

# REVENUE ACT OF 1951

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HEARINGS  
BEFORE THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
EIGHTY-SECOND CONGRESS  
FIRST SESSION  
ON  
**H. R. 4473**  
AN ACT TO PROVIDE REVENUE, AND  
FOR OTHER PURPOSES

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PART 1

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JUNE 28, 29, JULY 2 AND 3, 1951

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Printed for the use of the Committee on Finance



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# REVENUE ACT OF 1951

THURSDAY, JUNE 28, 1951

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

The committee met pursuant to call, at 10 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Connally, Byrd, Johnson, Hoey, Korr, Millikin, Taft, Butler, Williams, and Flanders.

Also present: Elizabeth B. Springer, chief clerk.

Appearing for Treasury Department: John S. Graham, Assistant Secretary; Thomas J. Lynch, general counsel, and members of the staff.

Appearing for Joint Committee on Internal Revenue Taxation: Colin F. Stam, chief of staff.

On behalf of the Bureau of the Budget: Mr. Elmer B. Staats, Assistant Director; Donald B. MacPhail, Legislative Reference Division; and Samuel M. Cohn, Fiscal Analysis Division.

The CHAIRMAN. The committee will come to order and the formal hearings on H. R. 4473, public hearings, are now under way.

(The text of H. R. 4473 follows:)

[H. R. 4473, 82d Cong., 1st sess.]

AN ACT To provide revenue, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) SHORT TITLE.—This Act, divided into titles and sections according to the following table of contents, may be cited as the "Revenue Act of 1951":

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(b) ACT AMENDATORY OF INTERNAL REVENUE CODE.—Except as otherwise expressly provided, wherever in this Act an amendment or repeal is expressed in terms of an amendment to or repeal of a chapter, subchapter, title, supplement, section, subsection, subdivision, paragraph, subparagraph, or clause, the reference shall be considered to be made to a provision of the Internal Revenue Code.

(c) MEANING OF TERMS USED.—Except as otherwise expressly provided, terms used in this Act shall have the same meaning as when used in the Internal Revenue Code.

## TITLE I—INCREASE IN INCOME TAX RATES

## PART I—INDIVIDUAL INCOME TAXES

## SEC. 101. DEFENSE TAX.

(a) INCREASE IN RATE OF TAX.—Part I of subchapter B of chapter 1 is hereby amended by adding at the end thereof the following new section:

## “SEC. 16. DEFENSE TAX.

“(a) INDIVIDUALS—CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, the amount of the combined normal tax and surtax under sections 11 and 12, and the amount of the combined normal tax and surtax under section 421 (a) (2), shall be the amount of such combined tax computed without regard to this section, increased by 4 per centum.

(b) INDIVIDUALS—TAXABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—In the case of taxable years beginning after August 31, 1951, the amount of the combined normal tax and surtax under sections 11 and 12, and the amount of the combined normal tax and surtax under section 421 (a) (2), shall be the amount of such combined tax computed without regard to this section, increased by 12½ per centum.

## “(c) ALTERNATIVE CAPITAL GAINS TAX.—

“(1) CALENDAR YEAR 1951.—In computing an alternative tax under paragraph (1) or (2) of section 117 (c) for a taxable year beginning on January 1, 1951, and ending on December 31, 1951, the amount to be added to the partial tax under such paragraph shall be increased by 4 per centum.

"(2) TAXABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—In computing an alternative tax under paragraph (1) or (2) of section 117 (c) for a taxable year beginning after August 31, 1951, the amount to be added to the partial tax under such paragraph shall be increased by 12½ per centum.

"(3) TAXABLE YEARS BEGINNING BEFORE SEPTEMBER 1, 1951, AND ENDING AFTER AUGUST 31, 1951.—In computing an alternative tax under paragraph (1) or (2) of section 117 (c) for a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) beginning before September 1, 1951, and ending after August 31, 1951, the amount to be added to the partial tax under such paragraph shall be increased by a percentage which bears the same ratio of 12½ per centum as the number of months in such taxable year after August 31, 1951, bears to the total number of calendar months in such taxable year. For the purposes of this paragraph, a calendar month only part of which falls within a taxable year (A) shall be disregarded if less than 15 days of such month are included in such taxable year, and (B) shall be included as a calendar month within the taxable year if more than 14 days of such month fall within the taxable year."

(b) AMENDMENT OF SECTION 12 (b).—Section 12 (b) (relating to rates of surtax) is hereby amended by striking out paragraph (2) and inserting in lieu thereof the following:

"In the case of a head of a household, the tax imposed by this subsection shall not apply to any taxable year beginning after August 31, 1951. In the case of an individual whose surtax net income for the taxable year is over \$90,000, the tax imposed by this paragraph shall not apply if the defense tax provided in section 16 is applicable to such taxable year.

"(2) SURTAX NET INCOME OVER \$90,000—CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, if the surtax net income of the individual is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual the surtax shown in the following table:

If the surtax net income is:	The surtax shall be:
Over \$90,000 but not over \$100,000.....	\$55,920 plus 83% of excess over \$90,000.
Over \$100,000 but not over \$150,000....	\$64,220 plus 84% of excess over \$100,000.
Over \$150,000 but not over \$200,000....	\$106,220 plus 85% of excess over \$150,000.
Over \$200,000.....	\$148,720 plus 86% of excess over \$200,000.

"(3) SURTAX NET INCOME OVER \$90,000—TAXABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided by section 16 is applicable, if the surtax net income of the individual for the taxable year is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual a surtax of \$55,920 plus 81 per centum of the excess over \$90,000."

(c) LIMITATION ON TAX.—Section 12 (f) (relating to limitation on tax) is hereby amended to read as follows:

"(f) LIMITATION ON TAX.—

"(1) TAXABLE YEARS TO WHICH DEFENSE TAX DOES NOT APPLY.—In the case of a taxable year beginning after September 30, 1950, other than a taxable year to which paragraph (2) or (3) is applicable, the combined normal tax and surtax shall in no event exceed 87 per centum of the net income for the taxable year.

"(2) CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending December 31, 1951, the combined normal tax and surtax, increased as provided in section 16, shall in no event exceed 88 per centum of the net income for the taxable year.

"(3) OTHER TAXABLE YEARS TO WHICH DEFENSE TAX APPLIES.—In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided in section 16 is applicable, the combined normal tax and surtax, increased as provided in section 16, shall in no event exceed 90 per centum of the net income for the taxable year."

(d) TECHNICAL AMENDMENTS.—

(1) Section 11 (a) (relating to normal tax on individuals) is hereby amended by adding at the end thereof the following new sentence: "For percentage increase in the amount of tax for the calendar year 1951 and for taxable years beginning after August 31, 1951, see section 16."

(2) Section 12 (g) (cross references) is hereby amended by adding at the end thereof the following:

"(7) DEFENSE TAX.—For percentage increase in the amount of tax for the calendar year 1951 and for taxable years beginning after August 31, 1951, see section 16.

"(8) COMPUTATION OF TAX FOR CERTAIN FISCAL YEARS.—For computation of tax in the case of taxable years (other than the calendar year 1951) beginning before September 1, 1951, and ending after August 31, 1951, see section 108 (h)."

**SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME OF LESS THAN \$5,000.**

Section 400 (relating to optional tax on individuals with adjusted gross incomes of less than \$5,000) is hereby amended by striking out the tables contained therein and inserting in lieu thereof the following:

"TABLE I.—Taxable years beginning January 1, 1951, and ending December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—								
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more	
																The income and defense tax shall be—
\$0	\$075	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$313	\$188	\$188	\$03	\$03	\$0	\$0	\$0	
075	700	4	0	0	0	2,350	2,375	317	163	193	08	68	0	0	0	0
700	725	9	0	0	0	2,375	2,400	322	197	197	73	73	0	0	0	0
725	750	13	0	0	0	2,400	2,425	327	202	202	77	77	0	0	0	0
750	775	18	0	0	0	2,425	2,450	332	207	207	82	82	0	0	0	0
775	800	23	0	0	0	2,450	2,475	336	211	211	87	87	0	0	0	0
800	825	27	0	0	0	2,475	2,500	341	210	210	91	91	0	0	0	0
825	850	32	0	0	0	2,500	2,525	346	221	221	96	96	0	0	0	0
850	875	37	0	0	0	2,525	2,550	350	225	225	101	101	0	0	0	0
875	900	41	0	0	0	2,550	2,575	355	239	230	105	105	0	0	0	0
900	925	46	0	0	0	2,575	2,600	360	236	236	110	110	0	0	0	0
925	950	51	0	0	0	2,600	2,625	364	239	239	115	115	0	0	0	0
950	975	55	0	0	0	2,625	2,650	369	244	244	119	119	0	0	0	0
975	1,000	60	0	0	0	2,650	2,675	374	249	249	124	124	0	0	0	0
1,000	1,025	65	0	0	0	2,675	2,700	378	254	254	129	129	4	0	0	0
1,025	1,050	69	0	0	0	2,700	2,725	383	258	258	133	133	9	0	0	0
1,050	1,075	74	0	0	0	2,725	2,750	388	263	263	138	138	13	0	0	0
1,075	1,100	79	0	0	0	2,750	2,775	392	268	268	143	143	18	0	0	0
1,100	1,125	83	0	0	0	2,775	2,800	397	272	272	147	147	23	0	0	0
1,125	1,150	88	0	0	0	2,800	2,825	402	277	277	152	152	27	0	0	0
1,150	1,175	93	0	0	0	2,825	2,850	406	282	282	157	157	32	0	0	0
1,175	1,200	98	0	0	0	2,850	2,875	411	286	286	161	161	37	0	0	0
1,200	1,225	102	0	0	0	2,875	2,900	416	291	291	166	166	41	0	0	0
1,225	1,250	107	0	0	0	2,900	2,925	421	296	296	171	171	46	0	0	0
1,250	1,275	112	0	0	0	2,925	2,950	426	300	300	176	176	51	0	0	0
1,275	1,300	116	0	0	0	2,950	2,975	431	305	305	180	180	55	0	0	0
1,300	1,325	121	0	0	0	2,975	3,000	436	310	310	185	185	60	0	0	0
1,325	1,350	126	0	0	0	3,000	3,050	444	317	317	192	192	67	0	0	0
1,350	1,375	130	5	0	0	3,050	3,100	454	326	326	201	201	76	0	0	0
1,375	1,400	135	10	0	0	3,100	3,150	465	335	335	211	211	86	0	0	0
1,400	1,425	140	15	0	0	3,150	3,200	476	345	345	220	220	95	0	0	0
1,425	1,450	144	20	0	0	3,200	3,250	488	354	354	229	229	105	0	0	0
1,450	1,475	149	24	0	0	3,250	3,300	496	363	363	239	239	114	0	0	0
1,475	1,500	154	29	0	0	3,300	3,350	506	373	373	248	248	123	0	0	0
1,500	1,525	158	34	0	0	3,350	3,400	518	382	382	257	257	133	8	0	0
1,525	1,550	163	38	0	0	3,400	3,450	526	392	392	267	267	142	17	0	0
1,550	1,575	168	43	0	0	3,450	3,500	537	401	401	276	276	151	27	0	0
1,575	1,600	172	48	0	0	3,500	3,550	547	410	410	285	285	161	36	0	0
1,600	1,625	177	52	0	0	3,550	3,600	557	420	420	295	295	170	45	0	0
1,625	1,650	182	57	0	0	3,600	3,650	568	430	429	304	304	179	55	0	0
1,650	1,675	186	62	0	0	3,650	3,700	578	441	438	314	314	189	64	0	0
1,675	1,700	191	66	0	0	3,700	3,750	588	451	448	322	322	198	73	0	0
1,700	1,725	196	71	0	0	3,750	3,800	598	461	457	332	332	207	83	0	0
1,725	1,750	200	76	0	0	3,800	3,850	609	471	466	342	342	217	92	0	0
1,750	1,775	205	80	0	0	3,850	3,900	619	482	476	351	351	226	101	0	0
1,775	1,800	210	85	0	0	3,900	3,950	630	492	485	360	360	236	111	0	0
1,800	1,825	215	90	0	0	3,950	4,000	640	502	495	370	370	245	120	0	0
1,825	1,850	219	94	0	0	4,000	4,050	650	513	504	379	379	254	129	5	0
1,850	1,875	224	99	0	0	4,050	4,100	660	523	513	388	388	264	139	14	0
1,875	1,900	229	104	0	0	4,100	4,150	671	533	523	398	398	273	148	23	0
1,900	1,925	233	108	0	0	4,150	4,200	681	544	532	407	407	282	158	32	0
1,925	1,950	238	113	0	0	4,200	4,250	691	554	541	417	417	292	167	43	0
1,950	1,975	243	118	0	0	4,250	4,300	701	564	551	427	426	301	176	51	0
1,975	2,000	247	122	2	0	4,300	4,350	712	574	560	437	436	310	186	61	0
2,000	1,026	252	127	2	0	4,350	4,400	722	585	569	447	446	320	195	70	0
2,026	2,050	257	132	7	0	4,400	4,450	732	595	579	458	458	329	204	80	0
2,050	2,075	261	137	12	0	4,450	4,500	743	605	588	468	468	339	214	89	0
2,075	2,100	266	141	16	0	4,500	4,550	753	616	597	478	478	348	223	99	0
2,100	2,125	271	146	21	0	4,550	4,600	763	626	607	489	489	357	232	108	0
2,125	2,150	276	151	26	0	4,600	4,650	774	636	616	499	499	367	242	117	0
2,150	2,175	280	156	30	0	4,650	4,700	784	647	626	509	509	376	251	126	2
2,175	2,200	285	160	35	0	4,700	4,750	794	657	635	520	510	385	261	136	11
2,200	2,225	289	165	40	0	4,750	4,800	804	667	644	530	519	396	270	145	20
2,225	2,250	294	169	44	0	4,800	4,850	815	677	654	540	529	404	279	154	30
2,250	2,275	299	174	49	0	4,850	4,900	825	688	663	550	538	413	289	164	39
2,275	2,300	303	179	54	0	4,900	4,950	835	698	672	561	548	423	298	173	48
2,300	2,325	308	183	59	0	4,950	5,000	846	708	682	571	557	432	307	183	58

"TABLE II.—Taxable years beginning after August 31, 1951

Table with 21 columns and 50 rows. Columns include 'Adjusted gross income is-', 'And the number of exemptions is-', 'If adjusted gross income is-', 'And the number of exemptions is-', and 'The income and defense tax shall be-'. The last four columns (4-8) are further divided into categories 1, 2, and 3.



### SEC. 103. COMPUTATION OF TAX IN CASE OF CERTAIN JOINT RETURNS.

If a joint return of a husband and wife is filed under the provisions of section 51 (b) (3) of the Internal Revenue Code in a case where the husband and wife have different taxable years because of the death of either spouse, and the taxable year of the surviving spouse covered by such joint return began before September 1, 1951, and ended after August 31, 1951, the amendments made by this part shall be applicable in respect of such joint return as if the taxable years of both spouses covered by the joint return ended on the date of the closing of the surviving spouse's taxable year.

### SEC. 104. EFFECTIVE DATE OF PART I.

Except as provided in section 103, the amendments made by this part shall be applicable only with respect to taxable years ending after August 31, 1951. For treatment of taxable years (other than the calendar year 1951) beginning before September 1, 1951, and ending after August 31, 1951, see section 131.

## PART II—CORPORATION INCOME TAXES

### SEC. 121. INCREASE IN RATE OF CORPORATION NORMAL TAX.

(a) AMENDMENT OF SECTION 13.—Subsections (a) and (b) of section 13 (relating to normal tax on corporations) are hereby amended to read as follows:

"(a) DEFINITIONS.—For the purposes of this chapter—

"(1) ADJUSTED NET INCOME.—The term 'adjusted net income' means the net income minus the credit provided in section 26 (a), relating to interest on certain obligations of the United States and Government corporations.

"(2) NORMAL-TAX NET INCOME.—The term 'normal-tax net income' means the adjusted net income minus the sum of the following credits:

"(A) The credit for dividends received provided in section 26 (b);

"(B) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h); and

"(C) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), supplement G, or supplement Q) a tax of 30 per centum of the normal-tax net income."

(b) MAXIMUM TAX.—Section 430 (a) (2) (relating to the limitation on the rate of the excess profits tax) is hereby amended by striking out "62 per centum" and inserting in lieu thereof "70 per centum".

(c) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.—

(1) Section 207 (a) (1) (relating to normal tax and surtax on mutual insurance companies, other than life or marine) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Normal Tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(B) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000."

(2) Section 207 (a) (3) (relating to a normal tax and surtax on inter-insurers and reciprocal underwriters) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Normal Tax.—A normal tax of 30 per centum of the normal-tax net income, or 60 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(B) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser."

(d) REGULATED INVESTMENT COMPANIES.—Section 302 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

"(3) There shall be levied, collected, and paid for each taxable year upon its supplement Q net income a tax equal to 30 per centum of the amount thereof.

"(4) There shall be levied, collected, and paid for each taxable year upon its supplement Q surtax net income a tax equal to 22 per centum of the amount thereof in excess of \$25,000."

(e) **BUSINESS INCOME OF CERTAIN SECTION 101 ORGANIZATIONS.**—Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by striking out "25 per centum" and inserting in lieu thereof "30 per centum".

(f) **TECHNICAL AMENDMENTS.**—

(1) **REPEAL OF SECTION 14.**—Section 14 (relating to normal tax on special classes of corporations in the case of taxable years beginning before July 1, 1950) is hereby repealed.

(2) **AMENDMENT OF SECTION 18.**—Section 15 (relating to surtax on corporations) is hereby amended to read as follows:

**"SEC. 15. SURTAX ON CORPORATIONS.**

**"(a) CORPORATION SURTAX NET INCOME.**—For the purposes of this chapter, the term 'corporation surtax net income' means the net income minus the sum of the following credits:

"(1) The credit for dividends received provided in section 26 (b);

"(2) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h);

"(3) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

**"(b) IMPOSITION OF TAX.**—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), supplement G, or supplement Q) a surtax of 22 per centum of the amount of the corporation surtax net income in excess of the surtax exemption provided in section 26 (j)."

**SEC. 122. CREDITS OF CORPORATIONS.**

(a) **DIVIDENDS RECEIVED CREDIT.**—Paragraphs (1) and (2) of section 26 (b) (relating to credit for dividends received) are hereby amended to read as follows:

"(1) **IN GENERAL.**—85 per centum of the amount received as dividends (other than dividends described in paragraph (2) on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter; and

"(2) **CERTAIN PREFERRED STOCK.**—62 per centum of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter."

(b) **CREDIT FOR DIVIDENDS PAID ON CERTAIN PREFERRED STOCK.**—The first sentence of section 26 (h) (1) (relating to amount of credit for dividends paid on certain preferred stock) is hereby amended to read as follows: "In the case of a public utility, an amount equal to 27 per centum of the lesser of (A) the amount of dividends paid during the taxable year on its preferred stock or (B) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year."

(c) **WESTERN HEMISPHERE TRADE CORPORATIONS.**—Section 26 (i) (relating to credit of a western hemisphere trade corporation) is hereby amended to read as follows:

"(i) **WESTERN HEMISPHERE TRADE CORPORATIONS.**—In the case of a western hemisphere trade corporation (as defined in section 109), an amount equal to 27 per centum of its normal-tax net income computed without regard to the credit provided in this subsection."

**SEC. 123. SURTAX EXEMPTIONS AND CERTAIN CREDITS OF RELATED CORPORATIONS.**

(a) **LIMITATION ON SURTAX EXEMPTION IN THE CASE OF RELATED CORPORATIONS.**—Section 26 (relating to credits of corporations) is hereby amended by adding at the end thereof the following new subsection:

"(j) **SURTAX EXEMPTION.**—

"(1) **IN GENERAL.**—Except in the case of a corporation to which paragraph (2) is applicable for the taxable year, a surtax exemption of \$25,000.

"(2) **RELATED CORPORATIONS.**—In the case of a corporation which on December 31 of any year is a member of a controlled group as defined in paragraph (3), a surtax exemption, for the taxable year which includes such date, in an amount equal to \$25,000 divided by the number of corporations in such group at the close of such date. In lieu of such exemption, a surtax exemption of \$25,000 for the controlled group may be divided (in any manner) by the corporations which at the close of such date are members of such group by making and filing with the Secretary a consent setting forth the portion of the \$25,000 which will be taken by each member as its surtax

exemption for its taxable year which includes such date. The consent shall be made and filed at such time and in such manner as the Secretary by regulations may prescribe. If a member of a controlled group has a taxable year which does not include December 31, the surtax exemption for such member for such taxable year shall be an amount equal to \$25,000 divided by the number of corporations in such group at the close of such taxable year.

"(3) DEFINITION OF CONTROLLED GROUP.—For the purposes of paragraph (2), a 'controlled group' means:

"(A) Any group of one or more chains of corporations connected through ownership with a common parent corporation if—

"(i) stock possessing at least 95 per centum of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

"(ii) the common parent corporation owns directly stock possessing at least 95 per centum of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations.

"(B) Any group of two or more corporations if at least 95 per centum of the voting power of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of such corporations as he owns in each of the other corporations. For the purposes of this subparagraph—

"(i) an individual shall be considered as owning substantially the same proportion of the voting power in any two corporations if, and only if, he could own the same proportion of the voting power in each by increasing by not more than 10 per centum his voting power in one of the corporations and decreasing by not more than 10 per centum his voting power in the other corporation;

"(ii) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

"(iii) an individual shall be considered as owning the stock owned, directly or indirectly, by or for his spouse;

"(iv) if an individual owns more than 50 per centum of the voting power in any corporation (including the voting power of the stock owned by him upon the application of clauses (ii) and (iii)), such individual shall be considered as owning the stock owned in such corporation, directly or indirectly, by or for his ancestors and lineal descendants;

"(v) stock constructively owned by a person by reason of the application of clause (ii) shall, for the purpose of applying clause (ii), (iii), or (iv), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of clause (iii) or (iv) shall not be treated as owned by him for the purpose of applying either such clause in order to make another the constructive owner of such stock; and

"(vi) if stock may be treated as constructively owned by two or more individuals, such stock shall, in any computation to determine the proportionate voting power of such individuals, be treated in such computation as constructively owned by the individual whose constructive ownership of such stock results in the corporation being a member of a controlled group.

If a group of corporations described in subparagraph (B) includes a common parent corporation included in a group described in subparagraph (A), then each member of the group described in subparagraph (A) of which the common parent corporation is a member shall be a member of the group described in subparagraph (B). For the purposes of this paragraph, treasury stock shall not be considered to be voting stock."

(b) INSURANCE COMPANIES.—Section 201 (g) (relating to credits under section 26 allowed life-insurance companies) and section 204 (f) (relating to credits under section 26 allowed to insurance companies other than life or mutual) are each amended by adding at the end thereof the following new sentence: "In computing the surtax imposed by this section, in the manner provided in section 15 (b), the surtax exemption provided in section 26 (j) shall be allowed."

(c) **MINIMUM EXCESS PROFITS CREDIT.**—The last sentence of section 431 (relating to definition of adjusted excess profits net income) is hereby amended to read as follows: "If such sum is less than its surtax exemption provided in section 26 (j) for the taxable year, such sum shall be increased to the amount of its surtax exemption for such year."

#### SEC. 124. COMPUTATION OF ALTERNATIVE CAPITAL GAINS TAX

(a) **ALTERNATIVE TAX.**—Section 117 (c) (1) (relating to alternative tax on corporations) is hereby amended by striking out the second paragraph and inserting in lieu thereof the following:

"(A) A partial tax shall first be computed upon the net income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted.

"(B) There shall then be ascertained an amount equal to 25 per centum of such excess. In the case of taxable years to which the defense tax provided in section 16 (c) is applicable, such amount shall be increased by the percentage specified in such section.

"(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B)."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to taxable years ending after August 31, 1951.

#### SEC. 125. EFFECTIVE DATE

Except as provided in section 124, the amendments made by this part shall be applicable only with respect to taxable years beginning after December 31, 1950. For treatment of taxable years beginning in 1950 and ending in 1951, see part III of this title.

### PART III—FISCAL YEAR TAXPAYERS

#### SEC. 131. FISCAL YEAR TAXPAYERS.

(a) **AMENDMENT OF SECTION 108.**—Section 108 is hereby amended by striking out paragraph (2) of subsection (f) and inserting in lieu thereof the following:

"(2) that portion of a tentative tax consisting of—

"(A) a tentative normal tax of 25 per centum of the normal-tax net income, plus

"(B) a tentative surtax of 20 per centum of the surtax net income in excess of \$25,000,

which the number of days in such taxable year after June 30, 1950, and before January 1, 1951, bears to the total number of days in such taxable year, plus (if the taxable year ends in 1951)

"(3) that portion of a tentative tax consisting of—

"(A) a tentative normal tax of 30 per centum of the normal-tax net income, plus

"(B) a tentative surtax of 20 per centum of the surtax net income in excess of \$25,000,

which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year.

In computing for the purposes of paragraph (2) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on July 1, 1950, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date, except that such credits shall be applied without regard to the amendments made to section 26 by title II of the Excess Profits Tax Act of 1950. In computing for the purposes of paragraph (3) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on January 1, 1951, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date.

"(g) **TAXABLE YEARS OF CORPORATIONS BEGINNING AFTER JUNE 30, 1950, AND BEFORE 1951, AND ENDING IN 1951.**—In the case of a taxable year of a corporation beginning after June 30, 1950, and before January 1, 1951, and ending after December 31, 1950, the tax imposed by sections 13 and 15 shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1951, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to years beginning on January 1, 1951, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year. For the purposes of this paragraph a surtax exemption of \$25,000 shall be allowed in lieu of the exemption provided in section 26 (j).

"(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS BEGINNING BEFORE SEPTEMBER 1, 1951, AND ENDING AFTER AUGUST 31, 1951.—In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a taxpayer, other than a corporation, beginning before September 1, 1951, and ending after August 31, 1951, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to taxable years beginning on October 1, 1950, which the number of calendar months in such taxable year prior to September 1, 1951, bears to the total number of calendar months in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on September 1, 1951, as if such provisions (other than the provisions relating to head of household) were applicable to such taxable year, which the number of calendar months in such taxable year after August 31, 1951, bears to the total number of calendar months in such taxable year.

For the purposes of this subsection, a calendar month only part of which falls within the taxable year (A) shall be disregarded if less than 15 days of such month are included in such taxable year, and (B) shall be included as a calendar month within the taxable year if more than 14 days of such month fall within the taxable year. This subsection shall not apply in the case of a trust described in section 421 (b) (2) if the taxable year of such trust began before January 1, 1951."

(b) COMPUTATION OF EXCESS PROFITS TAX.—Subsection (b) of section 430 (relating to computation of excess profits tax in the case of certain taxable years) is hereby amended to read as follows:

"(b) CERTAIN TAXABLE YEARS BEGINNING BEFORE 1951.—

"(1) TAXABLE YEARS ENDING BEFORE JANUARY 1, 1951.—In the case of a taxable year beginning before July 1, 1950, and ending after June 30, 1950, and before January 1, 1951, the tax imposed by subsection (a) shall be an amount equal to that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, bears to the total number of days in such taxable year.

"(2) TAXABLE YEARS ENDING AFTER DECEMBER 31, 1950.—In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950, the tax imposed by subsection (a) shall be an amount equal to the sum of—

"(A) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, and before January 1, 1951, bears to the total number of days in such taxable year, plus

"(B) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years beginning on January 1, 1951, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year."

(c) TECHNICAL AMENDMENTS.—

(1) Section 108 (c) (2) is hereby amended by inserting after "section 400," the following: "applicable to years beginning on October 1, 1950."

(2) Section 108 (a) is hereby amended by striking out "(g)" and inserting in lieu thereof "(i)".

## TITLE II—WITHHOLDING OF TAX AT SOURCE

### PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

#### SEC. 201. COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES.

Subtitle B of the Internal Revenue Code is hereby amended by inserting before chapter 7 the following new chapter:

### “CHAPTER 6—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

#### “Subchapter A—Dividends and Interest

##### “SEC. 1200. DEFINITIONS.

“As used in this chapter—

“(a) DIVIDEND.—The term ‘dividend’ means—

“(1) any distribution by a corporation which is a dividend as defined in section 115 (a); and

“(2) a payment made by a stockbroker to any person as a substitute for a dividend (as defined in section 115 (a)) upon which a tax is required to be deducted and withheld under this subchapter.

“(b) INTEREST.—The term ‘interest’ means—

“(1) interest on all bonds, debentures, notes, certificates, or other evidences of indebtedness, issued by any corporation, with interest coupons or in registered form;

“(2) interest on deposits with stockbrokers;

“(3) interest on amounts held by an insurance company under an agreement to pay interest thereon; and

“(4) interest on the overpayment of any internal revenue tax, except income or excess profits taxes imposed upon corporations.

##### “SEC. 1201. INCOME TAX COLLECTED AT SOURCE.

“(a) REQUIREMENT OF WITHHOLDING.—Every person making payment after December 31, 1951, of a dividend or interest shall deduct and withhold upon such dividend or interest a tax equal to 20 per centum of the amount thereof. If the withholding agent is unable to determine the person to whom the dividend or interest is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known. For certain exemptions from withholding, see section 1202.

“(b) WITHHOLDING WHERE AMOUNT OF DIVIDEND IS UNKNOWN.—If the withholding agent is unable to determine the portion of a distribution which is a dividend, the tax required to be deducted and withheld under this subchapter shall be computed on the entire amount of the distribution.

“(c) INDEMNIFICATION OF WITHHOLDING AGENT.—A withholding agent shall not be liable, except as provided in section 1203, to any person for the amount of any tax required to be deducted and withheld under this subchapter.

“(d) CREDIT FOR TAX WITHHELD.—For credit, against the income tax of the recipient of the income, of amounts required to be deducted and withheld under this subchapter, see section 35.

##### “SEC. 1202. EXEMPTIONS FROM WITHHOLDING.

“The provisions of this chapter shall not apply to:

“(a) A dividend paid in the stock or rights to acquire the stock of the distributing corporation, whether or not the recipient of such stock or rights had an option to be paid in money, or other property, in lieu of such stock or rights.

“(b) Distributions (other than capital gain dividends described in section 362 (b) (7)) to shareholders which are treated under chapter 1 as amounts received upon the sale or exchange of property, or distributions with respect to which gain or loss is not recognized under chapter 1 to the shareholders.

“(c) Any amount which is includible in gross income as a taxable dividend under the provisions of section 112 (c) (2) (relating to certain distributions made in pursuance of a plan of reorganization), section 115 (g) (relating to redemptions

of stock), or section 371 (e) (2) (relating to certain distributions pursuant to the order of the Securities and Exchange Commission).

"(d) A dividend paid by a Federal reserve bank, Federal land bank, Federal home loan bank, Central Bank for Cooperatives, or Bank for Cooperatives.

"(e) Any interest which, irrespective of the person to whom payable, is wholly exempt from the tax imposed by chapter 1.

"(f) Dividends or interest paid by a corporation to another corporation if both corporations are members of the same affiliated group which filed a consolidated return under chapter 1 for the preceding taxable year of the payor corporation.

"(g) Dividends or interest paid by a corporation to one or more (1) governments, (2) political subdivisions thereof, (3) international organizations, or (4) wholly owned instrumentalities or agencies of the foregoing, if the entire class of stock in respect of which such dividend is paid, or the entire class of obligations in respect of which such interest is paid, is owned by one or more of such governments, subdivisions, organizations, instrumentalities, or agencies.

"(h) Interest on equipment trust certificates.

"(i) Dividends or interest paid by a foreign corporation, a nonresident alien individual, any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or by an international organization.

"(j) (1) Any payment of a dividend or interest (except coupon bond interest) to (A) a foreign corporation not engaged in trade or business within the United States, (B) a nonresident alien individual, (C) any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or (D) any foreign government or international organization.

"(2) Any payment of coupon bond interest to a person described in paragraph (1) of this subsection, but only if a certificate filed (in such form and manner, and at such time, as the Secretary may by regulations prescribe) with the withholding agent discloses that the recipient of such payment is a person described in paragraph (1).

"(k) Any payment upon which the withholding agent is required to deduct and withhold a tax under section 143 (a) (relating to tax-free covenant bonds, etc.) determined without regard to the provisions of paragraph (2) of such section.

"(l) Interest on an obligation of a corporation, issued before January 1, 1951, containing a contract or provision by which the obligor agrees to pay the interest without deduction for any tax which the obligor may be required to pay thereon or to retain therefrom under any law of the United States.

"(m) Dividends paid pursuant to the terms of a lease of property entered into prior to January 1, 1951, if under such lease the shareholders of the lessor corporation are entitled to such dividends without deduction for any tax which any law of the United States might require to be deducted and withheld upon the payment of dividends.

"(n) Amounts (whether or not designated as dividends) paid by a mutual savings bank, savings and loan association, building and loan association, cooperative bank, homestead association, credit union, or any similar organization, in respect of withdrawable or repurchaseable shares, investment certificates, or deposits.

#### "SEC. 1203. RETURNS AND PAYMENT.

"(a) IN GENERAL.—Every person required under this subchapter to deduct and withhold any tax shall make a return of such tax and shall pay such tax, at such time, for such period, and in such manner as the Secretary may by regulations prescribe, by making a return of the total amount of dividends and interest with respect to which tax is required to be deducted and withheld by such person under this subchapter for such period and paying a tax, for which such person shall be liable, in an amount equal to 20 per centum of such total.

"(b) ADJUSTMENT OF TAX.—If more or less than the correct amount of tax due for any period under subsection (a) is paid with respect to such period, proper adjustments with respect to the tax shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under this subchapter.

#### "SEC. 1204. CREDIT FOR REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES.

"In the case of any withholding agent which is a regulated investment company as defined in section 361 or a personal holding company as defined in section 501, the amount required to be deducted and withheld as tax under this chapter with

respect to dividends and interest received by it during a taxable year shall be allowed, under regulations prescribed by the Secretary, as a credit against (but not in excess of) the tax for which such withholding agent is liable under section 1203 (a) in respect of dividends and interest paid by it during such year. For the purposes of this section a dividend shall be considered as having been paid within a taxable year (1) in the case of a regulated investment company, if treated as paid during such taxable year under section 302 (b) (8), or (2) in the case of a personal holding company, if claimed under section 504 (c), in computing undistributed subchapter A net income, in the return for such year.

## "Subchapter B—Royalties

### "SEC. 1220. DEFINITION OF ROYALTY.

"As used in this chapter, the term 'royalty' means—

"(a) any rent or royalty in respect of mines, oil and gas wells, and other natural deposits, including any delay rental and any minimum royalty, whether or not measured by production or by a share of gross or net income therefrom, and any payment representing a share of the gross or net income derived from the extraction and sale of any natural deposit, but only if the recipient of such rent, royalty, or payment is not personally obligated to pay a proportionate share of development or operating expenses. For the purposes of this chapter, if a royalty, as defined in the preceding sentence, is paid in kind, such payment shall not constitute payment of a royalty, but if the mineral, oil, gas, or other natural deposit so received in kind is sold by or on behalf of the recipient to the producer or under a division order, the purchaser shall be considered as making payment of the royalty in an amount equal to the purchase price;

"(b) any payment, however designated, made by a corporation for the privilege of using any patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, including any payments made by an assignee or an exclusive licensee thereof, if measured by the use of a patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, or if payable over a period substantially coterminous with the period of the payor's right to use such property, but not including any payments in respect of copyrights made to an organization to which subsection (c) is applicable; and

"(c) any payment made by an organization to its members in respect of the use of their copyrights, if such organization is authorized to license the use of such copyrights and has control of the receipt, allocation, and distribution of the payments made for such use.

### "SEC. 1221. INCOME TAX COLLECTED AT SOURCE.

"(a) REQUIREMENT OF WITHHOLDING.—Every person making payment after December 31, 1951, of a royalty shall deduct and withhold upon such royalty a tax equal to 20 per centum of the amount thereof. If the withholding agent is unable to determine the person to whom the royalty is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known. For certain exemptions from withholding see section 1222.

"(b) TAX PAID BY RECIPIENT.—If the withholding agent, in violation of the provisions of this subchapter, fails to deduct and withhold the tax under this subchapter, and thereafter the tax against which such tax may be credited is paid, the tax so required to be deducted and withheld shall not be collected from the withholding agent, but this subsection shall in no case relieve the withholding agent from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to deduct and withhold.

"(c) LIABILITY FOR TAX.—The withholding agent shall be liable for the payment of the tax required to be deducted and withheld under this subchapter, and shall not be liable to any person for the amount of any such payment.

"(d) REFUNDS AND CREDITS.—

"(1) WITHHOLDING AGENT.—Where there has been an overpayment of tax under this subchapter, refund or credit shall be made to the withholding agent only to the extent that the amount of such overpayment was not deducted and withheld under this subchapter by the withholding agent.

"(2) RECIPIENT.—For credit, against the income tax of the recipient of the income, of amounts deducted and withheld under this subchapter, see section 35.



**"SEC. 1222. EXEMPTIONS FROM WITHHOLDING.**

"The provisions of this chapter shall not apply to—

"(a) Royalties paid to a corporation or to a government or political subdivision thereof.

"(b) Royalties paid by a foreign corporation, a nonresident alien individual, a partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or an international organization.

"(c) Royalties paid to (1) a nonresident alien individual, (2) a partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or (3) an international organization.

**"SEC. 1223. RETURNS AND PAYMENT**

"(a) **IN GENERAL.**—Every person required under this subchapter to deduct and withhold any tax shall make a return of such tax and shall pay such tax, at such time, for such period, and in such manner as the Secretary may by regulations prescribe.

"(b) **ADJUSTMENT OF TAX.**—If more or less than the correct amount of tax imposed by this subchapter is paid with respect to any payment of royalties, proper adjustments, with respect both to the tax and the amount to be deducted, shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under this subchapter.

**"SEC. 1224. RECEIPTS**

"(a) **REQUIREMENT.**—Every person required under this subchapter to deduct and withhold tax on a royalty, shall, not later than January 31 of the year succeeding the calendar year in which the royalty is paid, furnish to the payee of the royalty a written statement showing the amount of the royalties paid to such payee during such calendar year, and the amount of tax deducted and withheld under this subchapter in respect of such royalties.

"(b) **STATEMENTS TO CONSTITUTE INFORMATION RETURNS.**—The statements required to be furnished by this section in respect of any royalty shall be furnished at such other times, shall contain such other information, and shall be in such form as the Secretary may by regulations prescribe. A duplicate of such statement if made and filed in accordance with regulations prescribed by the Secretary shall constitute the return required to be made in respect of such royalties under section 147.

"(c) **EXTENSION OF TIME.**—The Secretary, under regulations prescribed by him, may grant to any person a reasonable extension of time (not in excess of 30 days) with respect to the statements required to be furnished by such person under this section.

**"SEC. 1225. PENALTIES**

"(a) **CRIMINAL PENALTY.**—In lieu of any other penalty provided by law (except the penalty provided by subsection (b) of this section), any person required under the provisions of section 1224 to furnish a statement who willfully furnishes a false or fraudulent statement, or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 1224, or regulations prescribed thereunder, shall for each such offense, upon conviction thereof, be fined not more than \$1,000, or imprisoned for not more than one year, or both.

"(b) **CIVIL PENALTY.**—In addition to the penalty provided by subsection (a) of this section, any person required under the provisions of section 1224 to furnish a statement who willfully furnishes a false or fraudulent statement, or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 1224, or regulations prescribed thereunder, shall for each such offense be subject to a civil penalty of not more than \$50.

**"Subchapter C—General Provisions****"SEC. 1230. DEFINITIONS.**

"As used in this chapter—

"(a) **TAXABLE YEAR.**—The term 'taxable year' shall have the same meaning as when used in chapter 1.

"(b) **PERSON.**—The term 'person' includes any government or political subdivision, or agency or instrumentality thereof.

"(c) **NONRESIDENT ALIEN.**—The term 'nonresident alien individual' includes an alien resident of Puerto Rico.

**"SEC. 1231. NONDEDUCTIBILITY OF TAX IN COMPUTING NET INCOME.**

"Any tax deducted and withheld under this chapter shall not be allowed as a deduction in computing net income for the purpose of any tax on income imposed by Act of Congress.

**"SEC. 1232. RETURN AND PAYMENT BY GOVERNMENTAL PAYOR.**

"If the person referred to in section 1203 (a) or 1223 (a) is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return and payment required by such sections shall be made by any officer or employee of the United States, or of such State, Territory, or political subdivision, or of the District of Columbia, or of such agency or instrumentality, as the case may be, having control of the payment of the dividend, interest, or royalty, or appropriately designated for that purpose.

**"SEC. 1233. TAX-EXEMPT ORGANIZATIONS—REFUND.**

"In the case of a person which is exempt from the tax imposed by chapter 1, if the amount required to be deducted and withheld as tax under this chapter with respect to dividends and interest received by it during any calendar quarter, and the amount deducted and withheld as tax under this chapter with respect to royalties received by it during such calendar quarter, exceed the credit claimed by and allowed to such person under section 1637 for such quarter, the excess shall be immediately refunded or credited to such person as an overpayment of the tax imposed by this chapter, but only if claim therefor is filed (or, if no claim is filed, if credit or refund is made) after the close of such calendar quarter and on or before March 15 of the fourth calendar year beginning after the close of such calendar quarter. No interest shall be allowed or paid with respect to any such refund or credit for any period prior to the date on which claim for such refund or credit is filed or prior to March 15 of the calendar year succeeding the close of the calendar quarter in respect of which such refund or credit is claimed, whichever date is the later.

**"SEC. 1234. FAILURE TO FILE RETURNS.**

"In case of a failure to make and file any return required under this chapter within the time prescribed by law or prescribed by the Secretary in pursuance of law, unless it is shown that such failure is due to reasonable cause and not to willful neglect, the addition to the tax or taxes required to be shown on such return shall not be less than \$5.

**"SEC. 1235. OTHER LAWS APPLICABLE.**

"All provisions of law, including penalties, applicable with respect to any tax imposed by section 2700, and the provisions of section 3661, shall, insofar as applicable and not inconsistent with the provisions of this chapter, be applicable with respect to the tax under this chapter."

**SEC. 202. CREDIT FOR TAX WITHHELD.**

Section 35 (relating to credit against income tax) is hereby amended as follows:

(1) by striking from the heading thereof the words

**"ON WAGES";**

(2) by inserting at the beginning of the first paragraph thereof the following heading: **"(a) CREDIT FOR TAX WITHHELD ON WAGES.—"**; and

(3) by inserting at the end thereof the following new subsection:

**"(b) CREDIT FOR TAX WITHHELD ON DIVIDENDS, INTEREST, AND ROYALTIES.—**Under regulations prescribed by the Secretary—

**"(1) IN GENERAL.—**The amount required to be deducted and withheld as tax under chapter 6 upon any payment of a dividend or interest, and the amount deducted and withheld as tax under such chapter upon any payment of a royalty, shall be allowed as a credit, to the recipient of the income, against the tax imposed by this chapter for the taxable year in which the dividend, interest, or royalty is received.

**"(2) PARTNERSHIPS, TRUSTS, AND ESTATES.—**If the recipient of the dividend, interest, or royalty is a partnership or a common trust fund, then the credit shall not be allowed to such recipient, but the members of the partnership, or the participants in the common trust fund, as the case may be, shall be allowed their proportionate share of such credit. If the recipient is an estate or trust, and if any legatee, heir, or beneficiary subject to the

tax imposed by this chapter is required to include a portion of such dividend, interest, or royalty in computing his net income, such legatee, heir, or beneficiary shall be allowed such portion of the credit as is properly allocable to him on the basis of the income allocable to him under section 162 for the taxable year of the estate or trust, and such portion of the credit shall not be allowed to the estate or trust.

"(3) REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES.—In the case of a regulated investment company or a personal holding company, the credit provided in paragraph (1) shall be reduced by the amount of credit allowed such company under section 1204.

"(4) TAX EXEMPT ORGANIZATIONS.—The credit provided by this subsection shall not be allowed to any recipient which is exempt from income tax. For credit against the liability of such a recipient in respect of the employment taxes imposed by subchapter A and subchapter D of chapter 9, see section 1637. For refund under chapter 6 in the case of such a recipient, see section 1233."

#### SEC. 203. CREDITS IN CASE OF ORGANIZATIONS EXEMPT FROM TAX.

Subchapter E of chapter 9 (relating to employment taxes) is hereby amended by adding after section 1636 the following new section:

##### "SEC. 1637. SPECIAL CREDIT IN CASE OF ORGANIZATIONS EXEMPT FROM INCOME TAX.

"In the case of any person (including any government or political subdivision, agency, or instrumentality thereof) which is exempt from the tax imposed by chapter 1, the amount required to be deducted and withheld as tax under chapter 6 with respect to dividends and interest received by it during any calendar quarter, and the amount deducted and withheld as tax under such chapter with respect to royalties received by it during such calendar quarter, shall be allowed, under regulations prescribed by the Secretary, as a credit against (but not in excess of) the amount shown on the return of such person as its liability (after the adjustments, if any, provided for in sections 1401 (c) and 1411) for such quarter in respect of the taxes imposed by subchapter A and subchapter D of this chapter. Such credit shall be allowed only if claim therefor is made, in accordance with such regulations, at the time of the filing of the return under subchapter A and subchapter D for such quarter. For refund under chapter 6, see section 1233."

#### SEC. 204. TECHNICAL AMENDMENTS.

(a) TAX COMPUTED BY COLLECTOR.—Section 51 (f) (relating to tax computed by collector) is hereby amended to read as follows:

"(f) TAX COMPUTED BY COLLECTOR.—

"(1) RETURN REQUIREMENTS.—An individual entitled to elect to pay the tax imposed by supplement T whose gross income is less than \$5,000 and is entirely from one or more of the following sources: wages as defined in section 1621 (a), or dividends (other than a capital gain dividend as defined in section 362 (b) (7)) or interest on which tax is required to be deducted and withheld under chapter 6, shall at his election be relieved, by using the form prescribed as the form for the return for the purposes of this subsection, from showing on the return the tax imposed by this chapter. In such case the tax shall be computed by the collector.

"(2) RESULT OF COMPUTATION.—After the collector has computed the tax, he shall mail to the taxpayer a notice stating the amount determined by the collector as payable and making demand therefor.

"(3) REGULATIONS.—The Secretary shall prescribe regulations for carrying out this subsection, and such regulations may provide for the application of the rules of this subsection to cases where the gross income includes items other than those enumerated in paragraph (1) if the gross income from such other sources is not more than \$200, and to cases where the gross income is \$5,000 or more but not more than \$5,200. Such regulations shall provide for the application of this subsection in the case of husband and wife, including provisions determining when a joint return under this subsection may be permitted or required and what constitutes a joint return, whether the liability shall be joint and several, and whether one spouse may make return under this subsection and the other without regard to this subsection.

"(4) METHOD OF ELECTION.—The election to have the benefits of this subsection shall be made by making return on the form prescribed as the form for the return for the purposes of this subsection. An election so made shall constitute an election to pay the tax imposed by supplement T."

(b) **REQUIREMENT OF DECLARATION OF ESTIMATED TAX.**—Section 58 (a) (relating to declaration of estimated tax) is hereby amended to read as follows:

“(a) **REQUIREMENT OF DECLARATION.**—Every individual (other than an estate or trust and other than a nonresident alien with respect to whose wages, as defined in section 1621 (a), withholding under subchapter D of chapter 6 is not made applicable, but including every alien individual who is a resident of Puerto Rico during the entire taxable year) shall, at the time prescribed in subsection (d), make a declaration of his estimated tax for the taxable year if—

“(1) his gross income from wages (as defined in section 1621) and from dividends, interest, and royalties, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed the sum of \$4,500 plus \$600 with respect to each exemption provided in section 25 (b); or

“(2) his gross income from sources other than wages (as defined in section 1621) and other than dividends, interest, and royalties, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed \$100 for the taxable year and his gross income to be \$600 or more.”

(c) **CREDIT UNDER SECTION 143.**—Section 143 (relating to withholding of tax at source) is hereby amended by adding at the end thereof the following new subsection:

“(i) **CREDIT FOR TAX WITHHELD AT SOURCE.**—Where any person is required to deduct and withhold a tax under subsection (b) on an amount on which a tax was required to be deducted and withheld under subchapter A of chapter 6, or on an amount on which a tax was deducted and withheld under subchapter B of such chapter, such person shall deduct and withhold only the excess of—

“(1) the amount which would be required to be deducted and withheld under subsection (b) but for the application of chapter 6, over

“(2) the amount required to be deducted and withheld under subchapter A of chapter 6, or the amount deducted and withheld under subchapter B of such chapter, whichever is applicable.”

(d) **CREDIT UNDER SECTION 144.**—Section 144 (relating to payment of corporation income tax at source) is hereby amended by striking out the period at the end thereof and adding in lieu thereof the following: “*Provided further*; That, where any person is required under this section to deduct and withhold a tax on an amount on which a tax was required to be deducted and withheld under subchapter A of chapter 6, or on an amount on which a tax was deducted and withheld under subchapter B of such chapter, such person shall deduct and withhold only the excess of—

“(1) the amount which would be required to be deducted and withheld under this section but for the application of chapter 6, over

“(2) the amount required to be deducted and withheld under subchapter A of chapter 6, or the amount deducted and withheld under subchapter B of such chapter, whichever is applicable.”

(e) **INFORMATION AT SOURCE.**—Subsections (a) and (b) of section 147 (relating to information at source) are hereby amended to read as follows:

“(a) **PAYMENTS OF RENT, SALARIES, INTEREST, ETC.**—All persons, in whatever capacity acting, including lessors or mortgagors of real or personal property, fiduciaries, and employers, making payment to another person, of—

“(1) rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in section 148 (a) or 149) of \$600 or more in any taxable year, or

“(2) interest, upon which tax is required to be deducted and withheld under chapter 6, of \$300 or more in any taxable year, or

“(3) interest, upon which tax is not required to be deducted and withheld under chapter 6, of \$100 or more in any taxable year,

or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, shall render a true and accurate return to the Secretary, under such regulations and in such form and manner and to such extent as may be prescribed by him, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment.

"(b) RETURNS REGARDLESS OF AMOUNT OF PAYMENT.—Such returns may be required, regardless of amounts, (1) in the case of payments of interest, and (2) in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon the bonds of and dividends from foreign corporations by persons undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange. This subsection shall not apply to payments of interest (other than coupon-bond interest) upon which tax is required to be deducted and withheld under chapter 6."

(f) INFORMATION BY CORPORATIONS.—Section 148 (a) (relating to information by corporations in the case of dividend payments) is hereby amended by inserting a comma in lieu of the period at the end thereof and adding the following: "except that if the amount of dividends paid to any shareholder during a calendar year is less than \$300 and tax is required to be deducted and withheld under chapter 6 upon the entire amount of such dividends, no such return shall be required with respect to such shareholder for such calendar year."

(g) CLERICAL AMENDMENT.—Section 189 (b) (relating to taxation of common trust funds) is hereby amended by striking out "or chapter 6" and by striking out "chapters" and inserting in lieu thereof "chapter."

(h) AMOUNT OF CREDIT CONSIDERED AS PAYMENT.—Section 322 (a) (2) (relating to refunds and credits) is hereby amended to read as follows:

"(2) TREATMENT OF CREDITS.—The amount of the credit provided in section 35 against the tax for any taxable year shall, to the extent thereof, be considered as payment of the tax for such year, whether or not the withholding agent has paid to the collector the amount of the tax deducted and withheld at the source under subchapter D of chapter 9 or subchapter B of chapter 6 or the amount of tax required to be deducted and withheld at source under subchapter A of chapter 6."

(i) SPECIAL PERIOD OF LIMITATIONS FOR SMALL REFUNDS ON TAX WITHHELD AT SOURCE.—Section 322 (b) (relating to statute of limitations on filing claim for credit or refund) is hereby amended by adding at the end thereof the following new paragraph:

"(7) SPECIAL PERIOD OF LIMITATIONS WITH RESPECT TO CERTAIN OVERPAYMENTS RESULTING FROM TAX WITHHELD ON DIVIDENDS, INTEREST, OR ROYALTIES.—In the case of an individual filing a claim for credit or refund of an overpayment for a taxable year for which he was not required under section 51 (a) to make a return, if the overpayment is attributable to the credit allowed under section 35 for tax required to be deducted and withheld under subchapter A of chapter 6 (relating to tax withheld at source on dividends and interest) or for tax deducted and withheld under subchapter B of such chapter (relating to tax withheld at source on royalties), in lieu of the period of limitation prescribed in paragraph (1), the period shall be seven years from the date prescribed by law for filing a return for the taxable year with respect to which the claim is made. In such a case, the amount of credit or refund may exceed the portion of the tax paid within the period prescribed in paragraph (2), to the extent of the amount of the overpayment attributable to such credit allowed under section 35, or to the extent of \$2, whichever is the lesser."

(j) PRESUMPTIONS AS TO DATE OF PAYMENT.—Section 322 (e) (relating to presumption as to date of payment) is hereby amended to read as follows:

"(e) PRESUMPTIONS AS TO DATE OF PAYMENT.—For the purpose of this section—

"(1) any amount allowable as a credit under section 32 (relating to credit for tax withheld at source on tax-free covenant bonds and on payments to nonresident aliens and foreign corporations) or under section 35 (relating to credit for tax withheld at source on wages, dividends, interest, and royalties) shall, in respect of the person entitled to such credit, be deemed to have been paid by him on the last day prescribed by law (determined without regard to any extension of time granted the taxpayer) for the filing of the return for his taxable year with respect to which such amount is allowable as a credit; and

"(2) any amount paid as estimated tax for any taxable year shall be deemed to have been paid on the last day prescribed by law (determined without regard to any extension of time granted the taxpayer) for the filing of the return for such taxable year."

