is as the national income has been rising. Based upon what has been their experience in the past, as I recall it, it would be my view that the program might, and probably would, yield more than the \$3,500,000,000.

Mr. REED. That really is your opinion; is it not?

Mr. ECCLES. I am just giving you what has happened. The Treasury is conservative in that field, and properly so. It is always a nice feeling to have the income in excess of the estimates, and less embarrassing if that is true than if the reverse were true.

Mr. REED. That is as far as you wish to go in expressing an opinion as to the rates?

I knew that you had one set of rates, and you figured that that would meet the exigencies as expressed here, of \$3,500,000,000, and I was wondering if in the comparison of your rates, the rates proposed by you and those proposed by the Treasury, it was your opinion after studying the two that the Treasury estimates or schedules would produce more.

Mr. ECCLES. The Treasury proposed that an increased amount of revenue be obtained from the excess-profits tax, and they did not propose specific amendments to yield this amount. They merely said \$400,000,000, and I propose from \$800,000,000 to \$1,000,000,000. Now, I did not propose specific amendments either. I suggested merely that the excess-profits tax, if certain principles were followed in devising the amendments, could well yield that additional amount. By allowing 75-percent credit, or 85-percent credit for past earnings, or by having the maximum rate apply to excess profits over \$50,000 or \$500,000, you could regulate the yield.

Mr. REED. But under your schedules, you do bring some relief to the people of the lower brackets.

Mr. ECCLES. What I do is to start at \$1,500 and go up more gradually to \$15,000. The thing is not abrupt, and there is a little relief in that field. I put more on the corporation.

The CHAIRMAN. Thank you very much, Mr. Eccles.

Our next witness is Mr. Laylin. Give your name and the capacity in which you appear. How much time do you think that you will need?

Mr. LAYLIN. About 6 minutes.

The CHAIRMAN. All right.