(k) **INTEREST ON OVERPAYMENTS.**—Section 3771 (f) is hereby amended to read as follows:

"(f) **TAX WITHHELD AT SOURCE AND ESTIMATED TAX.**—

"(1) **CLAIMS FILED UNDER SPECIAL PERIOD OF LIMITATIONS PROVIDED IN SECTION 322 (B) (7).**—If credit or refund of the overpayment would be barred under section 322 (b) except for paragraph (7) thereof, no interest shall be allowed or paid with respect to the overpayment for any period ending prior to the expiration of six months after the date on which the claim was filed.

"(2) **CROSS REFERENCE.**—For date of payment in respect of estimated tax and tax withheld at source, see section 322 (e)."

(l) **DEFINITION OF WITHHOLDING AGENT.**—Section 3797 (a) (16) is hereby amended by striking out "143 or 144", and by inserting in lieu thereof "143, 144, 1201, or 1221".

(m) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (b) shall be applicable to taxable years beginning after December 31, 1951.

## **PART II—INCREASE IN WITHHOLDING OF TAX AT SOURCE ON WAGES**

### **SEC. 221. PERCENTAGE METHOD OF WITHHOLDING.**

Section 1622 (a) (relating to percentage method of withholding) is hereby amended by striking out "18 per centum" and inserting in lieu thereof "20 per centum".

### **SEC. 222. WAGE BRACKET WITHHOLDING.**

The tables contained in section 1622 (c) (1) (relating to wage bracket withholding) are hereby amended to read as follows:

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—											
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more	
		The amount of tax to be withheld shall be—											
		30% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
\$0	\$13	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
\$13	\$14	\$2.70	.10	0	0	0	0	0	0	0	0	0	
\$14	\$15	2.90	.30	0	0	0	0	0	0	0	0	0	
\$15	\$16	3.10	.50	0	0	0	0	0	0	0	0	0	
\$16	\$17	3.30	.70	0	0	0	0	0	0	0	0	0	
\$17	\$18	3.50	.90	0	0	0	0	0	0	0	0	0	
\$18	\$19	3.70	1.20	0	0	0	0	0	0	0	0	0	
\$19	\$20	3.90	1.40	0	0	0	0	0	0	0	0	0	
\$20	\$21	4.20	1.60	0	0	0	0	0	0	0	0	0	
\$21	\$22	4.40	1.80	0	0	0	0	0	0	0	0	0	
\$22	\$23	4.60	2.00	0	0	0	0	0	0	0	0	0	
\$23	\$24	4.80	2.20	0	0	0	0	0	0	0	0	0	
\$24	\$25	5.00	2.40	0	0	0	0	0	0	0	0	0	
\$25	\$26	5.20	2.60	0	0	0	0	0	0	0	0	0	
\$26	\$27	5.40	2.80	.20	0	0	0	0	0	0	0	0	
\$27	\$28	5.60	3.00	.40	0	0	0	0	0	0	0	0	
\$28	\$29	5.80	3.20	.60	0	0	0	0	0	0	0	0	
\$29	\$30	6.00	3.40	.80	0	0	0	0	0	0	0	0	
\$30	\$31	6.20	3.60	1.00	0	0	0	0	0	0	0	0	
\$31	\$32	6.40	3.80	1.20	0	0	0	0	0	0	0	0	
\$32	\$33	6.60	4.00	1.40	0	0	0	0	0	0	0	0	
\$33	\$34	6.80	4.20	1.60	0	0	0	0	0	0	0	0	
\$34	\$35	7.00	4.40	1.80	0	0	0	0	0	0	0	0	
\$35	\$36	7.20	4.60	2.00	0	0	0	0	0	0	0	0	
\$36	\$37	7.40	4.80	2.20	0	0	0	0	0	0	0	0	
\$37	\$38	7.60	5.00	2.40	0	0	0	0	0	0	0	0	
\$38	\$39	7.80	5.20	2.60	0	0	0	0	0	0	0	0	
\$39	\$40	8.00	5.40	2.80	.20	0	0	0	0	0	0	0	
\$40	\$41	8.20	5.60	3.00	.40	0	0	0	0	0	0	0	
\$41	\$42	8.40	5.80	3.20	.60	0	0	0	0	0	0	0	
\$42	\$43	8.60	6.00	3.40	.80	0	0	0	0	0	0	0	
\$43	\$44	8.80	6.20	3.60	1.00	0	0	0	0	0	0	0	
\$44	\$45	9.00	6.40	3.80	1.20	0	0	0	0	0	0	0	
\$45	\$46	9.20	6.60	4.00	1.40	0	0	0	0	0	0	0	
\$46	\$47	9.40	6.80	4.20	1.60	0	0	0	0	0	0	0	
\$47	\$48	9.60	7.00	4.40	1.80	0	0	0	0	0	0	0	
\$48	\$49	9.80	7.20	4.60	2.00	0	0	0	0	0	0	0	
\$49	\$50	10.00	7.40	4.80	2.20	0	0	0	0	0	0	0	
\$50	\$51	10.20	7.60	5.00	2.40	0	0	0	0	0	0	0	
\$51	\$52	10.40	7.80	5.20	2.60	0	0	0	0	0	0	0	
\$52	\$53	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	0	
\$53	\$54	10.80	8.20	5.60	3.00	.40	0	0	0	0	0	0	
\$54	\$55	11.00	8.40	5.80	3.20	.70	0	0	0	0	0	0	
\$55	\$56	11.20	8.60	6.00	3.50	.90	0	0	0	0	0	0	
\$56	\$57	11.40	8.80	6.20	3.70	1.10	0	0	0	0	0	0	
\$57	\$58	11.60	9.00	6.50	3.90	1.30	0	0	0	0	0	0	
\$58	\$59	11.80	9.30	6.70	4.10	1.60	0	0	0	0	0	0	
\$59	\$60	12.00	9.60	6.90	4.30	1.70	0	0	0	0	0	0	
\$60	\$62	12.40	9.80	7.20	4.60	2.00	0	0	0	0	0	0	
\$62	\$64	12.80	10.20	7.60	5.00	2.40	0	0	0	0	0	0	
\$64	\$66	13.20	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	
\$66	\$68	13.60	11.00	8.40	5.80	3.20	.60	0	0	0	0	0	
\$68	\$70	14.00	11.40	8.80	6.20	3.60	1.00	0	0	0	0	0	
\$70	\$72	14.40	11.80	9.20	6.60	4.00	1.40	0	0	0	0	0	
\$72	\$74	14.80	12.20	9.60	7.00	4.40	1.80	0	0	0	0	0	
\$74	\$76	15.20	12.60	10.00	7.40	4.80	2.20	0	0	0	0	0	
\$76	\$78	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	0	0	
\$78	\$80	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	0	0	0	
\$80	\$82	16.40	13.80	11.20	8.60	6.00	3.40	.80	0	0	0	0	
\$82	\$84	16.80	14.20	11.60	9.00	6.40	3.80	1.20	0	0	0	0	
\$84	\$86	17.20	14.60	12.00	9.40	6.80	4.20	1.60	0	0	0	0	
\$86	\$88	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	0	0	
\$88	\$90	18.00	15.40	12.80	10.20	7.60	5.00	2.40	0	0	0	0	
\$90	\$92	18.40	15.80	13.20	10.60	8.00	5.40	2.90	.30	0	0	0	
\$92	\$94	18.80	16.20	13.60	11.00	8.40	5.90	3.30	.70	0	0	0	
\$94	\$96	19.20	16.60	14.00	11.40	8.90	6.30	3.70	1.10	0	0	0	
\$96	\$98	19.60	17.00	14.50	11.90	9.30	6.70	4.10	1.50	0	0	0	
\$98	\$100	20.00	17.50	14.90	12.30	9.70	7.10	4.50	1.90	0	0	0	
\$100	\$105	20.80	18.20	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	
\$105	\$110	21.80	19.20	16.60	14.00	11.40	8.90	6.20	3.60	1.00	0	0	
\$110	\$115	22.80	20.20	17.60	15.00	12.40	9.90	7.20	4.60	2.00	0	0	
\$115	\$120	23.80	21.20	18.60	16.00	13.40	10.90	8.20	5.60	3.00	0	0	
\$120	\$125	24.80	22.20	19.60	17.00	14.40	11.90	9.20	6.60	4.00	1.40	0	
\$125	\$130	25.80	23.20	20.60	18.00	15.40	12.90	10.20	7.60	5.00	2.40	0	
\$130	\$135	26.80	24.20	21.60	19.00	16.40	13.90	11.30	8.70	6.10	3.50	.60	
\$135	\$140	27.80	25.20	22.70	20.10	17.50	14.90	12.30	9.70	7.10	4.60	1.60	
\$140	\$145	28.90	26.30	23.70	21.10	18.60	15.90	13.30	10.70	8.10	5.60	2.60	
\$145	\$150	29.90	27.30	24.70	22.10	19.60	16.90	14.30	11.70	9.10	6.60	3.60	
\$150	\$160	31.40	28.80	26.20	23.60	21.10	18.40	15.80	13.20	10.60	8.00	5.40	
\$160	\$170	33.40	30.80	28.20	25.60	23.00	20.40	17.80	15.20	12.60	10.00	7.50	
\$170	\$180	35.40	32.80	30.20	27.60	25.00	22.50	19.80	17.20	14.70	12.10	9.50	
\$180	\$190	37.60	34.90	32.30	29.70	27.10	24.60	21.90	19.30	16.70	14.10	11.50	
\$190	\$200	39.80	36.90	34.30	31.70	29.10	26.60	23.90	21.30	18.70	16.10	13.50	
\$200 and over			30 percent of the excess over \$200 plus—										
		30.50	37.90	35.30	32.70	30.10	27.50	24.90	22.30	19.70	17.10	14.50	

*"If the payroll period with respect to an employee is biweekly"*

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$26	\$0	.30	0	0	0	0	0	0	0	0	0
\$26	\$28	\$2.50	0	0	0	0	0	0	0	0	0	0
\$28	\$30	5.00	.70	0	0	0	0	0	0	0	0	0
\$30	\$32	6.30	1.10	0	0	0	0	0	0	0	0	0
\$32	\$34	6.70	1.50	0	0	0	0	0	0	0	0	0
\$34	\$36	7.10	1.90	0	0	0	0	0	0	0	0	0
\$36	\$38	7.60	2.30	0	0	0	0	0	0	0	0	0
\$38	\$40	7.90	2.70	0	0	0	0	0	0	0	0	0
\$40	\$42	8.30	3.10	0	0	0	0	0	0	0	0	0
\$42	\$44	8.70	3.50	0	0	0	0	0	0	0	0	0
\$44	\$46	9.10	3.90	0	0	0	0	0	0	0	0	0
\$46	\$48	9.60	4.30	0	0	0	0	0	0	0	0	0
\$48	\$50	9.90	4.70	0	0	0	0	0	0	0	0	0
\$50	\$52	10.30	5.10	0	0	0	0	0	0	0	0	0
\$52	\$54	10.70	5.50	.30	0	0	0	0	0	0	0	0
\$54	\$56	11.10	5.90	.80	0	0	0	0	0	0	0	0
\$56	\$58	11.60	6.40	1.20	0	0	0	0	0	0	0	0
\$58	\$60	11.90	6.80	1.60	0	0	0	0	0	0	0	0
\$60	\$62	12.40	7.20	2.00	0	0	0	0	0	0	0	0
\$62	\$64	12.80	7.60	2.40	0	0	0	0	0	0	0	0
\$64	\$66	13.20	8.00	2.80	0	0	0	0	0	0	0	0
\$66	\$68	13.60	8.40	3.20	0	0	0	0	0	0	0	0
\$68	\$70	14.00	8.80	3.60	0	0	0	0	0	0	0	0
\$70	\$72	14.40	9.20	4.00	0	0	0	0	0	0	0	0
\$72	\$74	14.80	9.60	4.40	0	0	0	0	0	0	0	0
\$74	\$76	15.20	10.00	4.80	0	0	0	0	0	0	0	0
\$76	\$78	15.60	10.40	5.20	0	0	0	0	0	0	0	0
\$78	\$80	15.90	10.80	5.60	.40	0	0	0	0	0	0	0
\$80	\$82	16.40	11.20	6.00	.90	0	0	0	0	0	0	0
\$82	\$84	16.80	11.60	6.40	1.20	0	0	0	0	0	0	0
\$84	\$86	17.20	12.00	6.80	1.60	0	0	0	0	0	0	0
\$86	\$88	17.60	12.40	7.20	2.00	0	0	0	0	0	0	0
\$88	\$90	18.00	12.80	7.60	2.40	0	0	0	0	0	0	0
\$90	\$92	18.40	13.20	8.00	2.90	0	0	0	0	0	0	0
\$92	\$94	18.80	13.60	8.40	3.30	0	0	0	0	0	0	0
\$94	\$96	19.20	14.00	8.90	3.70	0	0	0	0	0	0	0
\$96	\$98	19.60	14.50	9.30	4.10	0	0	0	0	0	0	0
\$98	\$100	20.00	14.90	9.70	4.50	0	0	0	0	0	0	0
\$100	\$102	20.50	15.30	10.10	4.90	0	0	0	0	0	0	0
\$102	\$104	20.90	15.70	10.50	5.30	.10	0	0	0	0	0	0
\$104	\$106	21.30	16.10	10.90	5.70	.50	0	0	0	0	0	0
\$106	\$108	21.70	16.50	11.30	6.10	.90	0	0	0	0	0	0
\$108	\$110	22.10	16.90	11.70	6.50	1.30	0	0	0	0	0	0
\$110	\$112	22.60	17.30	12.10	6.90	1.70	0	0	0	0	0	0
\$112	\$114	22.90	17.70	12.50	7.20	2.10	0	0	0	0	0	0
\$114	\$116	23.30	18.10	12.90	7.70	2.50	0	0	0	0	0	0
\$116	\$118	23.70	18.50	13.30	8.10	2.90	0	0	0	0	0	0
\$118	\$120	24.10	18.90	13.70	8.60	3.30	0	0	0	0	0	0
\$120	\$124	24.70	19.50	14.30	9.10	3.90	0	0	0	0	0	0
\$124	\$128	25.30	20.30	15.10	9.90	4.70	0	0	0	0	0	0
\$128	\$132	26.30	21.10	15.90	10.70	5.60	.40	0	0	0	0	0
\$132	\$136	27.10	21.90	16.80	11.60	6.40	1.20	0	0	0	0	0
\$136	\$140	27.90	22.80	17.60	12.40	7.20	2.00	0	0	0	0	0
\$140	\$144	28.80	23.60	18.40	13.20	8.00	2.80	0	0	0	0	0
\$144	\$148	29.60	24.40	19.20	14.00	8.80	3.60	0	0	0	0	0
\$148	\$152	30.40	25.20	20.00	14.80	9.60	4.40	0	0	0	0	0
\$152	\$156	31.20	26.00	20.80	15.60	10.40	5.20	0	0	0	0	0
\$156	\$160	32.00	26.80	21.60	16.40	11.20	6.00	.80	0	0	0	0
\$160	\$164	32.80	27.60	22.40	17.20	12.00	6.80	1.70	0	0	0	0
\$164	\$168	33.60	28.40	23.20	18.00	12.80	7.70	2.50	0	0	0	0
\$168	\$172	34.40	29.20	24.00	18.80	13.70	8.60	3.30	0	0	0	0
\$172	\$176	35.20	30.00	24.90	19.70	14.50	9.50	4.10	0	0	0	0
\$176	\$180	36.00	30.90	25.70	20.60	15.30	10.10	4.90	0	0	0	0
\$180	\$184	36.90	31.70	26.50	21.50	16.10	10.90	5.70	.50	0	0	0
\$184	\$188	37.70	32.50	27.30	22.40	16.90	11.70	6.50	1.30	0	0	0
\$188	\$192	38.50	33.30	28.10	23.20	17.70	12.50	7.30	2.10	0	0	0
\$192	\$196	39.30	34.10	28.90	24.00	18.50	13.30	8.10	2.90	0	0	0
\$196	\$200	40.10	34.90	29.70	24.80	19.30	14.10	8.90	3.70	0	0	0
\$200	\$210	41.50	36.30	31.10	25.90	20.70	15.60	10.40	5.20	0	0	0
\$210	\$220	43.50	38.30	33.20	28.00	22.90	17.60	12.40	7.20	2.00	0	0
\$220	\$230	45.60	40.40	35.20	30.00	24.90	19.60	14.40	9.20	4.00	0	0
\$230	\$240	47.60	42.40	37.20	32.00	26.90	21.60	16.40	11.20	6.00	.90	0
\$240	\$250	49.60	44.40	39.20	34.00	28.90	23.70	18.40	13.00	8.00	2.90	0
\$250	\$260	51.60	46.40	41.20	36.10	31.00	25.70	20.50	14.80	10.10	4.90	0
\$260	\$270	53.70	48.50	43.30	38.10	33.00	27.70	22.50	17.30	12.10	6.90	5.90
\$270	\$280	55.70	50.50	45.30	40.10	34.90	29.70	24.50	19.30	14.10	9.00	7.80
\$280	\$290	57.70	52.50	47.30	42.10	36.90	31.80	26.60	21.40	16.20	11.00	9.80
\$290	\$300	59.70	54.50	49.40	44.20	39.00	33.80	28.60	23.40	18.20	13.00	11.80
\$300	\$320	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20	15.00	13.90
\$320	\$340	66.80	61.60	56.40	51.20	46.10	40.90	35.70	30.60	25.80	20.10	16.90
\$340	\$360	70.90	65.70	60.50	55.30	50.10	44.90	39.70	34.60	29.80	24.10	19.00
\$360	\$380	74.90	69.70	64.50	59.30	54.20	48.90	43.80	38.40	33.40	28.20	22.00
\$380	\$400	79.00	73.80	68.60	63.40	58.30	53.00	47.80	42.60	37.40	32.20	27.10

\$400 and over

20 percent of the excess over \$400 plus—

\$1.00	7A.00	7D.00	65.40	60.20	55.00	49.80	44.70	39.50	34.30	29.10
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"If the payroll period with respect to an employee is monthly

And the wages are--		And the number of withholding exemptions claimed is--										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be--										
\$0.	\$56.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56.	\$60.	\$1.70	\$0.50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$60.	\$64.	12.60	1.30	0	0	0	0	0	0	0	0	0
\$64.	\$68.	13.40	2.10	0	0	0	0	0	0	0	0	0
\$68.	\$72.	14.20	2.90	0	0	0	0	0	0	0	0	0
\$72.	\$76.	15.00	3.70	0	0	0	0	0	0	0	0	0
\$76.	\$80.	15.80	4.50	0	0	0	0	0	0	0	0	0
\$80.	\$84.	16.60	5.40	0	0	0	0	0	0	0	0	0
\$84.	\$88.	17.40	6.20	0	0	0	0	0	0	0	0	0
\$88.	\$92.	18.20	7.00	0	0	0	0	0	0	0	0	0
\$92.	\$96.	19.00	7.80	0	0	0	0	0	0	0	0	0
\$96.	\$100.	19.80	8.60	0	0	0	0	0	0	0	0	0
\$100.	\$104.	20.70	9.40	0	0	0	0	0	0	0	0	0
\$104.	\$108.	21.50	10.20	0	0	0	0	0	0	0	0	0
\$108.	\$112.	22.30	11.00	0	0	0	0	0	0	0	0	0
\$112.	\$116.	23.10	11.80	0	0	0	0	0	0	0	0	0
\$116.	\$120.	23.90	12.60	1.40	0	0	0	0	0	0	0	0
\$120.	\$124.	24.70	13.50	2.20	0	0	0	0	0	0	0	0
\$124.	\$128.	25.50	14.30	3.00	0	0	0	0	0	0	0	0
\$128.	\$132.	26.30	15.10	3.80	0	0	0	0	0	0	0	0
\$132.	\$136.	27.10	15.90	4.60	0	0	0	0	0	0	0	0
\$136.	\$140.	27.90	16.70	5.40	0	0	0	0	0	0	0	0
\$140.	\$144.	28.70	17.50	6.20	0	0	0	0	0	0	0	0
\$144.	\$148.	29.50	18.30	7.00	0	0	0	0	0	0	0	0
\$148.	\$152.	30.30	19.10	7.80	0	0	0	0	0	0	0	0
\$152.	\$156.	31.20	19.90	8.70	0	0	0	0	0	0	0	0
\$156.	\$160.	32.00	20.70	9.50	0	0	0	0	0	0	0	0
\$160.	\$164.	32.80	21.60	10.30	0	0	0	0	0	0	0	0
\$164.	\$168.	33.60	22.40	11.10	0	0	0	0	0	0	0	0
\$168.	\$172.	34.40	23.20	11.90	.70	0	0	0	0	0	0	0
\$172.	\$176.	35.20	24.00	12.70	1.50	0	0	0	0	0	0	0
\$176.	\$180.	36.00	24.80	13.50	2.30	0	0	0	0	0	0	0
\$180.	\$184.	36.80	25.60	14.30	3.10	0	0	0	0	0	0	0
\$184.	\$188.	37.70	26.40	15.20	3.90	0	0	0	0	0	0	0
\$188.	\$192.	38.50	27.20	16.00	4.70	0	0	0	0	0	0	0
\$192.	\$196.	39.30	28.00	16.80	5.50	0	0	0	0	0	0	0
\$196.	\$200.	40.10	28.80	17.60	6.30	0	0	0	0	0	0	0
\$200.	\$204.	40.90	29.70	18.40	7.20	0	0	0	0	0	0	0
\$204.	\$208.	41.70	30.50	19.20	8.00	0	0	0	0	0	0	0
\$208.	\$212.	42.50	31.30	20.00	8.80	0	0	0	0	0	0	0
\$212.	\$216.	43.30	32.10	20.80	9.60	0	0	0	0	0	0	0
\$216.	\$220.	44.10	32.90	21.60	10.40	0	0	0	0	0	0	0
\$220.	\$224.	45.00	33.70	22.50	11.20	0	0	0	0	0	0	0
\$224.	\$228.	45.80	34.50	23.30	12.00	0	0	0	0	0	0	0
\$228.	\$232.	46.60	35.30	24.10	12.80	1.80	0	0	0	0	0	0
\$232.	\$236.	47.40	36.10	24.90	13.60	2.40	0	0	0	0	0	0
\$236.	\$240.	48.20	36.90	25.70	14.40	3.00	0	0	0	0	0	0
\$240.	\$244.	49.00	37.70	26.50	15.20	3.60	0	0	0	0	0	0
\$244.	\$248.	49.80	38.50	27.30	16.00	4.20	0	0	0	0	0	0
\$248.	\$252.	50.60	39.30	28.10	16.80	4.80	0	0	0	0	0	0
\$252.	\$256.	51.40	40.10	28.90	17.60	5.40	0	0	0	0	0	0
\$256.	\$264.	52.70	41.40	30.20	18.90	7.70	0	0	0	0	0	0
\$264.	\$272.	54.30	43.00	31.80	20.50	9.30	0	0	0	0	0	0
\$272.	\$280.	55.90	44.60	33.40	23.10	10.90	0	0	0	0	0	0
\$280.	\$288.	57.50	46.30	35.00	25.80	12.50	1.30	0	0	0	0	0
\$288.	\$296.	59.10	47.90	36.60	28.40	14.10	2.90	0	0	0	0	0
\$296.	\$304.	60.80	49.60	38.30	27.00	15.90	4.50	0	0	0	0	0
\$304.	\$312.	62.40	51.10	39.90	28.60	17.40	6.10	0	0	0	0	0
\$312.	\$320.	64.00	52.70	41.50	30.20	19.00	7.70	0	0	0	0	0
\$320.	\$328.	65.60	54.40	43.10	31.90	20.60	9.40	0	0	0	0	0
\$328.	\$336.	67.20	56.00	44.70	33.60	22.20	11.00	0	0	0	0	0
\$336.	\$344.	68.90	57.60	46.40	35.10	23.90	12.60	1.40	0	0	0	0
\$344.	\$352.	70.50	59.20	48.00	36.70	25.50	14.30	3.00	0	0	0	0
\$352.	\$360.	72.10	60.80	49.60	38.30	27.10	16.00	4.60	0	0	0	0
\$360.	\$368.	73.70	62.50	51.20	40.00	28.70	17.50	6.20	0	0	0	0
\$368.	\$376.	75.30	64.10	52.80	41.60	30.30	19.10	7.80	0	0	0	0
\$376.	\$384.	77.00	65.70	54.50	43.20	32.00	20.70	9.50	0	0	0	0
\$384.	\$392.	78.60	67.30	56.10	44.80	33.60	22.30	11.10	0	0	0	0
\$392.	\$400.	80.20	68.90	57.70	46.40	35.20	23.90	12.70	1.40	0	0	0
\$400.	\$408.	83.00	71.90	60.60	49.30	38.00	28.80	15.50	4.30	0	0	0
\$408.	\$416.	87.10	75.90	64.60	53.30	42.10	30.90	19.60	8.30	0	0	0
\$416.	\$424.	91.10	79.90	68.60	57.40	46.10	34.90	23.60	12.40	1.10	0	0
\$424.	\$432.	95.20	83.90	72.70	61.40	50.20	38.90	27.70	16.40	5.20	0	0
\$432.	\$440.	99.20	88.00	76.70	65.50	54.30	43.00	31.70	20.50	9.20	0	0
\$440.	\$448.	103.30	92.00	80.80	69.50	58.30	47.00	35.80	24.50	13.30	2.00	0
\$448.	\$456.	107.30	96.10	84.90	73.60	62.30	51.10	39.80	28.60	17.30	6.10	0
\$456.	\$464.	111.40	100.10	88.90	77.60	66.40	55.10	43.90	32.60	21.40	10.10	0
\$464.	\$472.	115.40	104.20	92.90	81.70	70.40	59.20	47.90	36.70	25.40	14.20	2.90
\$472.	\$480.	119.50	108.20	97.00	85.70	74.60	63.20	52.00	40.70	29.50	18.20	7.00
\$480.	\$488.	123.60	112.30	103.10	91.90	80.60	69.30	56.10	44.80	33.60	24.30	13.10
\$488.	\$496.	138.70	122.40	111.20	99.90	88.70	77.40	66.20	54.90	43.70	32.40	21.20
\$496.	\$504.	141.80	130.50	119.30	108.00	96.80	85.50	74.30	63.00	51.80	40.50	29.30
\$504.	\$512.	149.90	138.60	127.40	116.10	104.90	93.60	82.40	71.10	59.90	48.60	37.40
\$512.	\$520.	158.00	146.70	135.50	124.20	113.00	101.70	90.50	79.20	68.00	56.70	45.50
\$520.	\$528.	166.10	154.80	143.60	132.30	121.10	109.80	98.60	87.30	76.10	64.80	53.60
\$528.	\$536.	174.20	162.90	151.70	140.40	129.20	117.90	106.70	95.40	84.20	72.90	61.70
\$536.	\$544.	182.30	171.00	159.80	148.50	137.30	126.00	114.80	103.50	92.30	81.00	69.80
\$544.	\$552.	190.40	179.10	167.90	156.60	145.40	134.10	122.90	111.60	100.40	89.10	77.90
\$552.	\$1,000.	198.50	187.20	176.00	164.70	153.50	142.20	131.00	119.70	108.50	97.20	86.00

\$1,000 and over.....

20 percent of the excess over \$1,000 plus--

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period"

And the wages divided by the number of days in such period are--		And the number of withholding exemptions claimed is--													
		0	1	2	3	4	5	6	7	8	9	10 or more			
At least	But less than	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period--													
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
\$0	\$2.00	\$0.45	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00	\$2.25	.05	.05	0	0	0	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.50	.10	0	0	0	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.55	.15	0	0	0	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.60	.20	0	0	0	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.65	.25	0	0	0	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.70	.30	0	0	0	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.75	.35	0	0	0	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.80	.40	.05	0	0	0	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.85	.45	.10	0	0	0	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.90	.50	.15	0	0	0	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.95	.55	.20	0	0	0	0	0	0	0	0	0	0	0
\$4.75	\$5.00	1.00	.60	.25	0	0	0	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.05	.65	.30	0	0	0	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.10	.70	.35	0	0	0	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.15	.75	.40	.05	0	0	0	0	0	0	0	0	0	0
\$5.75	\$6.00	1.20	.80	.45	.10	0	0	0	0	0	0	0	0	0	0
\$6.00	\$6.25	1.25	.85	.50	.15	0	0	0	0	0	0	0	0	0	0
\$6.25	\$6.50	1.30	.90	.55	.20	0	0	0	0	0	0	0	0	0	0
\$6.50	\$6.75	1.35	.95	.60	.25	0	0	0	0	0	0	0	0	0	0
\$6.75	\$7.00	1.40	1.00	.65	.30	0	0	0	0	0	0	0	0	0	0
\$7.00	\$7.25	1.45	1.05	.70	.35	0	0	0	0	0	0	0	0	0	0
\$7.25	\$7.50	1.50	1.10	.75	.40	0	0	0	0	0	0	0	0	0	0
\$7.50	\$7.75	1.55	1.15	.80	.45	.05	0	0	0	0	0	0	0	0	0
\$7.75	\$8.00	1.60	1.20	.85	.50	.10	0	0	0	0	0	0	0	0	0
\$8.00	\$8.25	1.65	1.25	.90	.55	.15	0	0	0	0	0	0	0	0	0
\$8.25	\$8.50	1.70	1.30	.95	.60	.20	0	0	0	0	0	0	0	0	0
\$8.50	\$8.75	1.75	1.40	1.00	.65	.25	0	0	0	0	0	0	0	0	0
\$8.75	\$9.00	1.80	1.45	1.05	.70	.30	0	0	0	0	0	0	0	0	0
\$9.00	\$9.25	1.85	1.50	1.10	.75	.35	0	0	0	0	0	0	0	0	0
\$9.25	\$9.50	1.90	1.55	1.15	.80	.40	.05	0	0	0	0	0	0	0	0
\$9.50	\$9.75	1.95	1.60	1.20	.85	.45	.10	0	0	0	0	0	0	0	0
\$9.75	\$10.00	2.00	1.65	1.25	.90	.50	.15	0	0	0	0	0	0	0	0
\$10.00	\$10.50	2.10	1.70	1.35	.95	.60	.25	0	0	0	0	0	0	0	0
\$10.50	\$11.00	2.20	1.80	1.45	1.05	.70	.35	0	0	0	0	0	0	0	0
\$11.00	\$11.50	2.30	1.90	1.55	1.15	.80	.45	.05	0	0	0	0	0	0	0
\$11.50	\$12.00	2.40	2.00	1.65	1.25	.90	.55	.15	0	0	0	0	0	0	0
\$12.00	\$12.50	2.50	2.10	1.75	1.35	1.00	.65	.25	0	0	0	0	0	0	0
\$12.50	\$13.00	2.60	2.20	1.85	1.45	1.10	.75	.35	0	0	0	0	0	0	0
\$13.00	\$13.50	2.70	2.30	1.95	1.55	1.20	.85	.45	.10	0	0	0	0	0	0
\$13.50	\$14.00	2.80	2.40	2.05	1.65	1.30	.95	.55	.20	0	0	0	0	0	0
\$14.00	\$14.50	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30	0	0	0	0	0	0
\$14.50	\$15.00	3.00	2.60	2.25	1.90	1.50	1.15	.75	.40	.05	0	0	0	0	0
\$15.00	\$15.50	3.10	2.70	2.35	2.00	1.60	1.25	.85	.50	.15	0	0	0	0	0
\$15.50	\$16.00	3.20	2.80	2.45	2.10	1.70	1.35	.95	.60	.25	0	0	0	0	0
\$16.00	\$16.50	3.30	2.90	2.55	2.20	1.80	1.45	1.05	.70	.35	0	0	0	0	0
\$16.50	\$17.00	3.40	3.00	2.65	2.30	1.90	1.55	1.15	.80	.45	.05	0	0	0	0
\$17.00	\$17.50	3.50	3.10	2.75	2.40	2.00	1.65	1.25	.90	.55	.15	0	0	0	0
\$17.50	\$18.00	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.00	.65	.25	0	0	0	0
\$18.00	\$18.50	3.70	3.35	2.95	2.60	2.20	1.85	1.50	1.10	.75	.35	0	0	0	0
\$18.50	\$19.00	3.80	3.45	3.05	2.70	2.30	1.95	1.60	1.20	.85	.45	.05	0	0	0
\$19.00	\$19.50	3.90	3.55	3.15	2.80	2.40	2.05	1.70	1.30	.95	.55	.15	0	0	0
\$19.50	\$20.00	4.00	3.65	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.65	.25	0	0	0
\$20.00	\$21.00	4.15	3.80	3.40	3.05	2.65	2.30	1.95	1.55	1.20	.80	.45	0	0	0
\$21.00	\$22.00	4.35	4.00	3.60	3.25	2.85	2.50	2.15	1.75	1.40	1.00	.65	0	0	0
\$22.00	\$23.00	4.55	4.20	3.80	3.45	3.10	2.70	2.35	1.95	1.60	1.25	.85	0	0	0
\$23.00	\$24.00	4.75	4.40	4.00	3.65	3.30	2.90	2.55	2.15	1.80	1.45	1.05	0	0	0
\$24.00	\$25.00	4.95	4.60	4.20	3.85	3.50	3.10	2.75	2.35	2.00	1.65	1.25	0	0	0
\$25.00	\$26.00	5.15	4.80	4.40	4.05	3.70	3.30	2.95	2.55	2.20	1.85	1.45	0	0	0
\$26.00	\$27.00	5.35	5.00	4.65	4.25	3.90	3.50	3.15	2.80	2.40	2.05	1.65	0	0	0
\$27.00	\$28.00	5.55	5.20	4.85	4.45	4.10	3.70	3.35	3.00	2.60	2.25	1.85	0	0	0
\$28.00	\$29.00	5.75	5.40	5.05	4.65	4.30	3.90	3.55	3.20	2.80	2.45	2.05	0	0	0
\$29.00	\$30.00	5.95	5.60	5.25	4.85	4.50	4.10	3.75	3.40	3.00	2.65	2.30	0	0	0
\$30 and over			20 percent of the excess over \$30 plus--												
		6.10	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.10	2.75	2.40			

### SEC. 223. ADDITIONAL WITHHOLDING OF TAX ON WAGES UPON AGREEMENT BY EMPLOYER AND EMPLOYEE.

Section 1622 (relating to income tax collected at source on wages) is hereby amended by adding at the end thereof the following new subsection:

"(k) **ADDITIONAL WITHHOLDING.**—The Secretary is authorized by regulations to provide, under such conditions and to such extent as he deems proper, for withholding in addition to that otherwise required under this section in cases in which the employer and the employee agree (in such form as the Secretary may by regulations prescribe) to such additional withholding. Such additional withholding shall for all purposes be considered tax required to be deducted and withheld under this subchapter."

### SEC. 224. EFFECTIVE DATE.

The amendments made by this part shall be applicable only with respect to wages paid on or after September 1, 1951.

## TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

### SEC. 301. TAX TREATMENT IN CASE OF HEAD OF HOUSEHOLD.

(a) **SURTAX IN CASE OF HEAD OF HOUSEHOLD.**—Section 12 (c) is hereby amended to read as follows:

"(c) **HEAD OF HOUSEHOLD.**—

"(1) **RATES OF SURTAX.**—In the case of taxable years beginning after August 31, 1951, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

If the surtax net income is:	The surtax shall be:
Not over \$2,000.....	17% of the surtax net income.
Over \$2,000 but not over \$4,000.....	\$340, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000.....	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000.....	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000.....	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000.....	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000.....	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000.....	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000.....	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000.....	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000.....	\$5,660, plus 44% of excess over \$20,000.
Over \$22,000 but not over \$24,000.....	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$26,000.....	\$7,460, plus 48% of excess over \$24,000.

<b>If the surtax net income is:</b>	<b>The surtax shall be:</b>
Over \$26,000 but not over \$28,000.....	\$8,420, plus 40% of excess over \$26,000.
Over \$28,000 but not over \$32,000.....	\$9,400, plus 52% of excess over \$28,000.
Over \$32,000 but not over \$36,000.....	\$11,480, plus 54% of excess over \$32,000.
Over \$36,000 but not over \$40,000.....	\$13,640, plus 57% of excess over \$36,000.
Over \$40,000 but not over \$44,000.....	\$15,920, plus 60% of excess over \$40,000.
Over \$44,000 but not over \$50,000.....	\$18,320, plus 62% of excess over \$44,000.
Over \$50,000 but not over \$60,000.....	\$22,040, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000.....	\$28,540, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000.....	\$35,840, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000.....	\$42,440, plus 74% of excess over \$80,000.
Over \$90,000 but not over \$100,000....	\$49,840, plus 76% of excess over \$90,000.
Over \$100,000 but not over \$120,000...	\$57,440, plus 79% of excess over \$100,000.
Over \$120,000 but not over \$150,000...	\$73,240, plus 81% of excess over \$120,000.
Over \$150,000 but not over \$160,000...	\$97,540, plus 83% of excess over \$150,000.
Over \$160,000 but not over \$180,000...	\$105,840, plus 84% of excess over \$160,000.
Over \$180,000 but not over \$200,000...	\$122,640, plus 85% of excess over \$180,000.
Over \$200,000 but not over \$300,000...	\$139,640, plus 87% of excess over \$200,000.
Over \$300,000.....	\$226,640, plus 88% of excess over \$300,000.

In the case of the head of a household whose surtax net income for the taxable year is over \$90,000, this paragraph shall not apply if the defense tax provided in section 16 is applicable to such taxable year. For percentage increase in the amount of tax imposed by this subsection, see section 16.

"(2) SURTAX NET INCOME OVER \$90,000.—In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided in section 16 is applicable, if the surtax net income for the taxable year of an individual who is the head of a household is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual the surtax shown in the following table:

<b>If the surtax net income is:</b>	<b>The surtax shall be:</b>
Over \$90,000 but not over \$100,000....	\$49,840, plus 75% of excess over \$90,000.
Over \$100,000 but not over \$120,000...	\$57,840, plus 76% of excess over \$100,000.
Over \$120,000 but not over \$140,000...	\$72,540, plus 78% of excess over \$120,000.
Over \$140,000 but not over \$160,000...	\$88,140, plus 80% of excess over \$140,000.
Over \$160,000.....	\$104,140, plus 81% of excess over \$160,000.

"(3) DEFINITION OF HEAD OF HOUSEHOLD.—For the purposes of this chapter, an individual shall be considered a head of a household if, and only if, such individual is not married at the close of his taxable year and maintains as his home a household which constitutes for such taxable year the principal place of abode, as a member of such household, of:

"(A) A son or daughter (including a stepson or stepdaughter) of the taxpayer, or a descendant of such son or daughter, but if such son, daughter, or descendant is married at the close of the taxpayer's taxable year, only if the taxpayer is entitled to an exemption for the taxable year for such person under section 25 (b); or

"(B) Any other person who is a dependent of the taxpayer, if the taxpayer is entitled to an exemption for the taxable year for such person under section 25 (b).

An individual shall be considered as maintaining a household only if over half of the cost of maintaining the household during the taxable year is furnished by such individual.

"(4) DETERMINATION OF STATUS.—For the purposes of this subsection—

"(A) a legally adopted child of a person shall be considered a child of such person by blood;

"(B) an individual who is legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married;

"(C) a taxpayer shall be considered as not married at the close of his taxable year if at any time during the taxable year his spouse is a non-resident alien; and

"(D) a taxpayer shall be considered as married at the close of his taxable year if his spouse (other than a spouse described in subparagraph (C)) died during the taxable year.

"(5) NONRESIDENT ALIEN.—For the purposes of this chapter a taxpayer shall in no case be considered a head of a household if at any time during the taxable year he is a nonresident alien."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after August 31, 1951.

### SEC. 302. EXPENDITURES IN THE DEVELOPMENT OF MINES.

(a) DEDUCTION OF EXPENDITURES.—Section 23 (a) (1) (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subparagraph:

"(D) DEVELOPMENT OF MINES.—Expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deductible, on a ratable basis, as the units of produced ores or minerals benefited by such expenditures are sold. Such expenditures, and the adjustments to basis provided in section 113 (b) (1) (J), shall not be taken into account in determining the adjusted basis of the property for the purpose of computing depletion under section 114. This subparagraph shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (l). For purposes of this subparagraph, allowances for depreciation shall be considered as expenditures."

(b) ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following subparagraph:

"(J) for amounts allowed as deductions under section 23 (a) (1) (D) (relating to certain expenditures in the development of mines) and resulting in a reduction of the taxpayer's taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years."

(c) TECHNICAL AMENDMENT.—Section 24 (a) (2) (relating to items not deductible) is hereby amended by adding after the word "estate" the following: "except expenditures for the development of mines or deposits deductible under section 23 (a) (1) (D)".

(d) EFFECTIVE DATE.—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950.

### SEC. 303. GAIN FROM SALE OR EXCHANGE OF TAXPAYER'S RESIDENCE.

(a) **NONRECOGNITION OF GAIN IN CERTAIN CASES.**—Section 112 (relating to recognition of gain or loss) is hereby amended by adding at the end thereof the following new subsection:

“(n) **GAIN FROM SALE OR EXCHANGE OF RESIDENCE.**—

“(1) **NONRECOGNITION OF GAIN.**—If property (hereinafter in this subsection called ‘old residence’) used by the taxpayer as his principal residence is sold by him and, within a period beginning one year prior to the date of such sale and ending one year after such date, property (hereinafter in this subsection called ‘new residence’) is purchased and used by the taxpayer as his principal residence, gain (if any) from such sale shall be recognized only to the extent that the taxpayer’s selling price of the old residence exceeds the taxpayer’s cost of purchasing the new residence.

“(2) **RULES FOR APPLICATION OF SUBSECTION.**—For the purposes of this subsection:

“(A) An exchange by the taxpayer of his residence for other property shall be considered as a sale of such residence, and the acquisition of a residence upon the exchange of property shall be considered as a purchase of such residence.

“(B) If the taxpayer’s residence (as a result of its destruction in whole or in part, theft, or seizure) is compulsorily or involuntarily converted into property or into money, such destruction, theft, or seizure shall be considered as a sale of the residence; and if the residence is so converted into property which is used by the taxpayer as his residence, such conversion shall be considered as a purchase of such property by the taxpayer.

“(C) In the case of an exchange or conversion described in subparagraph (A) or (B), in determining the extent to which the selling price of the old residence exceeds the taxpayer’s cost of purchasing the new residence, the amount realized by the taxpayer upon such exchange or conversion shall be considered the selling price of the old residence.

“(D) A residence any part of which was constructed or reconstructed by the taxpayer shall be considered as purchased by the taxpayer. In determining the taxpayer’s cost of purchasing a residence, there shall be included only so much of his cost as is attributable to the acquisition, construction, reconstruction, and improvements made which are properly chargeable to capital account, during the period specified in paragraph (1).

“(E) If a residence is purchased by the taxpayer prior to the date of his sale of the old residence, the purchased residence shall not be treated as his new residence if sold or otherwise disposed of by him prior to the date of the sale of the old residence.

“(F) If the taxpayer, during the period described in paragraph (1), purchases more than one residence which is used by him as his principal residence at some time within one year after the date of the sale of the old residence, only the last of such residences so used by him after the date of such sale shall constitute the new residence. If within the one year referred to in the preceding sentence property used by the taxpayer as his principal residence is destroyed, stolen, seized, requisitioned, or condemned, or is sold or exchanged under threat or imminence thereof, then for the purposes of the preceding sentence such one year shall be considered as ending with the date of such destruction, theft, seizure, requisition, condemnation, sale, or exchange.

“(3) **LIMITATION.**—The provisions of paragraph (1) shall not be applicable with respect to the sale of the taxpayer’s residence if within one year prior to the date of such sale the taxpayer sold at a gain other property used by him as his principal residence, and any part of such gain was not recognized by reason of the provisions of paragraph (1). For the purposes of this paragraph, the destruction, theft, seizure, requisition, or condemnation of property or the sale or exchange of property under threat or imminence thereof, shall not be considered as a sale of such property.

“(4) **BASIS OF NEW RESIDENCE.**—Where the purchase of a new residence results, under paragraph (1), in the nonrecognition of gain upon the sale of an old residence, in determining the adjusted basis of the new residence as of any time following the sale of the old residence, the adjustments to basis

shall include a reduction by an amount equal to the amount of the gain not so recognized upon the sale of the old residence. For this purpose, the amount of the gain not so recognized upon the sale of the old residence includes only so much of such gain as is not recognized by reason of the cost, up to such time, of purchasing the new residence.

"(B) TENANT-STOCKHOLDER IN A COOPERATIVE APARTMENT CORPORATION.—For the purposes of this subsection, section 113 (b) (1) (K), and section 117 (h) (7), references to property used by the taxpayer as his principal residence, and references to the residence of a taxpayer, shall include stock held by a tenant-stockholder (as defined in section 23 (s) (2)) in a cooperative apartment (as defined in such section) if—

"(A) in the case of stock sold, the apartment which the taxpayer was entitled to occupy as such stockholder was used by him as his principal residence, and

"(B) in the case of stock purchased, the taxpayer used as his principal residence the apartment which he was entitled to occupy as such stockholder.

"(6) HUSBAND AND WIFE.—If the taxpayer and his spouse, in accordance with regulations which shall be prescribed by the Secretary pursuant to this paragraph, consent to the application of subparagraph (B) of this paragraph, then—

"(A) for the purposes of this subsection, the words 'taxpayer's selling price of the old residence' shall mean the selling price (of the taxpayer, or of the taxpayer and his spouse) of the old residence, and the words 'taxpayer's cost of purchasing the new residence' shall mean the cost (to the taxpayer, his spouse, or both) of purchasing the new residence (whether held by the taxpayer, his spouse, or the taxpayer and his spouse); and

"(B) so much of the gain upon the sale of the old residence as is not recognized solely by reason of this paragraph, and so much of the adjustment under paragraph (4) to the basis of the new residence as results solely from this paragraph, shall be allocated between the taxpayer and his spouse as provided in such regulations.

This paragraph shall apply only if the old residence and the new residence are each used by the taxpayer and his spouse as their principal residence. In case the taxpayer and his spouse do not consent to the application of subparagraph (B) of this paragraph, then the recognition of gain upon the sale of the old residence shall be determined under this subsection without regard to the rules provided in this paragraph.

"(7) STATUTE OF LIMITATIONS.—If the taxpayer during a taxable year sells at a gain property used by him as his principal residence, then—

"(A) the statutory period for the assessment of any deficiency attributable to any part of such gain shall not expire prior to the expiration of three years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may by regulations prescribe) of—

"(i) the taxpayer's cost of purchasing the new residence which the taxpayer claims results in nonrecognition of any part of such gain,

"(ii) the taxpayer's intention not to purchase a new residence within the period specified in paragraph (1), or

"(iii) a failure to make such purchase within such period; and

"(B) such deficiency may be assessed prior to the expiration of such three-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment."

(b) TECHNICAL AMENDMENTS.—

(1) Section 112 (f) (relating to involuntary conversions) is hereby amended by adding at the end thereof the following: "This subsection shall not apply, in the case of property used by the taxpayer as his principal residence, if the destruction, theft, seizure, requisition, or condemnation of the residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950."

(2) Section 113 (a) (9) (relating to basis of property acquired as a result of involuntary conversions) is hereby amended by adding at the end thereof the following: "This paragraph shall not apply in respect of property acquired



as a result of a compulsory or involuntary conversion of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, or condemnation of such residence, or the sale or exchange of such residence under threat or imminence thereof, occurred after December 31, 1950."

(3) Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following new subparagraph:

"(K) In the case of a residence the acquisition of which resulted, under the provisions of section 112 (n), in the nonrecognition of any part of the gain realized upon the sale, exchange, or involuntary conversion of another residence, to the extent provided in section 112 (n) (4)."

(4) Section 117 (h) (relating to determination of holding period) is hereby amended by adding at the end thereof the following new paragraph:

"(7) In determining the period for which the taxpayer has held a residence, the acquisition of which resulted under section 112 (n) in the nonrecognition of any part of the gain realized on the sale, exchange, or involuntary conversion of another residence, there shall be included the period for which such other residence had been held as of the date of such sale, exchange, or involuntary conversion."

(5) Section 276 (relating to period of limitation upon assessment and collection) is hereby amended by adding at the end thereof the following:

"(e) GAIN UPON SALE OR EXCHANGE OF RESIDENCE.—In the case of a deficiency described in section 112 (n) (7), such deficiency may be assessed at any time prior to the expiration of the time therein provided."

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable to taxable years ending after December 31, 1950, but the provisions of section 112 (n) (1) and (6) of the Internal Revenue Code shall apply only with respect to residences sold (within the meaning of such section) after such date.

#### SEC. 304. PERCENTAGE DEPLETION.

(a) ALLOWANCE OF PERCENTAGE DEPLETION.—So much of paragraph (4) of section 114 (b) as precedes the last sentence of subparagraph (A) is hereby amended to read as follows:

"(4) PERCENTAGE DEPLETION FOR COAL AND METAL MINES AND FOR CERTAIN OTHER MINES AND NATURAL MINERAL DEPOSITS.—

"(A) IN GENERAL.—The allowance for depletion under section 23 (m) in the case of the following mines and other natural deposits shall be—

"(i) in the case of asbestos, sand, gravel, stone (including pumice, scoria, and slate), brick and tile clay, shale, oyster shell, clam shell, granite, and marble, 5 per centum,

"(ii) in the case of coal, 10 per centum,

"(iii) in the case of metal mines, bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball and sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite (including thenardite from brines or mixtures of brine), potash, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone, 15 per centum, and

"(iv) in the case of sulfur, 23 per centum, of the gross income from the property during the taxable year, excluding from such gross income an amount equal to any rents or royalties paid or incurred by the tax-payer in respect of the property."

(b) TECHNICAL AMENDMENT.—So much of paragraph (2) of section 114 (b) as precedes "discovered by the taxpayer after February 28, 1913" is hereby amended to read as follows:

"(2) DISCOVERY VALUE IN THE CASE OF MINES.—In the case of mines (except mines in respect of which percentage depletion is allowable under paragraph (4) of this subsection)".

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

**SEC. 305. CAPITAL GAINS AND LOSSES.****(a) TREATMENT OF LONG-TERM CAPITAL GAINS AND LOSSES.—**

(1) **AMENDMENT OF SECTION 23.**—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

“(cc) **LONG-TERM CAPITAL GAINS.**—In the case of a taxpayer other than a corporation, the deduction for long-term capital gains provided in section 117 (b).”

(2) **AMENDMENT OF SECTION 117 (b).**—Section 117 (b) (relating to treatment of long-term capital gains and losses) is hereby amended to read as follows:

“(b) **DEDUCTION FROM GROSS INCOME.**—In the case of a taxpayer other than a corporation, if for any taxable year the net long-term capital gain exceeds the net short-term capital loss, 50 per centum of the amount of such excess shall be a deduction from gross income. In the case of an estate or trust, the deduction shall be computed by excluding the portion (if any), of the gains for the taxable year from sales or exchanges of capital assets, which, under section 162 (b) or (c), is includible by the income beneficiaries as gain derived from the sale or exchange of capital assets.”

(b) **ALTERNATIVE TAX.**—Section 117 (c) (2) (relating to alternative tax) is hereby amended to read as follows:

“(2) **OTHER TAXPAYERS.**—If for any taxable year the net long-term capital gain of any taxpayer (other than a corporation) exceeds the net short-term capital loss, there shall be levied, collected, and paid, in lieu of the tax imposed by sections 11 and 12 (or, in the case of certain tax-exempt trusts, in lieu of the tax imposed by section 421), a tax determined as follows, if and only if such tax is less than the tax imposed by such section:

“(A) A partial tax shall first be computed upon the net income reduced by an amount equal to 50 per centum of such excess, at the rates and in the manner as if this subsection had not been enacted.

“(B) There shall then be ascertained an amount equal to 25 per centum of the excess of the net long-term capital gain over the net short-term capital loss. In the case of taxable years to which the defense tax provided in section 16 (c) is applicable, such amount shall be increased by the percentage specified in such section.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

**(c) TECHNICAL AMENDMENTS.—**

(1) **AMENDMENT OF SECTION 22 (n).**—Section 22 (n) (relating to the definition of adjusted gross income) is hereby amended by striking out the word “and” at the end of paragraph (b), by striking out the period at the end of paragraph (c) and inserting in lieu thereof “; and”, and by inserting after paragraph (c) the following new paragraph:

“(7) **LONG-TERM CAPITAL GAINS.**—The deduction allowed by section 23 (cc).”

(2) **AMENDMENT OF SECTION 117 (a).**—Paragraphs (2) and (4) of section 117 (a) (relating to definitions of short-term capital gain and long-term capital gain) are each hereby amended by striking out “net income” and inserting in lieu thereof “gross income”.

(3) **AMENDMENT OF SECTION 117 (j).**—Section 117 (j) (2) (A) (relating to gains and losses from involuntary conversion and from the sale or exchange of certain property used in the trade or business) is hereby amended to read as follows:

“(A) In determining under this paragraph whether gains exceed losses, the gains described therein shall be included only if and to the extent taken into account in computing gross income and the losses described therein shall be included only if and to the extent taken into account in computing net income, except that subsection (d) shall not apply.”

(4) **AMENDMENT OF SECTION 122 (d) (4).**—Section 122 (d) (4) (relating to computation of net operating loss deduction) is hereby amended to read as follows:

“(4) The amount deductible on account of losses from sales or exchanges of capital assets shall not exceed the amount includible on account of gains from such sales or exchanges. The deduction provided in section 23 (cc) shall not be allowed.”

(5) AMENDMENT OF SECTION 162 (a).—Section 162 (a) (relating to computation of net income of estates and trusts) is hereby amended by striking out the semicolon and inserting in lieu thereof a period and the following: "Where any amount of the income so paid or set aside is attributable to gain from the sale or exchange of capital assets held for more than six months, proper adjustment of the deduction otherwise allowable under this subsection shall be made for any deduction allowable to the trust under section 23 (c)." "

(d) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning on or after the date of the enactment of this Act. In determining under section 117 (e) of the Internal Revenue Code the amount of the carry-over to a taxable year beginning on or after such date, of the capital loss for a taxable year beginning before such date such amendments shall not affect the computation of the amount of the net capital loss or of the net capital gain for any taxable year beginning before such date.

### SEC. 306. SALES OF LIVESTOCK

Effective with respect to taxable years beginning after December 31, 1950, section 117 (j) (1) is hereby amended by adding at the end thereof the following new sentence: "Such term also includes livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more."

### SEC. 307. TAX TREATMENT OF COAL ROYALTIES

(a) DEFINITION OF PROPERTY USED IN THE TRADE OR BUSINESS.—Section 117 (j) (1) (relating to the definition of property used in the trade or business) is hereby amended by adding after the word "timber" in the second sentence thereof the following: "or coal."

(b) GAIN OR LOSS UPON CERTAIN DISPOSALS OF TIMBER OR COAL.—Section 117 (k) (2) (relating to the disposal of timber) is hereby amended to read as follows:

"(2) In the case of the disposal of timber or coal (held for more than 6 months prior to such disposal) by the owner thereof under any form or type of contract by virtue of which the owner retains an economic interest in such timber or coal, the difference between the amount received for such timber or coal and the adjusted depletion basis thereof shall be considered as though it were a gain or loss, as the case may be, upon the sale of such timber or coal. Such owner shall not be entitled to the allowance for percentage depletion provided for in section 114 (b) (4) with respect to such coal. In the case of coal, this paragraph shall not apply if such owner is personally obligated to pay a share of the cost of mining operations."

(c) CLERICAL AMENDMENT.—The heading to section 117 (k) (relating to the gain or loss upon the cutting of timber) is hereby amended to read as follows: "(k) GAIN OR LOSS IN THE CASE OF TIMBER OR COAL.—"

(d) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years ending after December 31, 1950 (whether the disposal of the coal occurred on, before, or after such date), but shall apply only with respect to amounts received or accrued after such date.

### SEC. 308. COLLAPSIBLE CORPORATIONS

(a) DEFINITIONS WITH RESPECT TO COLLAPSIBLE CORPORATIONS.—Section 117 (m) (2) (relating to definitions with respect to collapsible corporations) is hereby amended to read as follows:

"(2) DEFINITIONS.—

"(A) For the purposes of this subsection, the term 'collapsible corporation' means a corporation formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the corporation) is property described in subsection (a) (1) (A), or for the holding of stock in a corporation so formed or availed of, with a view to—

"(i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation manufacturing, constructing, producing, or purchasing the property of a substantial part of the net income to be derived from such property, and

"(ii) the realization by such shareholders of gain attributable to such property.

"(B) For the purposes of subparagraph (A), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if—

"(i) it engaged in the manufacture, construction, or production of such property to any extent,

"(ii) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a person who manufactured, constructed, produced, or purchased the property, or

"(iii) it holds property having a basis determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation."

(b) LIMITATIONS ON APPLICATION OF SECTION 117 (m).—Subparagraphs (A), (B), and (C) of section 117 (m) (3) (relating to the limitations on the application of section 117 (m)) are hereby amended to read as follows:

"(A) this subsection shall not apply unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in subsection (a) (1) (A) or at any time thereafter, such shareholder (i) owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation, or (ii) owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation;

"(B) this subsection shall not apply to the gain recognized during a taxable year unless more than 70 per centum of such gain is attributable to the property so manufactured, constructed, produced, or purchased; and

"(C) this subsection shall not apply to gain realized after the expiration of three years following the completion of such manufacture, construction, production, or purchase."

(c) EFFECTIVE DATE.—The amendment made by this section shall be applicable to taxable years beginning after December 31, 1950. The determination of the tax treatment of gains realized in taxable years beginning prior to January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that the amendment to section 117 (m) made by this section is not expressly made applicable to gains realized in taxable years beginning prior to such date and without inferences drawn from the limitations contained in section 117 (m), as amended by this section.

### SEC. 309. DEALERS IN SECURITIES—CAPITAL GAINS AND ORDINARY LOSSES.

Effective with respect to sales or exchanges made after the expiration of the thirtieth day after the date of the enactment of this Act, section 117 is hereby amended by adding at the end thereof the following new subsection:

"(n) DEALERS IN SECURITIES.—

"(1) CAPITAL GAINS.—Gain by a dealer in securities from the sale or exchange of any security shall in no event be considered as gain from the sale or exchange of a capital asset unless—

"(A) the security was, prior to the expiration of the thirtieth day after the date of its acquisition or after the date of the enactment of the Revenue Act of 1951 (whichever is the later), clearly identified in the dealer's records as a security held for investment; and

"(B) the security was not, at any time after the expiration of such thirtieth day, held by such dealer primarily for sale to customers in the ordinary course of his trade or business.

"(2) ORDINARY LOSSES.—Loss by a dealer in securities from the sale or exchange of any security shall in no event be considered as loss from the sale or exchange of property which is not a capital asset if at any time after the thirtieth day following the date of the enactment of the Revenue Act of 1951 the security was clearly identified in the dealer's records as a security held for investment.

"(3) DEFINITION OF SECURITY.—For the purposes of this subsection the term 'security' means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing."

**SEC. 310. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.**

(a) **DISALLOWANCE OF CAPITAL GAIN TREATMENT.**—Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

“(c) **GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.**—

“(1) **TREATMENT OF GAIN AS ORDINARY INCOME.**—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2)—

“(A) between a husband and wife; or

“(B) between an individual and a corporation more than 50 per centum in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual,

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in subsection (j).

“(2) **SUBSECTION APPLICABLE ONLY TO SALES OR EXCHANGES OF DEPRECIABLE PROPERTY.**—This subsection shall apply only in the case of a sale or exchange of property by a transferor which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (l).

“(3) **STOCK OWNERSHIP.**—For the purposes of determining, in applying paragraph (1) (B), the ownership of stock—

“(A) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

“(B) an individual shall be considered as owning the stock owned, directly or indirectly, by or for his spouse;

“(C) if an individual owns more than 10 per centum in value of the outstanding stock of a corporation (including stock considered as owned by him under subparagraphs (A) and (B)), such individual shall be considered as owning the stock owned in such corporation, directly or indirectly, by or for his brothers and sisters (whether by the whole or the half blood), ancestors, and lineal descendants;

“(D) stock constructively owned by a person by reason of the application of subparagraph (A) shall, for the purpose of applying subparagraph (A), (B), or (C), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of subparagraph (B) or (C) shall not be treated as owned by him for the purpose of applying either such subparagraph in order to make another the constructive owner of such stock.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

**SEC. 311. LIFE INSURANCE COMPANIES.**

(a) **RESERVE AND OTHER POLICY LIABILITY CREDIT FOR 1951.**—So much of section 202 (b) (2) (relating to definition of reserve and other policy liability credit) as precedes subparagraph (A) thereof is hereby amended to read as follows:

“(2) **SPECIAL RULE FOR 1949, 1950, AND 1951.**—In the case of the taxes imposed for a taxable year beginning in 1949, 1950, or 1951, the figure to be used for such year shall be computed as provided in paragraph (1) except that—

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable to taxable years beginning in 1951.

**SEC. 312. TAX TREATMENT OF CERTAIN INVESTMENT COMPANIES.**

(a) **INCLUSION OF CERTAIN REGISTERED MANAGEMENT COMPANIES IN THE DEFINITION OF REGULATED INVESTMENT COMPANY.**—Section 361 (relating to definition of regulated investment companies) is hereby amended by adding at the end thereof the following new subsection:

“(c) **CERTAIN INVESTMENT COMPANIES.**—If the Securities and Exchange Commission determines in accordance with regulations issued by it, and certifies to the Secretary not more than 60 days prior to the close of the taxable year of a registered management company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally

engaged in the development or exploitation of inventions, technological developments, new processes, or products not previously generally available, such investment company may, in the computation of 50 per centum of the value of its assets under subparagraph (A) of subsection (b) (3) for any quarter of such taxable year, include with respect to any issuer securities which constitute more than 10 per centum of the outstanding voting securities of such issuer if the investment company has not continuously held any security of such issuer (or of any predecessor company of such issuer as determined under regulations prescribed by the Secretary) for 10 or more years preceding such quarter of such taxable year. The provisions of this subsection shall not apply at the close of any quarter of a taxable year to an investment company if at the close of such quarter more than 25 per centum of the value of its total assets is represented by securities of issuers with respect to each of which the investment company holds more than 10 per centum of the outstanding voting securities of such issuer and in respect of each of which or any predecessor thereof the investment company has continuously held any security for 10 or more years preceding such quarter unless the value of its total assets so represented is reduced to 25 per centum or less within 30 days after the close of such quarter. The terms used in this subsection shall have the same meaning as in subsection (b) (3) of this section. For the purposes of this subsection, a corporation shall be considered to be principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, for at least 10 years after the date of the first acquisition of any security in such corporation or any predecessor thereof by such investment company if at the date of such acquisition the corporation or its predecessor was principally so engaged. For the purposes of the certification hereunder, the Securities and Exchange Commission shall have authority to issue such rules, regulations, and orders, and to conduct such investigations and hearings, either public or private, as it may deem appropriate."

(b) **TECHNICAL AMENDMENT.**—Section 361 (b) (3) (A) is hereby amended by inserting after "the total assets of the taxpayer and" the following: " , except and to the extent provided in subsection (c)."

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

### SEC. 313. FAMILY PARTNERSHIPS.

(a) **DEFINITION OF PARTNER.**—Section 3797 (a) (2) is hereby amended by adding at the end thereof the following: "A person shall be recognized as a partner for income-tax purposes if he owns a capital interest in a partnership in which capital is a material income-producing factor, whether or not such interest was derived by purchase or gift from any other person."

(b) **ALLOCATION OF PARTNERSHIP INCOME.**—Supplement F of chapter 1 is hereby amended by adding at the end thereof the following new section:

#### "SEC. 191. FAMILY PARTNERSHIPS.

"In the case of any partnership interest created by gift, the distributive share of the donee under the partnership agreement shall be includible in his gross income, except to the extent that such share is determined without allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the portion of such share attributable to donated capital is proportionately greater than the share of the donor attributable to the donor's capital. The distributive share of a partner in the earnings of the partnership shall not be diminished because of absence due to military service. For the purpose of this section, an interest purchased by one member of a family from another shall be considered to be created by gift from the seller, and the fair market value of the purchased interest shall be considered to be donated capital. The 'family' of any individual shall include only his spouse, ancestors, and lineal descendants, and any trust for the primary benefit of such persons."

(c) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1950. The determination as to whether a person shall be recognized as a partner for income tax purposes for any taxable year beginning before January 1, 1951 shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not expressly made applicable with respect to taxable years beginning before January 1, 1951.

## TITLE IV—EXCISE TAXES

### Part I—Tax on Admissions and Cabarets

#### SEC. 401. REMOVAL OF TAX ON FREE ADMISSIONS.

Section 1700 (a) (1) (relating to tax on single or season tickets) is hereby amended by striking out the second and fourth sentences thereof.

#### SEC. 402. EXEMPTIONS FROM ADMISSIONS TAX.

(a) **REINSTATEMENT OF PREWAR EXEMPTIONS.**—Notwithstanding section 541 (b) of the Revenue Act of 1941, the provisions of section 1701 (relating to exemptions from the admissions tax) shall apply to amounts paid on or after the effective date specified in section 403 of this Act for admissions on or after such date.

(b) **AMENDMENT OF SECTION 1701 (a).**—Section 1701 (a) (relating to religious, educational, or charitable entertainments) is hereby amended to read as follows:

"(a) **RELIGIOUS, EDUCATIONAL, OR CHARITABLE ENTERTAINMENTS, ETC.**—

"(1) **IN GENERAL.**—Except as provided in paragraph (2), any admissions all the proceeds of which inure—

"(A) exclusively to the benefit of religious, educational, or charitable institutions, societies, or organizations, societies for the prevention of cruelty to children or animals, or societies or organizations conducted for the sole purpose of maintaining symphony orchestras and receiving substantial support from voluntary contributions or of maintaining a cooperative or community center moving-picture theatre—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual;

"(B) exclusively to the benefit of National Guard organizations, Reserve Officers' associations or organizations, posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private stockholder or individual; or

"(C) exclusively to the benefit of a police or fire department of any city, town, village, or other municipality, or exclusively to a fund for the sole benefit of members of such a police or fire department or the dependents or heirs of such members.

"(2) **NONEXEMPT ADMISSIONS.**—The exemption provided under paragraph (1) shall not apply in the case of admissions to (A) any athletic game or exhibition unless the proceeds inure exclusively to the benefit of an elementary or secondary school, (B) wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions, or (C) carnivals, rodeos, or circuses in which any professional performer or operator participates for compensation."

(c) **ADMISSIONS TO MUNICIPAL SWIMMING POOLS, ETC.**—Section 1701 is hereby amended by striking out the period at the end of subsection (e) and inserting in lieu thereof "; or" and by adding at the end of such section the following new subsection:

"(d) **MUNICIPAL SWIMMING POOLS, ETC.**—Any admissions to swimming pools, bathing beaches, skating rinks, or other places providing facilities for physical exercise, operated by any State or political subdivision thereof or by the United States or any agency or instrumentality thereof—if the proceeds therefrom inure exclusively to the benefit of the State, political subdivision, United States, agency, or instrumentality. For the purposes of this subsection the term 'State' includes Alaska, Hawaii, and the District of Columbia."

#### SEC. 403. EFFECTIVE DATE OF AMENDMENTS RELATING TO ADMISSIONS.

The amendments made by sections 401 and 402 shall be applicable with respect to amounts paid on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act for admissions on or after such date.

#### SEC. 404. TAX ON CABARETS, ROOF GARDENS, ETC.

(a) **BALLROOMS AND DANCE HALLS.**—Section 1700 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is hereby amended by inserting after the second sentence thereof the following new sentence: "In no case shall such term include

any ballroom, dance hall, or other similar place where the serving or selling of food, refreshment, or merchandise is merely incidental, unless such place would be considered, without the application of the preceding sentence, as a 'roof garden, cabaret, or other similar place'."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to periods after 10 antonmeridian on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

## PART II—TAX ON CIGARETTES

### SEC. 421. TAX ON CIGARETTES.

(a) **INCREASE IN RATE.**—Section 2000 (a) (2) (tax on cigarettes) is hereby amended by striking out "\$3.50" and inserting in lieu thereof "\$4".

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

### SEC. 422. FLOOR STOCKS TAX ON CIGARETTES.

Section 2000 (relating to tax on tobacco, etc.) is hereby amended by adding at the end thereof the following new subsection:

"(f) **1951 FLOOR STOCKS TAX.**—

"(1) **TAX.**—Upon cigarettes subject to tax under this section weighing not more than three pounds per thousand, which on the effective date of section 421 of the Revenue Act of 1951 are held by any person for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at a rate equal to the increase in rate of tax made applicable to such cigarettes by the Revenue Act of 1951.

"(2) **RETURNS.**—Every person required by this subsection to pay any floor stocks tax shall, on or before the end of the month next following the month in which section 421 (a) of the Revenue Act of 1951 takes effect, under such regulations as the Secretary shall prescribe, make a return and pay such tax, except that in the case of such cigarettes held by manufacturers and importers, the Secretary may collect the tax with respect to such cigarettes by means of stamps rather than return, and in such case may make an assessment against such manufacturer or importer having cigarette tax stamps on hand on the effective date of such section for the difference between the amount paid for such stamps and the increased rate imposed by such section.

"(3) **LAWS APPLICABLE.**—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 2000, shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this subsection."

## PART III—RETAILERS' EXCISE TAXES

### SEC. 431. TAX ON LIGHTERS.

Section 2400 (relating to retailers' excise tax on jewelry, etc.) is hereby amended by striking out in the first sentence thereof the words "and binoculars," and inserting in lieu thereof the following: "binoculars; and mechanical lighters for cigarettes, cigars, or pipes."

### SEC. 432. RETAILERS' EXCISE TAX ON TOILET PREPARATIONS.

(a) **BABY OILS, ETC.**—Section 2402 (a) is hereby amended by adding at the end thereof the following new sentence: "The tax imposed by this subsection shall not apply to lotion, oil, powder, or other article intended to be used or applied only in the care of babies."

(b) **SALES TO BARBER SHOPS, ETC.**—Section 2402 (b) is hereby amended to read as follows:

"(b) **BEAUTY PARLORS, ETC.**—For the purposes of subsection (a), the sale of any article described in such subsection to any person operating a barber shop, beauty parlor, or similar establishment for use in the operation thereof, or for resale, shall not be considered as a sale at retail. The resale of such article at retail by such person shall be subject to the provisions of subsection (a)."

### SEC. 433. EFFECTIVE DATE OF PART III.

The amendments made by this part shall apply only to articles sold on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.



## PART IV--DIESEL FUEL

## SEC. 441. DIESEL FUEL USED IN HIGHWAY VEHICLES.

(a) IMPOSITION OF TAX.—The Internal Revenue Code is hereby amended by adding after chapter 19 the following new chapter:

## "CHAPTER 20--DIESEL FUEL

## "SEC. 2450. TAX ON DIESEL FUEL.

"There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 3412) —

- "(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle, or
- "(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

## "SEC. 2451. RETURNS AND PAYMENT.

"(a) REQUIREMENT.—Every person liable for tax under this chapter shall make returns and pay the taxes due to the collector for the district in which is located his principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Secretary may by regulations prescribe.

"(b) INTEREST.—The tax shall, without assessment or notice, be due and payable to the collector at the time prescribed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

## "SEC. 2452. CREDITS AND REFUNDS.

"(a) NON-TAXABLE USE OR SALE BY VENDEE.—A credit against tax under this chapter, or a refund, may be allowed or made to a person in the amount of tax paid by him under this chapter with respect to his sale of any liquid to a vendee for use as fuel in a diesel-powered highway vehicle, if such person establishes, in accordance with regulations prescribed by the Secretary, that—

"(1) the vendee used such liquid otherwise than as fuel in such a vehicle or resold such liquid, and

"(2) such person has repaid or agreed to repay the amount of such tax to such vendee, or has obtained the consent of the vendee to the allowance of the credit or refund.

No interest shall be allowed with respect to any amount of tax credited or refunded under the provisions of this subsection.

"(b) PROOF REQUIRED IN CASE OF CERTAIN OVERPAYMENTS.—No overpayment of tax under this chapter shall be credited or refunded (otherwise than under subsection (a)) in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the vendee, or (2) that he has repaid the amount of the tax to the ultimate purchaser of the article, or files with the Secretary written consent of such ultimate purchaser to the allowance of the credit or refund.

## "SEC. 2453. TAX-FREE SALES.

"Under regulations prescribed by the Secretary, no tax under this chapter shall be imposed with respect to the sale of any liquid for the exclusive use of any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia, or with respect to the use by any of the foregoing of any liquid as fuel in a diesel-powered highway vehicle.

## "SEC. 2454. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

## "SEC. 2455. RULES AND REGULATIONS.

"The Secretary shall prescribe and publish all needful rules and regulations for the enforcement of this chapter."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

## PART V—LIQUOR

## SEC. 451. INCREASE IN TAX ON DISTILLED SPIRITS FROM \$9 TO \$10.50 PER GALLON.

(a) DISTILLED SPIRITS GENERALLY.—Section 2800 (a) (1) is hereby amended by striking out "\$6" and inserting in lieu thereof "\$10.50".

(b) IMPORTED PERFUMES CONTAINING DISTILLED SPIRITS.—Section 2800 (a) (3) is hereby amended by striking out "\$6" and inserting in lieu thereof "\$10.50".

(c) FLOOR STOCKS TAX.—Section 2800 is amended by inserting at the end thereof the following new subsection:

"(1) 1951 FLOOR STOCKS TAX.—

"(1) TAX.—Upon all distilled spirits upon which the internal revenue tax imposed by law has been paid, and which on the effective date of section 451 (a) of the Revenue Act of 1951, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of \$1.50 on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

"(2) RETURNS.—Under such regulations as the Secretary shall prescribe, every person required by paragraph (1) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of section 451 (a) of the Revenue Act of 1951 make a return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of such section upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

"(3) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of internal revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term 'distilled spirits' shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g)."

## SEC. 452. WINES.

(a) INCREASE IN RATE OF TAX.—

(1) STILL WINES.—So much of section 3030 (a) (1) (A) (tax on still wines, etc.) as precedes the second sentence thereof is hereby amended to read as follows:

"(A) Imposition.—Upon all still wines, including vermouth, and all artificial or imitation wines or compounds sold as still wine, produced in or imported into the United States on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date were on any winery premises or other bonded premises or in transit thereto or at any custom house, there shall be levied, collected, and paid taxes at rates as follows, when sold, or removed for consumption or sale:

"On wines containing not more than 14 per centum of absolute alcohol, 17 cents per wine-gallon, the per centum of alcohol under this section to be reckoned by volume and not by weight;

"On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 67 cents per wine-gallon;

"On wines containing more than 21 per centum and not exceeding 24 per centum of absolute alcohol, \$2.25 per wine-gallon;

"All such wines containing more than 24 per centum of absolute alcohol by volume shall be classed as distilled spirits and shall pay tax accordingly."

(2) SPARKLING WINES, LIQUEURS, AND CORDIALS.—Section 3030 (a) (2) (tax on sparkling wines, liqueurs, and cordials) is hereby amended as follows:

(A) By striking out "after June 30, 1940, or which on July 1, 1940" and inserting in lieu thereof "on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date";

(B) By striking out "10 cents" and inserting in lieu thereof "17 cents"; and

(C) By striking out "5 cents" each place it occurs and inserting in lieu thereof "12 cents".

(b) FLOOR STOCKS.—Subchapter F of chapter 26 is hereby amended by inserting at the end thereof the following new section:

**"SEC. 3195. 1951 FLOOR STOCKS TAX ON WINES.**

"(a) Upon all wines upon which the internal revenue tax imposed by law has been paid, and which on the effective date of section 452 (a) of the Revenue Act of 1951 are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax made applicable to such articles by section 452 (a) of the Revenue Act of 1951.

"(b) RETURNS.—Under such regulations as the Secretary shall prescribe every person required by subsection (a) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of section 452 (a) of the Revenue Act of 1951 make a return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of section 452 (a) of the Revenue Act of 1951, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this section, be applicable with respect to the floor stocks tax imposed by subsection (a)."

**SEC. 453. FERMENTED MALT LIQUOR.**

(a) INCREASE IN TAX ON FERMENTED MALT LIQUORS FROM \$8 TO \$9 PER BARREL.—Section 3150 (a) (tax on fermented malt liquors) is hereby amended (1) by striking out "\$7" and inserting in lieu thereof "\$9", and (2) by striking out the second sentence thereof.

(b) FLOOR STOCKS TAX.—Section 3150 is hereby amended by inserting at the end thereof the following new subsection:

"(g) 1951 FLOOR STOCKS TAX.—

"(1) TAX.—Upon all fermented malt liquors upon which the internal revenue tax imposed by law has been paid, and which on the effective date of section 453 (a) of the Revenue Act of 1951 are held by any person and intended for sale there shall be levied, assessed, collected, and paid a floor stocks tax at a rate of \$1 per barrel of 31 gallons.

"(2) RETURNS.—Under such regulations as the Secretary shall prescribe, every person required by paragraph (1) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of section 453 (a) of the Revenue Act of 1951 make a return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of section 453 (a) of the Revenue Act of 1951, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

"(3) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by subsection (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this subsection."

**SEC. 454. CLERICAL AMENDMENT.**

The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

2900 (a) (1).....	Distilled Spirits.....	\$8 per gallon.....	\$9 per gallon.
2900 (a) (3).....	Imported Perfumes Contain- ing Distilled Spirits.	\$8 per gallon.....	\$9 per gallon.
3030 (a) (1).....	Still Wines:		
	(1) Not over 14% of alcohol..	10 cents per gallon.....	15 cents per gallon.
	(2) Over 14% and not over 21% of Alcohol.	40 cents per gallon.....	50 cents per gallon.
	(3) Over 21% and not over 24% of Alcohol.	\$1 per gallon.....	\$2 per gallon.
3030 (a) (2).....	Sparkling Wines, Liqueurs, and Cordials:		
	(1) Champagne or Spark- ling Wine.	10 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof.
	(2) Artificially Carbonated Wine.	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
	(3) Liqueurs, Cordials, Etc.	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
3150.....	Fermented Malt Liquors.....	\$7 per barrel.....	\$8 per barrel."

**SEC. 455. EFFECTIVE DATE OF PART V.**

The amendments made by this part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

## PART VI—OCCUPATIONAL TAXES

## SEC. 461. DEALERS IN LIQUORS.

(a) **WHOLESALE DEALERS IN LIQUORS.**—Section 3250 (a) (1) (relating to occupational tax on wholesale dealers in liquors) is hereby amended by striking out "\$110" and inserting in lieu thereof "\$200".

(b) **RETAIL DEALERS IN LIQUORS.**—Section 3250 (b) (1) (relating to occupational tax on retail dealers in liquors) is hereby amended by striking out "\$27.50" and inserting in lieu thereof "\$60".

(c) **WHOLESALE DEALERS IN MALT LIQUORS.**—Section 3250 (d) (1) (relating to tax on wholesale dealers in malt liquors) is hereby amended by striking out "\$55" and inserting in lieu thereof "\$100".

## SEC. 462. DRAWBACK IN THE CASE OF DISTILLED SPIRITS USED IN THE MANUFACTURE OF CERTAIN NONBEVERAGE PRODUCTS.

(a) **DRAWBACK.**—Section 3250 (l) (5) (relating to manufacture of certain non-beverage products) is hereby amended by striking out "\$3.75" and inserting in lieu thereof "\$9.50".

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to distilled spirits used on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act, and on which the internal revenue tax was paid at the rate of \$10.50 specified in section 2800 (a) (1) or at a rate equivalent to such rate.

(c) **TECHNICAL AMENDMENT.**—Section 309 (c) of the Revenue Act of 1943 is hereby amended by adding at the end thereof the following: "Subsection (b) shall not be applicable in any case in which drawback is allowed at the rate of \$9.50 under section 3250 (l) (5) of the Internal Revenue Code, as amended by the Revenue Act of 1951."

## SEC. 463. TAX ON COIN-OPERATED GAMING DEVICES.

Section 3267 (a) (tax on coin-operated gaming devices) is hereby amended by striking out "\$150" wherever appearing therein and inserting in lieu thereof "\$250".

## SEC. 464. TAX ON BOWLING ALLEYS AND BILLIARD AND POOL TABLES.

(a) **INCREASE IN RATE.**—Section 3268 (relating to rate of tax) is hereby amended by striking out "\$10" and inserting in lieu thereof "\$25".

(b) **CLERICAL AMENDMENT.**—The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

"3268.....	Billiard and Pool Tables;	\$10 per year per table;	\$20 per year per table;
	and Bowling Alleys.	\$10 per year per alley.	\$20 per year per alley."

## SEC. 465. EFFECTIVE DATE OF PART VI.

The amendments made by sections 461, 463, and 464 shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act. In the case of the year beginning July 1, 1951, where the trade or business on which the tax is imposed was commenced prior to the first day of the month specified in the preceding sentence, the increase in tax resulting from such amendments shall be reckoned proportionately from the first day of such month to and including the thirtieth day of June following and shall be due on, and payable on or before, the last day of the month specified in the preceding sentence.

## Part VII—Wagering

## SEC. 471. WAGERING TAXES.

(a) **IMPOSITION OF TAXES.**—Subtitle B (relating to miscellaneous taxes) is hereby amended by inserting after chapter 27 the following new chapter:

**"CHAPTER 27A—WAGERING TAXES****"Subchapter A—Tax on Wagers****"SEC. 3285. TAX.**

"(a) **WAGERS.**—There shall be imposed on wagers, as defined in subsection (b), an excise tax equal to 10 per centum of the amount thereof.

"(b) **DEFINITIONS.**—For the purposes of this chapter—

"(1) The term 'wager' means (A) any wager with respect to a sports event or a contest placed with a person engaged in the business of accepting such wagers, (B) any wager placed in a wagering pool with respect to a sports event or a contest, if such pool is conducted for profit, and (C) any wager placed in a lottery conducted for profit.

"(2) The term 'lottery' includes the numbers game, polloy, and similar types of wagering. The term does not include (A) any game of a type in which usually (i) the wagers are placed, (ii) the winners are determined, and (iii) the distribution of prizes or other property is made, in the presence of all persons placing wagers in such game, and (B) any drawing conducted by an organization exempt from tax under section 101, if no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual.

"(c) **AMOUNT OF WAGER.**—In determining the amount of any wager for the purposes of this subchapter, all charges incident to the placing of such wager shall be included; except that if the taxpayer establishes, in accordance with regulations prescribed by the Secretary, that an amount equal to the tax imposed by this subchapter has been collected as a separate charge from the person placing such wager, the amount so collected shall be excluded.

"(d) **PERSONS LIABLE FOR TAX.**—Each person who is engaged in the business of accepting wagers shall be liable for and shall pay the tax under this subchapter on all wagers placed with him. Each person who conducts any wagering pool or lottery shall be liable for and shall pay the tax under this subchapter on all wagers placed in such pool or lottery.

"(e) **EXCLUSIONS FROM TAX.**—No tax shall be imposed by this subchapter (1) on any wager placed with, or on any wager placed in a wagering pool conducted by, a parimutuel wagering enterprise licensed under State law, and (2) on any wager placed in a coin-operated device with respect to which an occupational tax is imposed by section 3267.

"(f) **TERRITORIAL EXTENT.**—The tax imposed by this subchapter shall apply only to wagers (1) accepted in the United States, or (2) placed by a person who is in the United States (A) with a person who is a citizen or resident of the United States, or (B) in a wagering pool or lottery conducted by a person who is a citizen or resident of the United States.

**"SEC. 3286. CREDITS AND REFUNDS.**

"(a) No overpayment of tax under this subchapter shall be credited or refunded (otherwise than under subsection (b)), in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Secretary, (1) that he has not collected (whether as a separate charge or otherwise) the amount of the tax from the person who placed the wager on which the tax was imposed, or (2) that he has repaid the amount of the tax to the person who placed such wager, or unless he files with the Secretary written consent of the person who placed such wager to the allowance of the credit or the making of the refund. In the case of any laid-off wager, no overpayment of tax under this subchapter shall be so credited or refunded to the person with whom such laid-off wager was placed unless he establishes, in accordance with regulations prescribed by the Secretary, that the provisions of the preceding sentence have been complied with both with respect to the person who placed the laid-off wager with him and with respect to the person who placed the original wager.

"(b) Where any taxpayer lays off part or all of a wager with another person who is liable for tax under this subchapter on the amount so laid off, a credit against the tax imposed by this subchapter shall be allowed, or a refund shall be made to, the taxpayer laying off such amount. Such credit or refund shall be in an amount which bears the same ratio to the amount of tax which such taxpayer paid under this subchapter on the original wager as the amount so laid off bears to the amount of the original wager. Credit or refund under this subsection shall be allowed or made only in accordance with regulations prescribed by the Secretary; and no interest shall be allowed with respect to any amount so credited or refunded.

**"SEC. 3287. CERTAIN PROVISIONS MADE APPLICABLE.**

"All provisions of law, including penalties, applicable with respect to any tax imposed by section 2700 shall, insofar as applicable and not inconsistent with the provisions of this subchapter, be applicable with respect to the tax imposed by this subchapter. In addition to all other records required pursuant to section 2709, each person liable for tax under this subchapter shall keep a daily record showing the gross amount of all wagers on which he is so liable.

**"Subchapter B—Occupational Tax****"SEC. 3290. TAX.**

"A special tax of \$50 per year shall be paid by each person who is liable for tax under subchapter A or who is engaged in receiving wagers for or on behalf of any person so liable.

**"SEC. 3291. REGISTRATION.**

"(a) Each person required to pay a special tax under this subchapter shall register with the collector of the district—

"(1) his name and place of residence;

"(2) if he is liable for tax under subchapter A, each place of business where the activity which makes him so liable is carried on, and the name and place of residence of each person who is engaged in receiving wagers for him or on his behalf; and

"(3) if he is engaged in receiving wagers for or on behalf of any person liable for tax under subchapter A, the name and place of residence of each such person.

"(b) Where subsection (a) requires the name and place of residence of a firm or company to be registered, the names and places of residence of the several persons constituting the firm or company shall be registered.

"(c) In accordance with regulations prescribed by the Secretary, the collector may require from time to time such supplemental information from any person required to register under this section as may be needful to the enforcement of this chapter.

**"SEC. 3292. CERTAIN PROVISIONS MADE APPLICABLE.**

"Sections 3271, 3273 (a), 3275, 3276, 3277, 3279, and 3280 shall extend to and apply to the special tax imposed by this subchapter and to the persons upon whom it is imposed, and for that purpose any activity which makes a person liable for special tax under this subchapter shall be considered to be a business or occupation described in chapter 27. No other provision of subchapter B of chapter 27 shall so extend or apply.

**"SEC. 3293. POSTING.**

"Every person liable for special tax under this subchapter shall place and keep conspicuously in his principal place of business the stamp denoting the payment of such special tax; except that if he has no such place of business, he shall keep such stamp on his person, and exhibit it, upon request, to any officer or employee of the Bureau of Internal Revenue.

**"SEC. 3294. PENALTIES.**

"(a) **FAILURE TO PAY TAX.**—Any person who does any act which makes him liable for special tax under this subchapter, without having paid such tax, shall, besides being liable to the payment of the tax, be fined not less than \$1,000 and not more than \$5,000.

"(b) **FAILURE TO POST OR EXHIBIT STAMP.**—Any person who, through negligence, fails to comply with section 3293, shall be liable to a penalty of \$50, and the cost of prosecution. Any person who, through willful neglect or refusal, fails to comply with section 3293, shall be liable to a penalty of \$100, and the cost of prosecution.

"(c) **WILLFUL VIOLATIONS.**—The penalties prescribed by section 2707 with respect to the tax imposed by section 2700 shall apply with respect to the tax imposed by this subchapter.

**"Subchapter C—Miscellaneous Provisions****"SEC. 3297. APPLICABILITY OF FEDERAL AND STATE LAWS.**

"The payment of any tax imposed by this chapter with respect to any activity shall not exempt any person from any penalty provided by a law of the United States or of any State for engaging in the same activity, nor shall the payment of any such tax prohibit any State from placing a tax on the same activity for State or other purposes.

**"SEC. 3298. INSPECTION OF BOOKS.**

"Notwithstanding section 3631, the books of account of any person liable for tax under this chapter may be examined and inspected as frequently as may be needful to the enforcement of this chapter."

(b) **TECHNICAL AMENDMENT.**—Section 3310 (f) (relating to discretion allowed the Commissioner with respect to returns and payment of tax) is hereby amended by inserting after "subchapter A of chapter 25," the following: "subchapter A of chapter 27A,".

**SEC. 472. EFFECTIVE DATE OF PART VII.**

The tax imposed by subchapter A of chapter 27A, as added by section 471, shall apply only with respect to wagers placed on or after the first day of the first month which begins more than 10 days after the date of enactment of this Act. No tax shall be payable under subchapter B of chapter 27A, as added by section 471, with respect to any period prior to the first day of the first month which begins more than 10 days after the date of enactment of this Act.

**Part VIII—Manufacturers' Excise Taxes****SEC. 481. AUTOMOBILES, TRUCKS, AND PARTS OR ACCESSORIES.**

(a) **INCREASE IN TAX ON TRUCKS.**—Section 3403 (a) (tax on trucks, busses, etc.) is hereby amended by striking out "5 per centum" and inserting in lieu thereof "8 per centum".

(b) **INCREASE IN TAX ON PASSENGER AUTOMOBILES AND MOTORCYCLES.**—Section 3403 (b) (tax on automobile chassis and bodies, etc.) is hereby amended to read as follows:

"(b) **OTHER CHASSIS AND BODIES, ETC.**—

"(1) Other automobile chassis and bodies, chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 10 per centum.

"(2) Chassis and bodies for house trailers (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), 7 per centum.

A sale of an automobile, trailer, or semi-trailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(c) **INCREASE IN TAX ON PARTS OR ACCESSORIES.**—Section 3403 (c) (tax on parts or accessories for automobiles, etc.) is hereby amended by striking out "5 per centum" and inserting in lieu thereof "8 per centum".

(d) **REBUILT PARTS OR ACCESSORIES.**—Section 3403 (c) (tax on parts or accessories) is hereby amended by adding at the end thereof the following: "In determining the sale price of a rebuilt automobile part or accessory there shall be excluded from the price, in accordance with regulations prescribed by the Secretary, the value of a like part or accessory accepted in exchange."

(e) **TECHNICAL AMENDMENT.**—Section 3403 (c) (relating to certain credits against the tax imposed by section 3403) is hereby amended by striking out "in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum" and inserting in lieu thereof "in the case of an article taxable under subsection (a), 8 per centum, in the case of an article taxable under subsection (b) (1), 10 per centum, and in the case of an article taxable under subsection (b) (2), 7 per centum".

(f) **PARTS OR ACCESSORIES FOR FARM EQUIPMENT.**—Section 3443 (a) (3) (A) is hereby amended by striking out the period at the end of clause (v) and inserting in lieu thereof a semicolon, and by inserting after clause (v) the following:

"(vi) in the case of articles taxable under section 3403 (c) (other than spark plugs, storage batteries, leaf springs, coils, timers, and tire chains), used or resold for use as repair or replacement parts or accessories for farm equipment (other than equipment taxable under subsection (a) or (b) of section 3403):"

(g) **EFFECTIVE DATE OF SUBSECTION (f).**—The amendment made by subsection (f) shall be effective with respect to articles purchased (by the user thereof) on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

(h) **REMOVAL OF TAX ON TIRES FOR TOYS, ETC.**—Paragraph (1) of section 3400 (a) (relating to tax on tires) is hereby amended by adding at the end thereof the following: "The tax imposed by this paragraph shall not apply to (A) tires which are not more than 20 inches in diameter and not more than one and three-fourths inches in cross-section, if such tires are of all-rubber construction (whether hollow center or solid) without fabric or metal reinforcement, or (B) tires of extruded tiring with internal wire fastening agent."

### SEC. 482. NAVIGATION RECEIVERS SOLD TO THE UNITED STATES.

(a) **EXEMPTION ON SALES TO UNITED STATES OF CERTAIN RADIO SETS.**—Section 3404 (a) (relating to manufacturers' excise tax on radio receiving sets, etc.) is hereby amended by adding at the end thereof the following new sentence: "No tax shall be imposed under this subsection with respect to the sale to the United States for its exclusive use of a communication, detection, or navigation receiver of the type used in commercial, military, or marine installations."

(b) **TAX-FREE SALES OF RADIO PARTS.**—Section 3404 (b) (relating to manufacturers' excise tax on component parts of radio receiving sets, etc.) is hereby amended by adding at the end thereof the following new sentence: "Under regulations prescribed by the Secretary, no tax shall be imposed under this subsection with respect to the sale of any article for use by the vendee as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers are to be sold by the vendee to the United States for its exclusive use. If any article sold tax-free to such vendee is not so used by him, or being so used the receiver is not so sold, the vendee shall be considered as the manufacturer or producer of such article."

(c) **REFUND IN CASE OF USE OF PARTS.**—Section 3443 (a) (1) (relating to credits and refunds) is hereby amended to read as follows:

"(1) to a manufacturer or producer, in the amount of any tax under this chapter which has been paid with respect to the sale of—

"(A) any article (other than a tire, inner tube, or automobile radio or television receiving set taxable under section 3404) purchased by him and used by him as material in the manufacture or production of, or as a component part of, an article with respect to which tax under this chapter has been paid, or which has been sold free of tax by virtue of section 3442, relating to tax-free sales;

"(B) any article described in section 3404 (b) purchased by him and used by him as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers have been sold by him to the United States for its exclusive use."

(d) **REFUND IN CASE OF RESALE TO UNITED STATES.**—Section 3443 (a) (3) (A) is hereby amended by adding at the end thereof the following:

"(vii) in the case of a communication, detection, or navigation receiver of the type used in commercial, military, or marine installations, resold to the United States for its exclusive use."

(e) **USE BY MANUFACTURER OF TAXABLE PARTS.**—Section 3444 (b) (relating to tax on use by manufacturer of taxable articles) is hereby amended by adding at the end thereof the following: "This section shall not apply with respect to the use by the manufacturer, producer, or importer of articles described in section 3404 (b) if such articles are used by him as material in the manufacture or production of, or as a component part of, communication, detection, or navigation receivers of the type used in commercial, military, or marine installations if such receivers are to be sold to the United States for its exclusive use."



(f) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (b) shall take effect as provided in section 489. The amendments made by subsections (c) and (e) shall be applicable with respect to articles used in receivers sold to the United States on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act, and the amendment made by subsection (d) shall be applicable with respect to articles resold to the United States on or after such first day.

#### **SEC. 483. REPEAL OF TAX ON CERTAIN SPORTING GOODS; INCREASE IN TAX ON REMAINING SPORTING GOODS.**

Section 3406 (a) (1) (relating to manufacturers' excise tax on sporting goods) is hereby amended to read as follows:

"(1) **SPORTING GOODS.**—Badminton nets; badminton rackets (measuring 22 inches over-all or more in length); badminton racket frames (measuring 22 inches over-all or more in length); badminton racket string; badminton shuttle-cocks; badminton standards; baseballs; baseball bats (measuring 26 inches or more in length); baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; billiard and pool tables (measuring 45 inches over-all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; clay pigeons and traps for throwing clay pigeons; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; fishing rods, creels, reels, and artificial lures, baits, and flies; golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); polo balls; polo mallets; skis; ski poles; snow shoes; squash balls; squash rackets (measuring 22 inches over-all or more in length); squash racket frames (measuring 22 inches over-all or more in length); squash racket string; table tennis tables, balls, nets, and paddles; tennis balls; tennis nets; tennis rackets (measuring 22 inches over-all or more in length); tennis racket frames (measuring 22 inches over-all or more in length); tennis racket string; 15 per centum."

#### **SEC. 484. ADDITION OF CERTAIN ITEMS TO THE TAX ON ELECTRIC, GAS, AND OIL APPLIANCES; REMOVAL OF TAX ON ELECTRIC HEATING PADS.**

Section 3406 (a) (3) (relating to manufacturers' excise tax on electric gas, and oil appliances) is hereby amended (1) by striking out "electric heating pads and blankets" and inserting in lieu thereof "electric blankets; sheets and spreads" and (2) by inserting after "juicers," the following: "and the following appliances of the household type: electric belt-driven fans; electric or gas clothes driers; electric door oilmes; electric dehumidifiers; electric dishwashers; electric floor polishers and waxers; electric food choppers and grinders; electric hedge trimmers; electric ice cream freezers; electric mangles; electric motion or still picture projectors; electric pants pressors; electric shavers; and power lawn mowers;"

#### **SEC. 485. ADJUSTMENTS OF TAX RATES ON PHOTOGRAPHIC APPARATUS AND FILM; REPEAL OF TAX ON CERTAIN ITEMS.**

(a) **ITEMS SUBJECT TO TAX.**—Section 3406 (a) (4) (relating to the manufacturers' excise tax on photographic apparatus) is hereby amended to read as follows:

"(4) **PHOTOGRAPHIC APPARATUS.**—Cameras and camera lenses and unexposed photographic film in rolls (including motion picture film) 20 per centum. The tax imposed under this paragraph shall not apply to X-ray cameras, to cameras weighing more than four pounds exclusive of lens and accessories, to still camera lenses having a focal length of more than one hundred and twenty millimeters, to motion picture camera lenses having a focal length of more than thirty millimeters, to X-ray film, to film more than one hundred and fifty feet in length, or to film more than twenty-five feet in length, and more than thirty millimeters in width. Any person who acquires unexposed photographic film not subject to tax under this paragraph and sells such unexposed film in form and dimensions subject to tax hereunder (or in connection with a sale cuts such film to form and dimensions subject to tax hereunder) shall for the purpose of this subsection be considered the manufacturer of the film so sold by him."

(b) **FLOOR STOCKS REFUNDS ON BULBS.**—

(1) With respect to any photo-flash or other bulb upon which the tax imposed under section 3406 (a) (4) of the Internal Revenue Code has been paid, and which on the effective date specified in section 489 of this Act is

held by any person and intended for sale, or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to the manufacturer or producer of such bulb (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to so much of the tax so paid as has been paid by such manufacturer or producer to such person as reimbursement for the elimination on such effective date of the tax on such bulb, if claim for such credit or refund is filed with the Secretary prior to the expiration of three months after such effective date. No credit or refund shall be allowable under this paragraph for any bulb held by any person for sale which was purchased by such person as a component part of any other article.

(2) No person shall be entitled to credit or refund under paragraph (1) unless he has in his possession such evidence of the inventories with respect to which he has made the reimbursements described in paragraph (1) as the regulations under paragraph (1) shall prescribe.

(3) All provisions of law, including penalties, applicable with respect to the tax imposed under section 3408 (a) (4) of the Internal Revenue Code shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes.

### SEC. 486. IMPOSITION OF TAX ON MECHANICAL PENCILS AND FOUNTAIN AND BALL POINT PENS.

Chapter 29 (relating to manufacturers' excise and import taxes) is hereby amended by adding after section 3407 the following new section:

#### "SEC. 3408. TAX ON MECHANICAL PENCILS AND FOUNTAIN AND BALL POINT PENS.

"(a) IMPOSITION OF TAX.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equal to 20 per centum of the price for which so sold: Mechanical pencils, fountain pens, and ball point pens.

"(b) EXEMPTION IF ARTICLES TAXABLE AS JEWELRY.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax)."

### SEC. 487. REPEAL OF TAX ON ELECTRICAL ENERGY.

(a) REPEAL OF TAX.—Section 3411 (relating to tax on electrical energy for domestic or commercial consumption), and sections 3411 (d), 3414 (b), and 3447 (c) (related provisions), are hereby repealed.

#### (b) EFFECTIVE DATE.—

(1) Except as provided in paragraph (2), the provisions of subsection (a) shall apply to electrical energy sold on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

(2) In the case of electrical energy sold which is billed to the customer for a period beginning before the effective date specified in paragraph (1) and ending on or after such date, the provisions of subsection (a) shall apply to that portion of the amount billed for the electrical energy sold during such period which the number of days in such period on and after such effective date bears to the total number of days in such period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior to such date.

### SEC. 488. TAX ON GASOLINE.

(a) INCREASE IN RATE.—Section 3412 (a) is hereby amended by striking out "1½ cents" and inserting in lieu thereof "2 cents".

(b) FLOOR STOCKS TAX.—Section 3412 is hereby amended by adding at the end thereof the following new subsection:

"(f) 1951 FLOOR STOCKS TAX.—On gasoline subject to tax under this section which, on the effective date of section 488 (a) of the Revenue Act of 1951, is held and intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of ¼ cent per gallon. The tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by the manufacturer, producer, or importer thereof."

### SEC. 489. EFFECTIVE DATE OF PART VIII.

Except as otherwise expressly provided in this part, the amendments made by this part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

## PART IX--MISCELLANEOUS EXCISE TAX AMENDMENTS

## SEC. 401. REDUCTION OF TAX ON TELEGRAPH DISPATCHES.

(a) **REDUCTION OF TAX.** The first sentence of section 3405 (a) (1) (B) is hereby amended to read as follows: "On the amount paid within the United States for each telegraph, cable, or radio dispatch or message a tax equal to 20 per centum of the amount so paid, except that in the case of each international telegraph, cable, or radio dispatch or message the rate shall be 10 per centum."

(b) **CLASSICAL AMENDMENT.**--The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

"3405 (a) (1) (B) (insofar as it relates to domestic telegraph, cable, and radio dispatches).	Domestic Telegraph, Cable, or Radio Dispatches.	10 per centum . . . . .	25 per centum."
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(c) **EFFECTIVE DATE.**--Subject to the provisions of subsection (d), the amendments made by this section shall apply with respect to amounts paid on or after the rate reduction date (as defined in subsection (a)) for services rendered on or after such date.

(d) **AMOUNTS PAID PURSUANT TO BILLS RENDERED.**--The amendments made by this section shall not apply with respect to amounts paid pursuant to bills rendered prior to the rate reduction date. In the case of amounts paid pursuant to bills rendered on or after the rate reduction date for services for which no previous bill was rendered, the amendments made by this section shall apply except with respect to such services as were rendered more than 2 months before such date. In the case of services rendered more than 2 months before such date the provisions of sections 1650 and 3405 of the Internal Revenue Code in effect at the time such services were rendered shall be applicable to the amounts paid for such services.

(e) **RATE REDUCTION DATE.**--For the purposes of this section the term "rate reduction date" means the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

## SEC. 492. EXEMPTION OF FISHING TRIPS FROM TAX ON TRANSPORTATION.

(a) **EXEMPTION.**--Section 3409 (b) (relating to exemption of certain trips from the tax on transportation of persons) is hereby amended by striking out "or to amounts" and inserting in lieu thereof "to amounts", and by inserting after the words "one month or less" the following ", or to amounts paid for transportation by boat for the purpose of fishing from such boat".

(b) **EFFECTIVE DATE.**--The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this Act for transportation on or after such first day.

## SEC. 493. TRANSPORTATION OF OIL BY WATER.

(a) **IMPOSITION OF TAX.**--Chapter 30 (relating to transportation and communications taxes) is hereby amended by adding at the end thereof the following new subchapter:

## "Subchapter F--Transportation of oil by Water

## "SEC. 3476. TRANSPORTATION OF OIL BY WATER.

"(a) **TAX.**--There shall be imposed upon all transportation (other than transportation taxable under section 3475) of crude petroleum and liquid products thereof by water, from one point in the United States to another, a tax equal to 3 per centum of the fair charge for such transportation.

"(b) **FAIR CHARGE DEFINED.**--For the purposes of this section, the fair charge for transportation shall be computed on--

"(1) the basis of the charge for such transportation made by persons performing like transportation for hire, as determined by the Secretary, or

"(2) if no such charge exists, then on the basis of a reasonable charge for such transportation, as determined by the Secretary.

"(c) **EXEMPTION FROM TAX.**—The tax imposed by this section shall not apply to—

"(1) transportation within the premises of a producing property, refinery, bulk plant, terminal, or gasoline plant;

"(2) transportation in a vessel of a product to be used (without unloading) as fuel supplies, ship's stores, sea stores, or legitimate equipment, on such vessel;

"(3) transportation by and for the exclusive use of the Government of the United States, or by and for the exclusive use of any State, Territory, or political subdivision thereof, or the District of Columbia; or

"(4) products transported by an individual for his personal use and not for business purposes.

"(d) **RETURN AND PAYMENT OF TAX.**—The tax imposed by this section shall be paid by the person furnishing the transportation subject to the tax. Every person liable for the tax imposed under this section shall make returns and pay such taxes to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Secretary by regulations may prescribe."

(b) **TECHNICAL AMENDMENT.**—Section 3475 (a) (relating to tax on transportation of property) is hereby amended by adding at the end thereof the following new sentence: "In the case of transportation of crude petroleum and liquid products thereof by water from one point in the United States to another, if (other than in the case of an arm's length transaction) the amount paid for such transportation is less than the fair charge therefor (as defined in section 3476 (b)) the tax imposed by section 3476, and not the tax imposed by this section, shall apply with respect to such transportation."

(c) **EXECUTIVE DAYS.**—The amendments made by this section shall be applicable only with respect to transportation which begins on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

#### **SEC. 494. ARTICLES FROM FOREIGN TRADE ZONES.**

(a) **IMPORTED ARTICLES.**—Upon all articles specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code on which the internal revenue taxes imposed by law have been determined, pursuant to section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to the effective date of the rates of tax imposed on such articles by this Act, and which on or after such effective date are brought from foreign trade zones into customs territory of the United States, there shall be levied, assessed, collected, and paid on such articles, in addition to the tax so determined, an additional tax at rates equal to the increases in rates of tax made applicable to such articles by this Act. The tax imposed by this subsection shall be collected, paid, and accounted for at the same time and in the same manner as tax on such article is collected, paid, and accounted for when brought from the foreign trade zone into the customs territory.

(b) **PREVIOUSLY TAX-PAID ARTICLES.**—Upon all tax-paid articles specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code which have been taken into foreign trade zones from the customs territory of the United States and placed under the supervision of the collector of customs, pursuant to the second proviso of section 3 of the Act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to the effective date of the rates of tax imposed on such articles by this Act, and which on or after such effective date are (without loss of identity) returned from foreign trade zones to customs territory of the United States, there shall be levied, assessed, collected, and paid on such articles an additional tax at rates equal to the increases in rates of tax made applicable to such articles by this Act. The tax imposed by this subsection on any article shall be collected, paid, and accounted for at the same time and in the same manner as if such article had been taken into the foreign trade zone free of tax.

## TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS

### SEC. 501. EXEMPTION OF CERTAIN ORGANIZATIONS FROM INCOME TAX FOR PRIOR TAXABLE YEARS.

Section 502 of the Revenue Act of 1950 (relating to exemption of certain organizations for past years) is amended by adding at the end thereof the following new subsection:

"(d) PROFITS INCURRING TO THE BENEFIT OF CERTAIN EDUCATIONAL ORGANIZATIONS.—For any taxable year beginning prior to January 1, 1951, an organization operated for the primary purpose of carrying on a trade or business for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual and all of the net earnings of which inure to the benefit of an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on, shall not be denied exemption from taxation under section 101 of the Internal Revenue Code on the ground that it is carrying on a trade or business for profit."

### SEC. 502. EXCESS-PROFITS CREDIT BASED ON INCOME.

(a) PERCENTAGE OF AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT.—

(1) IN GENERAL.—Paragraph (1) (A), and paragraph (2), of section 485 (a) (relating to excess-profits credit based on income) are each amended by striking out "85 per centum" and inserting in lieu thereof "75 per centum."

(2) TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1951, AND ENDING AFTER DECEMBER 31, 1950.—Section 485 (a) is hereby amended by adding at the end thereof the following new paragraph:

"(4) TAXABLE YEARS BEGINNING IN 1950 AND ENDING IN 1951.—In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to the sum of—

"(A) that portion of an amount equal to 85 per centum of the average base period net income which the number of days in such taxable year prior to January 1, 1951, bears to the total number of days in such taxable year, plus

"(B) that portion of an amount equal to 75 per centum of the average base period net income which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall be applicable only with respect to taxable years ending after December 31, 1950.

### SEC. 503. ESTATE AND GIFT TAX TREATMENT OF UNITED STATES BONDS HELD BY CERTAIN NONRESIDENT ALIENS.

(a) ESTATE TAX.—Effective with respect to estates of decedents dying after February 10, 1939, section 801 (relating to the computation of the net estate of a decedent nonresident not a citizen of the United States) is hereby amended by adding at the end thereof the following new subsection:

"(c) UNITED STATES BONDS.—For the purposes of subsection (a), the value of the gross estate (determined as provided in section 811) of a decedent who was not engaged in business in the United States at the time of his death—

"(1) shall not include obligations issued by the United States prior to March 1, 1941; and

"(2) shall include obligations issued by the United States on or after March 1, 1941, but only if the decedent died after the date of the enactment of the Revenue Act of 1951."

(b) GIFT TAX.—Effective with respect to gifts made after the date of enactment of this Act, section 1000 (b) (relating to application of gift tax) is hereby amended by adding at the end thereof the following: "In the case of such a nonresident who is not engaged in business in the United States at the time of a transfer of obligations issued by the United States, the tax shall apply in respect of any such obligations only if issued on or after March 1, 1941."

**HRC. 504. REORGANIZATION PLAN NUMBERED 26 OF 1950.**

The provisions of Reorganization Plan Numbered 26 of 1950 shall be applicable to all functions vested by this Act in any officer, employee, or agency of the Department of the Treasury.

Passed the House of Representatives June 22, 1951.

Attest:

RALPH H. ROBERTS,  
*Clerk.*

The CHAIRMAN. The Secretary of the Treasury is before the committee this morning to present his views to the committee and to be of such assistance as he may be able to render to the committee in consideration of this bill.

**STATEMENT OF HON. JOHN WESLEY SNYDER, SECRETARY OF THE TREASURY**

The CHAIRMAN. Mr. Secretary, the members of the committee are working overtime day and night, and they will be drifting in, but we do not feel like sitting here any longer than necessary, so you may proceed.

Would you care to make a statement before questions are asked, or would you be agreeable to having interruptions at any time?

Secretary SNYDER. Well, Mr. Chairman, I have a prepared statement here to present to the committee, with your permission, and I will rest entirely on the wishes of the committee. It is perfectly all right with me, whichever way you desire. If you prefer to have me read the statement and ask questions later, that will be all right; or, if you would like to interrupt, that is also perfectly all right. I have members of the staff here with me, and I have given their names to the clerk so that they are properly recorded.

The CHAIRMAN. Will you proceed, please.

Secretary SNYDER. I am glad to have an opportunity to discuss with you the revenue needs of the Federal Government in connection with your consideration of the tax bill H. R. 4473, which passed the House on June 22.

This committee has fundamental responsibilities with respect to the financial affairs of the Government, and I feel that it is my duty to keep the members of the committee informed on current fiscal developments and the future prospects of the Nation's finances.

I am here to join you in the difficult task of development of the necessary measures for the preservation of our Government's credit. I know you realize that this problem must be faced squarely. In order to assist you, I want to provide as clear a picture as possible of the measures required to support the Government's fiscal operations during this national emergency and the reasons why these measures are necessary.

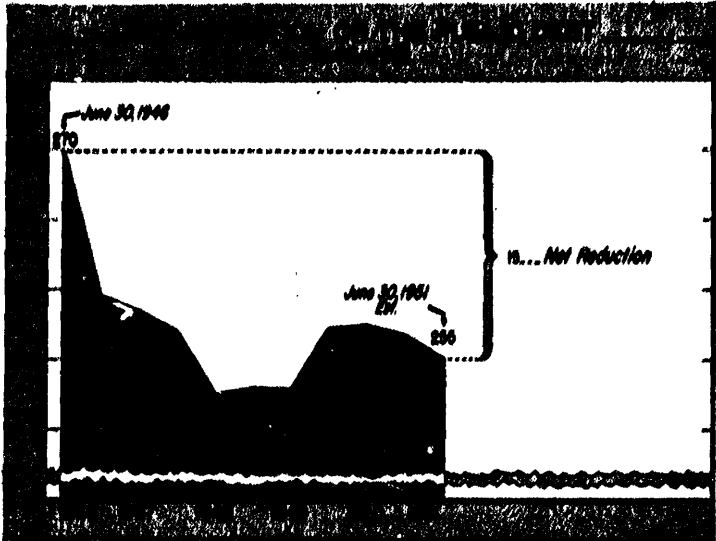
As you know, I appeared before the House Committee on Ways and Means twice during the hearings on the current tax bill. On both of those occasions I stressed the vital importance of financing the defense effort on a sound basis. You may recall that I also discussed this matter with you when you were considering increased taxation after the start of the Korean aggression.

It is my firm conviction that a soundly financed defense program must be based on a pay-as-we-go policy. As the President said when he presented his tax program to the Congress:

A balanced budget now is just as important a mobilization measure as larger Armed Forces, allocations of basic materials, and controls over prices and wages.

The present fiscal year, closing on June 30, is expected to end with a budget surplus of over \$3 billion. This should be particularly gratifying to the members of this committee, since you initiated the unusual legislative step which converted a tax-reduction bill into a substantial revenue producer to meet the crisis created by the aggression in Korea. This fiscal year's surplus has enabled us to make some further reduction in the public debt. As can be seen by reference to chart 1, the Federal debt now stands at \$255 billion compared with \$270 billion in June 1946, when I became the Secretary of the Treasury.

(Chart No. 1 referred to above is as follows:)



The CHAIRMAN. Mr. Secretary, the actual cash surplus as of today, do you have that before you?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. May I have it, please?

Secretary SNYDER. \$4,312,000,000, as of June 26.

The CHAIRMAN. \$4,312,000,000?

Secretary SNYDER. Yes, sir. Do you want the run-out on it?

The CHAIRMAN. No, sir.

Senator MILLIKIN. Mr. Secretary, would you mind telling us the sources of the money which reduced the debt from \$270 billion to \$255 billion?

Secretary SNYDER. Well, that is given here in the next paragraph; half of it was from the large cash balance remaining following war-finance operations, and the other half, over \$7,000,000,000, was from surplus.

Senator MILLIKIN. And when did that surplus develop?

Secretary SNYDER. It has developed over a 5-year period.

Senator MILLIKIN. When was the larger part of it developed?

Secretary SNYDER. In the middle years.

Senator MILLIKIN. In what year?

Secretary SNYDER. In fiscal 1948.

Senator MILLIKIN. And there has been no substantial surplus-----

Secretary SNYDER. There have been two deficit years, and then this year shows over a \$3 billion surplus.

Senator MILLIKIN. Thank you.

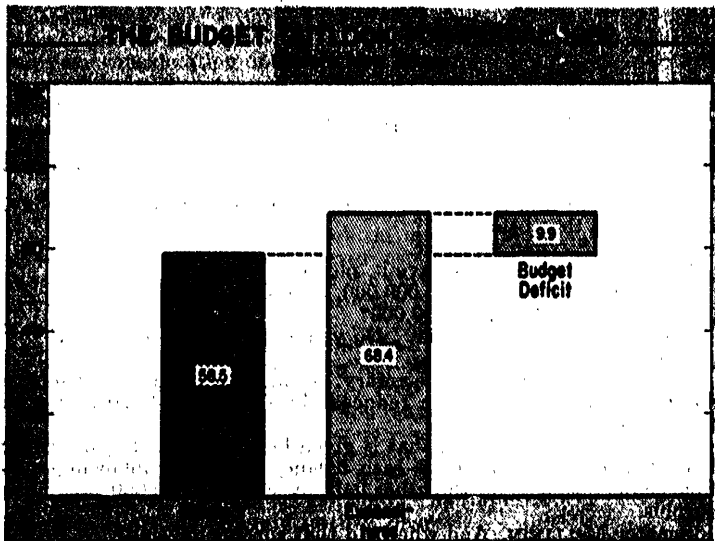
Secretary SNYDER. This debt reduction was in part accomplished by using funds from the large cash balance which remained at the end of the war-finance period. However, about half of the debt reduction is the result of the surplus of receipts over expenditures during the past 5 years.

The American people can justly take some satisfaction in this record. However, this past achievement affords little comfort for the future. The facts underlying the defense program make it very clear that we shall need substantial amounts of additional revenue to pay for it.

Last September, you may recall, the President indicated that defense spending would double by June 1951, reaching a rate of at least \$30 billion a year. This has happened, and expenditures for national security are continuing to rise.

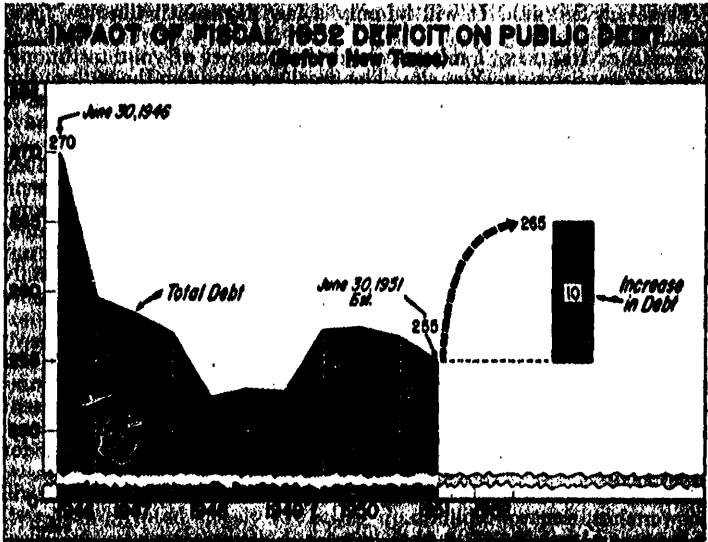
The outlook for fiscal year 1952 indicates that total expenditures will be less than the \$71.6 billion estimate of last January. At the present time the best judgment is that the total will be \$68.4 billion. As is shown in chart 2, the revenues from present taxes will fall short of this by about \$10 billion.

(Chart 2 referred to above is as follows:)





Secretary SNYDER. The point that needs emphasis is that, without now tax increases, two-thirds of the debt reduction effected in the past 5 years would be wiped out by the end of the next fiscal year and the national debt correspondingly increased. This is shown by chart 3. (The chart referred to is as follows:)



Senator MILLIKIN. Mr. Snyder, sometime during the discussion will you discuss the rate of expenditures contemplated to satisfy our military program during the fiscal year 1952 and during the fiscal year 1953?

Secretary SNYDER. Senator, I have here with me representatives from the Budget Bureau, who will be available to answer any questions on the expenditure side.

Senator MILLIKIN. Yes, sir.

Secretary SNYDER. In the 5 months since the President first recommended additional tax legislation, defense expenditures have increased rapidly. Government expenditures are already exceeding tax revenues. The fact is that right now—during the last quarter of this current fiscal year—the Government is running a deficit of over \$1 billion for the quarter. This means that the cash balance is being drawn down and it will be necessary next month to start a new money-borrowing program.

Over the next 6 months the Government will have to borrow several billion dollars.

Senator MILLIKIN. That does not mean that you will run into a deficit for fiscal 1951.

Secretary SNYDER. We will be borrowing it to have a cash balance to operate on; and, of course, that will increase the debt.

Senator MILLIKIN. But you will be pulled out by the surplus in the fiscal year, will you not?

Secretary SNYDER. This is after the close of 1951.

Senator MILLIKIN. You are speaking after the close of 1951?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. You are speaking of a month later in 1952.

Secretary SNYDER. It will be only a few days until the new fiscal year starts.

Senator MILLIKIN. I misconceived the purport of your testimony.

Secretary SNYDER. Yes, sir. The fiscal year ends on the 30th of this month, the day after tomorrow; and, as I just said, we will have to start new money borrowing next month. If you would like to have that explained further, that can be done.

The extent to which there will be a deficit for the fiscal year 1952 as a whole and a permanent increase in the public debt will depend upon the amount and timing of the tax legislation which your committee is now considering. The earlier this bill is enacted the more nearly will it provide the necessary revenues needed to match our expenditures. We cannot afford to get behind, for this would only make the problem of restoring a budget balance later much more difficult.

The prospect of a deficit for 1952 should give us particular concern, since we know that in the following fiscal year that is, 1953 our expenditures for defense will be much higher. Military expenditures will necessarily continue to rise for some time under the present program.

Senator MILLIKIN. What is the total estimated expenditures for fiscal 1953?

Secretary SNYDER. The budget people are here, and they will answer that, Senator Millikin.

Senator MILLIKIN. All right.

Secretary SNYDER. I would be lacking in candor if I did not convey to you my grave concern about the serious implications of an inadequately financed defense program. Courage and wisdom will be required to take the steps necessary to fortify our Government's finances for the strains which lie ahead.

The present state of emergency imposes great demands upon all of us. As I have stated on so many occasions, ours is a peace-loving Nation; but, to keep the peace, we must be strong. We must have the weapons and all of the other materials necessary to defend ourselves successfully against the present or any future Communist aggressors.

Our productive capacity must be capable of meeting all of the needs of a powerful Defense Establishment while at the same time supplying the essential requirements of the civilian economy. To this end it is urgent to mobilize not only the material and manpower resources of the Nation but also our financial resources.

In some respects mobilization of financial resources is even more difficult than the mobilization of material resources. Adequate financial support of the defense program requires that individuals accept heavier tax burdens, save more, and generally place the community's needs above their own immediate interests. Each of us must be made fully aware of his necessary contribution and encouraged to participate fully in the responsibilities the country has assumed.

When our country's existence is challenged, it habitually responds with a demonstration of tremendous productive power. We as a people have come to take it for granted that the economy will surpass all production records. We pride ourselves on this economic strength, to the point, perhaps, of expecting too much of it—expecting it to solve all our preparedness problems.

We must be mindful that the fiscal policies of the Government can make an effective contribution toward keeping the economy in a sound and healthy condition when this strain on our resources is intensified. Production will thrive only in economic stability, and that requires a sound financial policy.

Senator MILLIKIN. Mr. Secretary, have you ever rounded out the fiscal measures necessary to accomplish the objectives to which you refer?

Secretary SNYDER. I refer to them a little later here in a general suggestion of those measures that are needed in addition to the fiscal.

Senator MILLIKIN. I am speaking of measures in addition to taxation. You will come to that later?

Secretary SNYDER. Yes, sir.

I will mention that, and if I do not cover it fully I will be glad to talk with you about it a little later.

Senator MILLIKIN. All right.

Secretary SNYDER. Under present prospects we shall need to remain in military readiness for some time. Throughout this effort the economy will have to be kept in balance to provide both civilian and defense production. If an expanding military conflict is forced upon us, a basically balanced economy will be one of the strongest weapons in our arsenal.

The first year of the defense program, which is about to close, has been devoted largely to tooling up for military production. The economic pressures which developed during this period were due less to actual Government expenditures than to business expansion stimulated by prospective military production and by the unusual consumer demand for products that might become scarce.

This preliminary activity brought about a tightening of the economy. Since Korea the Federal Reserve index of production has risen from 199 to 223—

Senator KERR. What does that mean, Mr. Secretary?

Secretary SNYDER. That is a measure which the Federal Reserve Board has adopted to indicate the volume of our industrial production.

Senator KERR. Well, it is in comparison to some fixed formula or standard?

Secretary SNYDER. Yes; there is a normal that is 100, and it goes up and down from that base.

Senator KERR. The elements of the 100 are composed of what?

Secretary SNYDER. That is measured on a 1935-1939 average; that is the base of 100.

Senator KERR. All right. Thank you.

Secretary SNYDER. This preliminary activity brought about a tightening of the economy. Since Korea the Federal Reserve index of production has risen from 199 to 223—

Senator MILLIKIN. Mr. Secretary, is there a breakdown between military production and civilian production in those figures?

Secretary SNYDER. It is not shown, Senator Millikin.

Civilian employment has risen by more than a million, despite the growth of our Armed Forces; and average hours of work have increased. Unemployment has been reduced to 1.6 million, the lowest figure since October 1945.

Senator MILLIKIN. Again, may I ask you, sir, do you have a breakdown between civilian production devoted to war production and general civilian production?

Secretary SNYDER. I do not, sir. I am sorry but I do not.

Senator MILLIKIN. Thank you.

Secretary SNYDER. The expansion in production accompanied by higher prices has resulted in large increases in income. Total personal income is now close to \$245 billion, or 13 percent higher than last June.

Senator TAFT. How much of that is inflation, so to speak, the increase in price and wage rates?

Secretary SNYDER. Well, I could not measure that, Senator.

Senator TAFT. It is very important as to whether it is real or is not real, whether it is a real increase or just a mark-up figure.

Secretary SNYDER. You are absolutely right, Senator. Over the years there has been a material net increase in real income. I think that if we go back to the year before the war started—in 1939, before any inflationary pressures came on our economy here—and measure the purchasing power per capita, after making adjustments for all taxation—local, State and Federal—and after making adjustments for the changes in prices on services and on goods, we will find that per capita purchasing power is almost 40 percent higher today than it was in 1939.

Senator MILLIKIN. In real value?

Secretary SNYDER. That is after the adjustments for all taxes, and in the adjustments for—

Senator MILLIKIN. Does it include the adjustment for inflation?

Secretary SNYDER. For prices, yes, sir.

Senator MILLIKIN. Well, if you use the index of the times—I beg your pardon, Senator Taft.

Senator TAFT. That is all right.

Senator MILLIKIN. If you use the index for the time, you do not compensate for inflation.

Secretary SNYDER. I would think so, yes, sir. That is what we measure inflation by—that index as to what the costs are.

Senator TAFT. If the wage increase in manufacturing is at least 9 percent—that is my recollection, then of the 13 percent increase—9 percent might be practically inflation only?

Secretary SNYDER. That is an over-all figure.

Senator TAFT. And, of course, you have a million more people employed, and that is another 2 percent increase in number of people employed. So, whether that represents an increase, a real increase, in production is a little dubious.

Secretary SNYDER. We have to measure our increased production that we gain, too, Senator, you know.

Senator KERR. Mr. Secretary, the figure of \$245,000,000,000, does that include corporate income?

Secretary SNYDER. This is paid to individuals, the rate of income paid to individuals per annum.

Senator KERR. The total income paid to individuals?

Secretary SNYDER. Per annum.

Senator KERR. There was a figure given here yesterday by a member of the staff of \$265,000,000,000.

Secretary SNYDER. That is the national income; some of the technicians will be able to testify as to the national income if we want to have that explained.

Senator KERR. It was national income.

Secretary SNYDER. It is \$265,000,000,000; is it not?

Mr. HAAS. That is correct, for the first quarter of 1951.

Senator KERR. Now, could you tell us what makes the difference, what are the elements that make up the difference?

Mr. PECHMAN. The difference between national income and personal income is due largely to the fact that the national-income figures include all corporate profits, whereas the personal-income figures include only that part of corporate profits that are paid out in the form of dividends.

Senator KERR. That is what I thought. I wanted to be sure.

In other words, the \$245,000,000,000 includes part of the corporate income to the extent which the corporations have paid out in dividends to the stockholders, and the \$265,000,000,000 is the national income, both corporate and individual?

Mr. PECHMAN. That is correct, sir.

Senator KERR. Thank you.

Senator MILLIKIN. Mr. Secretary, it has been repeatedly said that, roughly, we have passed two tax bills within the last year merely to compensate for inflation. What have you to say on that?

Secretary SNYDER. Well, I think passing those bills has been one of the most progressive steps that you could take to help arrest inflation, because had you not passed those tax bills, we would have found ourselves in a deficit position in our financing for the fiscal year 1951 that is closing this week, and we would have been in the red instead of having a balanced budget.

Senator MILLIKIN. That much will be conceded, Mr. Secretary, but it still leaves unanswered the question as to whether our two tax bills in the last year have approximately just about equaled the inflation that has come about during that period?

Secretary SNYDER. There has been a material inflation, there is no question about that, but it has not been due to the fiscal operations. If you would like me to go into that, I shall, because we have not had, as I just said, any of the elements that are usually said to be contributing to inflation by deficit financing.

We have collected more than we have paid out, and we have reduced the over-all total of the outstanding debt.

Senator MILLIKIN. For present purposes, I am not at this time putting any responsibility in your lap. I am simply commenting on the statement frequently made in high places in the executive department of the Government—that our two tax bills are merely, roughly speaking, compensating for inflation.

Secretary SNYDER. That certainly would give evidence that we should take the most positive steps that we can to arrest inflation and keep it from increasing.

Senator MILLIKIN. I do not challenge that statement, but I am simply trying to get your comment, and I believe I have had it, but the last two tax bills have, roughly, just about compensated for inflation.

Secretary SNYDER. I did not try to answer that specifically, because I would have to know much more about what the volume of the inflation has been.

Senator MILLIKIN. Has anyone here made a calculation on that?

Secretary SNYDER. I do not believe so.

Senator MILLIKIN. I think General Marshall has made some statement to that effect.

Senator TART. Would you, in general, agree with this statement, Mr. Secretary, that if the fiscal policy of the Government has contributed to the inflation that has taken place, it has been because of the taxes they have not collected, and not because of the taxes they have collected?

Secretary SNYDER. Well—

Senator KERR. And that the only way the fiscal policy could have affected it or changed the situation would have been to have collected more taxes?

Secretary SNYDER. You mean by adding more taxes onto the statute books?

Senator KERR. Sir?

Secretary SNYDER. By having more tax legislation?

Senator KERR. Yes.

Secretary SNYDER. It certainly would have helped considerably; yes, sir.

Senator WILLIAMS. Do I understand that it is your theory that high taxes is the only way you can control inflation?

Secretary SNYDER. It certainly very positively is not, but it is a very important element in that program.

Senator WILLIAMS. I wanted to get that from you, because I have noticed, as we have increased taxing the last two times, inflation gets worse each time.

Secretary SNYDER. Are you, on the other hand, going to say that increased taxes cause inflation?

Senator WILLIAMS. No; but why don't we try the reverse of "pay as you go," and make it "go as you pay"?

Senator TART. I suggest that too high taxes can cause inflation, after you reach a certain point you can. I do not say that what we have done up to date does, but a certain point can be reached.

Senator MILLIKIN. Well, I suggest that the other side of the coin is the higher the taxes, the higher the Government spending, and Government spending is definitely inflation.

Senator WILLIAMS. That is right. I say that maybe we should just turn it around and let the Government go as they pay and cut their spending down.

Secretary SNYDER. Well, you gentlemen have control of that.

Senator MILLIKIN. I am making no point other than you have to look at both sides of the coin.

Secretary SNYDER. I agree with that. We are just trying to work together on this, and I am here trying to be helpful, if I can.

Corporate profits before taxes are at an all-time high. This economic growth provides the basis for increased military production.

The next phase will be marked by heavy delivery of goods to the military services. It will call for Government expenditures substantially above the present level. In the period we are now entering, sound fiscal management will be critically important. In its absence, increasing governmental deficits will develop an explosive inflationary potential.

The Government's current defense expenditures taken alone fall short of indicating the problem we face. As you know, one of the major elements in the present defense program is the construction of basic industrial capacity to place the economy in a state of readiness for greater production of military equipment in case it is required.

In World War II, when the Government itself built many defense plants, the cost was reflected in direct Government expenditures. The basic facilities for the present defense program, however, are being built almost entirely through the effort of private industry, aided by special tax amortization and direct financial assistance from the Government. This important expansion must be considered in conjunction with the Government's defense expenditures because it draws on scarce supplies and labor required for military production.

It is true that we are now experiencing a lull. However, we must not conclude from the developments of recent months that the inflationary dangers have passed. This is far from the truth.

The recent resistance to the upward sweep in prices could end within a short time. Consumer markets are now well stocked due to a large extent to overbuying stimulated by the expectation that shortages of the type experienced during the last war would recur. It is due also to the failure of both consumers and merchandisers in the early days after the invasion of the Republic of Korea to recognize the potential production of our industries. The overbought situation, however, may take only a short time to correct itself.

We should be gratified for this breathing spell in the development of inflationary pressures. The real question now is whether we will be able to meet the new and greater pressure just ahead. The increased restrictions on civilian use of scarce materials already announced foreshadow what is to come. These restrictions will reduce production of consumer durable goods in the very areas which are now overstocked. They will have their counterpart in the expanded output of planes, tanks, electronic equipment, and other military goods. The increased incomes resulting from higher military production will be competing for a limited volume of goods available to civilians.

The evils of inflation extend far beyond the immediately visible economic consequences, but these alone are sufficiently alarming. We have already seen how inflation increases defense costs. Moreover, the uneven effect of inflation makes the task of devising equitable tax measures much more difficult.

**Senator MILLIKIN.** It makes the task of selling Government securities much more difficult, does it not?

**Secretary SNYDER.** Yes, sir.

The less inflation is permitted to take hold, the more tolerable are tax increases and the more equitable the distribution of the burden of defense.

These are the considerations we must keep before us in appraising the adequacy of tax legislation. I am sure that you share my feeling

of responsibility for seeing that we not only produce the necessary equipment to give us military strength, but also zealously guard the financial stability which is indispensable to maximum production.

While I want to place the utmost emphasis upon an adequate tax policy, it is not my intention to suggest that taxation alone will do the whole stabilization job. We must use all the tools which can be helpful in counteracting the forces stimulated by military expenditures. These include price, wage, rent, and credit controls as well as priorities and allocations under the stabilization program.

High on the list of essentials is increased savings. Incomes, even after new taxes, will continue high. The liquid assets of both individuals and corporations are at record levels. It is clear that greatly increased savings are required if we are to succeed in keeping available funds from exercising their full force on the price level.

Senator MILLIKIN. Has anyone made any study to determine what that will be, and from which brackets they will come, giving effect to the proposed new tax legislation?

Secretary SNYDER. As to what the effect of this tax bill would be on savings?

Senator MILLIKIN. Assuming the effectiveness of the bill before us; assuming it, has anyone made a study of it?

Secretary SNYDER. There have been estimates that there will be some \$25,000,000,000 savings, by individuals and corporations; is not that correct?

Mr. HAAS. There have been some estimates. They do not have the savings broken down by income classes though.

Secretary SNYDER. That has not yet been prepared, Senator.

Senator MILLIKIN. In other words, we anticipate that there will be some savings, but we do not know from which tax brackets those savings will come.

Secretary SNYDER. That has not been broken down so far.

The savings-bond program is being further developed to play its part in this job.

Unnecessary and postponable Federal expenditures must be avoided. We should also seek the cooperation of the State and local governments, as was done during the last war. The fiscal policies of these governments can give effective support to the Federal Government's programs.

The President has recently told the people of this country that the full force of inflationary pressure is still to come. In order to be forearmed, we must take adequate and timely tax action.

Senator MILLIKIN. Mr. Secretary, what is expected from the States?

Secretary SNYDER. Well, they have been requested, as part of Mr. Wilson's program, to survey their investment programs for the next few years, during the defense program, and to make plans for but to postpone the actual operations while this pressure is on for materials and labor. They have had other discussions as to financial programs, and things of that sort that might be delayed without hampering the economy of the States.

Senator WILLIAMS. Might I ask what effort is being made in that direction, so far as expenditures are concerned, to postpone it?

Secretary SNYDER. Well, the Budget Bureau people are here and they will be able to tell you what steps have been taken.



Senator BYRD. I would like to ask this question: You say in January you estimate the deficit at \$2 billion 7 and a surplus of \$4 billion 3—

Secretary SNYDER. I beg your pardon? What is that 4 billion 3? Senator BYRD. Is not that correct, that you will, that on July 1 there will be a surplus of about \$4 billion?

Secretary SNYDER. Oh, no; a little over \$3 billion surplus, we said. Somebody asked me what the surplus for the year to date was awhile ago, and that is \$4 billion. As of June 30, that will not be the surplus, because we always have some very heavy expenditures in the last day or two of the fiscal year.

Senator BYRD. What do you estimate it will be on July 1?

Secretary SNYDER. On June 30 we expect it to be a little over \$3 billion.

Senator BYRD. Will you give me the chief reason why in the budget you estimated a deficit of \$3 billion 7, and now have a surplus of \$3 billion, 6 months later?

Secretary SNYDER. Yes, sir; it was explained in great detail to the House Ways and Means Committee when I appeared before them in April.

That came about due in part to the fact that there had been reduced expenditures on the part of Commodity Credit Corporation and Veterans' Administration because of the high level of the economy and employment. There was not the call for as much aid for veterans, and there was not a call on the Commodity Credit Corporation that was anticipated, and there were other reductions which were made in the expenditure program, too. Also there was a lag in the requirements for cash from the Treasury in the defense program and the fact that private industry was financing more of its initial phases of operation than they did in World War II. On top of that was the fact that our collections of taxes increased to a greater extent than we anticipated back in December when we were making up the January estimate.

Senator BYRD. This miscalculation of \$6 billion—

Secretary SNYDER. That is not necessarily a miscalculation.

Senator BYRD. Well, this prediction, then.

Secretary SNYDER. We are not mind readers any more than you are, Senator.

Senator BYRD. I understand that you are not. I am not criticizing you, but I am just trying to find out something.

I would like to know—

Secretary SNYDER. You cannot guess how many apples you are going to have when you try to guess back in March, because you do not know what storms you are going to have and how much labor trouble you will have.

Senator BYRD. Well, I have not made quite as much of an error estimating my apple crop as you have in this.

Secretary SNYDER. I will venture to say that you have, Senator.

Senator BYRD. If I did, I could not stay in business. I have to make my plans in advance.

Secretary SNYDER. So do we. That is exactly why we are here today.

Senator TAFT. Well, it at least raises the question as to whether you may not have placed yourself in the same position of guessing wrong this next year. That is the thing.

Secretary SNYDER. I think you are convinced that we are not, Senator.

Senator TARR. I am not at all convinced that we are not. I am not, sir. I have no means of knowing.

Senator BYRD. Six billion dollars has been misguessed, nobody can deny that. Now, to what extent is it due to reduced expenditures, and to what extent is it due to increased revenue?

Secretary SNYDER. Well, the revenue has increased about \$3 billion, and there was a reduction of about the same amount in expenditures.

I have the estimated figures for you.

For expenditures—it was estimated at \$44.5 billion in January; that estimate was changed in April to \$47.2 billion, or a difference of \$2 billion 7 hundred million.

Now that, of course, is just the revised estimate. We cannot give you the final figure until June 30.

Senator BYRD. I understand, but it stands about 50-50?

Secretary SNYDER. It is just about 50-50.

Senator BYRD. All right.

You estimate the income from existing taxation in the next fiscal year at \$8.5, and the Joint Committee on Taxation estimates it at \$60.9 billion, a difference of \$2 billion 4.

What reason can you give the committee to make them believe that you are not as erroneous in this estimate that you are now making as you were in the one you made last January?

Secretary SNYDER. Are you speaking of expenditures now?

Senator BYRD. No; I am speaking of income.

Secretary SNYDER. We have more information now than in January.

Senator BYRD. Well, you estimated \$58.5 billion in the next fiscal year, and the Joint Committee on Taxation, which is a pretty expert group, estimates \$60.9 billion, a difference of about 2.5.

Is it possible that you could have underestimated the income in the next fiscal year as you have in the past fiscal year?

Secretary SNYDER. Well, Senator, I think frankly, when you consider that these estimates are made as far in advance as they are for the January budget message, I think it is an exceptionally close estimate. We will give and take with the committee staff because we have high regard for the Joint Committee group, but we will measure our estimates against theirs over the years. I think that we do the best we can.

Senator BYRD. If they are correct and you are not correct, there is \$2 billion 4 more, and we will save \$3 billion by cutting down such Federal expenditures which I understand you favor, if it can be done; and expenditures are such as to be as inflationary as any factor in our economy. You will agree to that, I am sure, so if expenditures could be cut 3 billion, and it should be cut much more——

Secretary SNYDER. There were many conditions that entered into that situation.

Senator BYRD. I understand, but you do favor the cutting down of Government expenditures, if that can be done?

Secretary SNYDER. Yes, I have already stated that.

Senator BYRD. I think spending Federal money is one of the chief inflationary factors in our economy.

Secretary SNYDER. I know.

Senator BYRD. I assume that expenditures will be cut \$3 billion, and that will make a difference of \$5 billion 4, and you estimate the deficit to be—what would it be, \$10 billion? Then should those two situations or conditions be brought about, then the deficit will only be about \$4 billion.

Secretary SNYDER. But let us take it the other way, suppose it is twice as much as we estimated?

We have to consider it both ways, you know. We tried to take a middle course, and as conditions change—it could go the other way just as easily.

Senator BYRD. Well, when I say reduce the Federal expenditures, I am not speaking of spending money which is appropriated, but I am talking about Congress cutting 3 billion dollars off.

There is a possibility that that can be done. If that could be done, you would not impose new taxes right now, unless it was necessary to balance the budget, would you?

Secretary SNYDER. I beg your pardon?

Senator BYRD. You would not impose the new taxes unless it were necessary to balance the budget.

Secretary SNYDER. That is why we are trying to pay as we go, and to have a balanced budget during a period of high expenditures.

Senator BYRD. But if your past record of underestimating revenue continues and Congress should reduce expenditures by about 3 billion, which is a modest figure, I think under the conditions that it should be more than that, then we would need but \$4 billion 6 million to balance our budget instead of \$10 billion?

Secretary SNYDER. That is making a lot of assumptions. I am not in the position to make those assumptions, Senator; But it certainly is true, that the fact that we have actually reduced the debt is evidence that the Government just does not spend it because it has the revenue. In the 5 years since I have been in the Treasury, we have had an actual reduction in the debt, due to an application of surpluses.

Senator BYRD. But this situation is possible and it is likely, or it is as likely to come about as those estimates that you made.

Secretary SNYDER. I think you could probably take the other side of the coin, as the Senator says, and unless we do control these inflationary pressures, why, it might be worse.

Senator BYRD. Is not the best way to control the inflationary pressures to reduce Federal spending?

Secretary SNYDER. If Congress can do it.

Senator BYRD. It is better to reduce expenditures than to increase taxes in the same amount, is it not?

Secretary SNYDER. If Congress can do it without damaging the economy.

Senator BYRD. Congress can do it, if they get cooperation from the Administration, but when the Administration from the President on down is fighting everything—every single thing, every bureaucrat in the Government is doing that—it is pretty difficult for Congress to do it.

I think that Congress will do a little more than you think this time, because the people are demanding it.

The people prefer cutting the expenses of the Government to paying higher taxes.

Secretary SNYDER. You and I are faced with the same proposition. You made some estimates last year about how much you were going to cut appropriations and that did not come about.

Senator BYRD. The estimates that I made showed how they could be cut. I did not say that I was going to cut them.

Secretary SNYDER. I did not say that I was going to produce this revenue. I am trying to cooperate with you, Senator.

Senator BYRD. What cooperation will we get from you in cutting expenses? You have not given any specific reduction of expenses, if you have, I have never seen it.

Secretary SNYDER. I can show you that, if you are interested.

I sent a report to the Congress recently, a rather lengthy one, showing what the Treasury Department had done in reducing the cost of operation, and in the improvement of the efficiency of the Government, and I will now ask my staff to see that this committee gets a copy.

Now, I might say that while we have a much heavier workload today than the Treasury ever has had in history, we are operating with considerably fewer civilian employees than they did when I came into the Treasury.

Senator BYRD. I would like to have a detailed statement as to ways he thinks this present budget can be cut, not only in his branch, but in other departments of the Government.

Secretary SNYDER. Well, I will submit it for the Treasury Department—

Senator BYRD. How much do you recommend that your budget estimate be reduced?

Secretary SNYDER. I will produce figures for you.

Senator BYRD. The budget estimate was to be reduced; how much did you recommend that your budget should be reduced? And while I am at it, I would like to know about the other departments, also.

Secretary SNYDER. Now, don't get over into the others. I will stick to the Treasury operation. The Budget Bureau is not part of the Treasury today.

Senator BYRD. I say, would you recommend that budget estimates be reduced as affecting your department?

Secretary SNYDER. I think in some places that we did. I know last year—

Senator BYRD. What was the last reduction you recommended?

Secretary SNYDER. Last year we asked for considerably less than the budget.

Senator BYRD. I am talking about an estimate. The estimate you submitted to the Congress. How much did you recommend that they be reduced?

Secretary SNYDER. We certainly are not going to come up and ask you for something we do not think that we need, in the first place. We believe that we need it when we ask you for it. We are not asking you for a padded figure.

Senator BYRD. You probably misunderstood my question—

Secretary SNYDER. No; I am not avoiding answering your question.

The CHAIRMAN. He said so but you apparently misunderstood him.

Senator BYRD. You apparently misunderstood what I said. I said Congress receives from the President an estimate of expenditures for the Treasury Department—that is correct, is it not?

Secretary SNYDER. Yes.

Senator BYRD. When your report went in did you recommend a reduction in estimates to be submitted to Congress?

Secretary SNYDER. We worked out the matter with the Budget Bureau and there were many adjustments before it was ever offered. They do not just turn around and tell us how much our budget is.

Senator BYRD. You said you had recommended to Congress certain reductions. Did I misunderstand you?

Secretary SNYDER. I do not recall saying that.

Senator BYRD. Who did you make this recommendation to?

Secretary SNYDER. I did not say that we made them.

Senator BYRD. Did you reduce them at all last year?

Secretary SNYDER. I will have to look it up and see what the figures are.

In the period since I have been in the Treasury we have certainly reduced the cost of operations per unit of production.

Senator BYRD. Oh, that is another matter again.

Secretary SNYDER. No, it is not another matter. If you have a bigger workload, and keep hiring more people to take care of the increased workload, then you are not saving, but if you are actually doing the increased workload with the same number of people, you are saving money.

Senator BYRD. There is not an agency in this Government that could not cut 20 percent off their administrative costs.

Secretary SNYDER. We can demonstrate that we have tried and we can show you we did get some results.

Senator BYRD. I still am skeptical about it.

Secretary SNYDER. You probably still will be, after we show you, Senator, but it is the truth.

Senator BYRD. I will not be skeptical, if you show me that you have done it.

I mean, a reduction in the net cost of Treasury Department operations, and also——

Secretary SNYDER. Senator, let me ask you something. Let's get it on the basis that you talk my language and I will talk yours. Normally if you used the same number of people per bushel of apples and your production increased, then you would have to hire more people to do it, but if you worked out efficient ways so that you would be able to gather in that increased crop with the same number of people, then you have made a saving, would you not?

Senator BYRD. All I can say is, that if I ran my business like the Federal Government does theirs, I would have been bankrupt years ago. Nothing could save me.

Secretary SNYDER. I am talking sense to you, not theory.

Senator BYRD. You are not overmanned now in personnel, you are not spending more money than you should?

Secretary SNYDER. Well, Senator, neither of us is naive enough to say that any business is operating at its fullest efficiency, and the Federal Government happens to be so surrounded with a number of circumstances that it cannot quite run its affairs the way you run your business in private life.

Senator BYRD. That is what I say, I would be bankrupt.

Secretary SNYDER. By an operation of democratic process.

Senator TAFT. Did I not see some editorial about a Coast Guard plane flying out to Idaho?

Were those facts true?

Secretary SNYDER. We discussed that with the Appropriations Committee; yes, sir.

Senator MILLIKIN. How about trying a "Republican" process instead of a "Democratic" process?

Secretary SNYDER. I beg your pardon?

Senator MILLIKIN. I say, how about trying a "Republican" process instead of the "Democratic" process?

Secretary SNYDER. Well, we thought this was a democratic place, a democratic Nation for both Republicans and Democrats.

Senator BYRD. I renew my request that the Secretary submit every single reduction, and any cuts that he might have made. He is Secretary of the Treasury, and he has an interest in maintaining the fiscal policy of this Government. Maybe he will be willing to step out of the Department, and advocate a reduction in some of the other departments.

Secretary SNYDER. I offered to supply that in the beginning.

Senator BYRD. And let that statement show to what extent he has reduced the actual administrative cost and other costs of his Department.

Secretary SNYDER. I can give you one quick one.

The CHAIRMAN. Well, the Secretary says that he will furnish that statement.

Secretary SNYDER. Yes; I offered to furnish it before he asked for it.

In the Internal Revenue Bureau alone last year, we can show you a recorded saving because of new applications, of over a million man-hours, and that is a savings of importance.

Senator BYRD. That is debatable.

Secretary SNYDER. A savings of 1,000,000 man-hours is debatable?

Senator BYRD. You mean a million man-hours in proportion to the amount of work you do? Do you mean you have less personnel?

Secretary SNYDER. We have a bigger workload and we are doing it with the same personnel.

Senator BYRD. How do you calculate the workload? We would like to know that. Will you submit that in full detail, also.

(The following information was subsequently supplied for the record:)

*Revenue-collection activities*

	1930	1940	1950
<b>Internal Revenue:</b>			
Number of tax returns filed.....	5, 012, 007	10, 190, 032	89, 270, 216
Additional assessments resulting from enforcement activities.....	\$303, 058, 027	\$393, 909, 685	\$1, 747, 502, 000
Cost of collecting \$100 of revenue.....	\$1. 13	\$1. 12	\$0. 69
<b>Customs:</b>			
Number of entries of merchandise.....	3, 200, 324	2, 681, 500	4, 234, 435
Persons entering United States examined by Customs.....	49, 092, 318	48, 532, 327	87, 000, 000

*Enforcement activities*

	1930	1940	1950
Counterfeit money seized.....	\$570, 069	\$292, 122	\$1, 289, 281
Number of arrests for counterfeiting, check and bond forgeries, and miscellaneous by Secret Service.....	1, 174	3, 281	8, 168
Violations found, among cases investigated, of narcotics and marijuana laws.....	(1)	3, 959	5, 001

<sup>1</sup> Bureau of Narcotics not established until 1931.

NOTE.—All figures in these and following tables are for fiscal year. Some figures are in round numbers.

*Manufacturing activities*

	Fiscal year 1930	Fiscal year 1940	Fiscal year 1950
Number of pieces of currency delivered.....	1,094,105,268	1,067,707,880	1,643,724,000
Number of stamps delivered.....	25,323,631,829	30,067,257,297	42,372,420,336
Deliveries of all types of finished work by Bureau of Engraving and Printing (in sheets).....	338,641,069	446,846,250	720,297,594
Number of United States coins produced.....	399,467,200	708,061,000	1,407,271,769

<sup>1</sup> There was a corresponding decrease in personnel during the fiscal year 1950. This workload fluctuates, and personnel is increased or decreased to meet the supply-and-demand requirements.

*Fiscal activities*

	Fiscal year 1930	Fiscal year 1940	Fiscal year 1950
Number of checks issued by Division of Disbursement.....	( <sup>1</sup> )	106,743,025	189,730,578
Number of depository receipts for withheld taxes.....	( <sup>2</sup> )	( <sup>3</sup> )	4,491,451
Number of checks paid by Treasurer, United States.....	33,192,836	130,678,489	209,320,656
Number of pieces of currency redeemed.....	327,000,000	1,107,000,000	1,788,000,000
Number of savings bonds issued.....	( <sup>4</sup> )	4,752,000	67,891,478
Number of interest checks issued for series G savings bonds.....	( <sup>5</sup> )	( <sup>5</sup> )	8,728,609
Number of pieces of outstanding public debt requiring servicing.....	10,768,297	25,335,472	512,679,132

<sup>1</sup> This centralized disbursing function not performed by Treasury Department in 1930.

<sup>2</sup> Began with Current Tax Payment Act of 1943.

<sup>3</sup> First savings bonds were issued in 1935.

<sup>4</sup> First series G savings bonds issued in 1941.

<sup>5</sup> Servicing includes maintenance of interest accounts, issuing interest checks, making exchanges, transfers, and issuances, maintenance of records of outstanding issues, etc.

[Extract from the Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year 1940]

## ADMINISTRATIVE MANAGEMENT OF OPERATING BUREAUS

After Secretary Snyder had assumed office in June 1946 he adopted a program of increasing the efficiency of the working operations of the Treasury Department.

Management efficiency studies have been carried on within the Department, and management surveys of several of the bureaus have been made by private management engineering firms. In addition, the Treasury has placed considerable emphasis on its cash-awards-for-employees'-suggestions program and its work simplification program.

All of these efforts have been directed toward cutting costs, improving efficiency, and rendering better public service. The latter is of considerable importance in obtaining maximum compliance with the laws which the Treasury is required to enforce.

For the period covered by this report, the Treasury has made management savings totaling approximately \$56 million. This money, as indicated in the individual reports following, has been utilized to meet increased workloads, to reduce requested amounts to be appropriated, to strengthen the enforcement functions of some of the bureaus, to cover administrative costs of installing new procedures, and to meet operating contingencies of the bureaus.

## BUREAU OF INTERNAL REVENUE

During the war the prime mission of the Bureau had been the collection of taxes to finance the war. When Secretary Snyder assumed office he was confronted with a tremendous organization which had continued to use prewar methods to do a job which had increased almost six times in size because of the war.

The problem was twofold:

(1) Something had to be done to make the job of filing a tax return simpler for the millions of people who had begun during the war to pay taxes for the first time. Treasury forms had to be simplified and instructions to taxpayers clarified.

(2) Mass-operation techniques had to be adopted by the Bureau. Before the war the Bureau had processed approximately 18 million returns and forms each year; after the war it was processing over 100 million returns and forms each year.

It was believed that by modernizing the organization and procedure the work could be done more cheaply; and the money thus saved could be spent on front-line enforcement work. More returns could be audited and checked, more additional assessments could be entered on the books and the tax evaders of the war years could be caught and penalized.

*Program of taxpayer assistance.*—To make the job of the taxpayer easier the Bureau of Internal Revenue undertook a broad program of taxpayer assistance. Its aim was to reduce to the maximum extent possible the number of returns which were improperly or incompletely executed, for such returns resulted in costly correspondence, backtracking by the Bureau, delays, and annoyance to the taxpayer who sooner or later had to make corrective adjustments in his return.

The principal steps taken to make the taxpayer's job easier were these:

(1) The Bureau simplified the more important return forms, and introduced Form 1040A, which is used by almost all taxpayers whose gross income is less than \$5,000 and derived primarily from salaries or wages subject to withholding.

(2) The Bureau clarified the instructions which accompanied return forms. These instructions informed the taxpayer not only what he should report on the return, but what he had a legal right to deduct or omit from it. This was a new approach, and it has fostered cooperation and good will on the part of taxpayers.

(3) The Bureau completely rewrote the booklet *Your Federal Income Tax* in order to make it a well-rounded statement of the individual income-tax laws and regulations in nontechnical language. Formerly, taxpayers, lawyers, bankers, and others had to refer to unofficial sources for simple explanations of these matters. About 265,000 copies of the revised booklet were sold in 1949, and it was commented on very favorably by the public and the press.

(4) The Bureau combined the form on which employers are required to report the social-security insurance tax with the form used by them in reporting their withholding tax, thereby reducing the work for both the employers and the Bureau.

By these steps the Bureau made a real impact on the difficult problems confronting the taxpayer. With the new, simpler forms and the rewritten, easy-to-read instructions the taxpayer is able to execute a more complete and correct return, and to understand better his tax obligation to the Government.

*Modernization of organization and procedures.*—As the result of a continuing, well-planned, and determined attack on inefficient operating procedures, obsolete office practices, and outdated theories of administration, the Bureau has succeeded during the past three fiscal years in saving a cumulative total of 4,571 man-years, or \$12.7 million on a recurring basis. During the fiscal year 1950 the Bureau will save 2,695 man-years, or \$8.1 million, inclusive of recurring savings. These funds, totaling \$20.8 million, have been used and will be used to bolster field enforcement. During the four fiscal years, 1947-50, the new enforcement agents made available through these funds will have made additional tax assessments totaling about \$450 million.

Practically all of the savings have been effected by a continuing, comprehensive, and aggressive search for more efficient and more economical ways to perform and discharge major functions. These savings have not been realized at the expense of service to taxpayers, or of the Bureau's audit and investigatory work.

The accomplishments in the Bureau fall into five main categories, as follows:

(1) *Mechanization of collectors' offices.*—The processing of nearly 200 million tax returns, information returns, reports, forms, and other documents each year is an operation that necessarily calls for the use of mass accounting and recording techniques. The Bureau has accordingly been conducting an energetic and systematic campaign to mechanize as many as possible of the operations performed in collectors' offices in connection with these returns, etc. Included among the modern business machines which are either in actual use or under test in various offices are tabulating equipment, high-speed posters, electromatic typewriters, validators, bank proof machines, microfilming apparatus, and envelope-stuffing machines. Nearly all of these machines supplant operations formerly carried on by hand or by less modern and slower equipment.

(2) *General organization and systems improvement.*—This program has two purposes: first, to review the need for organizational changes in all segments of the Bureau's departmental and field structure; and, second, to analyze and make necessary revisions in all major operations of a type to which the mechanization program has no direct application. Some of the more important accomplishments effected under this program are: (a) consolidation of the wage-tax and excise-tax work in collectors' offices, with a resultant saving in personnel and handling costs;



(b) beginning January 1, 1950, extension of the depositary-receipt system of collection to the withholding and employment taxes, and later to the excise taxes; and (c) adoption of preassembled accounting forms for use in many of the collectors' operations, resulting in savings of 25 percent in the costs connected with such operations.

(3) *Work-simplification and cash-awards programs.*--These, in a very real sense, are the individual employees' own management-improvement programs. They represent an effort to train employees in the principles of work management and simplification so that they can apply those principles in their own day-to-day work and thus become active participants in the Bureau's over-all improvement effort. To date, the work-simplification program has yielded 2,080 improvements which have been accepted and installed.

(4) *Decentralization of routine work.*--This program has for one of its objectives the shifting to the field of routine work being performed in Washington. To the extent that the work requires the same number of man-hours in the field as it did in Washington, no savings result except as to transportation costs and time. In a number of instances, however, it has been found that, once the work is split up into small segments, the field offices are able to absorb their share without additional personnel. In other instances, some duplication of effort was eliminated so that substantial net savings accrue from the shift. In still other cases, the shifts have had the effect of reducing time lags which, while not involving measurable expense, are certain to be costly in the long run either to the Government, to the taxpayer, or to both.

Typical of some of the improvements were the following:

(a) The survey, classification, and retention of all individual income-tax returns are now the responsibility of field offices. The survey and classification work in connection with approximately 2½ million of these returns was formerly carried on in Washington.

(b) Practically all excise tax returns, numbering over 6 million per year, are now retained in collectors' offices where, as a part of the collectors' listing process, they receive an examination for correctness, which was formerly carried on in Washington.

(c) Responsibility for the adjustment of approximately 200,000 claims for refund of employment taxes on wages in excess of \$3,000 per year is also being transferred out of Washington to collectors' offices.

(5) *Audit-control program.*--The results of this program will not be apparent for at least another year, but it has potentialities for effecting substantial economies and better allocation of effort in the performance of the enforcement phases of the Bureau's work. The program, which is based on recognized sampling techniques, is designed to bring to light the most aggravated areas of noncompliance with the income-tax laws, so the Bureau will be in a better position to deploy more effectively and more economically its audit and investigatory efforts. Also, this program should aid materially in raising the standards of voluntary compliance by taxpayers.

#### BUREAU OF CUSTOMS

During the war the program of the Bureau of Customs was directed toward enforcing laws and procedures related to exports, censorship, and other security measures. There was little opportunity to keep pace with new methods and techniques. After the war it became necessary to analyze the program and procedures to meet efficiently the continually changing postwar needs.

In addition to internal measures taken by the Bureau of Customs and the Treasury Department, Secretary Snyder, in the spring of 1947, asked Congress for authority to use \$100,000 of the Customs appropriation to have a private management-engineering firm survey the operations of the entire Bureau. Authority was granted, and this survey, completed in January 1948, was made the nucleus of a Customs management-improvement program. This program has gained impetus as it has progressed. Private industry, foreign government representatives, and other Government agencies have been consulted with regard to improvements in Customs matters.

The "steering committee" directing this effort is composed of Customs headquarters and field officials and other Treasury officials. By bringing their experience to bear on Customs matters, it has been possible to secure a broader frame of reference for the resolution of Customs postwar problems.

*Increase in workload.*--Complicating this management improvement program was the fact that the workload was not static and that energy had to be directed to

resolving current crises. Important workload components increased sharply between the fiscal years 1947 and 1949. The number of entries, for example, had risen from 3.4 million to 3.9 million, an increase of 14 percent. Samples tested by laboratories had risen 21 percent, invoices processed, 19 percent. Tabulations revealed that an over-all average increase of major workload items approximated 10 to 15 percent.

*Direction and scope of program.*—The management-improvement program has been directed into five major areas: (1) trade-agreement activities; (2) aids to trade; (3) procedure simplification; (4) public educational aid; and (5) other management-control measures.

So successful has the program been that, even though the workload has increased about 10 percent since 1947, Customs employment has been reduced by about a similar percentage during this period.

The "savings" under the program include not only savings of cash but savings of manpower which was transferred elsewhere in the Bureau to meet the increased workload. Savings are projected from year to year during the period considered to reflect the cash outlay which would have been required to operate the Customs program if these improvements had not been made. The summary figures which follow, as well as the detailed data, are on this basis.

In the fiscal year 1948 the Bureau program saved a total of \$472,500. By 1949 the program had gained additional impetus, and savings totaled \$1.1 million. In 1950 the Bureau will record estimated management savings of \$1.6 million. The 3-year total for the program will be approximately \$3.2 million.

In addition to handling more work at reduced manpower expenditure, service to the public has been improved, with a resulting improvement in public relations. The major areas of accomplishment are discussed in the following paragraphs.

(1) *Trade-agreement activities.*—Customs participated in the Habana and other trade-agreement conferences. Together with other Government agencies, studies have been made of the commitments entered into under the International Trade Organization, should we accept membership, and under the General Agreement on Tariffs and Trade. Procedural studies have been made to determine the administrative or legislative action needed to live up to these commitments. Legislation, where indicated, has been drafted. In addition, the preparation of the various trade-agreement schedules by Customs has been a substantial accomplishment.

(2) *Aids to trade.*—Not only has the Bureau of Customs participated in the work incident to and resulting from the Habana and other trade-agreement conferences but has participated in discussions with the representatives of other governments, including the recent tripartite talks, with a view to simplifying Customs procedures.

Originating in the management-improvement program were 27 recommendations which would simplify export and import requirements. These covered the entry, inspection, classification, appraisement, sampling, and testing of merchandise; the entry and clearance of vessels and aircraft, etc.

(3) *Procedure simplification.*—Because the significant items of the Customs workload are rising and because present and prospective budgetary limitations do not provide for adequate staffing at present import levels, procedure simplification has been imperative. Included in the improvements made are the following:

(a) *The formulation and use of scientific control weighing and testing procedures.*—Scientific control weighing methods have been applied to the three principal revenue-producing commodities handled by Customs, namely, sugar, wool, and tobacco. While the studies are not complete, these methods have resulted in large manpower savings and more expeditious handling of these commodities. Moreover, industry is being better served.

(b) *Joint customs-immigration preliminary questioning of pedestrian and vehicular traffic at land border ports.*—This program, providing that a single Government Official ask both customs and immigration questions of the traveling public, has been successfully installed along the Canadian border with savings to both the Customs and Immigration Services, as well as improved service to the public. The system is being expanded to include the Mexican border. Customs savings during the fiscal year 1950 alone will total about \$137,000. Smaller savings were recorded in 1949 when the program began.

(c) *Work simplification.*—This program, which depends on the knowledge of the employees of the Bureau, has been increasingly successful. The program got underway during the fiscal year 1949, when savings of \$108,100 were reported, and will continue through the fiscal year 1950 and subsequent years. Savings for 1950 are estimated at \$325,000.

(4) *Public educational aids.*—Customs is meeting the problem of creating better public relations by providing customs information to the traveling and importing public. A Customs Hints folder, in simple, direct language and complete with illustrations, has been prepared to assist the traveler. In cooperation with other Government agencies, customs has prepared a brochure for prospective importers and exporters. In addition, customs has invited the public to visit its local offices to present and discuss their problems. Continuing emphasis is being given to this phase of the program and press releases are issued when a subject is of interest to the public.

(5) *Other management control measures.*—In this area, improvements have been made in three principal categories:

(a) *Enforcement methods.*—Since the end of the war customs has reevaluated its enforcement techniques and has eliminated its traditional border patrols. Outmoded enforcement techniques have been replaced by investigation and increased purchase of information. The elimination of the Southwest border patrol alone resulted in savings of \$358,700 in 1949; future years will show recurring \$138,700 savings.

In addition, the method of port patrol has been changed. Radio patrol cars now cover almost the same areas as did the traditional foot patrol, before its reduction in size. Resultant savings amounted to \$472,500 in the fiscal year 1948, \$530,300 in 1949, and \$530,300 estimated for 1950 and subsequent years.

(b) *Delegation of authority.*—Other significant management control measures which have been instituted are as follows: Appropriate authority has been delegated to the man with the job; personnel activities have been decentralized to local field offices; fiscal and budgetary responsibilities have been delegated to the field; and authority to make many technical operating decisions has been given to district operating officials.

(c) *Improved service functions.*—Central service functions, such as payroll and accounting matters, have been centralized in field cities so that a single office performs these functions for all customs installations in that city. This results in higher-grade work and better control. Other organizational changes are being studied, including consolidation of the mail division functions under a single office in field cities, which should result in more efficient service at some reduction in cost. Moreover, under the joint General Accounting Office-Treasury-Bureau of the Budget accounting program, a systematic review is being made of all the accounting and auditing procedures, with a view to streamlining these operations and providing for the elimination of any overlapping or duplication which may be found to exist.

Many of the changes discussed here will require legislation if they are to have their full effect. Administrative changes are being made as rapidly as possible, and the total estimated savings thus far attained indicate the success of the measures so far undertaken.

#### BUREAU OF ENGRAVING AND PRINTING

The Bureau of Engraving and Printing is not a "bureau" in the ordinary sense. It is an industrial or manufacturing plant that designs, engraves, and prints currency, bonds, notes, bills, certificates, revenue and postage stamps, Government checks, postal-savings certificates, warrants, and many other kinds of documents and forms.

In 1949, for example, the Bureau delivered 746 million sheets of finished work. This total included 510 million sheets of postage, revenue, and other stamps with a face value of \$42.4 billion, 140 million sheets of currency aggregating \$6.5 billion in face value, and 77 million bonds, notes, bills, etc., with a face value of \$185.9 billion.

During the war the Bureau of Engraving and Printing, like other Treasury bureaus, had to meet demands as best it could. Economy and efficiency were of necessity secondary to the problem of getting the job done. War had brought many new technical developments but few of them had been adapted to the Engraving and Printing Bureau, for the Bureau had been unable to employ technical personnel to carry on research and experimental work. In 1946 the Bureau was authorized to undertake an immediate modernization program, which to date has effected savings of \$11.8 million as a result of new and improved means in handling its work.

*Modernization in the postwar period.*—The postwar period brought heavy demands for new currency. The decision to keep paper currency in circulation for longer periods before replacing it with new money was helpful for a time, but

eventually production had to be increased. New presses were needed. The Treasury learned that 20 new flat-bed printing presses equipped with automatic polishers and semiautomatic feeder boards had been built for the Soviet Union, but our Government had withheld the presses. The Treasury bought these presses for \$250,000.

Subsequently, contracts were awarded for the manufacture of automatic polishers and semiautomatic feeder boards to equip 150 of the old presses in the Bureau. It is calculated that these modernized presses will make it possible not only to increase currency production by approximately 30 percent, but will save about \$1.2 million each year.

*Foreign currency production.*—Outstanding projects performed for other agencies included the production of Siamese currency for the Government of Siam; Korean currency and military certificates of four separate issues ordered by the Department of the Army; Cuban currency ordered by the Cuban Government through the State Department; and Philippine currency and postage stamps produced for the Government of the Philippines. It was necessary to secure the services of a commercial firm to assist in the offset printing of the Siamese and Korean currencies and the military certificates.

One of the most interesting and important projects brought to a successful conclusion by the Bureau was the production of a special currency for use in the western zone of Germany. As Bureau facilities were taxed to capacity, it was necessary to use the offset process of printing and to negotiate for the production of the currency through commercial facilities. The use of the offset process of printing in the initial phase of production made it possible to meet the deadlines. During the 3 years that special currencies were produced, the offset process saved the Government almost \$8.3 million.

*Postal issues.*—Since July 1946 the Bureau has produced 50 new postal issues for the Post Office Department. The heaviest workload in the Bureau history occurred during the calendar year 1948 when there were 29 new stamps, the majority of which were issued to comply with special congressional legislation. This accelerated program made it necessary to produce a new stamp issue every 9 days, instead of the usual 60 to 90 days. All of the new issues required preparation of designs, engraving of dies, making of plates, printing and processing of sheets, and shipping of finished stamps to post offices throughout the United States. In many instances overtime work was necessary to supply sufficient quantities of stamps to the various post offices in time for the designated issue dates.

*Experimental work.*—The Bureau has carried on an almost endless number of experimental and research projects. As a result of this work the Bureau has pioneered in the production of a special type of printing ink to be used with the new rotary press now being developed to print postage stamps. The higher speed of this press requires an ink which dries faster than the conventional types.

One of the Bureau's persistent problems has been to lengthen the life of paper currency. If the period of its use can be extended, the cost for printing money can be reduced. The Bureau and the manufacturer of the Bureau's currency paper have been working together to produce new internal sizing agents. These new sizing agents are being used experimentally to see if they will improve the physical properties of currency paper.

The Bureau is now working on the design and construction of new equipment to replace worn-out or obsolete equipment used in printing of currency, bonds, and stamps. Safety, improved quality, decreased costs, and the conservation of raw materials are important factors in new designs. Experiments conducted after modifications of existing equipment are serving as a guide for the design of a new press which is now under contract. This press will be adaptable for multicolor printing of postage stamps.

#### BUREAU OF THE MINT

*Wartime developments.*—During the war the mint service was confronted with enormous problems of workload which stemmed from two sources. First, domestic coin production had to be increased until in 1945 more than 3 times as many coins were delivered to the public than were required in the prewar years. Secondly, foreign coin production for the Allied countries and their overseas possessions devolved upon the Bureau of the Mint when the mints of these countries were put out of operation by enemy action. For a number of years the mints operated 24 hours a day, 7 days a week. As a result of these sustained operations, much of the mints' equipment suffered severely. Moreover, in its all-out effort to meet tremendous war production schedules, the Bureau was

forced to neglect in many respects its personnel problems, safety and industrial hygiene, and working relations with employees' unions.

Upon assuming office, Secretary Snyder directed that a complete review be made of all the operating procedures of the mint service. Now, modern equipment would soon be available, and the Bureau should stand ready to take advantage of it as it came on the market.

In September 1946, therefore, a conference of officials representing the entire mint service was held in Washington, D. C. The purpose of this conference was to obtain a direct exchange of ideas between the technicians actually in charge of the manufacturing processes in the individual field plants. During this conference every technical manufacturing process of each plant was scrutinized, and extensively discussed along with ideas for improvements; and new or improved types of equipment were surveyed. More than 100 operating problems ranging from the pouring of ingots to the shipment of the completed coin, were considered by the assembled officials. The discussions which were held at this conference were recorded and subsequently compiled into a written transcript which, in effect, constituted a textbook on modernization for the mint service.

Moreover, the officials who had attended the conference personally visited outside manufacturing concerns which had metalworking activities in any way similar to the mint processes. Technical experts from private industry were induced, as a result of these visits, to lend their assistance in solving the problems which the war had left.

Working relations with employee unions had to be reexamined in the light of postwar developments. The Bureau of the Mint established a policy of conducting annual wage surveys in each of the five mint areas employing per diem workers in order to adjust their rates of pay to a level comparable to that for similar work in private industry. Definite procedures were established for resolving union and employee grievances.

*Management savings.*—The mint service has shown estimated savings totaling \$1.2 million for the fiscal years 1947-49. Additional savings for 1950 are estimated at \$300,000, making total savings of \$1.5 million in the 4 years.

Some of the major operating improvements in the mint service are described in the following paragraphs:

(1) The development of a water-cooled mold. The mint in Philadelphia formerly cast silver ingots by pouring into individual molds by hand, which made it necessary for the workers to handle hot molds and hot ingots. The new water-cooled mold, developed for mechanically casting silver ingots, eliminates the handling of the mold and ingot.

(2) The development of the universal silver ingot. Formerly the mints had to cast separate ingots for 10-cent, 25-cent, and 50-cent pieces. There has now been developed a universal silver ingot which can be used for all of the silver coins.

(3) Reduction in the number of passes of ingots through rolling mills. New rolling-room equipment has reduced the number of passes of ingots through the mills.

Other improvements include increased speed of cutting presses, the installation and adaptation of new annealing equipment, improvement of milling machines, and a change of reviewing procedures.

#### FISCAL SERVICE

During World War II, the work in the fiscal service increased at a tremendous rate. Serious problems had arisen because of the magnitude of centralized operations. In 1946 the fiscal service, therefore, increased the tempo of its decentralization program. Many of the most important economies realized during the subsequent years resulted from this program.

Three other means used to economize in the fiscal service during the postwar period were: the elimination of overlapping and duplication between the bureaus of the fiscal service, the mechanization and improvement of basic procedures, and the adoption of suggestions received from employees under the Department's work-simplification program.

Shortly after the end of the war, the Secretary of the Treasury authorized the Fiscal Assistant Secretary to recruit a small staff of high-grade accountants for over-all management work. Moreover, the three bureaus in the fiscal service were encouraged to strengthen their technical staffs as well as their executive and key supervisory personnel. With these technical specialists, the fiscal service was able to review its operations critically and to supply expert assistance to those responsible for line operations.

Inasmuch as the fiscal service is primarily a service agency for the Government and the public, the problem was one of speeding up and reducing the cost of the service performed. Since the summer of 1946, the fiscal service has shown management savings totaling nearly \$10 million. Savings effected apply not only to the year when the improvements are installed, but also to all future years in which the operations are performed. Savings for the fiscal year 1950 are estimated at \$6 million. Three major improvements which contributed to the \$10 million savings are the decentralization of the Treasurer's savings bond redemption operations to Federal Reserve banks, with savings amounting to \$680,000; the revision of the procedures for processing issues and redemptions of savings bonds, with saving of \$1.7 million; and the consolidation of savings bond operations in parent Federal Reserve banks, with savings of \$2 million.

There follows a brief narrative account of the programs in each of the three units of the fiscal service, as well as a review of the Government-wide program to improve Federal accounting and financial reporting.

*Office of the Treasurer.*—Some years ago the payment of checks drawn on the Treasurer of the United States was largely decentralized from Washington to the Federal Reserve banks, thus eliminating one step in handling the major part of paid checks. This program is a continuing operation. At the present time approximately three-fourths of all checks drawn on the Treasurer of the United States are paid through the Federal Reserve banks.

In 1947, the audit of redeemed savings bonds by the Treasurer of the United States was discontinued; and, in substitution thereof, improved audit procedures were designed for the Federal Reserve banks and the Office of the Register of the Treasury. In the fiscal year 1949, the issuance of savings bonds by the Treasurer of the United States in Washington on mail order was decentralized to the Federal Reserve banks. During the fiscal year 1950, arrangements have been made to discontinue the separate examination of paid interest coupons in the Treasurer's Office after their payment by the Federal Reserve banks as fiscal agents of the Treasury and prior to their transmittal to the Register of the Treasury for final audit. In lieu of such examination improved control procedures have been set up in the Federal Reserve banks followed by a thorough audit by the Office of the Register of the Treasury.

The most revealing picture of management improvement in the Office of the Treasurer is shown by the following comparison of workload and employment: In the fiscal year 1947, the office had 2,058 employees and processed 264 million checks; in 1950, employment will total about 1,500 and 252 million checks will be processed. Thus, in 4 years, the check workload, the main component of the total workload, has remained virtually the same while employment has dropped about 26 percent.

Management savings in the Office of the Treasurer totaled \$268,000 in 1947, \$310,000 in 1948, \$406,000 in 1949, and an estimated \$444,000 in 1950.

*Bureau of Accounts.*—The program of the Bureau of Accounts, which includes the Division of Disbursement, has been directed to reduction of operating costs and at the same time improving service rendered.

Improved procedures have been initiated to speed up the issuance of duplicate checks in cases where the originals have been lost by the payees. Effective steps have been taken to mechanize operations wherever possible, and to adopt other improvements, which have resulted in substantially lower unit costs for issuing checks.

The effectiveness of management improvement is shown by the following comparison of workload and employment: In the fiscal year 1947 the Division of Disbursement had 3,735 employees and wrote 160 million checks; in 1950, employment will total about 3,472 and 186 million checks will be written. Thus, in 4 years, employment will have dropped about 260 and the workload will have increased by 26 million checks.

Management savings in the Bureau of Accounts, including the Division of Disbursement, totaled \$550,000 in 1947, \$1.3 million in 1948, \$2.1 million in 1949, and an estimated \$2.4 million in 1950. Nearly all of this is reflected in reduced appropriations.

*Bureau of the Public Debt.*—The major problems of the Bureau of the Public Debt in terms of volume of work handled had their inception in the tremendous expansion of the savings bond program during the war. In recent years it has been necessary to devote considerable attention to the elimination of wartime accumulated backlogs in various savings bond operations, and at the same time to handle a large volume of current work.

An important phase of this program has been the policy of decentralizing to the Federal Reserve banks responsibility for the processing of certain phases of the work incident to the issue and redemption of savings bonds. This step eliminated much duplication in operations of the Federal Reserve banks and the Bureau of the Public Debt. Some of the accomplishments in this field involved the consolidation in Federal Reserve banks of the work incident to the redemption of savings bonds and the decentralization of the audit of savings bonds by the Office of the Register of the Treasury. A revision of procedure for processing rebuissances and redemptions of savings bonds, under which Federal Reserve banks are authorized to conduct these operations, has not only speeded up service to the public, but has made it possible to reduce substantially the operating costs.

Management savings in the Bureau of the Public Debt totaled \$100,000 in 1947, almost \$2 million in 1948, \$2.8 million in 1949, and an estimated \$2.9 million in 1950.

*Joint accounting project.*—One of the important tasks with which the Fiscal Service is currently concerned is that of Treasury participation in a continuing, Government-wide program to improve Federal accounting and financial reporting.

The Treasury, the General Accounting Office, and the Bureau of the Budget as the three central fiscal agencies of the Government, are taking the lead in this program, which was announced jointly by the heads of these three agencies early in 1949. This is the first time since the enactment of the Budget and Accounting Act of 1921 that the officials of the three agencies have adopted a formal program of cooperation to bring about improvement in basic accounting systems throughout the Government.

Under this cooperative program it is hoped Government agencies will ultimately adopt uniform principles of accounting, giving due recognition, of course, to the varying needs of different types of Government activities. Other objectives of the program include the strengthening of the facilities of the Treasury as the operating center for current accounting and over-all financial reports; making available more informative financial reports at lower accounting costs; improving budgetary processes in line with the improvement of accounting and financial reporting; improving the Government's system of audit and control; and establishing a body of accounting and reporting principles and standards for general observance.

The Treasury, by revising the Coast Guard accounting system to meet the needs prescribed by sponsors of the joint program, is among the agencies which have taken the lead in the new program. When the installation is complete the management of the Coast Guard will have available an accounting system which will meet more effectively the needs of management and fiscal control.

#### OFFICE OF THE COMPTROLLER OF THE CURRENCY

Measures have been taken by the Office of the Comptroller of the Currency in the past 3 years to strengthen its bank examining function. This Office was hampered by personnel losses during and immediately after the war. Therefore every effort has been made to rebuild the staff to its prewar level. This entailed the raising of standards and the recruitment of new assistant bank examiners from university graduates who have specialized in economics and business, as well as from men possessing actual banking experience. In addition, an educational program for the entire examining staff has been inaugurated to supplement the training program which has long been in operation.

Other steps taken to perfect the bank examining function, and which have proved beneficial, are: (1) revision of the instructions to national bank examiners; (2) issuance of a Digest of Opinions of the Comptroller of the Currency, with necessary supplements to keep it current; (3) revision of the compilation of laws affecting national banks; and (4) revision of examination report forms to bring them in line with new developments in the banking field.

Moreover, the Comptroller of the Currency has adopted a policy of rotating the District Chief National Bank Examiners periodically among the 12 districts in order to bring about a fresh viewpoint in each district and to stimulate the chief examiners by the challenge of new problems.

Through cooperation with other bank supervisory agencies, important revisions have been made in the examination procedures relating to the classification of assets and appraisal of securities.

The creation of a unit to give specialized direction for the supervision and examination of trust departments of national banks has contributed to the improvement in operations of the Office of the Comptroller.

## COAST GUARD

On January 1, 1946, the Coast Guard was returned to the jurisdiction of the Treasury Department, after spending the war years under the Navy. Thus, when Secretary Snyder assumed office in 1946, he found the Coast Guard once more in the Treasury Department. During the 10-month period after V-J-day, the Coast Guard demobilized from a strength of 172,000 to 22,000 officers and men. At that time the mission of the Coast Guard in peacetime was uncertain and obscure. Demobilization had disrupted the orderly procedure of its operations, and a host of new duties assumed during the war remained as a continuing responsibility. Moreover, not only the men but also the funds to do the job were gone. Since then, the peacetime mission of the service has been well defined and has been affirmed by Congress in legislation. The money and manpower today have been more properly scaled to fit the size of the job.

*Management study.*—Recognizing the critical condition of the Coast Guard in the summer of 1947, the Secretary of the Treasury and Congress made provision for a major business study of the service to be conducted by a private firm of consultants.

The firm submitted its report in January 1948 and advanced 193 specific recommendations aimed at furthering improvement in Coast Guard operation. These proposals became an integral part of a broad improvement program. To date, action has been completed on 119 of the recommendations, and the remaining 74 are in process of implementation or are being given further study.

*Achievements.*—Major improvements which have been initiated in the Coast Guard since 1947 are reviewed in the following paragraphs.

(1) *Integration of former Lighthouse Service and former Bureau of Marine Inspection and Navigation.*—Although phases of these consolidations were accomplished during the war, much has been achieved since 1947. Increased economy and efficiency have been attained through consolidation of facilities, reduction of operating expenses, and better utilization of personnel assigned to marine inspection and aids to navigation functions.

(2) *Consolidation of districts.*—The former Tenth (San Juan) Coast Guard District was abolished on April 1, 1948, and merged with the Seventh (Miami) Coast Guard District, thereby effecting certain savings and making possible a redistribution of personnel to less adequately manned activities.

(3) *Consolidation of facilities.*—A special board of officers, convened early in 1949, has recently concluded its mission of investigating the necessity for operating each lifeboat station, light station, and lightship. This board, as a part of its study, held public hearings in the localities concerned to determine whether the facility need be continued. The report of this special survey board is currently being reviewed by the Commandant, prior to its formal submission to the Department.

(4) *Improvements in accounting.*—A special staff activated in November 1948 is devising improved accounting organization and procedures. Improvements so far under way include: (a) decentralization of detailed accounting to districts; (b) centralized consolidation of reports and analyses for management purposes; (c) use of site audits and reduction of departmental post-audits to the maximum permissible extent; and (d) establishment of an adequate system of cost accounting. A pilot organization in the Fifth Coast Guard District is planned for March 1, 1950, with extension to the other districts as rapidly as possible. It is expected that the complete change-over will be accomplished by January 1951.

(5) *Improvements in supply.*—A study of existing supply procedures initiated in February 1949 is progressing toward: (a) more efficient methods of procurement; (b) better inventory control with reduced costs; (c) faster filling of supply orders; and (d) improved distribution of stocks. As an initial step, it is intended to utilize existing sites and facilities to establish a field distribution depot in each district (except the Eleventh and Fourteenth). These district depots will become satellites of naval supply activities for the distribution of general stores to all Coast Guard shore and floating units (except large cutters) in their respective districts.

(6) *Utilization of mechanical devices.*—The war-famed Army "DUKW" is an excellent example of a recent improvement in equipment for use in assistance, search, and rescue. After some modifications and exhaustive tests in 1947, this amphibious-type vehicle has been added to the allowance list of many lifeboat stations to replace older and less adequate types of floating equipment. Some savings in personnel may accrue for diversion to duty elsewhere. A somewhat similar situation exists with respect to helicopters. The helicopter now fills an



important need aboard certain ships by extending the present radius of search activity. Its use at lifeboat stations is also under study.

(7) *Conversion of manned aids to navigation to unattended status.*—Each year the Coast Guard is able to convert certain aids to navigation from a manned to an automatic or unattended status. This, of course, permits the reassignment of personnel elsewhere. The Coast Guard has also been experimenting with an automatic unmanned lightskip.

(8) *Improvement in electronic devices.*—The rapid advances in the field of electronics during World War II have enabled the Coast Guard to adopt electronic improvements. These advancements improved the quality and quantity of services to the mariner. Types of equipment which have recently been improved or devised include: (a) remote-control radio receiver; (b) coastal lookout radar; (c) direct-reading loran receiver; (d) automatic radio direction finder with visual presentation; (e) portable radiophone and radiotelegraph; and (f) ramark and radar reflector equipment.

(9) *Mechanization of clerical work.*—Extensive study has been devoted to furthering efficiency through mechanizing manual clerical procedures wherever possible. Of major importance is the mechanization of personnel accounting which was achieved in 1949. Similar studies are in progress for the mechanization of manual work in other fields.

(10) *Work-measurement and personnel-utilization programs.*—Although currently hampered by lack of sufficient personnel, intensified programs concerned with the development of a more adequate work-measurement system and the better utilization of personnel are in progress.

(11) *Review of methods and procedures looking toward general improvement in management practices.*—A central management group now scrutinizes detailed aspects of the management of the Service. This group is devoting its attention to the general improvement guidelines established by the consulting management firm.

#### COORDINATION OF ENFORCEMENT ACTIVITIES

In addition to the law-enforcement responsibilities of the Bureau of Customs, the Bureau of Internal Revenue, and the Coast Guard, heavy enforcement duties rest with the Secret Service and the Bureau of Narcotics. Effective cooperation of all of the Treasury law-enforcement groups is assured through the work of a Chief Coordinator, who directs the interchange of ideas and information as well as cooperative performance in specific enforcement undertakings.

Under the personal leadership of Secretary Snyder, the Treasury Department's coordinated attack on crime has moved, since 1947, into its most effective period. The Department has succeeded in utilizing the benefits of coordinated police work in detecting and convicting criminals without the high central overhead cost usually associated with these efforts. Three positive polices have been used as the substitute for more mechanized and costly centralized controls. They are (1) aggressive and consistent top management support, (2) respected leadership selected from within the organization, and (3) a cooperative type of leadership emphasizing the specialized talent of each enforcement unit, interchange of ideas, training and education, and practical research.

Another perspective on the accomplishments of enforcement operations is furnished by the growing dollar volume of fraud-case taxes and penalties recommended, and other fines and seizures. Since July 1946, latest estimates place the total fines, penalties, and value of seizures in excess of \$91 million. In addition, in tax-fraud investigations alone, recommended taxes and penalties for the period are approaching \$1,400 million.

*Rise in service morale.*—Surveys by the Coordinator indicate that the morale of Treasury enforcement personnel has been raised during the last few years to its highest level in departmental history.

The policy of filling the position of Chief Coordinator and those acting in that capacity from the ranks of career executives within Treasury enforcement has contributed to the rise in morale. Thus, when Treasury Department Order 114 appeared on June 1, 1949, restating the Department's position on promotions of personnel, the Coordinator was able to report that this policy was fully installed in every branch of law enforcement.

This improved morale has enabled the heads of the enforcement groups to work together actively in the improvement of departmental working conditions for enforcement officers. The biggest lift was provided by the law permitting enforcement agents to retire at the age of 50 after 20 years' service. This law was put on the books principally because of the personal efforts of Secretary

Snyder. There is also pending a proposal to add to the salaries of enforcement agents a 10 percent pay differential for the overtime they must work.

*Training and cooperation.*—Assisted by the Office of the Coordinator, Treasury agencies have recently made arrangements whereby their men may attend certain related training schools conducted by the armed services. The Coordinator's Office also participated in training sessions conducted by the armed services, which presented material on civilian police work.

Treasury cooperation with local authorities is carefully maintained on an informal basis. The continuing reward for this is the unstinted cooperation of local authorities, which, in turn, is of material aid in enabling the several units to maintain their high record of convictions.

#### SECRET SERVICE

*Counterfeiting.*—The upsurge in counterfeiting during the postwar period has been one of the most difficult problems of the Secret Service. A most helpful factor in meeting this problem was the voluntary uncompensated overtime work of the men of the Secret Service.

Perhaps the most important single step taken by the Treasury to combat counterfeiting was the establishment of a special mobile squad of 15 agents assigned to work exclusively on investigations of major counterfeiting cases. However, the urgent need for these agents in the various field districts from which they were temporarily recruited made it necessary to disband the squad and to return the agents to their permanent posts of duty.

From time to time the Secret Service has assigned agents to conduct counterfeiting investigations in foreign countries. The Secret Service is in close touch with European authorities endeavoring to coordinate efforts to stamp out the foreign counterfeiting of United States money, and has asked for funds to assign two agents to Europe permanently. The Treasury has also filed an official request with the Department of State asking for closer cooperation of foreign police agencies in combating this problem.

In order to alert the general public against counterfeiting, it has been discussed through every conceivable publication medium. There have been Nation-wide efforts to publicize the method of detecting counterfeits. Newspapers, magazines, radio, and television have all been used. This publicity resulted in detection of a counterfeit note by a theater cashier in Cleveland. The passer was arrested and furnished information which led to the capture a few months ago of a counterfeiting plant in Washington not far from the Treasury Building. In that case the Secret Service seized \$150,000 in counterfeit notes and the counterfeiting plant and makers.

Moreover, displays of genuine and counterfeit notes have been installed in banks throughout the country. Ordinary citizens can usually tell the difference in good and bad money if they can see the good and the bad side by side. The Secret Service booklet *Know Your Money* has also been revised. Bank tellers and cashiers throughout the country use this book, and it is now frequently included in the course of study in high schools. Copies of the booklet have even traveled as far as Monrovia, where officials are using it to educate persons who have been victimized by passers of counterfeit American money of foreign origin.

A review of the counterfeiting laws has shown that the Criminal Code is not up to date. The Secret Service, with the assistance of the general counsel of the Treasury, has therefore drafted additions and amendments to the code in the hope that legislation will be passed which will modernize obsolete counterfeiting laws and make enforcement effective.

*Thefts, forgeries, and other problems.*—The number of agents of the Secret Service has not been commensurate with its great workload since the war. The ever-increasing numbers of stolen and forged Government bonds and checks have made it necessary for the Secret Service to take extraordinary steps to prevent the backlog from mounting. While the requests for funds for more agents have been debated in Congress, the existing field force has worked overtime without extra compensation. The extra effort of the Secret Service has been instrumental in the closing of 45,384 criminal cases and 1,735 noncriminal cases, a total of 47,119 investigations, during the fiscal year 1949.

#### BUREAU OF NARCOTICS

Shortly after Secretary Snyder assumed office, the Bureau of Narcotics, through the Commissioner, resumed work on the international narcotics problem. Narcotics control, in order to be effective, must be an international cooperative

venture. All countries, particularly in the Orient and the Middle East, must work together. The opportunity for coalescing the enforcement agencies around the world presented itself through the newly formed United Nations organization. The Commissioner of Narcotics was named the United States delegate to the Commission on Narcotic Drugs, and in 1946 he took the lead in the work of that Commission.

*International control.*—The war had left a legacy of confusion. It was the object of the Treasury to secure firm international control over all narcotic drugs. The Commissioner of Narcotics in the fall of 1946 attended the first meeting of the newly formed international commission, a part of the United Nations, with this basic purpose in mind.

One of the first achievements of the Commissioner, as United States delegate, was to play a prominent part in the adoption of the protocol of December 11, 1946. This protocol transferred to the United Nations and the World Health Organization the functions previously vested in the League of Nations under the six existing narcotics agreements, conventions, and protocols. It secured uninterrupted continuity of international cooperation in controlling the traffic in narcotic drugs on a world-wide basis. This protocol was ratified by the United States Senate on June 24, 1947, and was proclaimed by the President on October 14, 1947.

In the meantime, a number of new drugs—not obtained from the basic opium or coca leaves—were being developed by the pharmaceutical industry. Although these new drugs were dangerous from the standpoint of habituation, they were not subject to regulation or control under either the national narcotics laws or the international narcotics agreements and conventions. Legislation was consequently requested and enacted whereby, upon proclamation by the President of an appropriate finding, these new habit-forming drugs could be placed under control of existing narcotics laws. To date, 10 new synthetic drugs have been subjected to the control of Federal narcotics laws by Presidential proclamations.

It was of vital importance, however, to secure the adoption of similar procedure in the international field, so that each of these new synthetic drugs found to be dangerous could be promptly brought under control of existing regulatory conventions without the delay of drafting and adopting new ones. The United States, through its delegate, proposed a plan for covering in these new synthetic drugs, and this plan crystallized in a new protocol bringing under international control drugs outside the scope of the convention of July 13, 1931. This protocol, approved by the General Assembly of the United Nations, October 8, 1948, is now before the United States Senate for ratification.

In the meantime the Commissioner continues to assist in the important preliminary work of revising and modernizing the provisions of these existing eight international agreements, one of which is dated as far back as 1912. The Treasury has vigorously sponsored a project, now agreed to in principle by the main producing countries of the world, to limit the production of opium to the medical and scientific needs of the world. As a result, a conference of representatives of the principal producing countries, India, Iran, Turkey, U. S. S. R., and Yugoslavia, will meet in Turkey this year to consider methods of limitation.

The United Nations Economic and Social Council has given effect to a proposal submitted by the United States delegate to the Commission to have the several nations collaborate in a scientific study of the identification of opium by physical and chemical means. The object of the study is to determine if there are distinguishing physical or chemical qualities for opium produced in certain countries or in a specific area of a certain country. The advantages of this identification are obvious. Preliminary experiments made by an expert American chemist give promise of the development of a scientifically acceptable identification procedure.

At a session of the United Nations Commission on Narcotic Drugs held in July 1947, the United States delegate called attention to large-scale smuggling of narcotics from Mexico into the United States. It was estimated that at least one-half of the raw opium produced in Mexico was processed into morphine or heroin, most of which found its way into the United States. On motion of the United States delegate, the Commission adopted a resolution to ask the Government of Mexico to suppress the illicit cultivation of opium. As a result, the Mexican representative reported at the session of the Commission held in May 1949 that his Government had instituted a permanent campaign against illicit production, manufacture, and traffic; that by 1948, 690,000 square meters of land previously used for opium poppy growing had been changed over to other crops; that drastic action had also been taken to destroy poppy fields and plantations of Indian hemp; and that two illicit laboratories engaged in the production of opium derivatives had been closed.

To facilitate international cooperation, the Treasury has sent a narcotics agent to Peru, another to France, and a third to Turkey. These agents have helped police of those countries break up smuggling rings and have thus contributed materially to the objectives of the United States Government and the United Nations Commission.

*Domestic operations.*—Simultaneously, the Bureau of Narcotics has been carrying on its regular criminal law-enforcement work against a postwar resurgence of the illicit narcotic traffic. With its average complement of approximately 175 agents, the Bureau arrested 2,855 narcotic traffickers during the fiscal year 1947. In 1948, arrests increased to 3,180; and in 1949, rose to 4,803. Approximately 8 percent of the total offenders in Federal prisons have been incarcerated because of the work of the Bureau of Narcotics. This ratio is a firm testimonial to the effectiveness of these agents.

To afford a more prompt and effective check against diversions, the reporting procedure of the Bureau of Narcotics was decentralized in 1949. Manufacturers, wholesalers, and jobbers now report sales of narcotics directly to district field offices. This will be a particularly valuable procedure in enabling the Bureau to recognize promptly any trend in addition to, and abuse of, the newer synthetic drugs, and to take remedial measures.

#### OFFICE OF ADMINISTRATIVE SERVICES

Prior to October 1947, service functions in the Office of the Secretary of the Treasury were widely dispersed. These functions include office services, record administration, certain building custodial operations in the District of Columbia, and the coordination of Treasury space requirements in Department and field offices. The Secretary of the Treasury on October 1, 1947, by Treasury Department Order No. 93, directed that all of them should be brought together in a newly created Office of Administrative Services and operate under the supervision of a Director.

Significant savings have since been accomplished. From the fiscal year 1947 through 1950, management savings total \$3.8 million. Two of the major components of this total are attributable to the records-disposal program of the Treasury Department and to the release of commercial space. The records-disposal program has made approximately \$500,000 in records storage equipment available during each fiscal year. The Treasury's program to release commercial space and make use of federally owned or controlled space has produced significant savings. In 1947 savings in commercial rentals totaled \$280,000; in 1948, \$443,000; in 1949, \$561,000; and in 1950, an estimated \$200,000.

#### BUREAU OF FEDERAL SUPPLY

The Bureau of Federal Supply is no longer under the jurisdiction of the Secretary of the Treasury. By act of Congress it was transferred on July 1, 1949, to the new General Services Administration, which was created, on the recommendation of the President, to bring under one control the related service agencies which had previously been independent or under some other jurisdiction.

*Stores program.*—During the fiscal year 1947 the Federal supply Nation-wide stores program handled a total annual dollar business of more than \$22.9 million. Under this program, the Bureau operated stores which sold supplies to other Government agencies, with the exception of the military. The stores, of which there are now 12, are located in strategic cities widely dispersed throughout the country. The object of the stores program is to bring the merchandise nearer to the customers, to locations where the customers can see what they are buying, and to cut the costs of this service operation. Under the Treasury's direction, this program has gradually been accepted by the other Government agencies, although the agencies were not required to purchase from these stores.

In 1948, after the stores program had been operating for almost 6 years on a cooperative basis, the Secretary of the Treasury approved a Federal supply directive which made the stores program mandatory for all Government agencies, except, of course, the Department of Defense. The Bureau was able to demonstrate at that time that it would be clearly advantageous to the Government to require the civilian departments and agencies to purchase their supplies through the 12 regional stores. The dollar volume of the stores operation had fallen to \$22.4 million in 1948, but jumped to \$26.9 million in 1949.

*Strategic and critical materials.*—An interesting and important development in the past three fiscal years was the increase in the purchase of strategic and critical

materials by the Bureau. In 1947 these purchases totaled over \$68 million; in 1948, more than \$252 million; and in 1949, more than \$477 million. As purchases increased, the Treasury also leased the necessary additional warehouses space to accommodate the vital stockpiles.

[Extract from the Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year 1950]

#### ADMINISTRATIVE MANAGEMENT

The importance of improving the administration of the Government was emphasized on July 20, 1949, when the President issued Executive Order No. 10072, calling for aggressive, systematic appraisal and improvement of operations. Shortly after, on August 9, the Secretary of the Treasury assigned to the Treasury Department Management Committee responsibility for advising and assisting him in carrying out the directives of the Executive order and accelerating the Department management program established in 1946. Supporting the work of this Committee are the management committees of the several offices. The Department program has been directed toward reducing costs, improving efficiency, and giving better service to the public. While many diverse, technical changes in management and operating procedures are involved, they amount in the aggregate to substantial savings in terms of dollars. In many instances these savings are recurring and cumulative.

Summarized here are some of the management developments in the Treasury Department which have occurred during the year. These will indicate the progress made during 1950 on the foundation described in the 1949 annual report on pages 35 through 58. The administrative reports of the individual organizations of the Department integrate management improvements with their operations (pp. 65-136).

Of Government-wide scope is the continuing work on the program to improve Federal accounting and financial reporting. This project was announced jointly in January 1949 by the Secretary of the Treasury, the Comptroller General of the United States, and the Director of the Bureau of the Budget, who are directing the undertaking. In addition to establishing in all departments and agencies accounting and reporting principles and standards suited to the Government's requirements, objectives include the strengthening of the facilities in the Treasury as the center for current accounting and over-all financial reports; making available for executive and legislative purposes more informative financial data at lower accounting costs; improving budgetary processes; and improving audit and control.

Legislation to provide a modern budget, accounting, and audit law was introduced and considered by the Congress during the fiscal year. The measure did not become law, however, until September 12, 1950. This law, the Budget and Accounting Procedures Act of 1950 (see exhibit 36), was cited by the President as the most important piece of legislation in its field since the Budget and Accounting Act, 1921, was enacted almost 30 years before. The new law assigns important responsibilities to the General Accounting Office, Bureau of the Budget, Treasury Department, and every other executive department and agency in the related fields of budgeting, accounting, financial reporting, and auditing. While the law makes a clear division of responsibilities and duties, it provides for their exercise in proper relationship and in harmony with the common objectives of achieving an integrated system for the Government. Significant features of the legislation are the following: (1) Recognition is given to the joint accounting program of the General Accounting Office, Treasury Department, and Bureau of the Budget as a permanent function, (2) a performance type of budget is called for with considerable latitude for the President to determine the form in which the budget shall be presented, (3) the prescribing of accounting requirements by the Comptroller General is to be largely on the basis of principles, standards, and related matters of fundamental importance rather than detailed procedures, (4) the responsibility for establishing and maintaining systems of accounting and internal control, which will fulfill certain specified needs, is placed directly with each executive agency (5) responsibility is placed on the Secretary of the Treasury to furnish over-all reports on the results of the financial operations of the Government and to organize the Treasury Department's accounting and reporting in a manner to provide an operating center for that purpose, (6) authority is given the Secretary of the Treasury and Comptroller General jointly to modify procedures which involve the issuance and countersignature of warrants for the receipt, retention, and disbursement of public moneys and trust funds,

in the interest of simplification and economy, (7) authority is given the Comptroller General to discontinue in the General Accounting Office appropriation, expenditure limitation, receipt, and personal ledger accounts, (8) authority is given the Comptroller General to make comprehensive audits at the site of operations and leave documents supporting financial transactions with the agencies whose accounts are audited, and (9) authority is given to the heads of executive agencies to decide where the administrative examination of fiscal officers' accounts will be performed and for the Comptroller General, in appropriate circumstances, to waive the requirement for such examinations.

Within the Treasury Department, revisions of fiscal and accounting systems in accord with this program were underway in several large organizations. In the Bureau of Engraving and Printing the industrial nature of the operations makes them ideally suited to business-type procedures and to a working-capital method of financing. Substantive legislation for this purpose was obtained by the passage of Public Law 656, Eighty-first Congress, approved August 4, 1950. Although this law does not take effect until July 1, 1951, the new system of accounting and budgeting required will be installed during the fiscal year commencing July 1, 1950. Under the new system the Bureau of Engraving and Printing will recover all its costs of operation from the agencies which it services in producing currencies, securities, stamps, and other classes of engraved work.

A modern accounting system was established in the Coast Guard Headquarters on October 1, 1949, and a pilot installation was made in the Fifth Coast Guard District (Norfolk) on March 1, 1950. Based on the results of this experiment, installations were scheduled in five other districts on July 1, 1950, in five more on September 1, 1950, and in the last (Honolulu) on January 1, 1951. A commercial-type accounting system was being installed at the Coast Guard yard at Curtis Bay, Md., on July 1, 1950. This system is designed to charge against work orders performed the direct costs and the proportionate share of overhead expenses including depreciation and military personnel. Completion of the new system at the yard was expected by March 1951.

The entire accounting program in the Coast Guard has been conducted with the active cooperation and assistance of representatives of the joint program for improvement of accounting in the Federal Government. Full-time staff representatives have been provided by the Accounting Systems Division of the General Accounting Office and the Bureau of Accounts of the Treasury Department. Many innovations have been effected which required approval of the Secretary of the Treasury and the Comptroller General. Certain of these are being tested in the Coast Guard with a view to general adoption throughout the Federal Government.

The 1949 annual report explained that the survey of a private management engineering firm, completed in January 1948, was made the nucleus of a customs management improvement program. For the purpose of implementing the firm's recommendations in the accounting and auditing field, a complete review of the accounting system of the Bureau of Customs was made from the standpoint of the joint accounting program which is being carried forward under the leadership of the General Accounting Office, Treasury Department, and Bureau of the Budget. This review was completed in January 1949 and resulted in a recommendation for a somewhat revised system of accounting and internal control with respect to the revenue collecting activities of the Bureau of Customs. The proposed new system is being carefully analyzed and considered by the Bureau of Customs from the management standpoint.

In line with the beginning made in the 1951 budget in developing a "performance budget" for the entire Government, a program was undertaken in the Treasury Department to install this type of budget in its bureaus, offices, and divisions. This budget analyzes the cost of each activity in relation to its essential purpose and its relative importance. As one means of attaining such a budget, several bureaus have established a performance reporting system which makes available appropriate management data.

In the Bureau of Internal Revenue the audit control program was instituted in 1950. This program, designed to increase compliance with the revenue laws, employs a sampling technique to determine the over-all pattern of error in tax returns. During 1950, the program was confined to individual income-tax returns for the year 1948, but in 1951 it will be directed to business-income and certain excise returns for 1949. The study of samples of the 1948 individual income-tax returns revealed that (a) errors in tax liability, excluding those of less than \$2, were found in 14 million out of 52 million returns; (b) 91 percent of the "errors" were against the Government; (c) understatements in individual income tax

aggregated \$1.3 billion, overstatements \$90 million; and (d) the major sources of errors in the 14 million defective returns were income reported incorrectly, 54.9 percent; personal deductions reported incorrectly, 23.4 percent; exemptions claimed improperly, 16 percent; and mathematical errors, only 5.6 percent.

Continuing from last year's activities, procedures throughout the Treasury Department were further improved and simplified during 1950 with some of them crossing bureau and agency lines.

During 1950, the fiscal service, working through the Fiscal Service Management Committee, effected management savings totaling more than \$6 million, including savings resulting from improvements initiated during the period 1947-49. Among the improvements adopted by the fiscal service were several in the Bureau of Accounts. One of these, a change in the form in which check-accounting material is prepared by the Division of Disbursement, has expedited the reconciliation by the General Accounting Office of checking accounts of the Chief Disbursing Officer and regional disbursing officers. The securing of lists of outstanding checks at an earlier date facilitates the handling of check inquiries. The more current reconciliation has reduced the number of requests for stopping payment, to the benefit of the Division of Disbursement, the General Accounting Office, and the Federal Reserve banks. Earlier advice as to differences in the depository account is now available and necessary adjustments are thereby accelerated.

In the Bureau of the Public Debt the reduction of five regional offices to three resulted in an annual saving of \$250,000. In the Office of the Treasurer of the United States the payment of Government checks is the operation having the greatest personnel requirements. Cost and production analyses of this operation resulted in reductions in the unit salary costs for processing paper checks and card checks paid in Washington, D. C., of 3 percent and 10 percent, respectively, and 9 percent on card checks paid through the Federal Reserve banks.

Effective January 1, 1950, the depository receipt procedure was extended by the Bureau of Internal Revenue, in cooperation with the fiscal service, to cover employment taxes, as well as income taxes. Provision was made for payment to the Federal Reserve banks either directly or through commercial banks. This change makes these funds available on a more current basis for investment by the Federal old-age and survivors insurance trust fund. Before the new procedure was established, commercial banks were compensated for accepting deposits and issuing receipts for withheld taxes. For the half year the new procedure was in operation, savings from elimination of compensation to the commercial banks amounted to \$500,000. In addition the Bureau of Internal Revenue was able to reduce costs through the use of one combined form and one audit for the two kinds of taxes.

Customs procedures likewise were simplified during the year. On an international basis, technical discussions were held of customs procedures and laws affecting trade among 11 countries. A meeting of customs and foreign trade experts of Britain, Canada, and the United States was held from October 31 through November 8, 1949. Subsequently, similar discussions were held with representatives of eight additional countries. Information was exchanged on customs practices, and techniques were explored for classification and valuation of merchandise, assessment of penalties, marking requirements, accounting and auditing, sample weighing and testing, and treatment of currency exchange practices. The elimination of consular invoice requirements for a substantial portion of imports was announced by the Commissioner of Customs on March 24, 1950, and a new customs-duty bond to expedite clearance of merchandise was provided, to go into effect July 15, 1950.

Legislation was drafted and introduced in Congress to modernize and simplify United States customs requirements beyond the present limits of administrative action.

Mechanization of operations throughout the Department was continued, with a resulting saving of time and money. The use of electronic devices was expanded. Microfilming in the offices of the collectors of internal revenue of 163 million income-tax index cards and 3.8 million tax returns released for other use large numbers of filing cabinets as well as floor space having a substantial annual rental value. The modernization of the intaglio presses in the Bureau of Engraving and Printing ultimately will increase the output of currency by approximately 30 percent. Savings are estimated at over \$1 million a year. Modern machines installed in the mints have effected great savings in hand labor and in costs.

Decentralization of certain activities of the Bureau of Internal Revenue and certain delegation of authority have resulted in a substantial reduction in the

number of employees in Washington. In the field, on the other hand, by temporary centralization the clerical facilities of one office were used for a mass mailing for seven large collection districts. This procedure is to be expanded to handle forms for 37 collection districts and 42 million taxpayers.

A number of bureaus have initiated higher recruiting standards and comprehensive training programs. The Treasury Department's incentive program, designed to increase efficiency by stimulating employee participation in management, is twofold. Cash awards are paid to employees for operating improvements which result in monetary savings. This new program was established by authority of Public Law 429, Eighty-first Congress, approved October 28, 1949. Second, honorary recognition is granted for exceptional or meritorious service. Provisions for these awards are contained in Treasury Department Order No. 79, dated March 28, 1950.

As the fiscal year closed one of the new awards was granted to a group of 54 employees in the Division of Disbursement, Bureau of Accounts, for efficiency in the tremendous job of issuing checks for the national service life-insurance dividends. An estimated savings of \$158,000 were attributed to the work of this group and cash awards totaled \$1,500. In addition, there were 20 individual awards during the year throughout the Department for superior accomplishment. Six employees received exceptional-civilian-service medals and emblems. Under the cash awards program, there were 2,939 employee suggestions during the year. Of the number acted upon, 915 merited adoption. Of those adopted, 783 were considered eligible for cash awards totaling \$16,355. Savings accruing to the Department from the suggestions adopted were estimated at \$252,000.

Senator MILLIKIN. Are you basing your prediction on the budget estimate of expenditures?

Secretary SNYDER. Yes, sir; we have to. They furnish us with the budget estimates.

Senator MILLIKIN. I think that Senator Byrd touched on a point that is very important from the standpoint of the committee. Are you making any allowance at all for possible reductions by Congress, let us say, in foreign aid and foreign military expenditures?

Are you making any allowance for that?

Secretary SNYDER. No, sir.

Senator MILLIKIN. All right. Now, with this point I am not critical, because I think it is your business to underestimate revenues, and not only have you underestimated them, but I think all of your predecessors in modern times have underestimated them, but for the purpose of this committee's work I think that we are entitled to a look at the history of underestimates of revenues and if you were to combine, as Senator Byrd suggests, say a \$2 billion reduction in foreign aid and foreign expenditures of various kinds, with an estimated underestimate of revenue, if you take the two together, you would then have a substantial reduction in what you believe is necessary to cover the deficit.

Now, I realize that there are two "ifs" there, but your own estimates are also predicated on more than two "ifs."

Secretary SNYDER. Yes, sir.

We have an "if" here, too, where the Treasury was wrong the other way a number of times.

Senator MILLIKIN. The point of receipts—by the way, I would like to ask that our staff prepare a back history of the Treasury's history of estimate receipts. I am quite sure that since I have been around here the Treasury has always underestimated receipts, and I have a hunch that prior to the time that I was here, the Treasury under other administrations has underestimated receipts, and if I were secretary of the Treasury, I think I would underestimate receipts also, but we are entitled to look at it realistically, so I would like that our staff take a look at that, at least during modern history.



Secretary SNYDER. Here it is. I already have it.

Senator MILLIKIN. Do you have it?

Secretary SNYDER. Oh, sure.

Senator MILLIKIN. Tell us how much it is.

Secretary SNYDER. On the years underestimated?

Senator MILLIKIN. Yes.

Secretary SNYDER. Mr. Leahey, will you read that off, please?

Mr. LEAHEY. Yes, sir.

Senator MILLIKIN. What year are you starting with?

Secretary SNYDER. Oh, 'way back.

Senator TAFT. Are these January 1 programs?

Secretary SNYDER. Mr. Leahey will tell you exactly what it is.

Mr. LEAHEY. Well, we make two estimates, Senator, one which we will call the far year estimate, for example in January of 1951, we make an estimate for fiscal 1952.

That is the first time we make that estimate.

In the next budget estimate we revise that estimate for 1952.

Senator TAFT. You mean a year later, when you are halfway through the year?

Mr. LEAHEY. Yes, sir, when the next budget document comes out, we then reestimate the first year, and estimate again for another full year, a far year.

Senator MILLIKIN. Will that distinction be preserved in what you read to us?

Mr. LEAHEY. Yes, sir.

Senator MILLIKIN. All right.

Mr. LEAHEY. The figures that I will give are on the basis of the total budget receipts, that is, before the refunds of receipts, and before deduction of appropriation for social security.

Senator MILLIKIN. Is that the same kind of standard that the Secretary is following in making his present estimate?

Mr. LEAHEY. Well, in the present estimate we usually talk of net budget receipts, but in order to have a historical comparison, we did not set up refunds as a reduction.

Senator MILLIKIN. In order to have a comparison, you have to follow the same system.

Mr. LEAHEY. That is what has been done.

Senator MILLIKIN. All right. That is what has been done.

Mr. LEAHEY. Yes, sir.

Senator MILLIKIN. All right.

Mr. LEAHEY. In the fiscal year 1928, actual revenues were \$3,907,000,000.

In the estimate that was made a year and a half in advance, the estimate was \$3,652,000,000.

So the actual receipts exceeded the estimate, but in the near year the estimate was \$3,944,000,000, and actual receipts were \$37,000,000 less than estimated.

Then in 1930, actual revenues were \$4,049,000,000—

Senator TAFT. Those were the good old days.

Mr. LEAHEY. The first estimate was \$3,687,000,000; again the actual receipts were higher, but the near term estimate was \$4,117,000,000, so actual receipts were 1.66 percent less than the estimate.

Senator TAFT. These are in the depression years.

Secretary SNYDER. We are running all the way down. We went back to give you a touch of both. In the depression years they were-----

Senator MILLIKIN. Even in the depression years there was an underestimate of revenue, as I remember.

Secretary SNYDER. Well, the figures do not show that.

Mr. LEAHEY. I do not think so.

Secretary SNYDER. Well, we will give you the figures.

Mr. LEAHEY. In 1931, the actual receipts were \$3,190,000,000 and the first estimate that had been made was \$4,003,000,000 so there was a 22.08 percent deficiency.

Senator MILLIKIN. What year?

Mr. LEAHEY. 1931. In the near-year estimate, the deficiency was 13.93 percent.

Senator MILLIKIN. I thought that Andrew Mellon was always underestimating.

Secretary SNYDER. No.

Mr. LEAHEY. In 1932 actual receipts were 49.30 percent less than estimated. Actual receipts were \$2,006,000 against an estimate of \$3,956,000.

In the near-year estimate-----

Senator MILLIKIN. I hate to see the errors commence during your administration, Mr. Secretary.

Secretary SNYDER. Well, it is a lot more comfortable to be on the plus side than it would be to be on the minus side.

Senator MILLIKIN. That is why I believe in underestimates from the Treasury standpoint.

Mr. LEAHEY. Actual receipts were also less in the estimate for 1934 and in the far-year estimate for 1935.

In the near-year estimate for 1936 actual receipts were 6.68 percent less than estimated.

In both the far- and near-year estimate for 1937 actual receipts were less than estimated; there was a deficiency in the far-year estimate of 6.37 percent, and in the near-year estimate of 9.17 percent.

In 1938 there was a deficiency in the far year estimate of 14.42 percent, and in the near year estimate of 1.25 percent.

In 1939 there was a deficiency in the far year estimate of 4.25 percent, but an overage of 2.68 percent in the near year estimate.

Then from 1940, right through 1947, there were excesses of actual receipts over estimates, except for 1 year, 1943, when as compared with the near year estimate actual receipts were 4.76 percent low.

Then in 1948 the first estimate that was made, the far year estimate was-----

Senator MILLIKIN. Will you give me that preceding period again?

Mr. LEAHEY. 1940 to 1947, inclusive.

Senator MILLIKIN. What was the situation there?

Mr. LEAHEY. Well, none of these estimates has been adjusted for changes in tax laws, and there were large excesses of receipts over estimates as compared to the far-year estimate, because usually there was a tax bill which took place after the estimate was made. I can read the figures.

Senator MILLIKIN. I just wanted the general round on that.

Mr. LEAHEY. For 1948, the first estimate we made, the far-year estimate, we estimated \$39,339,000,000, and the actual receipts were

\$46,362,000,000, or 17.85 percent greater. In the near-year estimate we estimated \$46,837,000,000, which was greater by \$0.5 billion than actual receipts.

Senator WILLIAMS. Those were the good old days, 1947 and 1948.

Secretary SNYDER. Yes, sir.

Mr. LEAHEY. Now, for the fiscal year 1949, and this was, I believe, affected by the Revenue Act of 1948 for the first time we estimated \$46,149,000,000, and the actual receipts were \$42,774,000,000, or a deficiency of 7.31 percent. That is about \$3.4 billion.

In the near-year estimate we estimated \$44,044,000,000 against the actual receipts of \$42,774,000,000, so there is a deficiency of 2.88 percent or \$1.3 billion.

Senator MILLIKIN. What year was that?

Mr. LEAHEY. 1949.

Senator TAFT. That was the year when the reduction of 1948 went into effect?

Mr. LEAHEY. Yes, sir.

The CHAIRMAN. What were the figures again for 1949?

Mr. LEAHEY. For 1949, the first estimate we made, which was made before the Revenue Act of 1948, we estimated \$46,149,000,000, and actual receipts were \$42,774,000,000.

Senator MILLIKIN. That simply illustrates that when we make a reduction we make a reduction.

Mr. LEAHEY. In the near-year estimate which was, of course, estimated after the passage of the act, we estimated that receipts in the then current fiscal year would be \$44,044,000,000.

Senator BYRD. Go back to the years 1946 and 1942; did you make adjustments for the reduction in taxes?

Mr. LEAHEY. No, sir. These estimates are based on budget estimates that we made. They have not been adjusted for any change in the tax laws.

Senator BYRD. It may have been an underestimate of revenue there, if the taxes had not been reduced?

Mr. LEAHEY. That is correct. The deficiency for the fiscal year 1949 was \$3,375,000,000, and we estimated that the Revenue Act of 1948 would result in a reduction of approximately \$5,000,000,000, so there would be indicated an overage of a billion and a half dollars.

Now, in the short-term estimate, however, after the revenue act was passed, so that there is no problem about tax reductions, we estimated \$44,044,000,000, and the receipts were \$42,774,000,000, so we overestimated that.

Senator BYRD. We are considering now the long-term estimate, not the short term in the next year?

Mr. LEAHEY. Yes, sir. For 1950 we estimated in the long-term estimate that receipts would be \$45,421,000,000, and the actual receipts were \$41,311,000,000. That is a deficiency of \$4.1 billion or 9.05 percent.

Senator BYRD. Was that due to any change in taxes?

Mr. LEAHEY. No, sir, that was a straight overestimate of the receipts.

Senator BYRD. What year was that?

Mr. LEAHEY. 1950. And in 1950 the short-term estimate was \$42,185,000,000, and the actual receipts again were \$41,311,000,000, so there was a deficiency of about a billion dollars in the short-term estimate.

Senator FARR, Mr. Secretary—

Senator MILLIKIN. It looks to me as though, roughly generalizing, when you are in an inflationary period, or let us call it a rising economy, that the Treasury, in the interest of a conservative approach, is more apt to underestimate than to overestimate revenues.

Secretary SNYDER. Well, that is only natural, is it not?

Senator MILLIKIN. That is very natural, and I think from the Treasury standpoint it is quite appropriate.

I think it is your business to be on the underestimated side, so far as revenue is concerned, because from your own standpoint you cannot afford to make mistakes—although you have made some, but they are forgivable.

Secretary SNYDER. They are not mistakes. They are underestimates or overestimates.

Senator MILLIKIN. Well, let's call them errors.

Secretary SNYDER. No, they are underestimates or overestimates. I will not say that they are either mistakes or errors. You just cannot pin point an estimate 18 months ahead of time.

Senator MILLIKIN. Well, let's call it a miscalculation.

Secretary SNYDER. That is all right.

(A comparison of total budget estimates of revenue with actual revenue for the fiscal years 1928-30, is presented in the following table.)

Comparison of total budget estimates of revenue with actual revenue,<sup>1</sup> fiscal years 1928-30

[All estimates are based on the revenue laws existing at the time of making the estimates in many years there were drastic changes in the law after the estimates were made and these, of course, were reflected in the actual receipts.]

Fiscal year	Actual revenue (total budget receipts)	Estimate issued in January of		Percentage increase or decrease ( ) actual revenue over estimate issued in January of	
		That year	Preceding year	That year	Preceding year
		Thousands	Thousands	Thousands	Percent
1928	43,007.0	43,044.1	43,059.0	-0.04	0.08
1929	3,933.1	3,079.0	3,079.1	0.16	0.20
1930	4,049.0	4,117.1	3,087.2	-1.00	-23.08
1931	3,169.0	3,703.8	4,003.4	-13.33	-26.08
1932	2,005.7	2,359.0	3,085.7	-10.42	-35.30
1933	2,074.7	2,407.0	2,870.8	-18.73	-29.26
1934	3,118.0	3,260.0	2,701.8	-4.43	11.60
1935	3,903.5	3,711.7	3,074.7	2.30	-4.36
1936	4,116.0	4,410.8	3,091.0	-6.08	3.11
1937	3,263.8	3,808.2	3,054.9	-9.17	-6.97
1938	6,341.7	6,393.1	7,498.0	-1.26	-14.42
1939	3,037.8	3,520.1	3,010.4	2.04	-4.40
1940	3,924.8	3,763.8	3,009.3	8.87	4.01
1941	2,268.3	7,853.2	6,130.8	8.04	34.43
1942	13,067.0	12,816.1	8,071.7	0.08	52.34
1943	23,384.6	24,552.3	17,852.1	-4.76	30.00
1944	45,419.4	49,878.1	36,403.7	0.03	28.25
1945	47,732.8	47,032.0	43,438.4	1.52	0.93
1946	44,258.0	39,703.0	42,854.8	11.41	3.23
1947	44,762.7	41,584.4	39,038.0	7.50	36.72
1948	46,361.7	46,837.4	39,338.0	-1.02	17.85
1949	42,773.6	44,043.7	40,148.0	-2.88	-7.31
1950	41,310.6	42,183.3	45,420.7	-2.07	-9.05

<sup>1</sup> Total budget receipts, general and special accounts, on the basis of the daily Treasury statement; figures are before deduction of appropriation to old-age and survivors insurance trust fund and refunds of receipts. Office of the Secretary of the Treasury, Office of the Technical Staff, Jan. 2, 1951.

Note.—Estimates are not adjusted to take account of the changes in legislation which affect receipts subsequent to the time of making the estimates.

Source.—These figures are as published in the respective President's budget messages—excluding proposed legislation—and in the daily Treasury statement of June 30 of the indicated years.

Senator TARR. What worries me, Mr. Secretary, is this: we have had a year since Korea, so what is the program, not for this year or next year necessarily, but for the next 3 years? How much money are we going to spend, how many more tax bills will we have after this? That is the thing that really interests me in determining what the policy should be. Now, your estimate for expenditures this year seems to be around 45 or 40.

Secretary SNYDER. That is revenue.

Senator TARR. I am talking about expenditures.

Secretary SNYDER. You mean the year ending--

Senator TARR. 1951.

Secretary SNYDER. Oh, yes.

Senator TARR. And next year you estimate receipts of 60 and expenditures of 70.

Secretary SNYDER. 68.4, I believe is the estimate on expenditures.

Senator TARR. Revised down from 71, the budget figure, although there has been a constant increase in contracts. Mr. Eric Johnston appeared before our Labor Committee here a month ago and said that the contracts had been let since the first of the year at the rate of a billion dollars a month.

Secretary SNYDER. Oh, it is higher than that, isn't it?

Senator TARR. A billion a week, I should have said, and that by November they would be operating at the rate of about \$50,000,000,000 a year. That is less than halfway through the fiscal year, \$50,000,000,000 in Government contracts. That does not take in personnel or a lot of other charges that are not there, and I said, "How can you reconcile that statement of operating at \$50,000,000,000 by November 1951 with a Treasury estimate of only spending 68 or 70 billion for the entire year?" He said, "I don't know." He said, "I think it can only be accounted for by a lag in the payments or in the contracts."

I asked him his estimate of what he was going to spend in fiscal 1953, and he said \$90,000,000,000.

Now, there is a point, it seems to me, where if we try to balance the budget we are going to have taxes just as inflationary as not balancing the budget. If we increase the income tax to so noticeable an extent, and if we increase excise taxes, we will have demands for wage increases to make them up. You can revise them somewhat, but not all.

It seems to me that there is a point which you reach, when you reach the economic limit of the people to pay taxes and still maintain a free economy.

I don't know whether you have figured that out, as to whether these expenditures could not be spread with some more scientific planning, if you want to call it that, for 2 or 3 years. Aren't we up against the place where we ought to make a 3-year plan instead of a 1-year plan? That is the thing that concerns me in the fiscal situation.

We take a bite here, and if he is right about it increasing from \$70 billion to \$90 billion, you will be back for \$20 billion more taxes next year, if you pursue your present balancing of the budget system.

Have you looked ahead? What is the program of this tax bill?

Secretary SNYDER. I think the Budget Bureau can furnish you the figures.

Senator TARR. Well, the Treasury must be thinking about it. They must be thinking whether they will ask for \$20 billion more taxes next year, after passing this bill.

Secretary SNYDER. We like to have our information given right from the battery, and we have them right here.

Senator TARR. Well, isn't it your job more than anyone else's to make a fiscal plan for the next 3 years?

Secretary SNYDER. Yes, sir. We are working on it.

Senator TARR. And adjusted to what the circumstances are?

Senator KEHR. Can I interrupt right there? I am sure that the witness hopes it will be his job to do the planning for the next year.

Secretary SNYDER. I would like to disillusion you on that. Personally I would be glad to turn it over to you today.

Senator TARR. Well, it is his job to plan today. I don't care who carries it out--yes, I do care who carries it out--but that is not the problem. What I am interested in knowing-----

Senator KEHR. Well, the witness intended to say if the plan is made and the present planner is not in a position to carry it out, would the Senator lend his cooperation to see to it that the plan made with this witness is carried out.

Senator TARR. Good, but what I am concerned about is whether anybody has thought about the fact that we are getting to a point where I think either the additional taxes of \$20,000,000,000, if that is what is coming after we get through this year, or the borrowing of \$20,000,000,000 is going to be inflationary. It seems to me, in other words, if you want to avoid inflation in times of peace, at least there is a limit to what the Government can spend, and what I want to know is whether anybody has thought about it.

I saw an article by Eccles last year estimating the Government could stand \$75,000,000,000 as an outside tax burden without producing as bad results as you get benefits. Have you any views on that subject? Do you have any idea of a limit or what percentage of the national income we can take in taxes and still hope that a free-enterprise system will run?

Secretary SNYDER. I am not in a position to discuss that at this time.

Senator MILLIKIN. Mr. Secretary, have you got your estimates, rough or otherwise, for fiscal 1953?

Secretary SNYDER. No, sir.

Senator MILLIKIN. Does anybody in the Government, so far as you know, have those estimates?

Secretary SNYDER. You mean for expenditures?

Senator MILLIKIN. Expenditures and receipts.

Secretary SNYDER. We do not have for receipts; no, sir.

Senator MILLIKIN. Who has them for expenditures?

Secretary SNYDER. The Budget.

Senator MILLIKIN. May I ask out of order, what is the estimate of the Budget for expenditures for fiscal 1953?

Mr. STAATS. Senator, the estimate we have made makes certain assumptions with respect to the international situation, the size of the Armed Forces, and with respect to prices.

Now, we have to go into that in order to give you a very detailed study on it.

Senator MILLIKIN. Before going into it give me the figure.

Mr. STAATS. The over-all figure we have, and I can go into later with you the specific assumptions that we have made, but it will be somewhere between 80 and 90 billion dollars of expenditures.

Senator MILLIKIN. Thank you. We will go into the details later.

Now, let me ask you this, Mr. Secretary: Do you believe that we can cover by taxation 85 or 90 billion dollars a year?

Secretary SNYDER. We will have to give that very careful consideration.

Senator MILLIKIN. You are not prepared to answer that?

Secretary SNYDER. No, sir.

Senator MILLIKIN. I don't know of anyone more qualified than you to give the answer to that.

Secretary SNYDER. We don't know what the level of the economy is going to be a year from now.

Senator MILLIKIN. Mr. Secretary, I am asking you for something that we have got to work on right now, because this tax bill, as related to possible other tax bills, and possible other methods are presenting difficulties. I don't think this committee for one moment can hesitate to look at fiscal 1953.

Secretary SNYDER. I don't think you can avoid it, either, but for me to attempt to tell you what the tax recommendations are going to be for a year ahead of now in detail, and have you hold me to the revenues within this narrow balance that you seem to want, I just cannot venture an expression.

Senator MILLIKIN. I am asking you, assuming that this present bill becomes law, then could we add enough in the way of income taxes, or by way of taxes, in your judgment, to cover 85,000,000 or 90,000,000 dollars worth of expenditures?

Secretary SNYDER. Not all out of the present types of taxes; no.

Senator MILLIKIN. You would have to get into some completely new type of taxing?

Secretary SNYDER. I think so; yes.

Senator MILLIKIN. I mean, as to the conventional type of taxes, and I am speaking only for myself, I do not think that we can possibly increase these taxes enough to meet a \$90,000,000,000 expenditure program.

Secretary SNYDER. I agree with you. I made that statement just before you did.

Senator MILLIKIN. I think that we would destroy the economy, if we did.

Secretary SNYDER. With the present type of taxation, I don't think that we could do it.

Senator MILLIKIN. Are you prepared to give any advice as to the type of taxing that might be necessary?

Secretary SNYDER. Not at this time.

Senator MILLIKIN. Does anyone else have any ideas, or any theories on that subject?

Secretary SNYDER. I do not think we are ready to make any statement.

The CHAIRMAN. You are not prepared now to do it. All right, Mr. Secretary.

Senator KERR. I would like to present this one point, Mr. Chairman.

It has been called to our attention, and to yours, Mr. Secretary, that there was a dual error in the January estimate. I presume that

It would be safe for us to assume that there is a possibility of error either in any estimate you now give us, or in any decision that we reach with reference to it.

Secretary SNYDER. Any projection that we made for a year or 18 months ahead, there is certainly a possibility of error.

Senator KERR. You think we ought to assume that you are fallible?

Secretary SNYDER. I will announce it, you don't have to assume it. If you want to try to put me in the position that I am going to guess within \$100,000 of a figure running into many billions, I just cannot measure up to that expectation, but we will do the best we can, Senator.

Senator KERR. I had assumed that, but—

Secretary SNYDER. I have never assumed infallibility before this committee.

Senator KERR. Fine.

Senator BYRD. I want it understood that I do not criticize the Secretary for making a conservative statement, but I have 22 questions that I want to submit to the Secretary in writing. I will submit them here. They involve considerable research, and as they will be part of the record I will ask to have the Secretary or the Director of the Bureau of the Budget, reply to them.

The CHAIRMAN. Very well. That may be done, Senator Byrd. You may give those questions.

Senator BYRD. 1. The President's budget message estimated revenue receipts this year would total \$44.5 billion, and expenditures would total \$47.2 billion. The latest daily Treasury statement I have shows that as of June 22, receipts totaled \$46.4 billion and expenditures as of that date totaled \$42.6 billion. This fiscal year (1951) ends Saturday, would you estimate the year-end receipts, expenditures, and surplus, or deficit?

2. Would you please split the expenditure estimate as between military expenditures and nonmilitary expenditures?

3. Would you split the military expenditures to show that part which is going into so-called hardware—such as matériel, construction, and construction materials; and that part which is going to pay and allowances, travel, food, and so forth?

4. You estimate there will be a surplus of \$3 billion plus as of the end of the current fiscal year; will you explain the principal reason why your January calculation of a \$2.7 deficit went afoul?

5. The war in Korea started last June. The current fiscal year started last July. For the first 7 or 8 months of this fiscal year, although we were fighting a war, according to the daily Treasury statements, the Army was spending less than it was spending at the corresponding dates in the previous year before the Korean War was thought of. Would you explain this, please?

6. In the last quarter of this year military expenditures have picked up rapidly, and as of June 22, according to the daily Treasury statement, expenditures this year totaled \$18.5 billion as compared with \$11.7 billion as of the same date last year. Would you project the rate of military expenditures, by quarters for the coming fiscal year, beginning Sunday (fiscal year 1952)?

7. Would you estimate the amount of military expenditures next year that will be required for so-called hardware and indicate how much will be spent for critical construction materials?



8. Would you estimate total receipts, total expenditures, and surplus or deficit for fiscal year 1952, on the basis of the present tax rates; on the basis of tax rates proposed in the House bill, and on the basis of tax rates requested by the administration?

9. What percentage of the national income would be taken in taxes, Federal, State and local, next year, on the basis of present tax rates, on the basis of House bill rates, and on the basis of rates proposed by the administration?

10. What percentage of the national income is taken in taxes by each of the North Atlantic Pact countries, along with the Philippines?

11. What percentage of the national income was taken by the British Government in taxes when the Socialists took over?

12. What percentage of the national income do you think we can take in taxes in the United States (Federal, State and local) and still maintain our free-enterprise system?

13. Would you please break the estimated expenditures for fiscal year 1952 to show the estimates, for military expenditures, foreign aid split between military aid and economic aid, interest on the debt, veterans, and other?

14. How much of this money would go into nonmilitary programs requiring materials critically needed by the military, such as all kinds of construction projects including federalized housing? And how does this compare with the present year and last year? I refer not only to direct Federal programs and projects, but also those involved with Federal-aid programs, grants, loans, and so forth.

15. How much of your total expenditure estimates for fiscal year 1952 are for the payment of salaries and expenses of civilian employees on the payroll of all executive agencies including the military departments.

16. What will the Federal debt total be as of the end of the current fiscal year, on Saturday? And what do you estimate the total will be as of the end of fiscal year 1952, on the basis of present tax rates, House bill rates, and rates requested by the administration?

17. How high do you think we can take the Federal debt and still maintain confidence in the Government's integrity?

18. How much of the Federal debt had to be refinanced during this year—how much matured, how much was paid off, how much was refinanced?

19. At what average annual rate will the Federal debt mature over the next 5 years? 10 years? 15 years? 20 years?

20. Exclusive of that part of the debt which represents investments of social security and other trust funds, and assuming there is no war, do you think it is possible that we shall ever pay off the Federal debt, and if so, when?

21. What is the annual cost of financing the debt and please give the costs of advertising, publicity, and public relations separately as well as in the over-all total?

22. Would you please give your views on sales taxes, both manufacturers and retail, and estimates as to how much they would produce?

(Answers to the preceding questions follow:)

1. Question. The President's budget message estimated revenue receipts this year would total \$44.5 billion and expenditures would total \$47.2 billion. The latest daily Treasury statement I have shows that as of June 22, receipts totaled

\$46.4 billion and expenditures as of that day totaled \$42.6 billion. This fiscal year (1951) ends Saturday; would you estimate the year-end receipts, expenditures, and surplus or deficit?

Answer. The final results for the fiscal year 1951 indicate receipts of \$48.1 billion, expenditures of \$44.6 billion, and a budget surplus of \$3.5 billion.

2. Question. Would you please split the expenditure estimate as between military expenditures and nonmilitary expenditures?

Answer:

*Budget expenditures, fiscal year 1951*

[Preliminary, in billions]

Defense Department, military functions.....	\$19.2
Mutual defense assistance program.....	.9
<b>Total, direct military.....</b>	<b>20.1</b>
Other foreign aid.....	2.0
Stockpiling.....	.7
Atomic Energy Commission.....	.9
Maritime activities.....	.1
Defense production and economic stabilization.....	.2
All other.....	19.7
<b>Total.....</b>	<b>44.6</b>

Source: Bureau of the Budget.

3. Question. Would you split the military expenditures to show that part which is going into so-called "hardware," such as matériel, construction, and construction materials; and that part which is going to pay and allowances, travel, food, etc.

Answer. The following table presents a preliminary rough breakdown of those expenditures shown in the table under question 2 as "direct military." It presents corresponding estimates for the fiscal year 1952, as requested in question 7. The amounts shown for "construction" include labor and other costs as well as construction materials. It is impossible at this time to separate critical construction materials from the rest of the expenditure estimate for construction.

[In billions of dollars]

	1951	1952
Procurement:		
"Hard" goods.....	9.2	22.6
"Soft" goods.....	2.5	5.0
Construction.....	.4	1.9
Pay, allowances, services.....	8.0	12.5
<b>Total.....</b>	<b>20.1</b>	<b>42.0</b>

Source: Bureau of the Budget.

4. Question. You say there is a surplus of \$3 billion as of the end of the current fiscal year. Will you explain the principal reason why your January calculations of \$2.7 billion deficit went awoul?

Answer. A little over half of the improvement in the situation since the January estimate is attributable to the effect on revenues of higher levels of income and business conditions than were assumed in January. On the expenditure side the improvement in business conditions was also important and resulted in smaller outlays than expected for such programs as agricultural price supports. Veterans' allowances also showed a significant decline from the January estimate. In addition, cash demands on the Treasury under the defense program were less than estimated in January.

5. Question. The war in Korea started last June. The current fiscal year started last July. For the first 7 or 8 months of this fiscal year, although we were fighting a war, according to the daily Treasury statement, the Army was spending less than it was at the corresponding dates in the previous year before the Korean War was thought of. Would you explain this please?

Answer. Expenditures for the Department of the Army as a whole follow the trend indicated in the question. If civil functions are separated from the military functions, however, military expenditures of the Army reached and surpassed the level of 1950 more quickly. On a daily Treasury statement basis, expenditures for the military functions of the Department of the Army for the first 8 months of the fiscal years 1950 and 1951 follow (in millions of dollars):

	1950		1951	
	Monthly	Cumulative	Monthly	Cumulative
July.....	499	400	243	243
August.....	519	1,009	401	644
September.....	343	1,562	282	926
October.....	245	1,597	422	1,348
November.....	323	1,920	460	1,808
December.....	322	2,242	540	2,348
January.....	321	2,563	629	2,977
February.....	304	2,867	335	3,312

Source: Bureau of the Budget.

The Army program during the fiscal year 1950 was based on a contraction from a larger Army existing on July 1, 1949, to a smaller Army in June 1950. As a result, expenditures during 1950 reflected the contracting size of the Army, and were larger in the first half of the year than in the second half.

There are two major reasons for military expenditures of the Army not rising more sharply than they did during the first 8 months of the fiscal year 1951: (1) The first months of warfare in Korea were conducted by existing Army units using existing stocks; orders placed for new equipment were not reflected in the rising expenditures because of the production lead-time required. (2) The 1951 figures take account of credits deposited to the Department of the Army on account of goods shipped under the Mutual Defense Assistance Program; when goods are shipped from existing stocks under MDAP, they are reflected in MDAP expenditures and must, therefore, be deducted from Army expenditures so that the total will show no current cash withdrawal from the Treasury on this account.

6. Question. In the last quarter of this year military expenditures have picked up rapidly, and as of June 22, according to the Daily Treasury Statement, expenditures this year totaled \$18.5 billion as compared with \$11.7 billion as of the same date last year. Would you project the rate of military expenditures, by quarters for the coming fiscal year, beginning Sunday (fiscal year 1952)?

Answer. Quarterly expenditures for the military functions of the Defense Department and the Mutual Defense Assistance Program in fiscal year 1952 are estimated as follows:

Quarter:	Expenditure (in billions)
I.....	\$8.2
II.....	9.8
III.....	10.9
IV.....	13.1
Total.....	42.0

Source: Bureau of the Budget.

7. Question. Would you estimate the amount of military expenditures next year that will be required for so-called "hardware" and indicate how much will be spent for critical construction materials.

Answer. This information is contained in a table in answer to question 3.

Source: Bureau of the Budget.

8. Question. Would you estimate total receipts, total expenditures, and surplus or deficit for the fiscal year 1952 on the basis of the present tax rates, on the basis of tax rates proposed in the House bill and on the basis of tax rates requested by the administration?

Answer. The estimates requested are as follows:

(In billions of dollars)

	Receipts	Expenditures	Deficit
Estimates on basis of--			
Present tax rates.....	58.5	68.4	9.9
H. R. 4473.....	62.9	68.4	5.5
Administration tax proposals.....	67.2	68.4	1.2

Taxes proposed by the Secretary to the House Ways and Means Committee with effective dates as they were suggested at that time. (Individual income tax and excise taxes effective July 1, 1951; corporation income tax effective January 1, 1951.)

9. Question. What percentage of the national income would be taken in taxes, Federal, State, and local, next year, on the basis of present tax rates, on the basis of House bill rates, and on the basis of rates proposed by the administration?

Answer. The following table shows the estimated total tax burden (Federal, State, and local) under present law, under H. R. 4473, and under the Treasury proposal. The total State and local tax burden is a Commerce estimate for calendar year 1951; corporation taxes are accruals, other taxes are receipts. The Federal taxes are on a calendar year 1951 liability basis for income and excess profits taxes and a fiscal year 1952 liability basis for other taxes. The estimated level of national income for calendar year 1951 is \$273.8 billion.

(In billions of dollars)

	Present law	House bill	Treasury proposal
Total tax receipts less social security:			
Federal.....	55.7	62.5	66.4
State and local.....	19.1	19.1	19.1
Total.....	74.8	81.6	85.5
As a percentage of national income.....	27.3	29.8	31.2

10. Question. What percentage of the national income is taken in taxes by each of the North Atlantic Pact countries, along with the Philippines?

Answer. The following table shows the percentage of the national income of the NATO countries, and the Philippine Islands, taken in taxes. The figures are the most recent available, and generally apply to fiscal years ending in 1951. As an aid to interpreting the significance of the figures, a partial breakdown of the tax revenues is shown. The percentage figures shown should be considered as a general order of magnitude, rather than precise measurements of the relative burdens of the taxes collected by the governments of the various countries. The data from which the percentages have been compiled, particularly the national income estimates, vary considerably from country to country in accuracy and completeness of coverage. Furthermore, comparison between countries is made difficult because of such things as differences in the proportion of governmental expenditures met through taxes, and the amount and kinds of services which the various governments perform.

Estimates of tax receipts as a percentage of national income, selected countries, fiscal year ending 1951<sup>1</sup>

	Belgium	Canada	Denmark	France	Iceland	Italy
Tax receipts including social insurance.....	24.3	27.8	22.5	32.8	.....	27.5
Social insurance.....	5.5	8.8	9.0	7.8	.....	6.3
Tax excluding social insurance.....	23.6	27.0	21.6	25.0	.....	21.0
Central government.....	22.9	19.6	14.4	31.2	24.8	14.6
Local government.....	0.9	7.4	7.2	3.8	.....	6.4

	Netherlands	Norway	Portugal	United Kingdom	Philippines
Tax receipts including social insurance.....	39.7	36.2	11.9	41.6	9.2
Social insurance.....	1.6	2.9	2.1	4.1	.....
Tax excluding social insurance.....	38.2	33.3	9.8	37.5	9.2
Central government.....	32.0	22.7	6.6	34.4	6.1
Local government.....	6.2	10.6	3.2	3.1	1.1

<sup>1</sup> The fiscal year end date varies among countries from December 1950 to June 1951. Data used for tax receipts of the central governments represent in many cases budget figures rather than actuals. For local governments and insurance taxes, the data were used as reported closest to the fiscal year of the central government and represent in most cases estimates or projections based on available data for earlier years. Social insurance data represent the contributions paid by employers, employees, and self-employed to government social insurance agencies. National income data in general are national income at factor costs and are estimates based on official reports.

Sources of data: Economic Cooperation Administration.

11. Question. What percentage of the national income was taken by the British Government in taxes when the Socialists took over?

Answer. The percentage of the national income taken by the United Kingdom Government in taxes at the time the Socialists took over is shown in the following table.

Total taxes as percent of national income in the United Kingdom

1938 <sup>1</sup> .....	24.9
1945 <sup>2</sup> .....	32.4
1946 <sup>3</sup> .....	33.8

<sup>1</sup> Last calendar year before World War II.

<sup>2</sup> Last calendar year under Coalition government—partly the product of the war.

<sup>3</sup> First calendar year under Socialist government.

12. Question. What percentage of the National income do you think we can tax in taxes in the United States (Federal, State, and local) and still maintain our free enterprise system?

Answer. The President specifically referred to the level of taxation in his special message to the Congress February 2, 1951, when he said, "There is no question as to how high we can push taxes without having serious effects upon the productive growth of our economy. But I am sure that we could increase Federal revenues by considerably more than enough to cover the expenditures now anticipated without reaching those limits. During recent years we have taxed ourselves at high levels—and during those years our economy has bounded forward; incomes have risen rapidly, new plants and industries have sprung up, and the standard of living of our people has increased steadily. The growth in the strength of our economy that has occurred—and the fact that our tax rates gives us confidence that we can safely pay the estimated expenditures for the next fiscal year out of taxes."

In my statement to the Committee on Ways and Means February 5, 1951, I indicated that the tax increases requested by the President, distributed as he recommended, would impose a burden well within the capacity of our economy to bear and is substantially below any danger line that might mean an impairment of the productive efficiency of our economy.

In a period of defense spending such as the present, a balanced budget is a necessity. It should be recognized, however, that in the case of a very fast and much increased volume of defense spending, it may not be practicable to maintain this policy continuously. On the other hand, the slower the build-up, the more

time for adjustment, the longer could a balanced budget policy be maintained. In the present situation, the balanced budget policy has been and still is fully consistent with the unfolding defense production.

The effects of taxation on production is not necessarily one-sided. Inadequate taxes may be harmful to production through the disrupting effects of inflation. Tax rates under the defense program have left both business and consumers a substantial margin for incentives in the face of the excessive demand generated by Government expenditures. Under the highly favorable economic conditions and assured markets resulting from high levels of defense expenditures risks are reduced. This permits the economy to sustain tax rates which would be undesirable under more normal conditions.

13. Question. Would you please break the estimated expenditures for fiscal year 1952 to show the estimates, for military expenditures, foreign aid split between military aid and economic aid, interest on the debt, veterans, and other?

Answer. The breakdown requested is shown, insofar as the estimates are available, in the table attached to the testimony of Mr. Elmer B. Staats, Assistant Director of the Bureau of the Budget, on June 29, 1951. (Source: Bureau of the Budget.)

14. How much of this money would go into nonmilitary programs requiring materials critically needed by the military, such as all kinds of construction projects including federalized housing? And how does this compare with the present year and last year? I refer not only to direct Federal programs and projects, but also those involved with Federal grants, loans, etc.

Answer. Expenditures for Federal civil public works, including direct Federal projects and grants and loans for public works, are estimated at \$3.2 billion in fiscal year 1952, as compared with \$2.7 billion in 1951 and \$2.1 billion in 1950. The \$3.2 billion for 1952 includes large amounts for defense-related activities, such as AEC facilities, TVA and other power facilities, civil defense shelters, airports, and highways. (Source: Bureau of the Budget.)

15. Question. How much of your total expenditure estimates for fiscal year 1952 are for the payment of salaries and expenses of civilian employees on the payroll of all executive agencies, including the Military Establishments?

Answer. Expenditures for payrolls for civilian employees in the executive branch in fiscal 1952 are estimated at \$9.7 billion. Excluding wages and salaries of such employees as those in the postal service and Government-owned corporations who are paid from agency receipts, the corresponding figure for budget expenditure is \$7.7 billion. (Source: Bureau of the Budget.)

16. Question. What will the Federal debt total be as of the end of the current fiscal year Saturday? And what do you estimate the total will be as of the end of fiscal year 1952 on the basis of present tax rates, House bill rates, and rates requested by the administration?

Answer. The Federal debt outstanding at the end of the fiscal year 1951 amounted to \$255 billion. If it is assumed that the Treasury's cash balance will be the same on June 30, 1952, as it was on June 30, 1951, the increase in Federal debt during the year will be approximately the same as the indicated deficits in the answer to question 8.

On the basis of present tax rates the debt would then be approximately \$265 billion next June; on the basis of H. R. 4473 it would be approximately \$261 billion; and on the basis of tax rates (and effective dates) requested by the administration it would be about \$256 billion.

17. Question. How high do you think we can take the Federal debt and still maintain confidence in the Government's integrity?

Answer. I have been asked many times how high the public debt can go and I feel that it would be a rash prognosticator who would attempt to give a categorical answer to the question. There was a widespread alarm expressed in the country when the public debt first approached \$50 billion. That was only 10 years ago. Many people were grievously concerned when defense and war costs first forced the mass levying of heavy individual income taxes, and the lifting of corporate taxes to never-before-known heights. Yet the economy not only survived; it emerged from the trial stronger than ever.

We did not know our capacities then; we do not fully know them now. What we do know is that our economy and our social order have stood tests vastly greater than the most optimistic analyst of a generation ago would have believed it possible for them to stand. The only guide I know to follow is that we avoid adding to the debt so long as that is possible and that we reduce the debt as quickly as we possibly can.

18. Question. How much of the Federal debt was refinanced during this year—how much matured, how much was paid off, how much was refinanced?

Answer. During the fiscal year ending June 30, 1951, approximately \$29 billion of marketable certificates, notes, and bonds matured. \$4 billion of this total was paid off to those holders who wanted cash, and the other \$25 billion was exchanged for new marketable certificates and notes. In addition, \$13½ billion of Treasury bills came due during each quarter of the fiscal year and these were refunded into new issues of Treasury bills.

19. Question. At what average annual rate will the Federal debt mature over the next 5 years, 10 years, 15 years, 20 years?

Answer. The maturity distribution of Federal securities now outstanding (classified to first call date) is as follows, as of June 30, 1951:

	Billions of dollars
Marketable issues:	
Within 5 years.....	92
5-10 years.....	16
10-15 years.....	21
15-20 years.....	9
Total.....	138
Nonmarketable issues, etc.....	82½
Special issues.....	34½
Total.....	255

The distribution of marketable maturities relates only to issues now outstanding and, with the exception of fiscal 1952, will undoubtedly constitute only a small part of the debt maturing in each of the next 20 years. Total maturities for any given year will include the refunding issues of short-term issues of bills, certificates, and notes which have not yet been issued. The exact amounts and the timing of these short-term issues will depend upon decisions to be made by the Secretary of the Treasury over the next 20 years.

In addition to these marketable maturities there is, of course, a large volume of nonmarketable securities—savings bonds, savings notes, and investment bonds—which are redeemable on demand at the option of the holder.

20. Question. Exclusive of that part of the debt which represents investments of social security and other trust funds, do you think it is possible that we shall ever pay off the Federal debt and if so, when?

Answer. Given a full employment situation in a peacetime economy important reductions can be made in the public debt over a period of years. If the Congress provides sufficient revenues to cover not only the expenditures which it authorizes but also some excess, then the debt can be reduced. That is the only way it can be done.

21. Question. What is the annual cost of financing the debt, and please give the costs of advertising, publicity, and public relations separately as well as in the over-all total?

Answer. In the January budget interest on the public debt was estimated at \$5,800,000,000 for the fiscal year 1952. The 1952 budget estimate for administering the public debt by the Treasury's Bureau of the Public Debt was \$52,900,000. Included in that total is \$4,867,600 for promotion of the sale of savings bonds. Practically all of the advertising relating to the sales of savings bonds is contributed to the Government as a public service by the business community.

22. Question. Would you please give your views on sales taxes, both manufacturers' and retail, and estimates as to how much they would bring in?

Answer. It is generally recognized that a sales tax would impose regressive burdens, and apply with special severity to low-income families. It generally results in a heavier tax liability for families than single individuals at the same income levels. Persons with low incomes and heavy family responsibilities need to spend a higher proportion of their income because they can afford to save little, if at all.

Proposals have frequently been made to provide exemptions under a sales tax. One of the simplest approaches, commonly adopted under State sales taxes, would be to exempt food and some other necessities of life. While this would modify the harsh impact of the tax, it would substantially reduce its revenue yield. The bulk of remaining sales would consist of (a) Federal Government purchases which would make no net revenue contribution if taxed, and (b) items of civilian consumption already subject to selective excise taxes.

General sales taxation would involve the Federal Government in a new area of tax administration, requiring the establishment of additional collection forces. State experience has demonstrated that retail sales taxes do not "collect themselves." While a manufacturers' sales tax would involve fewer taxpayers than a retail levy, it would entail special problems of its own, including the treatment of numerous small manufacturers and processors and the determination of the price to which the tax would apply where buyer and seller are subject to common financial control or where manufacturers make some direct sales to consumers. Special exemption provisions or adjustments to avoid inequity or undesirable economic effects in particular situations would necessarily complicate the administration of a sales tax.

A sales tax would be one of the most difficult taxes to integrate with the over-all stabilization program. The direct anti-inflationary effect of a sales tax in absorbing consumer purchasing power is to a considerable extent offset by undesirable indirect effects. A sales tax would increase consumer prices and the prices paid by farmers. It would thus tend automatically to raise wages subject to so-called escalator contracts based on the cost of living and to increase farm parity prices. By contrast, selective excises have only a minor effect on the cost of the necessities of life, while the individual income tax provides personal exemptions which protect minimum living standards.

A retail sales tax is generally regarded as preferable to a manufacturers' sales tax, since it would avoid pyramiding through the application of distributors' mark-ups to tax paid at the manufacturers' level. Pyramiding would increase prices without corresponding revenue collections and result in a nonuniform burden in different areas of consumer expenditure. A retail type of levy would also interfere less with the operation of price ceilings.

Heavy revenue demands make it necessary to examine and reexamine all potential revenue sources. However, in view of its serious disadvantages, it would appear desirable to avoid resort to a general sales tax so long as less undesirable alternative revenue measures are available.

The estimated yields at fiscal-year-1952 income levels of specified types of general manufacturers' and retail sales taxes, levied at illustrative rates of 1 and 5 percent, with and without exemptions for food and medicines, are summarized in the following table.

*Estimated revenue yields of proposed retail and manufacturers' sales taxes at fiscal-year-1952 income levels*

(In billions of dollars)

Rate of tax	Retail sales tax	Manufacturers' sales tax
Without exemption of food and medicines:		
1 percent	\$1.72	\$1.20
5 percent	8.60	6.00
With exemptions of food and medicines:		
1 percent	1.14	.763
5 percent	5.70	3.768

NOTE.—Estimates assume that the tax base would not include commodities for ultimate consumption by the Federal Government, fuel for household consumption or commercial, industrial, and agricultural machinery, and chemicals and materials which become physical ingredients or component parts of taxable articles which would be sold by business concerns. No allowance has been made for possible effects of proposed or other new tax legislation upon the sales-tax base.

Secretary SNYDER. Shall I proceed?

The CHAIRMAN. You may proceed.

PROVISIONS OF THE HOUSE BILL

Secretary SNYDER. I turn now to a discussion of the principal provisions of the House bill.

The tax increases in the House bill aggregate \$7.4 billion, or roughly \$3 billion less than the \$10-billion tax legislation goal set by the President for the year. The bill also includes revenue-losing provisions which total about \$550 million. The net yield of the bill is about \$7 billion.



The principal differences in revenue yield between the House bill and revised estimates under the present program presented to the Committee on Ways and Means on April 2, are indicated in the following tabulation:

*Annual yield of House bill and Treasury proposals*

(In millions of dollars)

	House bill	Treasury proposals	Difference
<b>Revenue-raising provisions:</b>			
Individual income tax	\$2,507	\$3,800	--\$1,293
Corporation taxes	2,700	3,250	--550
Capital gains	80	440	--360
Excise taxes	900	3,270	--2,370
Wage-tax	300		--300
Miscellaneous	410		--410
<b>Total</b>	<b>7,377</b>	<b>10,720</b>	<b>--3,343</b>
<b>Revenue-losing provisions</b>	<b>--545</b>		<b>--545</b>
<b>Net yield</b>	<b>6,830</b>	<b>10,720</b>	<b>--3,890</b>

NOTE:—Details are shown in table 1.

It shows that the House bill, after adjustment for revenue-raising provisions and revenue-losing provisions, gives a net yield of \$6,830 million, or a difference of \$3 billion from the \$10 billion requested.

Senator MILLIKIN. I would like to ask you, Mr. Secretary, in connection with individual income taxes, have your own people made a study of the burden tables with a view of also making suggestions as to where, without changing the over-all amount, changes might be made in order to avoid the equivalent of confiscation.

Has there been any study of that?

Secretary SNYDER. They have those.

Senator MILLIKIN. Will we come to that later on?

Secretary SNYDER. Either here or in the technical staff discussions, if you would like to have them; yes, sir.

Senator MILLIKIN. Well, with a preliminary look at the burden tables—I am talking about the income tax now—it indicates that the House bill is in confiscation, or is approaching confiscation. Are there any suggestions to be forthcoming from the Treasury to alleviate that kind of situation?

Secretary SNYDER. We have those tables for your study to show what the results of the application of these various methods would be.

Senator MILLIKIN. I was hoping for a little more than that, I was hoping for Treasury recommendations.

Secretary SNYDER. We may be able to give you some on that, too.

The revenue yield of this bill should be increased and its contribution to the fiscal year 1952 collections should be maximized by speedy enactment.

Senator MILLIKIN. Mr. Chairman, may I ask another question please?

The CHAIRMAN. Yes.

Senator MILLIKIN. Does your table for corporation taxes include excess profits?

Secretary SNYDER. Yes, sir.

Senator MILLIKIN. Is the Treasury prepared to say that we have had enough experience under the existing excess-profits tax to make sound provisions so far as amendments are concerned?

Secretary SNYDER. We are not ready to make any definite recommendations yet, Senator. We feel like we do need some additional time before we can make final recommendations, as we suggested before.

The CHAIRMAN. In your original recommendations to the Ways and Means Committee, did you recommend an increase in the excess-profits tax?

Secretary SNYDER. No, sir.

The CHAIRMAN. You did not.

Secretary SNYDER. No, sir.

The CHAIRMAN. That was put in by the committee?

Secretary SNYDER. Yes, sir.

We welcomed the increased revenue, sir.

The CHAIRMAN. Oh, I understand.

Senator KERR. I did not understand the chairman's question.

The CHAIRMAN. I asked if, in his original presentation to the Ways and Means Committee, he had asked for any increase in the excess-profits rates.

The Secretary said that he had not, but he welcomed increased revenue resulting from the committee changes in that.

Senator MILLIKIN. May I ask again, I think you have answered clearly, but from the standpoint of a Treasury proposal, you do not feel there has been sufficient experience under the existing law to warrant recommendation on this subject at this time, is that correct?

Secretary SNYDER. That is correct.

Senator MILLIKIN. Yes.

Senator WILLIAMS. Mr. Secretary, might I ask a question?

The CHAIRMAN. Yes.

Senator WILLIAMS. With reference to this table, I notice in the Treasury proposals as submitted to the House, you have no estimates on increases revenues as a result of loopholes that might be plugged. Did the Treasury Department place an estimate on what might be arrived at from plugging up certain loopholes?

Secretary SNYDER. Yes. We had that in the original presentation to the Ways and Mean Committee. We can furnish that.

Senator WILLIAMS. What loopholes did the Treasury recommend to be plugged?

Secretary SNYDER. I might say this, on that excess profits adjustment by the House, they brought it more in line with the original recommendation a year ago last fall of the Treasury Department.

The CHAIRMAN. Yes; I understand.

Senator BUTLER. On this table on page 9—

Secretary SNYDER. I believe Senator Williams has a question that I have not answered yet.

The CHAIRMAN. The Secretary may answer the question.

Secretary SNYDER. Mr. Lynch will give you the answer.

Mr. LYNCH. Senator, we can provide for the record a table of estimated revenue yields from the various provisions of the House bill, and the proposals that were made by the Treasury Department.

Senator WILLIAMS. Do you have that with you here now?

Mr. LYNCH, I will see if I can get it. They were incorporated in the supplementary testimony before the House committee on April 2, 1951, and that is a rather bulky document for the record. Could we supply that separately for the record, just the loophole provisions?

Senator WILLIAMS, Yes. I was just wondering what the over-all estimate of increased revenue would be that could be picked up as a result of those.

Mr. LYNCH, Perhaps we can get those figures. Just a moment.

Senator WILLIAMS, In that estimate of plugging loopholes.

Mr. LYNCH, I am sorry. We will have to supply that.

Senator WILLIAMS, You do not have that?

Mr. LYNCH, That is correct.

(The following information was subsequently submitted:)

The estimated revenue effect of the structural changes recommended by the Treasury Department to the House Ways and Means Committee are as follows (at rates of tax proposed by the Treasury):

	<i>Revenue yield (millions)</i>
1. Percentage depletion (reduce the allowance for gas and oil wells from 27½ percent to 15 percent, for sulfur from 23 percent to 15 percent, for nonmetals minerals from 15 percent to 5 percent; require intangible drilling costs to be deducted in computing gross income for depletion computation)	\$300
2. Tax undistributed earnings of—	
Cooperatives	30
Mutual savings banks	70
Building and loan associations	80
3. Tax-exempt securities (repeal exemption from income and excess-profits taxes)	1,300
4. Life-insurance companies (extend stop-gap legislation to the calendar year 1951)	(6)
5. Capital gains and losses (repeal sec. 117 (j) and (k))	70

<sup>1</sup> Long-run effect. Revenue yield in the first year will be small.

Senator WILLIAMS, Did you make any recommendations as to changes in the existing law with relation to charitable trusts, religious organizations, and so forth?

Mr. LYNCH, For the current bill?

Senator WILLIAMS, I know you have criticized those a few times as getting out of line.

Mr. LYNCH, There were substantial revisions made in the 1950 Revenue Act along that line.

Senator WILLIAMS, I submitted last year to the Treasury Department a proposal to change the existing law in relationship to cooperative taxes, and I told you that I would like to have a recommendation for it or against it. At this time how do you feel about that?

Secretary SNYDER, That was in the recommendation to the House.

Senator WILLIAMS, What was that recommendation?

Secretary SNYDER, We suggested that cooperatives be taxed on retained earnings.

Senator WILLIAMS, You do suggest that there should be some correction made?

Secretary SNYDER, That is correct.

Senator WILLIAMS, Because I know we submitted that to you last year.

Secretary SNYDER, Yes, sir.

Senator WILLIAMS, And you think that the committee should give consideration to getting that done at this time?

Secretary SNYDER. We made that recommendation to the House.

Senator MILLIKIN. Mr. Secretary, may I ask does the Treasury favor the enlargement of excise taxes at the manufacturer's level?

Secretary SNYDER. In this particular instance as an emergency measure.

Senator MILLIKIN. At the manufacturer's level?

Senator KERR. Does the Treasury propose excise taxes that they estimate would produce three and quarter billion dollars?

Secretary SNYDER. Yes, sir.

Senator KERR. Are those recommendations which the House did not adopt included in the statement that the Secretary is giving us now?

Secretary SNYDER. We have indicated in the tables here the difference between our recommendations and the House action.

Senator KERR. I understand.

Are you including in your statement a tabulation of the excise taxes which you propose which you felt would produce this amount of money?

Secretary SNYDER. You will find that in table 4.

Senator KERR. Attached to your statement here?

Secretary SNYDER. Yes, sir.

Senator BUTLER. In this table on page 9, about where we are at the moment, Mr. Secretary, you have listed \$905,000,000 difference between the House bill and the Treasury proposals on individual income taxes.

Then in looking at your breakdown table further over, I notice you have a family partnership listed, accounting for 100 million of that 905 million. I do not expect you to be able to break it down at this time, but I wondered if you would not provide a breakdown for the record of that 100 million.

Secretary SNYDER. We can try to give you that.

(The following information was subsequently submitted:)

*Estimated revenue effect of sec. 313, H. R. 4473*

	Billions
1. Estimated total entrepreneurial net income, calendar year 1951.....	\$20. 0
2. Estimated entrepreneurial net income of individuals who cannot make allocations of capital and income under sec. 313 <sup>1</sup> .....	11. 0
3. Estimated entrepreneurial net income of individuals who can make such allocations (item 1 minus item 2).....	18. 0
4. Estimated portion of item 3 of individuals who will make allocations of capital and income under sec. 313, 30 percent.....	
5. Estimated entrepreneurial net income on which effective rate of tax will be reduced under sec. 313 (item 3 times item 4).....	5. 4
6. Estimated decrease in effective rate of tax on item 5, 2 percent.....	
7. Estimated decrease in tax under sec. 313 (item 5 times item 6).....	0. 1

<sup>1</sup> Principally by reason of objections of existing partners to addition of new partners, because of lack of close relatives as required by sec. 313, because capital is not a material income-producing factor.

Source: Office of the Secretary of the Treasury, Office of the Technical Staff, July 6, 1951.

Senator BUTLER. Then in that connection, Mr. Chairman, I would like to submit a few questions. I do not have as many as Senator Byrd, but I would like to submit to the Secretary for the record a few questions along the line of family partnerships.

The CHAIRMAN. All right. If you will furnish them to the reporter, they will be made part of the record.

Senator BUTLER. That will be done later.

The CHAIRMAN. The chairman and the Secretary will get your questions out of the record of today's proceedings.

Senator BUTLER. Thank you.

(The information referred to follows:)

JUNE 28, 1951.

HON. JOHN W. SNYDER,  
*Secretary of the Treasury.*

MY DEAR MR. SECRETARY: Following our conversation in the committee hearing this morning with reference to the family partnership matter, I had intended going a little further into the situation with questions about as follows:

1. Are you familiar with the comments of Mr. Curtis of Nebraska on an exchange of correspondence with the Treasury Department which appears on pages 7142-7143 of the Congressional Record, June 22, 1951, as per copy attached.

2. I am particularly concerned over what Mr. Curtis has to say because it has sometimes seemed to me that we have not received the cooperation which we would naturally expect from your technical assistants. It has seemed to me that they are too often interested in advocating policies which they, personally, favor rather than in giving us fairly the basic information which will permit us to shape policies. May I ask what you would suggest that we do when we suspect that our questions to the Treasury Department are not being answered frankly and fairly by your assistants?

We are presently concerned with the continuing problem of the family partnership controversy, and it would be very helpful to have a complete reply to Mr. Curtis' letter. Therefore, I am asking that you please review the correspondence attached and see that the questions asked in Mr. Curtis' letter are answered fully so that they may be included in the record.

Hoping that you will not find it inconvenient to make a very prompt reply to the above queries, I am

Yours very truly,

HUGH BUTLER,  
*United States Senator, Nebraska.*

P. S.—I cannot vouch for the accuracy of the information, but I am led to believe that Mr. Curtis' letter was fully answered in the Bureau, and that the answers were not passed on to Mr. Curtis.

Mr. CURTIS of Nebraska. Mr. Chairman, I wish to insert in the Congressional Record an exchange of correspondence between myself and the Secretary of the Treasury which greatly disturbs me. This correspondence relates in particular to the tax treatment of family partnership cases, but I am far more concerned over the dangerous implications of this exchange of correspondence than I am over any particular tax question that has ever come before this Congress.

The proper development of tax laws in this Congress is essential to the lasting security of this country. This development must be through a democratic process. A continuing danger is that the increasing complexities of our expanding economy, together with increasing needs for revenue may make tax laws so complicated that the policy makers are lost, and only the technicians understand them. When this happens the technicians then have the power to make policy, and our democratic process fails. To avoid this result, we of the Ways and Means Committee require the greatest cooperation from the Treasury Department which, in many instances, is called upon to give us technical advice and assistance.

This exchange of correspondence which I am inserting in the Record pertains to an issue which is, in itself, relatively minor in relation to all of the many tax questions now before us. It is an issue on which the policy which I and others on the Ways and Means Committee advocate differs from the wishes of the Legislative Council of the Treasury. I wrote the Treasury on March 1, 1951, asking for some technical advice. All of the questions asked could readily have been answered in the Bureau of Internal Revenue within a few days. It was 81 days before I received a reply, and that reply was given to me on May 21, 1951, just as I was going into a meeting of the Ways and Means Committee which was to discuss this particular question.

The letter was completely evasive, and I am by no means alone in my opinion that it represents a studied effort by the technicians at confusion and evasion.

This, coupled with the long delay, suggests that the answer was withheld for 81 days in order to prevent any consideration of the answer prior to action by the Ways and Means Committee on the question.

This charge is not made without the most serious consideration on my part. It is not a charge against the Secretary of the Treasury for he, like ourselves, must necessarily call upon his technicians for advice. This invidious attempt on the part of Treasury technicians to take advantage of technicalities so as to control policy should be of greatest concern to this Congress and will, I hope, receive the attention also of the Secretary of the Treasury.

MARCH 1, 1951.

HON. JOHN W. SNYDER,  
Secretary of the Treasury,  
Washington, D. C.

DEAN SECRETARY SNYDER: You are aware that there have been widespread complaints as to the uncertainty, confusion, and conflict in the administrative and judicial treatment of family partnerships. Numbers of complaints have come to me from persons in Nebraska who are urging that legislation is necessary to remedy the present confusion. It is contended that the Commissioner and the Tax Court, for income-tax purposes, are disregarding bona fide transfers of partnership interests, while at the same time gift taxes are being collected on such transfers.

I would like to have a clear understanding of the present Treasury policy in these cases. As an aid to my understanding of that policy I shall present certain hypothetical cases which seem to illustrate the major facets of the problem as it is presented to me. It should be of great service to our committee if you will be good enough to answer the several questions directed to the hypothetical cases stated.

For the purpose of all of the cases stated, I wish you to make the following assumptions which should be kept clearly in mind:

1. That every transaction in each case was bona fide, that is, the facts were exactly what they purported to be. If it is stated that a gift was made, let it be assumed that it is real and that there were no secret agreements or understandings varying in any way the stated terms of any transaction.

(In this connection I am, of course, quite aware that many transactions between members of a family group are not what they purport to be. Where a purported gift between husband and wife or children is involved, whether the subject matter be stock or bonds or real estate or a partnership interest, it is much more likely to be a sham and a fraud upon creditors or the Treasury than are transactions between strangers. It is, of course, assumed that in any case you would be authorized to inquire fully into the question of bona fides and that after such investigation any transaction will be treated as what it really is rather than what it purported to be. But in considering the cases here, I am asking you to assume that a full investigation has been made by you and has disclosed complete bona fides.)

2. That a desire to save taxes along with the desire to benefit the donee was present in each case and helped to motivate the transaction.

3. That the donees in each case were persons without any business ability, that they had no interest in helping in the running of any business, and that they relied upon the donor to handle any property they might own from whatever source derived.

4. That neither the transfer to the donee, nor the bringing of the donee into partnership with the donor, in any way improved the business situation that would have existed if the same capital had been in the business and had all been owned by the donor; and that the transfers were not made and that the partnerships were not formed with any thought that the credit or the standing of the donee would improve the business situation which would have existed if the same business with the same total capital had remained in the ownership of the donor.

5. That the donee did not perform any services and was not expected at the time of the donation or the time of the formation of the partnership to perform any services for the business, nor to participate in its management.

6. That a gift-tax return was made reporting each transfer and that in each case the gift-tax return was investigated by the Commissioner, a slight increase in value determined, and additional gift tax paid.

7. That notwithstanding the fact that other members of the family took no interest in the conduct of the business and did not attempt to advise in any way with reference to it, the donor at all times recognized each donee's proprietary interest in the business and the right of the donee to participate in the manage-

ment of the business to the full extent that the law would allow under the partnership agreement, and that at no time did the donor commit any act which discriminated against their interests or which was inconsistent with his fiduciary obligation as managing partner.

It is very important that all the questions be answered on the basis of the foregoing assumptions. Any answer which presupposes any bad faith whatever on the part of the donor or any intention whatever on the part of any party that any transaction stated should be in any way other than what it purports to be, will cause your answers to be meaningless; because I am not directing my questions to any case where there is any sort of fraud to be perpetrated.

The following are the hypothetical cases to which my questions are directed:

#### CASE NO. 1

In 1930, Smith organized a manufacturing corporation with a capital of \$10,000. He was the sole stockholder. The business was quite successful. After payment of salaries and dividends to Smith during the 10-year period to 1940, the net worth of the corporation was \$100,000. He then made a gift to his wife of 10 percent of the stock. In 1941, the corporation paid a \$30,000 salary to Smith, and had net income of \$50,000. It paid a \$10,000 dividend. Mrs. Smith received \$1,000, and chose to purchase a fur coat. The Commissioner determined that a reasonable salary for Smith for 1941 was \$20,000, and the corporation paid a deficiency tax on the \$10,000 disallowance. The 10-percent stock given to Mrs. Smith was issued to her, and kept by her in her own vault.

#### CASE NO. 2

On December 31, 1941, the corporation discussed in case No. 1 above was liquidated. Pursuant to direction to the stockholders, all assets subject to liabilities were transferred to the Smith Co., a partnership. The net liquidating dividend was \$120,000, which then comprised the capital of the partnership. Smith's capital was \$108,000; Mrs. Smith's was \$12,000. Smith was to draw a \$20,000 salary, and the remaining profits were to be divided 90-10. Smith was designated as the managing partner with the right to manage the business affairs and to determine the amount of profits which could be distributed each year. Any distribution, however, was to be made in the ratio of 90-10. The partnership was to remain in effect for 5 years. During 1942, the partnership earned \$50,000, of which \$20,000 was paid to Smith as salary, and the remaining \$30,000 was credited to the partners' capital accounts in the amounts of \$27,000 and \$3,000. Smith determined that \$20,000 should be distributed of which he received \$18,000, and Mrs. Smith received \$2,000. Mrs. Smith deposited the \$2,000 in her separate bank account. All persons dealing with the company were advised that Mr. and Mrs. Smith were partners.

#### CASE NO. 3

On December 31, 1942, the capital of the partnership was \$120,000, of which \$117,000 was credited to Smith and \$3,000 to Mrs. Smith. At that time the Smiths' two children were—a daughter, Mary S. Jones, 21 years old, married and living with her husband, and John Smith, Jr., 17 years old and attending college.

After several conversations between Mr. and Mrs. Smith about the matter, Mr. Smith explained to both children that he wanted to make gifts to them of an interest in the business, so that they would have a source of independent income. Mary, being an adult, was to receive her share outright. John's share was to be placed in trust with the income to be accumulated until he was 21, at which time he was to receive his interest outright. Mrs. Smith was to be the trustee. Accordingly, a trust agreement was executed which we will assume is entirely valid under the Clifford case and the appropriate Treasury regulations. Mr. Smith also told his wife that he wanted to increase her interest in the business.

A new partnership agreement was signed on December 31, 1942, under which Mr. Smith was to receive \$25,000 salary plus 60 percent of the partnership profits. Mrs. Smith was to receive 20 percent; Mary S. Jones, 10 percent; and the John Smith, Jr., Trust, 10 percent. Mr. Smith's management rights were the same as in the prior agreement. The new partnership was duly registered and publicized. The capital accounts of the new partnership were as follows: Mr. Smith, \$78,000; Mrs. Smith, \$26,000; Mary S. Jones, \$13,000; John Smith, Jr., Trust, \$13,000. For the year 1943, the partnership earned \$75,000, of which \$25,000 was paid to Mr. Smith as salary. The balance was credited to the capital accounts as follows: Mr. Smith, \$30,000; Mrs. Smith, \$10,000; Mary S. Jones, \$5,000; John Smith,

Jr., Trust, \$5,000. Shortly after the end of the year, Mr. Smith decided that the business needed \$20,000 of the 1948 income as working capital, and the partnership, therefore, distributed \$30,000 to the partners, as follows: Mr. Smith, \$18,000; Mrs. Smith, \$6,000; Mary S. Jones, \$8,000; John Smith, Jr., Trust, \$8,000.

The following are the questions which I would like to have answered:

Question 1, relating to case No. 1: Was the \$1,000 dividend received by Mrs. Smith in 1941 reportable as her income, or was it reportable as the income of Mr. Smith?

Question 2, relating to case No. 2: Was the \$3,000 credited to Mrs. Smith reportable in her income for 1942, or was it reportable in the income of Mr. Smith?

Question 3, relating to case No. 3: Was the \$10,000 credited to Mrs. Smith reportable in her income for 1943, or was it reportable in the income of Mr. Smith?

Question 4, relating to case No. 3: Was the \$5,000 credited to Mrs. Jones reportable in her income for 1943, or was it reportable in the income of Mr. Smith?

Question 5, relating to case No. 3: Was the \$5,000 credited to John Smith, Jr., Trust reportable in the income for 1943, or was it reportable in the income of Mr. Smith?

Question 6: If your answer to any of the above questions should be that any of the amounts referred to is taxable to the donor and not to the donee, please explain fully the reason for your answer.

I assume that questions identical with those stated have had so much attention in the Department that they can be answered without the necessity of any research. I shall appreciate it, therefore, if you will let me have a prompt reply so I may proceed immediately to take this problem up with my committee.

Sincerely yours,

CARL T. CURTIS.

TREASURY DEPARTMENT,  
Washington, May 21, 1951.

HON. CARL T. CURTIS,  
House of Representatives, New House Office Building,  
Washington, D. C.

MY DEAR MR. CURTIS: Reference is made to your letter of March 1, 1951, in which you pose certain questions relating to assumed hypothetical situations in the family-partnership field. You suggest that complaints have been made of confusion and conflict in the field and of the need for legislation. It is also suggested that bona fide transfers of partnership interests have been disregarded for income-tax purposes although gift taxes are levied in such transfers.

It may be well to discuss briefly the last point first. As you know, gift taxes are historically taxes on the transfer of property and have in general followed property-law concepts. On the other hand, the income tax is less related to concepts of title to property than it is to taxing income to the person who earned it. Thus, short of exact correlation between the two taxes, it is possible for a gift to be effective for one purpose and not for another. Moreover, in point of fact, gift taxes on the transfer of partnership interests have been paid voluntarily by donors, with the intent to use such payment as evidence that the transfer was bona fide for income-tax purposes, which it may or may not be. Later controversy over the taxation of partnership income not infrequently finds that the statute of limitations has run to prevent a refund of the gift tax paid even though it appears that no effective gift had been made.

With reference to the five questions concerning the family-partnership situations (and the dividend received by Mrs. Smith as a result of stock transferred to her by her husband), it is noted that you request initially that it be assumed that "every transaction in each case was bona fide." This assumption, as you know, goes to the heart of the controversy in every family-partnership situation and thus assumes the very answer which is being sought. You will recall that the Supreme Court in the Culbertson case stated the question in such cases generally to be " \* \* \* whether, considering all the facts, \* \* \* the parties in good faith and acting with a business purpose intended to join together in the present conduct of the enterprise." All tests are thus directed toward the question of whether the partners in good faith intended to form a valid partnership for income-tax purposes. Since, by your letter we must assume good faith in every transaction, the meaningful question at the root of all family-partnership controversies is answered by assumption.



As you know, this question is one of fact and which under the Culbertson decision, must be discovered from all the circumstances in the case. Some pertinent factors which may come into play in the discovery of that factual question are the actual distribution of income and the measure of its allocation, the participation by the donee in management and conduct of the business, the retention of control by the donor and whether he was influenced solely by tax-avoidance motives in admitting the donee as a partner. The question is thus whether, taking all such factors into account, the partnership is real or merely a device for income-tax-avoidance purposes. As you may recall, this was one of the very real difficulties the Department found with the amendment proposed last year, in that it removed from the scope of consideration in determining good faith several important factors. Since the question is one of fact, the scope of inquiry is seriously crippled unless all the circumstances can be taken into account.

It is doubtless true that the family partnership area has been a controversial one. It is the feeling of the Department, however, that much of the controversy has arisen from the fact that, as you indicate, "many transactions between members of a family group are not what they seem," and many taxpayers have not hesitated to use an ostensible family partnership, which did not alter real relationships, as an income-tax device. It is the belief of the Department that the opinion of the Supreme Court in the Culbertson case provides realistic and workable rules which will foreclose use of the partnership device to those who do not in good faith enter into the arrangement and which will also recognize bona fide partnerships.

Moreover, the Department has in recent months had the family partnership problem under intensive study with a view to issuing instructions to the revenue agents for their guidance in examining such partnerships. The study has included a sampling of typical cases recently pending in field offices and of the judgment of the field personnel with respect to such cases. A similar study was made with respect to the facts and decisions in family partnership cases decided in the Tax Court and in the district courts during the year 1950. The information thus obtained will be used to provide any clarification of the Bureau position which would appear desirable. It is anticipated that any instructions on the subject will be agreed upon and issued in the near future.

Very truly yours,

THOMAS J. LYNCH,  
*Acting Secretary of the Treasury.*

Senator WILLIAMS. I just do not know what the Senator from Nebraska is referring to, but how could there possibly be any pick-up in revenue under the existing laws, unless you are advocating the repeal of the community property tax?

Senator BUTLER. It is a deficiency.

Secretary SNYDER. There is a loss of revenue instead of a pick-up. There is a loss of revenue in the House bill.

Senator WILLIAMS. I mean, you are not advocating the repeal of the community property provisions?

Secretary SNYDER. No.

The CHAIRMAN. Thank you, Mr. Secretary.

Secretary SNYDER. Thank you.

The revenue yield of this bill should be increased and its contribution to fiscal year 1952 collections be maximized by speedy enactment. The increases in the House bill required to meet the President's program can be obtained from two general areas, selective excises and the individual income tax.

#### EXCISE TAXES

As already indicated, the President recommended raising \$3 billion additional revenue from selected excise taxes, while the House bill would raise about \$1 billion from this source.

The bill would add about \$290 million revenue from excise taxes on durable goods compared with proposals aggregating \$1.3 billion.

Senator MILLIKIN. Mr. Secretary, is it proposed to levy the tax on durable goods, and at what level?

Secretary SNYDER. Table 4 will show that.

Senator MILLIKIN. What level? The manufacturers' level?

Secretary SNYDER. Yes, sir.

Senator MILLIKIN. Don't those taxes compound as they go up the line?

Secretary SNYDER. Under usual conditions, I am afraid they would, but we now have price controls.

It would increase liquor taxes to yield \$230 million additional revenue compared with about \$070 million proposed under the President's program. The increase in gasoline tax would raise \$200 million instead of \$100 million. About \$175 million in revenue would be secured from the increasing the tax on cigarettes while the proposed rates would produce about \$520 million. (The excise tax yields under present law and the increases under the provisions of the House bill and under the President's program are shown in tables 2-4.)

Senator WILLIAMS. Mr. Secretary, what is the difference between these excise taxes and the manufacturers' sales tax on a selective level? That is what they really boil down to, is it not?

Secretary SNYDER. You mean why we selected, why the Treasury selected these particular ones?

Senator WILLIAMS. No.

I mean, is it not a fact that this is a sales tax on a selective basis?

Secretary SNYDER. These are taxes on sales, but are much more selective than a general sales tax.

Senator WILLIAMS. It actually is a sales tax on a selective basis?

Senator KEHR. An excise tax is a sales tax.

Secretary SNYDER. It is usually levied on sales.

In developing the excise tax proposals made to the Committee on Ways and Means, the Treasury carefully reviewed all existing excise taxes and also examined a large number of possible new sources of excise tax revenue. No new excise taxes were proposed because all those considered would have resulted in substantial additions to administrative and compliance costs, or would involve technical problems which would have interfered with equitable taxation.

The House bill generally follows the Treasury proposals as to the sources of additional excise revenue but does not raise the rates as much as proposed. Additional revenue could be obtained, particularly from the liquor and tobacco taxes and a number of consumer durable goods.

Senator MILLIKIN. Mr. Secretary, is the Treasury impressed with the claim that if you increase your liquor taxes you are increasing your moonshining operations, and illicit liquor operations?

Secretary SNYDER. We had to measure that very carefully, and it was considered, but it was felt that what was proposed could be taken care of without excessive bootlegging.

Senator MILLIKIN. There would be some but you feel that it would not be enough to overcome the revenue advantages?

Secretary SNYDER. The benefits, yes, sir.

It was carefully discussed with both sides of the picture in mind.

Senator BYRD. Does the Treasury recommend any excise taxes, any new excise taxes?

Secretary SNYDER. No, sir.

Senator BYRD. You are only increasing those?

Secretary SNYDER. That is right.

Liquor and tobacco taxes have long been a basic source of Federal excise revenue. The increases made in these taxes under the House bill are generally less than half of those proposed. Further increases in these taxes will be helpful in relieving the load to be carried by other components of the tax system.

The present taxes on most consumer durable goods are comparatively low in relation to the level of other excise taxes, particularly in light of pressing revenue demands. For example, the present excise taxes on such articles as television, radio, and a number of electrical appliances amount to only about 6 percent of the retail price compared with 17 percent for such items as admissions, toilet preparations, luggage, and other articles (table 5).

Senator MILLIKIN. You have a news dissemination factor there that may destroy your analogy, Mr. Secretary.

Secretary SNYDER. That may be given some consideration; yes, sir.

In view of the special circumstances of the defense program, which require reduced production of consumer durable goods, the increases in these taxes can be considered an especially appropriate source for emergency revenue.

#### INDIVIDUAL INCOME TAX

The action taken by the Congress on the proposed excise tax increases will have a bearing on how much will need to be raised from the individual income tax. To the extent that excise tax increases fall short of the additional revenue from this source recommended by the President, I would urge that the difference be made up from higher individual income taxes.

Senator MILLIKIN. Pardon me, but the Secretary would not recommend a widening of the base of the excise taxes?

Secretary SNYDER. We recommended that to the House Ways and Means, we recommended 4 percent.

Senator MILLIKIN. I mean, a widening of the items to be affected by excise taxes.

Secretary SNYDER. We are on individual income now. Do you want to go back to excises?

Senator MILLIKIN. Well, you said there:

The action taken by the Congress on the proposed excise tax increases will have a bearing on how much will need to be raised from the individual income tax.

Now, I am wondering whether the Treasury prefers that to the widening of the base on the articles to be affected by excise taxes.

Secretary SNYDER. I recall that in the previous statement I said we considered many areas, and for certain reasons—I cannot find that here.

Senator KERR. It is back about two or three paragraphs.

Secretary SNYDER. Yes. I will read it:

In developing the excise-tax proposals made to the Committee on Ways and Means the Treasury carefully reviewed all existing excise taxes and also examined a large number of possible new sources of excise-tax revenue. No new excise taxes were proposed because all those considered would have resulted in substantial additions to administrative and compliance costs or would involve technical problems which would have interfered with equitable taxation.

There were quite a number of additional ones considered but we did not add them in.

Senator MILLIKIN. Well, might I be vulgar enough to suggest that there might have been some political considerations?

Secretary SNYDER. Senator, you are better equipped to discuss that than I.

Senator MILLIKIN. Don't put that on me. I yield to you on that. I would not brag about that.

Secretary SNYDER. No; I doubt if there was a great deal. We will be glad to go into those things.

Senator MILLIKIN. I would like to know whether in connection with your excises you have also considered the impositions that have been going on in the State.

I say, in connection with your consideration of possibly widening the base of excise taxes, you consider also the taxes which existed in States in the same items?

Secretary SNYDER. If that is the sort of political consideration you mean—

Senator MILLIKIN. That was not what I was talking about. This is a new question.

Secretary SNYDER. Well, of course, we gave consideration to that. You just cannot completely invade the State and municipal areas. We have to give real consideration to them. If you recall, about two or three years ago, we gave a great deal of consideration to ironing out some of the inequities, and we discussed the matter with the State and local representatives.

We had to give consideration to the added burdens on the State and local sources of taxation.

Senator MILLIKIN. May I ask you, has the Treasury or anyone else, to your knowledge, ever made a study of the total tax burden on people in the lower income tax brackets, including State sales taxes and hidden taxes?

Has anyone ever made a study of that?

Secretary SNYDER. Studies have been made.

The CHAIRMAN. Who has made that study?

Mr. PECHMAN. The latest study was published in the National Tax Journal, by Professor Musgrave, at the University of Michigan, which distributes the total tax burden in 1948 by income levels. We can supply that information to you.

Senator MILLIKIN. Does it impress you as a most competent study?

Mr. PECHMAN. It was prepared by competent economists.

The CHAIRMAN. Well, I wonder if we might not go ahead.

Mr. Secretary?

Secretary SNYDER. The individual income tax increase under the House bill would raise \$2.9 billion on an annual basis (table 6).

The individual income tax should continue to provide our principal source of revenue. Even after the increased taxes recommended by the President, consumers' disposable incomes would be large in relation to the goods and services which will be available for consumption when the defense production rolls into high gear.

There are certain problems which I believe the members of the committee will want to keep in mind in considering increases in individual income taxes. One of the problems concerns the manner

in which the individual income tax increases are distributed among the several income groups.

The Treasury proposed a flat 4-percentage-point increase in all rate brackets. The House bill, on the other hand, adds 12½ percent to the tax liability under present law, except in the highest income brackets. The total yield of the House increase is equivalent in revenue yield to a 3-percentage-point addition to all of the rates throughout the income scale. However, as shown in table 8, the method employed in the House bill would raise relatively more from incomes above \$15,000 and relatively less from incomes below \$15,000 than a flat 3-percentage-point increase in all rates.

Senator MILLIKIN. Do you adhere to your recommendations of a flat increase?

Secretary SNYDER. Yes.

Senator MILLIKIN. Mr. Secretary, we did not agree on the 4, but let's say 3, or some other figure, let us say 5 or let's say 3.

Secretary SNYDER. Well, 5—all right.

Senator MILLIKIN. You still think that is a proper principle?

Secretary SNYDER. The percentage-point method, we feel, is most appropriate.

The burden of a given amount of additional revenue can be distributed in different ways, depending upon the considerations the Congress desires to emphasize. For example, a 1-percentage-point increase in addition to the increase provided in the House bill would achieve the President's revenue goal from this tax.

Senator WILLIAMS. Mr. Secretary, might I ask one question along the line of the Senator from Colorado.

If I understand it correctly, the Treasury recommends a flat percentage increase in each bracket?

Secretary SNYDER. Four percentage points in each bracket.

Senator WILLIAMS. That would place most of the tax increase in the lower income brackets?

Secretary SNYDER. It would put a considerable part of it there.

Senator WILLIAMS. And the Treasury recommends the larger raise in the lower brackets than the House provides in its bill?

Secretary SNYDER. It would be necessary to meet the revenue objective.

Senator WILLIAMS. That is the net result of the Treasury Department's recommendation, if I understand it correctly?

Secretary SNYDER. It turned out that way.

Senator TAFT. Do you consider your method also slightly more of a deterrent to inflation than the House bill?

Secretary SNYDER. We think that is true. I consider the tax program an anti-inflationary one, because it is balancing the budget and preventing deficit financing, but it also has other anti-inflationary effects.

Senator TAFT. What I meant is, do you consider that your method is slightly more deterrent than the House method?

Secretary SNYDER. I think so; yes, sir.

Senator TAFT. Because of reaching people who buy the great bulk of goods, it takes the pressure off.

Secretary SNYDER. The result would be that; yes, sir.

Senator TAFT. It takes the pressure off the buying and so on, a little more?

Secretary SNYDER. Yes, sir.

Senator KERR. The only reason that you have, if your recommendation is adopted it would reduce a greater amount of taxes from certain levels than from others, and that the only reason for that is because of the fact that those levels of taxpayers have the greatest percent of income.

Secretary SNYDER. That is correct.

Senator KERR. That would be subject to it.

Secretary SNYDER. That is correct.

Senator MILLIKIN. And from the inflationary standpoint, your most dynamic spending is in the lower brackets?

Secretary SNYDER. That appears to be the case; yes, sir.

The 12½ percent increase in tax liability has necessarily required special treatment in the upper part of the rate schedule. The highest individual income-tax rate, which is now 91 percent, is set at 94.5 percent under the House bill. However, the highest rate in the tax schedule is reached at \$80,000 and applies to all income above this amount instead of the \$200,000 level under present law. These levels are twice as high for married couples filing joint returns.

The House bill adopts the maximum effective rate limitation of 90 percent proposed by the Treasury. (The rate schedules and liabilities at selected net income levels under present law, the House bill and Treasury proposals are given in tables 7-12.)

In making changes in the individual income taxes, consideration also needs to be given to the alternative rate on long-term capital gains. The House bill provides for increasing the liability under the present 25-percent rate by 12½ percent. This raises the alternative rate to 28.1 percent, and gives partial recognition to the need for strengthening the capital gains tax and for adjusting the alternative rate when individual income tax rates are increased.

When the individual income tax rates were raised by the Revenue Act of 1950, no change was made in the alternative capital gains rate.

Senator MILLIKIN. Mr. Secretary, may I inquire how much new revenue would be gotten under the proposed capital gains tax rate?

Secretary SNYDER. It is estimated at \$440,000,000 together with the proposed extension of the holding period.

Senator MILLIKIN. Per year?

Secretary SNYDER. Yes, sir.

Senator TAFT. But only \$80 million from the House bill?

Secretary SNYDER. That is right.

However, taxpayers in the lower income brackets not affected by the alternative rate, who include half of their long-term gains in ordinary income have had to pay increased taxes on their long-term capital gains. The 24-percent first bracket rate which would result from the 4-percentage-point increase proposed by the Treasury would represent nearly a 50-percent increase in the first bracket rate in effect prior to the Revenue Act of 1950. Accordingly, the Treasury proposed to the Committee on Ways and Means a corresponding revision in the alternative capital gains rate to increase it from 25 to 37½ percent.

Senator MILLIKIN. If you did that, that would yield what?

Secretary SNYDER. \$440,000,000 with the longer holding period.

Senator MILLIKIN. And the House provision would yield about \$80,000,000.

Secretary SNYDER. That is correct, with the longer holding period.

Senator KERR. Your estimate of that increase, Mr. Secretary, is based upon the fact that this proposed increase in the rate would not increase the amount of transactions subject to capital gain.

Secretary SNYDER. That there is no change in volume.

Senator MILLIKIN. What is the answer?

Secretary SNYDER. That there would be no change in the volume of transactions due to the act.

Senator WILLIAMS. What has been the experience of the Treasury Department in the past, as you change this rate up or down?

Mr. LYNCH. We would like to give that to you in detail; changes were made some time ago in relation to the holding period, and we would like to give you all of that.

Senator WILLIAMS. I wish you would give us that.

Mr. LYNCH. Yes, sir.

The CHAIRMAN. Your recommendation for an increase, from 25 to 37½ percent to yield about \$440,000,000 was based upon what?

Secretary SNYDER. That is the total, including the increase in the holding period to a year from 6 months.

The CHAIRMAN. The lengthening of the holding period from 6 to 12 months?

Secretary SNYDER. Yes, sir.

We prepared a study for the House committee.

May we offer that in answer to your question?

The CHAIRMAN. You may.

(The document referred to will be printed as a committee document and be available for general distribution upon written request. However, the committee has excerpted therefrom the chart entitled "Estimated Revenue Yield from Capital Gains and Income Taxation, 1926-51," which appears on p. 334 of this volume of hearings.)

The CHAIRMAN. Mr. Secretary, has there been consideration given in the Treasury to dropping this capital gains tax on assets held for a relatively long period of time?

Secretary SNYDER. Yes, sir. Consideration has been given to that, but we were rather hesitant to consider revenue-losing measures at this period. A couple of years ago we gave very serious consideration to it.

The CHAIRMAN. I am not speaking of lowering the short term.

Secretary SNYDER. I understand what you mean.

You say 10 or 15 years?

The CHAIRMAN. Well, 5 years or 10 years?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. Wouldn't you gain revenue, Mr. Secretary?

Secretary SNYDER. There was considerable argument to the effect that it would, perhaps increase the revenue, but we just did not deem it advisable to experiment at this time with it.

The CHAIRMAN. At this time?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. You dealt with your recommendations with the holding period and the increased rate.

Secretary SNYDER. That is correct.

The CHAIRMAN. All right.

Senator MILLIKIN. Is it not true, as a general principle, that saving, or perhaps hoarding, that all capital transactions do reflect in income, maybe after a lag, but they do reflect an income and "what you lose on the banana you can pick up on the peanut."

Secretary SNYDER. My staff says that there are some problems, for example when capital gains are transferred at death.

The higher capital gains tax rate would reduce the present large discrepancy in the upper brackets between the alternative tax and the regular income tax. This discrepancy has resulted in increasing use of methods to convert ordinary income into capital gains. Moreover, it has stimulated efforts to obtain legislation broadening the area of capital gains.

In addition to increasing the alternative tax rate, the present unduly short holding period of 6 months should be lengthened to 1 year. The present holding period leaves little distinction between gains which accrue to investors as distinguished from speculative type of gains.

These suggested changes in the capital gains tax would raise about \$440 million from corporations and individuals, compared with an estimated \$80 million from the rate increase in the House bill.

#### CORPORATION TAXES

Last year the Congress raised the general corporate rate to 42 percent for 1950 incomes and to 47 percent for 1951. The Excess Profits Tax Act imposed a tax of 15 percent on 1950 excess profits income, or a rate of 30 percent for one-half of the year. Corporations with less than \$25,000 of net income were exempt from the excess profits tax and subjected to smaller rate increases under the corporation income tax.

The present House bill establishes a general corporate rate on 1951 incomes of 52 percent. This represents a 5-percentage-point increase over present law. Since the increase is entirely in the normal tax, the tax rate applicable to the first \$25,000 of corporation income is increased from 25 to 30 percent under the bill. In addition, the House bill reduces the earnings credit under the excess profits tax from 85 to 75 percent of the base period average and raises the maximum rate limitation from 62 to 70 percent.

Corporation taxes must necessarily play an important part in financing the defense program. As a result of defense preparations, business profits have experienced the sharpest rise of any type of income. This was recognized by the Congress when it enacted the excess profits tax.

The adequacy of corporation taxes cannot be measured by comparing changes in tax rates alone because of changes in the rate structure in recent years. More important, however, is the large change which has taken place in the level of corporate profits. During the 3-year period, 1948-50, corporate profits before taxes rose to an all-time high, averaging \$34 billion a year. The upward trend of corporate profits continued into 1951. It is now estimated that corporation profits before taxes this year will reach \$45 billion and exceed the 1950 record by about \$4 billion (table 13).

Senator MILLIKIN. Are you speaking for this calendar year?

Secretary SNYDER. Yes, the calendar year.

Senator MILLIKIN. Thank you.

Secretary SNYDER. The House bill would raise from corporations substantially the amount recommended by the President. (Corporate income and excess-profits-tax liabilities under the House bill and



the Treasury proposals are compared in tables 14-16.) Part of the additional revenue in the House bill would be obtained from reducing the earnings credit of the excess-profits tax from 85 to 75 percent of the base-period average and raising the maximum effective-rate limitation to 70 percent. The reduced base-period credit conforms to the Treasury proposal made last year. As the President has previously pointed out, however, there are several areas in the excess-profits-tax law which will need attention when the 1950 tax returns become available for examination and the operation of the present law can be scrutinized.

#### OTHER PROVISIONS IN THE BILL

Last year the Congress adopted some important structural improvements in the tax law. However, as indicated by the President in his special tax message this year, a number of important loophole areas remain.

The House bill has made some further progress and incorporated several important provisions in the pending bill. I want to repeat the recommendation made to the House Committee on Ways and Means that this effort be carried forward to the extent consistent with the prompt enactment of this legislation.

Senator WILLIAMS. Now, I understand you are going to submit to the committee a list of the Treasury recommendations you made to the House.

Secretary SNYDER. Yes, sir.

Senator WILLIAMS. And that does include, if I understand correctly, recommendations for changes in existing laws relating to cooperatives.

Secretary SNYDER. Yes.

Senator WILLIAMS. Thank you.

Secretary SNYDER. There may be some disposition to postpone the closing of loopholes under the existing high tax rates, because it would be easier to adjust to doing without preferential status when tax rates are lower. That is doubtless true. However, increasing tax rates strengthen rather than weaken the case for closing loopholes, because inequities are automatically less tolerable when the taxpaying public generally is asked to bear especially high taxes. Higher tax rates increase the tax-saving value of loopholes and make it more difficult to deal with the problem in the future. Surely, the public's defense-tax burdens will be heavy enough without adding to them the equivalent of increased subsidies for those escaping their share of taxes.

Senator MILLIKIN. What has been the Treasury's recommendation with respect to cooperatives?

Secretary SNYDER. Well, our recommendation was that they be taxed on the undistributed earnings.

Senator TAFT. You mean everything except patronage dividends, you do not tax patronage dividends, but all retained earnings, even if represented by distribution certificates?

Secretary SNYDER. Yes; that would be taxable.

Senator TAFT. As I remember, that was the proposal.

Secretary SNYDER. That was the proposal.

Senator WILLIAMS. If I understand correctly, you would exempt all those earnings distributed in cash?

Secretary SNYDER. The retained earnings.

Senator WILLIAMS. You would exempt earnings paid out in cash?

Secretary SNYDER. In cash or goods.

Some of them distribute in goods. It is the retained earnings in the operation that we suggested taxing.

Senator WILLIAMS. In other words, whoever keeps the cash, pay the tax; is that right?

Secretary SNYDER. If the cooperative keeps the cash, they pay it.

Senator WILLIAMS. Whoever keeps the earnings pays the tax.

Secretary SNYDER. That is correct.

Senator FARR. How many did you estimate, roughly speaking, or how much did you estimate that that would produce?

Secretary SNYDER. About \$30 million.

Senator FARR. That is not this billion dollars they have been telling us about.

Secretary SNYDER. It is not a great increase in dollars.

Senator FARR. Does that include building and loans and mutual savings banks?

Mr. LYNCH. That is in addition.

Senator FARR. That is in addition to the 25 million for co-ops?

Secretary SNYDER. Yes, sir.

Senator WILLIAMS. On the allocation of undistributed earnings you removed that?

Secretary SNYDER. I beg your pardon?

Senator WILLIAMS. On the allocation of undistributed earnings, you removed that, did you?

Secretary SNYDER. Well, we—

Senator WILLIAMS. In the correspondence with you it was pointed out that there was a certain amount of earnings unallocated to the farmers and upon which neither were paying taxes, and that is the part included in the recommendations.

Secretary SNYDER. Yes.

Mr. LYNCH, will you elaborate on that?

Mr. LYNCH. The proposal made was that the earnings be taxed, if retained, and would be deemed retained unless paid out in cash or goods within a certain specified period of time.

Senator WILLIAMS. And goods means merchandise, merchandisable goods?

Mr. LYNCH. Yes.

Senator WILLIAMS. Thank you.

The CHAIRMAN. All right, Mr. Secretary.

Secretary SNYDER. The yield of the House bill would be almost \$550 million larger if it were not for the revenue-reduction provisions it contains. In considering these provisions, it is important to weigh carefully their effects on the equity of the tax structure as well as the yield of the bill. Some of the provisions—such as the additional percentage depletion allowances, the application of low capital-gains rates to coal royalties and the validation of family partnerships for tax purposes—open more widely the very loopholes which the administration has long been striving to have closed. Certainly, the adoption of such provisions would not contribute to the willingness of our people to bear necessarily high taxes. I, therefore, strongly urge you to hold the line against such provisions.

I might say on the cooperatives that we don't think the proposal made would affect a member of a cooperative in a fashion; we do not think it would affect his privileges and benefits; they are still there, if they pay them out to him.

Senator WILLIAMS. This can be worked out without detriment to the members. In fact, I think it would be an advantage.

Secretary SNYDER. We gave very careful consideration to the membership.

Senator WILLIAMS. I submitted the proposed amendment to you about a year ago, along those lines and I am sure you are familiar with it.

Is that proposal I submitted along the line of your recommendation?

Mr. LYNCH. I am not prepared to answer that exactly. It is my impression, Mr. Senator, that there are some differences in it, and the differences are principally in the way of defining what is to be considered taxable earnings and what is to be considered a distribution.

Secretary SNYDER. The general principle is the same.

Senator WILLIAMS. The general principle of what was proposed in my bill that I submitted to you is what is being endorsed by the Treasury Department.

Secretary SNYDER. That is right.

On a different plane are the provisions which concern themselves with bringing about greater equity among existing taxpayers. The principal difficulty raised by these provisions is the pressing need for revenue. As you know, I have long recognized the desirability of removing inequities in the tax laws as rapidly as revenue conditions permitted. I, therefore, appreciate the problem you face in deciding whether these changes should be adopted now. In view of our large revenue needs and the task ahead of us next year, you may wish to continue the general policy adopted in the Revenue Act of 1950 of deferring revenue-losing legislation, unless the case for it is compelling on ground of equity.

Senator MILLIKIN. If the case is compelling on the grounds of equity, does not the very increase in taxes which we are talking about compel the conclusion that such relief should be given?

Secretary SNYDER. Well, I am not too sure of that. It is a question of—

Senator MILLIKIN. Unless you wish to take the position that we should close our eyes to equity.

Secretary SNYDER. I am very anxious that we do not.

Senator MILLIKIN. I am suggesting that we can always raise the revenue without doing injustice and that as taxes increase the scope of the injustice increases.

Secretary SNYDER. And that was the savings clause that we put in there, so that if it got to the point where it was a compelling argument—

Senator MILLIKIN. I hoped—I thought I detected a savings clause there but I wanted to be sure.

Secretary SNYDER. The House bill provides for withholding of individual income tax on dividends, limited types of interest payments, and royalties. This provision will greatly improve the enforcement of the tax laws in these areas. It is estimated that this provision will increase revenues by about \$250 million annually.

The withholding provision incorporated in the House bill is much more practical than the method considered by your committee last year and is designed to meet the principal objections raised at that time. I realize that the application of withholding encounters more difficult considerations in some areas than in others.

I have not previously made reference to the special tax on wagering included in the bill, since the considerations underlying this tax fall largely outside of the revenue field. The yield of the tax has been variously estimated and would depend to a high degree upon manpower and other resources devoted to its enforcement. The administrative staff will be available to lay before you the considerations involved in such a tax and its implication with respect to the present program of tax investigation in the area of crime.

#### TIMING OF THE LEGISLATION

As I indicated in the earlier part of this statement, we shall shortly have to undertake a substantial volume of new financing, the amount of which will depend in part on the contribution this revenue bill makes to fiscal year 1952 collections. For this reason the completion date of this legislation and the effective dates provided for the several tax increases are vitally important. The early passage of this legislation is particularly important in the case of the excise and individual income-tax increases since these increases take effect after the passage of the bill.

The House bill provides for the individual income-tax increases to take effect September 1, 1951. This would permit one-third of the rate increase to apply to this year's income. An earlier effective date would be desirable. However, since a large majority of individuals pay their income taxes through withholding, an increase in these taxes is dependent upon the increase in the withholding rate.

Senator BYRD. Is the Treasury in favor of a change in the House bill exempting the interest on deposits in banks?

Secretary SNYDER. We did not recommend that at the beginning, we did not make specific recommendations on that point.

Senator BYRD. Is it possible to withhold on Government bonds?

Secretary SNYDER. It is technically possible, administratively speaking; yes, sir.

Senator BYRD. Did you recommend that?

Secretary SNYDER. We did not.

Senator BYRD. You did not recommend the withholding on bank deposits?

Secretary SNYDER. We did not recommend either of those although we assured the House that they were administratively possible.

Senator BYRD. You did recommend the withholding of dividends?

Secretary SNYDER. We recommended the study of that.

Senator BYRD. And also interest on other bonds?

Secretary SNYDER. We recommended consideration of that.

Senator BYRD. What would be the additional income?

Secretary SNYDER. \$126,000,000.

Senator TAFT. How do you withhold on a coupon bond?

Secretary SNYDER. That involves an administrative problem.

The answer was \$126,000,000 on bonds and savings accounts.

Senator BYRD. I mean, on your United States bonds.

Secretary SNYDER. That is right, and savings accounts.

Senator BYRD. What would be the revenue gained by withholding on Government bonds?

Secretary SNYDER. We do not have a breakdown between savings accounts and Government bonds. The total for the two items is \$120,000,000.

Senator BYRD. In other words, you think the revenue would be increased by that much?

Secretary SNYDER. That was our estimate.

Senator BYRD. What was the amount of bank deposits?

Secretary SNYDER. We do not have a breakdown.

Senator BYRD. How much of this \$120,000,000 will come from interest on Government bonds and how much from the banks?

Secretary SNYDER. The revenue increases resulting from institution of withholding on savings deposits and United States savings bonds are estimated to be \$98 million and \$28 million, respectively.

Senator BYRD. The total of the two is \$120,000,000?

Secretary SNYDER. Right.

Now, Senator Taft asked a question.

Senator TART. I just asked, What is the status of corporate bonds under the House bill?

Mr. PECHMAN. The way that would operate is this: The bank to which you would present the coupon bond would give you 80 percent of the face value of the coupon bond. . . .

Senator TART. Of the coupon, you mean?

Mr. PECHMAN. Of the coupon, yes. The issuer of the coupon bond, the corporation, would reimburse the bank for that 80 percent, and would send 20 percent to the collector of internal revenue. There would be no additional operation on the part of the issuer or the bank, except for the remittance of the 20 percent.

Senator TART. Those coupons on there are negotiable, and I do not see how you can reduce their value 80 percent. They pass around so often, they go through brokerage offices and various places, and I think that should be difficult to do.

Senator TART. There is no name attached to them.

Mr. KIRBY. The bank in cashing the coupons will pay only 80 percent of the face value.

Senator TART. It is a negotiable note. The corporation offers to pay such-and-such an amount, and then how can the Government prevent a bona fide purchaser from collecting the money that they owe them?

Mr. KIRBY. The corporation that issues the coupon bond would pay 20 percent of the value of the coupon to the Government.

Secretary SNYDER. He is not asking that.

Senator TART. I do not see how they can deduct from a negotiable note, after it may have passed through two or three hands before it gets to the corporation.

Mr. KIRBY. The individual who turns in the coupon for redemption will get the refund from the Government or a credit against his tax liability.

The CHAIRMAN. He can take off 20 percent of his money. He is also presumed to pay taxes.

Senator TART. No; he buys a corporation note, a corporation promises to pay a certain amount of money to the order of bearer; as a

matter of fact, it is a bearer note, and every coupon is a bearer note. I do not see how you are going to deduct from it.

Mr. KIRBY. It is a contract such as a wage earner may have.

Senator TARR. That is not a negotiable contract. He cannot sell his contract.

Secretary SNYDER. That is not comparable; no.

Senator TARR. Do they sell them at times?

Secretary SNYDER. They do. They can pass through several hands.

Senator MILLIKIN. It might become collateral on a note in the bank.

Secretary SNYDER. That would be easy enough. The banks would only apply credit for the 80 percent.

Senator MILLIKIN. But the poor devil might not be as able to get as much money on his loan as he might otherwise.

The CHAIRMAN. All right, Mr. Secretary.

Secretary SNYDER. I will certainly look further into that. I am glad that you brought that up.

A September 1 effective date would enable us to collect about two-thirds of the increased annual yield of the individual income tax in the fiscal year 1952. About 10 percent of this would be lost for each month's delay beyond that date.

Similar considerations apply to excise taxes. Since these taxes can be increased only prospectively, and since at least part of the month after the passage of legislation is required to put the increased rates into effect, the contributions of these taxes to fiscal 1952 revenues are reduced by any delay in the passage of the legislation.

It is essential that the January 1, 1951, effective date for the corporate tax increases provided in the House bill be retained. Last year, as a result of special circumstances, the Congress departed from the long-established practice of applying corporation tax increases to the full calendar year.

The preservation of the principle of applying corporation tax increases for the full year has an important bearing on the fiscal position of the Government. Under the present quarterly system of corporate tax payment, even with the speed-up in payments adopted last year, less than two-thirds of the corporate tax increases will be collected during the coming fiscal year. On the basis of the House bill this would amount to \$1.6 billion, leaving \$1.2 billion to be collected after fiscal year 1952.

Since any lag in the effective date for the corporate tax increases would weaken the Treasury's position for the next two fiscal years, I strongly urge you to adhere to a January 1, 1951 effective date. As you know, corporations have been on notice since early this year of the contemplated tax increases.

When I discussed the President's program with the Committee on Ways and Means on April 2, I proposed effective dates for the several components of the \$10 billion program which would have produced over \$8 billion in the fiscal year 1952. In its present form the House bill will add only about \$4½ billion to the next fiscal year's collection.

There is no escaping the conclusion that we will not be able to stay within reach of a pay-as-we-go policy unless the yield of this bill is raised and the legislation is completed quickly so that the increased taxes can be made effective as early as possible.

I want to say in conclusion that I am mindful, as I hope the people are, of the burden placed on each member of this committee by the

need for completing this legislation promptly. Circumstances beyond our control leave no alternative.

The two revenue measures developed by your committee and the Committee on Ways and Means last year were major accomplishments. They demonstrated to our people that they can have a defense program and pay for it as it develops. However, the problem in your hands now is even greater. I am hopeful that in view of the size and gravity of that problem, your Committee will be able to proceed with the necessary revenue legislation promptly. This will enable our country to go forward with the production part of our vast defense effort, in the knowledge that it will be fully supported by adequate financial measures.

The CHAIRMAN. Mr. Secretary, do you wish the exhibits at the end of your statement put into the record?

Secretary SNYDER. Yes; I would like to have those included in the record.

The CHAIRMAN. They may be included in full in the record.  
(The documents referred to above are as follows:)

#### LIST OF TABLES

1. Estimated revenue effect of House bill (H. R. 4473).
2. Estimated excise tax revenues classified by size of yield at present rates, fiscal year 1952.
3. Changes in excise tax rates and estimated increases in revenue under the House bill (H. R. 4473).
4. Changes in excise tax rates proposed by Treasury and estimated increases in revenue.
5. Like taxes on selected items as percent of retail price including tax, under present law, House bill (H. R. 4473), and Treasury proposal.
6. Estimated distribution of taxable individual income tax returns, income and tax liability under present law, House bill (H. R. 4473), and Treasury proposal at calendar year 1951 levels of income.
7. Comparison of individual income tax liabilities under present law, House bill (H. R. 4473), and Treasury proposal.
8. Comparison of effective rates of individual income tax under House bill (H. R. 4473), and 3-percentage-point increase in rates over present law.
9. Comparison of individual income tax liabilities for single persons with one dependent, heads of households with one dependent, and married couples filing joint returns, under the House bill (H. R. 4473), for 1952 and subsequent years.
10. Comparison of effective individual income tax rates for single persons with one dependent, heads of households with one dependent, and married couples filing joint returns, under the House bill (H. R. 4473), for 1952 and subsequent years.
11. Individual income tax rate schedules (present law, House bill (H. R. 4473), and Treasury proposal):
  - A. Single persons and married persons filing separate returns.
  - B. Married persons filing joint returns.
12. Individual income tax rate schedules: Single persons, heads of households, and married couples filing joint returns under the House bill (H. R. 4473), for 1952 and subsequent years.
13. Corporate profits before and after taxes, dividends, and undistributed profits, 1929, 1932, 1930-51.
14. Estimated distribution of taxable corporations, net income, and tax liabilities under present law, House bill (H. R. 4473), and Treasury proposal, for calendar year 1951.
15. Corporation income tax liabilities under 1946-49 rates, present law rates, the House bill (H. R. 4473), and Treasury proposal.
16. Effective rates of total income and excess profits taxes under present law, House bill (H. R. 4473), and Treasury proposal, for corporations with current incomes of \$100,000 and \$10,000,000.

TABLE 1.—Estimated revenue effect of House bill (H. R. 4475)

[Figures are rounded and will not necessarily add to totals]

	Estimated increase or decrease (—)	
	Full year effect <sup>1</sup>	Fiscal year 1952 effect <sup>2</sup>
	Millions	Millions
<b>Revenue raising provisions:</b>		
Individual income tax.....	\$2,898	\$1,980
Corporation taxes.....	2,696	1,549
Capital gains.....	79	25
Excise taxes.....	999	884
Wagering tax <sup>3</sup> .....	300	50
Miscellaneous:		
Withholding on dividends, interest and royalties.....	253	280
Continuation of stop-gap legislation for life insurance companies.....	58	41
Multiple surtax exemptions and minimum excess profits credits.....	70	42
Eliminate two for one offset of short-term capital losses against long-term capital gains.....	25	.....
Other <sup>4</sup> .....	5	5
<b>Total.....</b>	<b>7,371</b>	<b>4,775</b>
<b>Revenue losing provisions:</b>		
Capitalization of reproduction development costs.....	-20	.....
Percentage depletion.....	-69	-38
Deferral of capital gains tax on sale of personal residences.....	-113	-104
Sales of livestock.....	-15	-15
Family partnerships.....	-100	-100
Treat coal royalties as capital gains.....	-10	-8
Head of household.....	-45	-5
Excise-tax reductions:		
Repeal of electrical energy tax.....	-103	-71
Increase in drawback on distilled spirits.....	-17	-15
Photographic apparatus: Reduce 25-percent rate on photographic apparatus to 20 percent; increase 15-percent rate on film to 20 percent; exempt from tax business cost items.....	-22	-14
Admissions: Exempt certain nonprofit organizations; tax actual admission charge only.....	-21	-15
Other excise-tax reductions <sup>5</sup> .....	-18	-12
<b>Total.....</b>	<b>-545</b>	<b>-395</b>
<b>Net yield.....</b>	<b>6,826</b>	<b>4,379</b>

<sup>1</sup> Income-tax estimates are based on calendar year 1951 levels of income; excise-tax estimates are based on fiscal year 1952 levels of income.

<sup>2</sup> Effective date is assumed to be Sept. 1, 1951, for excise-tax changes with minor exceptions.

<sup>3</sup> In view of the usual and unforeseeable problems presented in enforcing this tax, the estimate will vary widely depending on the assumptions made.

<sup>4</sup> Includes the following provisions: (1) Require dealers in securities to distinguish between investment securities and resale securities; (2) include corporations organized to convert inventory profits into capital gains in the definition of collapsible corporations; (3) exclude depreciable assets sold by owners of closely held corporations to the corporation from capital asset definition; (4) include U. S. Government bonds in taxable estate of nonresident alien individuals not engaged in business in the United States.

<sup>5</sup> Includes the following provisions: (1) Exemption from tax of tires and tubes under 20 inches in diameter used on lawn mowers, toys, etc.; (2) net effect of increase in tax from 10 percent to 15 percent and exemption from tax base of sporting goods primarily used in schools and by youth; (3) exemption from tax on toilet preparations of baby oil, powders and lotions, and preparations used in barber shops and beauty parlors; (4) reduction of tax on domestic telegraph, cable and radio services from 25 percent to 20 percent; (5) exemption from cabaret tax of food and drink served in ballroom.



TABLE 2.—Estimated excise tax revenues classified by size of yield at present rates, fiscal year 1952

Size of yield	Estimated revenues <sup>1</sup>	Percent of total
	Millions	
Over \$1 billion.....	\$2,925	34.9
Distilled spirits.....	1,565	18.7
Cigarettes.....	1,360	16.2
\$500 to \$1 billion.....	1,295	15.5
Fermented malt liquors.....	670	8.0
Gasoline.....	625	7.5
\$300 to \$500 million.....	1,900	22.7
Transportation of property.....	420	5.0
Passenger automobiles.....	415	5.0
Long-distance telephones.....	390	4.7
Admissions, exclusive of cabarets.....	350	4.2
Local telephone service.....	325	3.9
\$100 to \$300 million.....	1,176	14.0
Transportation of persons.....	230	2.7
Jewelry.....	222	2.6
Tires and inner tubes.....	175	2.1
Toilet preparations.....	121	1.4
Automobile trucks.....	115	1.4
Lubricating oils.....	110	1.3
Electrical energy.....	103	1.2
Radio, television, phonographs, phonograph records, and musical instruments.....	100	1.2
Under \$100 million.....	1,064	12.9
Total.....	8,280	100.0

<sup>1</sup> April revisions of 1952 budget estimate.

Note: Percentages are rounded and will not necessarily add to total.

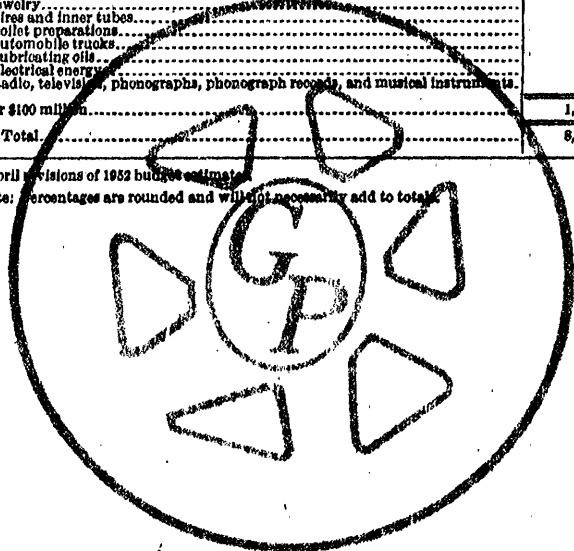


TABLE 3.—Changes in excise tax rates and estimated increases in revenue under the House bill (H. R. 4475)

Item	Tax base	Present rate	Rate under House bill	Estimated revenues <sup>1</sup>	
				Present law	Increase under House bill
<b>I. Alcoholic beverages:</b>					
Distilled spirits.....	Proof gallon	\$0	\$10.50	Millions \$1,585.0	Millions \$165.6
Draw-back when used in medicines and food products.....	do	\$5	\$0.50		—17.0
Beer.....	Barrel	\$8	\$8	670.0	74.3
Still wines.....	Gallon	15 cents, 60 cents, \$2	17 cents, 67 cents, \$2.25	80.0	8.5
Sparkling wines.....	Half pint	10 cents, 15 cents	12 cents, 17 cents		
Retail dealers in liquor.....	Annual fee	\$27.50	\$50		
Wholesale dealers in liquor.....	do	\$110	\$200	10.0	8.0
Wholesale dealers in malt liquors.....	do	\$55	\$100		
Total, alcoholic beverages.....				2,325.0	229.4
<b>II. Tobacco: Cigarettes.....</b>					
	Thousand	\$3.50	\$4	1,300.0	178.7
<b>III. Manufacturers' excises:</b>					
Gasoline.....	Gallon	1½ cents	2 cents	625.0	200.6
Automobiles.....	Manufacturer's price	7 percent	10 percent <sup>2</sup>	415.0	174.2
Auto parts and accessories.....	do	5 percent	8 percent <sup>3</sup>	95.0	50.0
Trucks and busses.....	do	do	do	115.0	60.0
Tires and tubes.....	Pound	5 cents and 9 cents	No change <sup>4</sup>	173.0	—1.0
Electric, gas and oil appliances.....	Manufacturer's price	10 percent	do <sup>5</sup>	75.0	17.9
Electrical energy.....	Charge	3¼ percent	Repealed	163.0	—163.0
Fountain pens and pencils.....	Manufacturer's price	No tax <sup>6</sup>	20 percent <sup>7</sup>	0	17.6
Radios and television sets.....	do	10 percent	No change <sup>7</sup>	83.0	Negligible
Photographic apparatus and film.....	do	25 and 15 percent	2½ percent <sup>8</sup>	38.0	—32.0
Sporting goods.....	do	10 percent	15 percent <sup>9</sup>	11.5	—1.3
Total, manufacturer's excises.....				1,735.5	411.2
<b>IV. Retailers' excises:</b>					
Jewelry.....	Retail price	30 percent	No change <sup>11</sup>	222.0	2.0
Diesel oil used for highway transportation.....	Gallon	No tax	2 cents	0	11.5
Toilet preparations.....	Retail price	20 percent	No change <sup>12</sup>	121.0	—6.5
Total, retailers' excises.....				343.0	7.0

V. Services:					
Admissions	Charge	1 cent per 5 cents/or major fraction.	do. <sup>13</sup>	350.0	-23.2
Cabarets	do.	20 percent.	do. <sup>14</sup>	40.0	-1.0
Coin-operated gaming devices	Annual charge per machine	\$150	\$250	15.6	10.4
Bowling and billiards	Annual charge per table or alley.	\$20	\$25	3.5	.9
Transportation of property	Charge	3 percent.	No charge <sup>15</sup>	420.0	3.0
Transportation of persons	do.	15 percent.	do. <sup>16</sup>	230.0	Negligible
Domestic telegraph, cable and radio messages	do.	25 percent.	20 percent.	42.5	-8.3
Total, exercises on services				1,101.6	-18.2
VI. Excises for which no change was made				1,514.9	0
Subtotal				8,380.0	806.1
VII. Wagering:					
Wagers (except parimutuel)	Amount wagered	No tax	10 percent.	0	17,300.0
Persons taking wagers for profit	Annual fee	do.	\$50		
Grand total				8,380.0	1,106.1

<sup>1</sup> Full year effect at estimated fiscal 1952 levels of income.

<sup>2</sup> Tax on house trailers retained at 7 percent of manufacturers' price.

<sup>3</sup> Credit or refund of tax granted for certain replacement parts if sold for use on farm equipment and tractors. Excludes from tax the fair market value of parts traded in for rebuilt parts.

<sup>4</sup> Exempts tires with internal wire fasteners and all-rubber tires if not more than 20 inches in diameter and 1 3/4 inch in cross section.

<sup>5</sup> Includes the following household types appliances: power lawn mowers, electric or gas clothes driers, and electric belt-driven fans, door chimes, dehumidifiers, dishwashers, floor polishers and waxers, food choppers and grinders, hedge trimmers, ice cream freezers, mangles, motion picture and slide projectors, pants presses, and shavers. Exempts heating pads and includes electric sheets and spreads.

<sup>6</sup> Pens and pencils ornamented with precious metals are currently subject to the 20 percent retail tax on jewelry. Under the proposal they would continue to be taxed at the retail level.

<sup>7</sup> Exempts communication and navigation receivers of the type used in commercial, military, or marine installations when sold to the United States for its exclusive use.

<sup>8</sup> Exempts business type photographic apparatus and film.

<sup>9</sup> Exempts basketballs, boxing gloves and other boxing equipment, footballs and other football equipment, cricket balls and bats, fencing equipment, gymnasium equipment and apparatus, hockey equipment, lacrosse equipment, mass balls, push balls, skates, snow toboggans and sleds, soccer balls, soft balls and other softball equipment, track

hurdles, vaulting equipment, volley balls and other volley ball equipment, water polo equipment, indoor baseballs and other indoor baseball equipment, and wrestling head harness.

<sup>10</sup> Excludes collections from the tax on fishing equipment.

<sup>11</sup> Extends tax to all lighters.

<sup>12</sup> Exempts baby oils, powders, and lotions and purchases for use by beauty and barber shops.

<sup>13</sup> Exempts most admissions accruing to (1) nonprofit religious, educational or charitable institutions, including societies for the prevention of cruelty to children and animals, and symphony orchestras, and (2) specified nonprofit institutions such as agricultural fairs, municipal police and fire department benefit funds, National Guard, veterans and Reserve Officers associations. Exempts admissions to swimming pools, skating rinks and other places providing facilities for physical exercise, which are operated by Federal, State or local governments. Exempts free admissions and applies tax to actual amount paid in case of reduced rates.

<sup>14</sup> Exempts ballrooms and dance halls where serving of food, etc., is incidental to furnishing music and dancing privileges.

<sup>15</sup> Extends tax to transportation of oil by barge or tanker where shippers transport their own oil.

<sup>16</sup> Exempts fishing boat trips.

<sup>17</sup> In view of the unusual and unforeseeable problems presented in enforcing this tax, the estimate will vary widely, depending on the assumptions made.

TABLE 4.—Changes in excise tax rates proposed by Treasury and estimated increases in revenue

Item	Tax base	Present rate	Proposed rate	Estimated revenue <sup>1</sup>	
				Present law	Increase under proposal
				Millions	Millions
<b>Alcoholic beverages:</b>					
Distilled spirits.....	Proof gallon	\$9	\$12	\$1,555	\$204
Beer.....	Barrel	35	42	670	287
Still wines.....	Gallon	15 cents, 60 cents, 82	50 cents, \$1.00, \$1.10		
Sparkling wines.....	Half pint	10 cents, 15 cents	15 cents, 22 cents	80	90
<b>Total.....</b>				<b>2,315</b>	<b>671</b>
<b>Tobacco:</b>					
Cigarettes.....	Thousand	\$5.50	\$5	1,350	522
Cigars (see schedule A).....	do	\$2.50 to \$20	\$3 to \$32	43	25
<b>Total.....</b>				<b>1,433</b>	<b>547</b>
<b>Manufacturers' excises:</b>					
Gasoline.....	Gallon	13 1/2 cents	3 cents	625	605
Automobiles.....	Manufacturers' price	7 percent	20 percent	415	771
Electric, gas, and oil appliances.....	do	10 percent	25 percent	75	285
Refrigerators.....	do	do	do	75	113
Radio, television sets, phonographs, phonograph records, musical instruments.....	do	do	do	100	150
<b>Total.....</b>				<b>1,280</b>	<b>1,925</b>
<b>Miscellaneous (see schedule B)</b>				<b>409</b>	<b>108</b>
<b>Total, all items.....</b>				<b>5,437</b>	<b>3,202</b>

<sup>1</sup> Full-year effect at estimated fiscal year 1952 levels of income.

<sup>2</sup> Tax to include the following household type of electrical appliances: Vacuum cleaners, washing machines, mangles, dishwashers, dryers, sewing machines, floor polishers and waxers, garbage disposal units, and razors.

TABLE 4.—Changes in excise tax rates proposed by Treasury and estimated increases in revenue—Continued

## SCHEDULE A: CIGAR TAX SCHEDULE

Intended retail price (cents per cigar)		Present rate	Proposed rate
Over—	Not over—		
0	2.5	Thousands \$2.00	Thousands \$3.00
2.5	4.0	8.00	8.00
4.0	6.0	4.00	5.00
6.0	8.0	7.00	9.00
8.0	10.0	10.00	12.00
10.0	12.0	10.00	15.00
12.0	14.0	10.00	18.00
14.0	16.0	10.00	21.00
16.0	18.0	15.00	21.00
18.0	20.0	15.00	24.00
20.0		15.00	27.00
0.0		20.00	32.00

## SCHEDULE B: MISCELLANEOUS EXCISE-TAX PROPOSALS

Item	Rate		Estimated revenue <sup>1</sup>	
	Present law	Proposal	Present law	Increase under proposal
Bowling alleys and billiard tables.....	\$20 per year per table or alley.	20 percent of charge for use.	Millions \$4	Millions <sup>1</sup> \$20
Furs.....	20 percent of retail price if fur is valued at more than 3 times the next most important component.	20 percent of retail price if fur is component of chief value.	62	28
Golf-green fees.....	No tax	20 percent of charge.	0	8
Jewelry.....	20 percent of retail price; 10 percent for watches selling for not more than \$25 and alarm clocks for not more than \$5.	Extend tax to silver-plated flatware, certain fountain pens, and trunks rate 20 percent on clocks and watches now taxed at 10 percent.	222	84
Toilet preparations.....	20 percent of retail price.	Extend to shampoos containing more than 5 percent of saponaceous matter.	121	8
Total.....			409	108

<sup>1</sup> Full year effect at estimated fiscal 1952 levels of income.

TABLE B.—Excise taxes on selected items as percent of retail price including tax under present law, House bill (H. R. 4475) and Treasury proposal<sup>1</sup>

## EXCISES FOR WHICH RATE CHANGES ARE PROPOSED

Item	Present law	House bill	Treasury proposal
	Percent	Percent	Percent
Distilled spirits	40	43	40
Cigars	34	37	43
Sweet wine	15	17	31
Beer	15	17	21
Domestic telegraph, radio, and radio messages	20	17	20
Smoking alloy and billiard charges	(1)	(1)	17
Gasoline automobiles	0	8	15
Electric, gas, and oil appliances	0	0	15
Radio, phonograph, and television sets	0	0	15
Amused amusements	0	0	15
Cigars	0	0	14
Photograph records	0	0	13
Table wine	4	0	13
Photographic apparatus	13	10	13
Gasoline	0	8	11
Photographic film	0	12	0
Sporting pools	0	0	0
Auto parts and accessories	3	4	3
Trucks and buses	3	0	3
Electrical energy	3	0	0
Ballpoint pens and pencils not ornamented with precious metals	0	12	0
Dead fuel	0	10	0
Wagers	0	0	0

## EXCISES FOR WHICH NO RATE CHANGES ARE PROPOSED

Full telephones	20		
Amusements and cabarets	17		
Retainers' system (furs, etc.)	17		
Leases of safe-deposit boxes	17		
Club dues	17		
Local telephone service	15		
Manufactured tobacco	13		
Transportation of persons	13		
Electric light bulbs	0		
Matches	0		
Tobacco	8		
Tires	7		
Firearms	0		
Lubricating oil	0		

<sup>1</sup> Assuming no pyramiding of proposed tax increases.<sup>2</sup> Tax in the form of an annual charge per unit which cannot be expressed as a percent of charge for use of facilities.

Notes.—Table does not reflect changes in the tax base or occupational taxes and annual fees which cannot be expressed as a percent of retail price.

TABLE 6.—Estimated distribution of taxable individual income tax returns, income and tax liability under present law, House bill (H. R. 4473), and Treasury proposal at calendar year 1961 levels of income.

(Money amounts in millions)

Adjusted gross income class <sup>1</sup> (\$1000)	Number of taxable returns (1959)	Adjusted gross income <sup>2</sup>	Surplus net income <sup>3</sup>	Total tax <sup>4</sup>				
				Amounts of tax			Increase over present law	
				Present law <sup>5</sup>	House bill <sup>6</sup>	Treasury proposal <sup>7</sup>	House bill	Treasury proposal
Under 1.....	1,626.2	\$1,253.8	\$190.0	\$34.1	\$42.6	\$46.7	\$4.8	\$7.0
1 to 2.....	6,869.0	9,227.0	3,561.2	712.2	901.2	851.7	89.0	142.4
2 to 3.....	9,183.2	23,870.5	9,138.9	1,828.7	2,077.3	2,104.2	228.6	269.8
3 to 4.....	9,941.2	31,922.5	13,802.0	2,783.0	3,131.0	3,238.1	347.4	454.5
4 to 5.....	7,104.8	31,579.5	14,472.1	2,913.2	3,278.1	3,492.1	369.0	578.9
Under 6.....	31,926.1	100,629.3	41,225.3	9,275.9	10,507.5	10,924.9	1,031.7	1,649.0
5 to 10.....	0,301.0	11,262.9	24,476.1	5,614.5	5,924.4	5,971.5	619.4	967.0
10 to 25.....	1,501.1	21,847.5	16,561.8	3,822.3	4,473.0	4,654.8	484.3	663.5
25 to 50.....	243.3	8,169.7	6,874.0	2,349.0	2,590.2	2,703.0	279.2	315.0
50 to 100.....	72.2	4,871.4	3,584.1	1,540.9	2,176.8	2,169.3	238.9	166.4
100 to 250.....	20.2	2,892.0	2,245.3	1,464.5	1,939.0	1,864.3	174.5	89.8
250 to 500.....	2.4	818.0	549.1	473.4	626.5	497.4	47.1	21.9
500 to 1,000.....	.6	430.1	262.3	250.8	276.8	267.6	26.0	10.1
1,000 and over.....	.2	302.8	247.3	254.4	264.9	264.8	10.5	9.9
5 and over.....	8,142.2	89,075.2	64,880.7	15,664.8	17,665.3	17,869.4	1,870.5	2,195.6
Total.....	12,008.3	181,195.6	96,114.9	23,970.7	26,872.8	27,815.2	2,962.1	3,844.6

<sup>1</sup> Returns of estates and trusts are classified by size of total income before deduction of amounts distributable to beneficiaries.

<sup>2</sup> Excludes amounts subject to the 50 percent alternative rate on long-range capital gains.

<sup>3</sup> Includes surtax, normal tax, and alternative tax.

<sup>4</sup> Revenue Act of 1959, rates applicable to 1961 incomes.

<sup>5</sup> Full year effect.

NOTE.—Figures are rounded and will not necessarily add to totals.

TABLE 7.—Comparison of individual income tax liabilities under present law,<sup>1</sup> House bill<sup>2</sup> (H. R. 4475), and Treasury proposal

## SINGLE PERSON—NO DEPENDENTS

Net income before exemption	Amounts of tax			Effective rates			Increase over present law				Tax increase as a percent of			
	Present law	House bill	Treasury proposal	Present law	House bill	Treasury proposal	Amounts		Effective rates		Present law tax		Net income after present law tax	
							House bill	Treasury proposal	House bill	Treasury proposal	House bill	Treasury proposal	House bill	Treasury proposal
				Percent	Percent	Percent			Percent	Percent	Percent	Percent	Percent	Percent
\$600														
\$800	\$40	\$45	\$48	5.0	5.6	6.0	\$5	\$8	0.6	1.0	12.5	20.0	0.7	2.1
\$1,000	80	90	96	8.0	9.0	9.6	10	16	1.0	1.6	12.5	20.0	1.1	1.7
\$1,500	180	202	216	12.0	13.5	14.4	23	38	1.5	2.4	12.5	20.0	1.7	2.7
\$2,000	280	315	336	14.0	15.8	16.8	35	58	1.8	2.8	12.5	20.0	2.0	3.3
\$3,000	498	549	584	16.3	18.3	19.5	61	98	2.0	2.2	12.5	19.7	2.4	3.8
\$5,000	944	1,062	1,120	18.9	21.2	22.4	118	176	2.4	3.5	12.5	18.6	2.9	4.3
\$8,000	1,780	2,008	2,076	22.3	25.0	26.0	223	296	2.8	3.7	12.5	18.6	3.6	4.9
\$10,000	2,436	2,741	2,812	24.4	27.4	28.1	305	376	2.0	2.8	12.5	15.4	4.0	5.0
\$15,000	4,448	5,004	5,024	29.7	33.4	33.5	556	876	3.7	2.8	12.5	12.9	5.9	5.5
\$20,000	6,942	7,810	7,718	34.7	39.0	38.6	868	776	4.3	2.9	12.5	11.2	8.0	6.9
\$25,000	9,796	11,021	10,772	39.2	44.1	42.1	1,225	1,976	4.9	3.9	12.5	10.0	8.1	6.4
\$50,000	26,388	29,678	28,364	52.8	59.4	56.7	3,250	1,976	6.6	4.0	12.5	7.5	14.0	8.4
\$100,000	66,798	74,831	70,774	66.8	74.8	70.8	8,633	3,976	8.0	4.0	12.5	6.0	20.3	12.0
\$500,000 <sup>2</sup>	426,274	450,000	440,250	83.9	90.0	89.0	20,726	19,976	4.1	4.0	4.8	4.7	29.3	28.2
\$1,000,000 <sup>2</sup>	870,000	900,000	900,000	87.0	90.0	90.0	30,000	30,000	3.0	3.0	4.8	3.4	22.1	21.1

## MARRIED PERSON—NO DEPENDENTS

\$1,200														
\$1,500	\$60	\$68	\$72	4.0	4.5	4.8	\$6	\$12	0.5	0.8	12.5	20.0	0.5	0.8
\$2,000	100	130	132	8.0	8.0	9.6	20	32	1.0	1.6	12.5	20.0	1.1	1.7
\$3,000	300	405	432	12.0	13.5	14.4	45	72	1.5	2.4	12.5	20.0	1.7	2.7
\$5,000	700	855	912	15.2	17.1	18.2	95	132	1.9	3.0	12.5	20.0	2.2	3.6
\$8,000	1,416	1,593	1,688	17.7	19.9	21.1	177	272	2.2	3.4	12.5	19.2	2.7	4.1
\$10,000	1,888	2,124	2,240	18.9	21.2	22.4	236	332	2.4	3.5	12.5	18.6	2.9	4.3
\$15,000	3,280	3,698	3,812	21.7	24.5	25.4	408	552	2.7	3.7	12.5	16.9	3.5	4.7
\$20,000	4,872	5,481	5,624	24.4	27.4	28.1	608	732	3.0	3.8	12.5	15.4	4.0	5.0
\$25,000	6,724	7,565	7,676	26.9	30.3	30.7	841	952	3.4	3.8	12.5	14.2	4.6	5.2
\$50,000	19,582	22,041	21,544	39.2	44.1	42.1	2,440	1,952	4.9	3.9	12.5	10.0	8.1	6.4
\$100,000	52,776	59,373	56,728	52.8	59.4	56.7	6,597	3,952	6.6	4.0	12.5	7.5	14.0	8.4
\$500,000	403,548	433,161	423,500	80.7	86.6	84.7	20,633	19,952	5.9	4.0	7.3	6.9	20.7	20.7
\$1,000,000 <sup>2</sup>	838,548	900,000	898,500	85.9	90.0	89.9	41,452	30,952	4.1	4.0	4.8	4.7	22.3	22.2



MARRIED PERSON—TWO DEPENDENTS

\$2,400																
\$3,000	\$120	\$135	\$144	4.0	4.5	4.8	\$15	\$24	0.5	0.8	12.5	20.0	0.5	0.8		
\$5,000	520	585	624	10.4	11.7	12.5	65	104	1.3	2.1	12.5	20.0	1.5	2.3		
\$6,000	1,152	1,296	1,376	14.4	16.2	17.2	144	254	1.8	2.8	12.5	19.4	2.1	3.3		
\$80,000	1,592	1,791	1,896	15.9	17.9	18.0	199	304	2.0	2.0	12.5	19.1	2.4	2.6		
\$15,000	2,900	3,263	3,404	19.3	21.8	22.7	363	501	2.4	3.4	12.5	17.4	2.0	4.2		
\$20,000	4,464	5,022	5,196	22.3	25.1	25.8	558	704	2.8	3.5	12.5	15.8	2.6	4.5		
\$25,000	6,288	7,052	7,172	25.1	28.2	28.7	784	904	3.1	3.6	12.5	14.4	4.2	4.8		
\$30,000	18,894	21,245	20,788	37.6	42.5	41.6	2,361	1,904	4.7	3.6	12.5	10.1	7.6	6.1		
\$180,000	51,912	58,401	55,816	51.9	58.4	55.8	6,650	3,904	6.5	3.9	12.5	7.5	11.5	8.1		
\$300,000	602,456	432,627	422,360	80.5	86.4	84.5	29,571	13,304	5.9	4.0	7.8	4.9	20.3	20.4		
\$1,000,000 <sup>1</sup>	837,456	900,000	807,360	83.7	90.0	88.7	47,544	36,984	4.3	4.0	5.0	4.7	18.8	18.0		

<sup>1</sup> Revenue Act of 1960, rates applicable to 1961 incomes.

<sup>2</sup> Rates applicable to 1962 incomes.

<sup>3</sup> Taking into account the following maximum effective rate limitations: Present law, 37 percent; House bill and Treasury proposal, 90 percent.

TABLE 8.—Comparison of effective rates of individual income tax under House bill (H. R. 4473), and 3-percentage-point increase in rates over present law

Net income before exemption	Single person—no dependents		Married person—no dependents		Married person—2 dependents	
	House bill	3-percentage-point increase in rates	House bill	3-percentage-point increase in rates	House bill	3-percentage-point increase in rates
	Percent	Percent	Percent	Percent	Percent	Percent
\$0.00	5.0	5.0				
\$1,000	9.0	9.0				
\$1,800	13.5	13.8	4.5	4.6		
\$2,000	15.8	16.1	9.0	9.2		
\$3,000	18.3	18.7	13.5	13.8	4.5	4.6
\$4,000	21.3	21.7	17.1	17.5	11.7	12.0
\$5,000	25.0	25.0	19.0	20.3	16.2	16.5
\$10,000	27.4	27.3	21.2	21.5	17.0	18.2
\$15,000	33.4	33.5	24.5	24.5	21.8	21.9
\$20,000	39.0	37.0	27.1	27.2	25.1	25.0
\$25,000	41.1	42.1	30.3	29.6	28.2	27.8
\$30,000	50.4	55.7	42.1	42.1	42.5	41.0
\$100,000	74.8	69.8	68.4	58.7	56.4	54.8
\$200,000	100.0	88.0	88.0	83.7	80.4	80.5
\$1,000,000	100.0	100.0	100.0	88.0	100.0	88.7

<sup>1</sup> Taking into account maximum effective rate limitation of 90 percent.

TABLE 9.—Comparison of individual income tax liabilities for single persons with 1 dependent, heads of households with 1 dependent, and married couples filing joint returns, under the House bill (H. R. 4473) for 1952 and subsequent years

Net income before exemption	Amounts of tax			Amount of tax difference between single person with 1 dependent and—		Tax difference of head of household as percent of tax difference of married couple
	Single person—1 dependent	Head of household—1 dependent	Married couple—filing joint return	Head of household	Married couple	
\$1,500	\$08	\$08	\$09			
\$2,000	180	180	180			
\$3,000	405	405	405			
\$5,000	898	875	855	\$23	\$41	51.2
\$8,000	1,800	1,697	1,593	103	207	49.8
\$10,000	2,511	2,318	2,124	193	387	49.0
\$15,000	4,096	4,172	3,698	\$398	1,028	51.0
\$20,000	7,452	6,462	5,481	970	1,971	50.2
\$25,000	10,622	9,092	7,505	1,527	3,067	50.0
\$30,000	20,301	21,665	22,041	3,598	7,180	50.2
\$100,000	74,384	66,830	59,373	7,434	14,891	49.9
\$200,000	146,000	442,724	433,161	7,370	16,839	43.2
\$1,000,000	1,000,000	1,000,000	1,000,000			

<sup>1</sup> Maximum effective rate limitation of 90 percent.

TABLE 10.—Comparison of effective individual income tax rates for single persons with 1 dependent, heads of households with 1 dependent, and married couples filing joint returns, under the House bill (H. R. 4478), for 1950 and subsequent years

Net income before exemption	Single person 1 dependent	Head of household 1 dependent	Married couple filing joint return
	Percent	Percent	Percent
\$1,000	4.5	4.5	4.5
\$2,000	6.0	6.0	6.0
\$3,000	13.5	13.5	13.5
\$4,000	17.0	17.0	17.0
\$5,000	22.5	22.5	22.5
\$10,000	25.1	25.2	25.0
\$15,000	31.2	32.2	31.3
\$20,000	32.3	32.2	32.0
\$25,000	42.5	38.4	37.4
\$30,000	54.4	51.2	50.5
\$100,000	74.3	66.8	64.1
\$200,000	100.0	88.5	86.4
\$1,000,000	100.0	100.0	100.0

<sup>1</sup> Maximum effective rate limitation of 90 percent.

TABLE 11.—Individual income tax rate schedules: Present law, House bill (H. R. 4478), and Treasury proposal

A. SINGLE PERSONS AND MARRIED PERSONS FILING SEPARATE RETURNS

Gross tax net income	1950 act <sup>1</sup> (present rates)	House bill <sup>2</sup>	Treasury proposal	Gross tax net income	1950 act <sup>1</sup> (present rates)	House bill <sup>2</sup>	Treasury proposal
	Percent	Percent	Percent		Percent	Percent	Percent
\$0 to \$2,000	20	22.5	24	\$26,000 to \$32,000	62	69.8	66
\$2,000 to \$4,000	22	24.8	26	\$32,000 to \$38,000	65	73.1	69
\$4,000 to \$6,000	26	29.3	30	\$38,000 to \$44,000	69	77.5	73
\$6,000 to \$8,000	30	33.8	34	\$44,000 to \$50,000	72	81.0	76
\$8,000 to \$10,000	34	38.3	38	\$50,000 to \$56,000	75	84.4	79
\$10,000 to \$12,000	38	42.8	42	\$56,000 to \$70,000	78	87.8	82
\$12,000 to \$14,000	43	48.4	47	\$70,000 to \$80,000	81	91.1	85
\$14,000 to \$16,000	47	52.9	51	\$80,000 to \$90,000	84	94.5	88
\$16,000 to \$18,000	50	56.3	54	\$90,000 to \$100,000	87	94.5	91
\$18,000 to \$20,000	53	59.6	57	\$100,000 to \$200,000	90	94.5	93
\$20,000 to \$22,000	56	63.0	60	\$200,000 and over <sup>3</sup>	91	94.5	96
\$22,000 to \$24,000	59	66.4	63				

<sup>1</sup> Revenue Act of 1950, rates applicable to 1951 incomes.

<sup>2</sup> A special rate schedule will apply to single persons who are heads of households for taxable years beginning after Aug. 31, 1951, designed to accord to such taxpayers 50 percent of the benefits of income splitting. (See Table 12.)

<sup>3</sup> Subject to the following maximum effective rate limitations: Revenue Act of 1950, 87 percent; House bill and Treasury proposal, 90 percent.

B. MARRIED PERSONS FILING JOINT RETURNS

Gross tax net income	1950 act <sup>1</sup> (present rates)	House bill	Treasury proposal	Gross tax net income	1950 act <sup>1</sup> (present rates)	House bill	Treasury proposal
	Percent	Percent	Percent		Percent	Percent	Percent
0 to \$4,000	20	22.5	24	\$52,000 to \$64,000	62	69.8	66
\$4,000 to \$8,000	22	24.8	26	\$64,000 to \$76,000	65	73.1	69
\$8,000 to \$12,000	26	29.3	30	\$76,000 to \$88,000	69	77.5	73
\$12,000 to \$16,000	30	33.8	34	\$88,000 to \$100,000	72	81.0	76
\$16,000 to \$20,000	34	38.3	38	\$100,000 to \$120,000	75	84.4	79
\$20,000 to \$24,000	38	42.8	42	\$120,000 to \$140,000	78	87.8	82
\$24,000 to \$28,000	43	48.4	47	\$140,000 to \$160,000	81	91.1	85
\$28,000 to \$32,000	47	52.9	51	\$160,000 to \$180,000	84	94.5	88
\$32,000 to \$36,000	50	56.3	54	\$180,000 to \$200,000	87	94.5	91
\$36,000 to \$40,000	53	59.6	57	\$200,000 to \$300,000	90	94.5	93
\$40,000 to \$44,000	56	63.0	60	\$300,000 to \$400,000	90	94.5	94
\$44,000 to \$52,000	59	66.4	63	\$400,000 and over <sup>3</sup>	91	94.5	96

<sup>1</sup> Revenue Act of 1950, rates applicable to 1951 incomes.

<sup>2</sup> Subject to the following maximum effective rate limitations: Revenue Act of 1950, 87 percent; House bill and Treasury proposal, 90 percent.

TABLE 12.—Individual income tax rate schedules: Single persons, heads of households, and married couples filing joint returns under the House bill (H. R. 4473) for 1952 and subsequent years

Surtax net income (000)	Single person	Head of household <sup>1</sup>	Married couple filing joint return	Surtax net income (000)	Single person	Head of household <sup>1</sup>	Married couple filing joint return
	Percent	Percent	Percent		Percent	Percent	Percent
\$0 to \$2	22.5	22.5	22.5	\$38 to \$40	77.5	67.5	59.5
\$2 to \$4	24.8	23.0	22.5	\$40 to \$44	77.5	70.9	63.0
\$4 to \$6	29.3	27.0	24.8	\$44 to \$50	81.0	73.1	60.4
\$6 to \$8	33.8	30.3	24.8	\$50 to \$52	84.4	75.5	60.4
\$8 to \$10	38.3	33.8	26.3	\$52 to \$70	84.4	75.5	60.8
\$10 to \$12	42.8	36.0	26.3	\$70 to \$74	87.8	79.9	60.8
\$12 to \$14	48.4	40.5	33.8	\$74 to \$76	87.8	79.9	73.1
\$14 to \$16	52.9	43.9	33.8	\$76 to \$78	91.1	83.3	73.1
\$16 to \$18	56.5	47.3	38.3	\$78 to \$80	91.1	83.3	77.5
\$18 to \$20	59.6	48.4	38.3	\$80 to \$88	94.5	85.0	77.5
\$20 to \$22	63.0	52.9	42.8	\$88 to \$90	94.5	85.0	81.0
\$22 to \$24	66.4	55.1	42.8	\$90 to \$100	94.5	87.8	81.0
\$24 to \$26	66.4	57.4	48.4	\$100 to \$120	94.5	87.8	84.4
\$26 to \$28	69.8	59.6	48.4	\$120 to \$140	94.5	91.1	87.8
\$28 to \$30	69.8	61.9	49.9	\$140 to \$160	94.5	93.4	91.1
\$30 to \$38	73.1	64.1	50.8	\$160 and over	94.5	94.5	94.5
\$38 to \$38	73.1	67.5	59.6				

<sup>1</sup> The schedule of rates for heads of households was designed to accord to taxpayers approximately  $\frac{1}{2}$  of the benefit of income splitting.

<sup>2</sup> Subject to maximum effective rate limitation of 90 percent.

TABLE 13.—Corporate profits before and after taxes, dividends, and undistributed profits, 1929, 1938, 1950-51

(In billions)

Year	Corporate profits before taxes	Taxes <sup>1</sup>	Corporate profits after taxes	Dividends	Undistributed profits
1929	\$9.8	\$1.4	\$8.4	\$5.8	\$2.6
1932	-3.0	.4	-3.4	2.6	-6.0
1938	6.5	1.5	5.0	3.8	1.2
1940	9.3	2.9	6.4	4.0	2.4
1941	17.2	7.8	9.4	4.5	4.9
1942	21.1	11.7	9.4	4.3	5.1
1943	25.1	14.4	10.6	4.5	6.2
1944	24.3	13.5	10.8	4.7	6.1
1945	19.7	11.2	8.5	4.7	3.8
1946	23.5	9.6	13.9	5.8	8.1
1947	30.5	11.9	18.5	6.6	12.0
1948	33.9	13.0	20.9	7.5	13.4
1949	27.6	10.6	17.0	7.8	9.2
1950	41.0	18.2	22.8	9.4	13.5
1951: <sup>2</sup>					
Percent tax rates	45.0	23.5	21.5	9.5	12.0
Rates under House bill	45.0	26.5	18.5	9.1	9.4

<sup>1</sup> Includes Federal and State income and excess profits tax liabilities.

<sup>2</sup> Estimated.

Source: Department of Commerce.

TABLE 14.—Estimated distribution of taxable corporations, net income, and tax liabilities under present law, House bill (H. R. 4473), and Treasury proposal, for calendar year 1951

Taxable net income class	Number of corporations	Taxable net income <sup>1</sup>	Tax liabilities <sup>2</sup>			Increase over present law <sup>3</sup>	
			Present law rates	House bill	Treasury proposal	House bill <sup>4</sup>	Treasury proposal <sup>4</sup>
		Millions	Millions	Millions	Millions	Millions	Millions
\$0 to \$25,000.....	284,300	\$2,012	\$600	\$600	\$600	\$100	\$100
\$25,000 to \$50,000.....	70,000	1,736	680	675	719	90	139
\$50,000 to \$100,000.....	24,400	2,007	903	1,028	1,064	125	161
\$100,000 and over.....	42,700	37,015	20,372	24,905	23,333	2,533	2,901
Total.....	410,000	42,760	22,355	25,208	25,776	2,853	3,421

PERCENT DISTRIBUTION

\$0 to \$25,000.....	70.3	4.7	2.2	2.4	2.0	3.5	4.7
\$25,000 to \$50,000.....	12.3	4.1	2.6	2.7	2.8	3.4	4.1
\$50,000 to \$100,000.....	6.9	4.7	4.0	4.1	4.1	4.4	4.7
\$100,000 and over.....	10.4	86.6	91.1	90.9	90.5	88.5	86.6
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> Excludes capital gains subject to alternative tax, amounting to \$800 million.

<sup>2</sup> Federal taxes only. Excludes alternative tax on capital gains.

<sup>3</sup> Does not include \$25 million from the higher alternative rate under the House bill and \$110 million under the Treasury proposal to lengthen the holding period and increase the alternative rate.

<sup>4</sup> Does not take account of decrease in the yield of the individual income tax resulting from decreased dividend payments in the short run because of the increase in corporation taxes, amounting to \$155 million under the House bill, and \$190 million under the Treasury proposal.

NOTE.— Figures are rounded and will not necessarily add to totals.

TABLE 15.—Corporation income tax liabilities under 1946-49 rates, present law rates, the House bill (H. R. 4475), and Treasury proposal

Net income	Income tax liabilities <sup>1</sup>				Effective income-tax rates			
	1946-49	Present law <sup>2</sup>	House bill <sup>3</sup>	Treasury proposal <sup>4</sup>	1946-49	Present law	House bill	Treasury proposal
					Percent	Percent	Percent	Percent
\$5,000.....	\$1,050	\$1,250	\$1,500	\$1,650	21.00	25.00	30.00	33.00
\$10,000.....	2,200	2,500	3,000	3,300	22.00	25.00	30.00	33.00
\$25,000.....	6,750	6,350	7,500	8,250	23.00	25.00	30.00	33.00
\$50,000.....	8,400	8,600	10,100	11,600	28.00	29.67	33.67	36.67
\$40,000.....	13,700	13,300	15,300	16,500	34.25	33.25	38.25	41.25
\$60,000.....	19,000	18,000	20,500	22,000	38.00	36.00	41.00	44.00
\$90,000.....	22,800	22,700	25,700	27,500	38.00	37.83	42.83	45.83
\$75,000.....	26,500	26,780	33,500	35,750	38.00	39.67	44.67	47.67
\$100,000.....	38,000	41,500	46,500	49,500	38.00	41.50	45.50	49.50
\$200,000.....	76,000	86,500	98,500	104,800	38.00	44.25	49.25	52.25
\$300,000.....	120,000	220,500	264,500	269,500	38.00	45.99	50.99	53.99
\$1,000,000.....	380,000	464,500	514,500	544,500	38.00	46.45	51.45	54.45
\$10,000,000.....	3,800,000	4,694,500	5,194,500	5,494,500	38.00	46.95	51.95	54.95
\$100,000,000.....	38,000,000	46,994,500	51,994,500	54,994,500	38.00	46.99	51.99	54.99

<sup>1</sup> Liabilities under present law, House bill, and Treasury proposal do not include 30-percent tax on excess profits.

<sup>2</sup> Normal tax, 25 percent on all income; surtax, 22 percent on income over \$25,000.

<sup>3</sup> Normal tax, 30 percent on all income; surtax, 22 percent on income over \$25,000.

<sup>4</sup> Normal tax, 33 percent on all income; surtax, 22 percent on income over \$25,000.

TABLE 10.—Effective rates of total income and excess profits taxes under present law, House bill (H. R. 4478), and Treasury proposal, for corporations with current incomes of \$100,000 and \$10,000,000

Current net income as a percent of base period	Current net income: \$100,000					Current net income: \$10,000,000				
	Effective rates			Increase over present law		Effective rates			Increase over present law	
	Present law <sup>1</sup>	House bill <sup>2</sup>	Treasury proposal <sup>3</sup>	House bill	Treasury proposal	Present law <sup>1</sup>	House bill <sup>2</sup>	Treasury proposal <sup>3</sup>	House bill	Treasury proposal
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
60 percent	41.5	40.5	40.5	5.0	8.0	40.9	51.0	54.0	5.0	8.0
70 percent	41.5	40.5	40.5	5.0	8.0	40.9	51.0	54.0	5.0	8.0
75 percent	41.5	40.5	40.5	5.0	8.0	40.9	51.0	54.0	5.0	8.0
80 percent	41.5	48.4	40.5	0.9	8.0	40.9	53.8	53.0	0.9	8.0
85 percent	41.5	50.0	40.5	8.5	8.0	40.0	55.5	54.0	8.0	8.0
90 percent	43.2	51.5	51.2	8.3	8.0	44.0	50.9	50.0	8.3	8.0
100 percent	46.0	54.0	51.0	8.0	8.0	51.4	59.4	59.4	8.0	8.0
110 percent	48.3	50.0	50.3	7.7	8.0	53.8	01.5	01.8	7.7	8.0
120 percent	50.3	57.8	58.3	7.5	8.0	55.7	03.2	03.7	7.5	8.0
130 percent	51.0	59.2	59.9	7.3	8.0	57.3	04.0	05.3	7.3	8.0
140 percent	53.3	09.4	01.3	7.1	8.0	58.7	05.0	05.7	7.2	8.0
150 percent	54.5	01.5	02.5	7.0	8.0	50.0	06.0	07.0	7.0	8.0
160 percent	55.5	02.4	03.0	0.8	8.0	01.0	07.9	09.0	0.9	8.0
170 percent	56.5	03.3	04.5	0.8	8.0	01.9	08.7	09.0	0.8	8.0
170.5 percent	56.6	03.3	04.6	0.7	8.0	02.0	08.8	70.0	0.8	8.0
180 percent	57.5	04.0	05.3	0.7	8.0	02.0	09.4	70.0	7.4	8.0
185.4 percent	58.0	04.0	06.0	0.0	8.0	02.0	70.0	70.0	8.0	8.0
190 percent	58.1	04.7	06.1	0.6	8.0	02.0	70.0	70.0	8.0	8.0
200 percent	68.8	05.3	06.8	0.5	8.0	02.0	70.0	70.0	8.0	8.0
208.4 percent	02.0	08.1	70.0	0.1	8.0	02.0	70.0	70.0	8.0	8.0
300 percent	02.0	09.0	70.0	7.0	8.0	02.0	70.0	70.0	8.0	8.0

<sup>1</sup> Normal tax, 25 percent on all income; surtax, 22 percent on income above \$25,000; excess profits tax, 30 percent on income in excess of 85 percent of average base-period income; maximum effective rate limitation, 62 percent of all income.

<sup>2</sup> Normal tax, 30 percent on all income; surtax, 22 percent on income above \$25,000; excess profits tax, 30 percent on income in excess of 75 percent of average base-period income; maximum effective rate limitation, 70 percent of all income.

<sup>3</sup> Normal tax, 33 percent on all income; surtax, 22 percent on income above \$25,000; excess profits tax, 30 percent on income in excess of 85 percent of average base-period income; maximum effective rate limitation, 70 percent of all income.

<sup>4</sup> The maximum effective rate is 69 percent due to the \$25,000 minimum excess profits credit.

Senator TAFT. Mr. Secretary, here is the daily statement for June 25, showing a surplus of \$4,022,000,000, and you stated that it might be only \$3,000,000,000 because of extra expenses at the end of the year.

Secretary SNYDER. It will be over 3—that is the budget surplus.

Senator TAFT. Has the Treasury got a certain amount of discretion as to what they fill in this year and next year?

Secretary SNYDER. No, sir.

Senator TAFT. None?

Secretary SNYDER. No. On the last day of the fiscal year the current budget surplus will be reduced a billion dollars because of heavy payments on the last day for interest of about \$750,000,000, and Veterans' payments of about \$300,000,000, but we have no discretion of any sort. They are due on that date.

Senator TAFT. There was some question at one time that you had discretion in reference to the manner in which refunds were handled. That would require orders for long in advance as to speeding up or slowing up, would it not?

Secretary SNYDER. We just do not do it now.

Senator TAFT. So in substance, there is no discretion.

Secretary SNYDER. Right.

Senator TAFT. The reason I have been rather inclined to wait until November 1 is that I think the expenditure problem is so vague.

Until we get through appropriating there is one question--and we will not be through until the 1st of August, anyway. The Treasury itself is uncertain as to how much money is going to be spent. They have no idea of whether this program is going to be permitted to lag. It is quite a job to tell people when we have just had a 4-billion dollar surplus that we have to tax them a lot more. That is not a very factual approach.

I would like to see the Government present some clear evidence that we will run a deficit before we jump out with a new tax.

Secretary SNYDER. I think the Budget Bureau will be able to convince you.

Senator TAFT. Right now you have decreased your estimate of expenditures by about \$3 billion since January, for fiscal 1952.

Secretary SNYDER. The major part was not in the lag for the defense program, but other budget items which I mentioned previously.

Senator TAFT. You estimated then \$71½ billion, and now you say \$68½ billion.

Secretary SNYDER. Part of it was in the estimates for the Commodity Credit Corporation, which would not be required to have as large funds to cover their needs.

Senator TAFT. I thought that was fiscal 1951. I am not talking about 1951, but 1952.

You have already decreased in 6 months the estimate of your expenditures, although the appropriations are more. You are now asking for more appropriations than the President has asked for in January, yet your explicit estimate of expenditures is \$3 billion down today.

I do not think that we have reached a point yet where we know what the expenditures are going to be, whether Mr. Johnston's estimate of \$50 billion in November is right or is not right, or either in November or October--maybe then we will know.

Secretary SNYDER. We do know, though, with the outlined defense program we will need every dollar of this revenue that we are requesting at this time.

Senator TAFT. I am inclined to think so. I do not see the proof of it as yet, though. I do not think the Government has got their knowledge down as to what they are spending or how fast. Certainly we have spent a lot slower--here is the Korean War that has been going on for a year, and our total expenditures in this fiscal year, in which there has been a Korean War, as compared to the time in which there was not, the total increase in the cost of the armed forces is about \$6,600,000,000, for the whole cost of the Korean War, for the entire year, plus the entire beginning of all this defense program, and it raises a little doubt that they are able to spend the money they are talking about.

Secretary SNYDER. Senator, I think that we can benefit from the experience in World War II, although there are different situations today. I mentioned some of the differences a while ago; there is the

ability of private contractors now to finance themselves without Government aid during the early stages of their contracts.

I think if we go back we will find that deliveries accelerated tremendously in World War II. There was a lag then in the first year, getting tooled up and getting into operation.

Senator TAFT. I have no doubt that in October or November, we will find we must have the tax, but I just say it does not seem to me that the case has been made today and that is the argument I see for some postponement by this committee until the fall as to final action.

The CHAIRMAN. We will have the budget people here in the morning, and they will shed some light on what they know and then we will have Mr. Eric Johnston and Mr. Wilson and they probably can shed some light on the general question.

Secretary SNYDER. Mr. Chairman, all of us, including myself, are available any time you want us.

The CHAIRMAN. Mr. Secretary, we thank you very much. We will not be able to hear the budget people this afternoon. We would like to but the situation on the floor makes it imperative that we be there.

Thank you very much for your appearance here, and if we need you we will call upon you, sir.

Secretary SNYDER. Thank you, Mr. Chairman, and your committee, for a very attentive and interesting hearing.

The CHAIRMAN. We certainly appreciate your appearance.

(At 12:20 p. m. the committee was recessed to reconvene at 10 a. m. Friday, June 29, 1951.)



# REVENUE ACT OF 1951

FRIDAY, JUNE 29, 1951

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

The committee met pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Byrd, Kerr, Frear, Millikin, Taft, and Williams.

Also present: Elizabeth B. Springer, chief clerk.

Colin F. Stam, Chief of Staff, Joint Committee on Internal Revenue Taxation; Joseph Pechman, Office of Tax Adjustment Staff, and Thomas Leahy, Technical Staff, Treasury Department.

The CHAIRMAN. All right.

We have the budget people this morning with us, the Assistant Director, Mr. Staats.

Mr. STAATS. That is right.

The CHAIRMAN. Some of the other members of the committee are late this morning but will be in soon.

We will proceed, if it is agreeable with you. Do you have a prepared statement here you wish to make?

**STATEMENT OF ELMER B. STAATS, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET, ACCOMPANIED BY DONALD B. MacPHAIL, LEGISLATIVE REFERENCE DIVISION; HOWARD STONE, ESTIMATES DIVISION; AND SAMUEL M. COHN, FISCAL ANALYSIS DIVISION, BUREAU OF THE BUDGET**

Mr. STAATS. I do have, Mr. Chairman.

The CHAIRMAN. You would like to make that before you are questioned?

Mr. STAATS. I think that would probably be most helpful to the committee.

Senator MILLIKIN. I would suggest that the gentleman state the nature of his duties in the Budget Bureau.

The CHAIRMAN. Yes. You do that, and let us know what your duties are; identify yourself for the record, and proceed, and we will let you finish this statement before any questions are asked.

Mr. STAATS. Mr. Chairman, I am the Assistant Director of the Bureau of the Budget, and I am appearing here today before this committee at the suggestion made yesterday that we furnish the committee with the recent estimates on Federal expenditures for the fiscal year 1952, and we would like also, so far as we can, to furnish you

with our best estimates as to the expenditure outlook for the fiscal year 1953.

The CHAIRMAN. 1952, 1953, and as far as you can see in the future.

Mr. STAATS. That is right.

The CHAIRMAN. How long have you been with the Bureau of the Budget?

Mr. STAATS. I have been with the Budget since June 1, 1939.

The CHAIRMAN. 1939?

Mr. STAATS. That is right, sir.

Senator MILLIKIN. What is the range of your duties at the present time?

Mr. STAATS. The Assistant Director's position, Senator, is the No. 2 position in the Bureau of the Budget.

Senator MILLIKIN. Is that the range of the Director's duties, and you go across the whole field?

Mr. STAATS. Yes, that is correct.

The tasks which face this committee are complex and challenging. All of us recognize that there is no simple solution to the tremendous fiscal problems thrust upon us by the present crisis in world affairs. In facing up to these problems it is imperative that we frame our fiscal policies with the same determination, vigor, and breadth of purpose that have characterized our response to the challenge of Communist aggression.

Essential tax measures which will place the Government on a pay-as-we-go basis should be founded on an estimate of both receipts and expenditures which represents the best judgments that can be made at this time. I am happy to make available to your committee in its deliberations the facilities of the Bureau of the Budget.

Before discussing specific expenditures, however, I should like to point out three factors which have an important bearing on the expenditure estimates I am about to present:

First, the Congress has not yet taken final action on any of the appropriation bills for the coming fiscal year, and, in several instances, the bills have not even been reported in the House. This means two things: (a) It is not possible at this time to adjust our estimates to take account of congressional action on the appropriations and (b) the date on which funds eventually become available will, to a certain degree, affect the level of expenditures which will occur in 1952, although it will not necessarily affect the total level of obligations which will be incurred during the year.

Senator MILLIKIN. Which year?

Mr. STAATS. That is the fiscal year 1952.

Senator MILLIKIN. All right.

Mr. STAATS. Second, estimates of expenditures must be based upon somewhat arbitrary assumptions. These include assumptions as to price levels and the duration of the conflict in Korea, as well as assumptions about the availability of materials, manpower, and supplies. Changes in any of the conditions assumed can substantially alter the level of estimated expenditures.

Third, the expenditures resulting from the build-up of a military program of the size contemplated in the 1952 budget are not subject to precise advance measurement for any given time period. For

example, a delay or an acceleration of deliveries of heavy military equipment under contracts involving many billions of dollars can shift several billion dollars of expenditures from one fiscal year to another. To illustrate, neither the Bureau of the Budget nor the Defense Department is able to state in precise or absolute terms the exact amount of funds which will be expended in the last quarter of the fiscal year 1952 or the first quarter of the fiscal year 1953. Although I shall furnish this committee our present estimates for the fiscal year 1952, it must be recognized that many factors, now unforeseeable, can affect these figures. The change in expenditures resulting from a change in the rate of deliveries of military equipment can easily be much greater than any reductions made to date in the appropriation bills now in various stages of passage. Moreover, such a change could be either upward or downward.

However, in spite of these qualifications it is our view that these estimates are as accurate as can be developed. They represent not only the best judgment of the Bureau of the Budget, but are the result of a number of weeks of careful study and review with each of the principal agencies.

With these facts in mind, I will now turn to the expenditure outlook for 1952 as it has been revised since the budget was transmitted to the Congress last January. The President's budget originally estimated expenditures at \$71.6 billion. The budget at that time, however, included no detailed estimates for approximately two-thirds of its total. Details for the military functions of the Defense Department, estimated in January at \$40 billion, and foreign aid programs amounting to \$7.1 billion, were not available when the budget was prepared. Since that time the President has submitted detailed estimates for the Defense Department and his recommendations for the foreign aid programs. Expenditures in fiscal year 1952 for these two programs are now estimated to be approximately \$3 billion less than anticipated last January.

In addition, there have been certain other revisions in the estimates for other activities directly related to our national security. These include stockpiling of strategic and critical materials, atomic energy, maritime activities, defense production and economic stabilization, and civil defense. Expenditures for these programs are now estimated at almost \$1 billion less than last January, primarily because of a reduction in the amount of funds required for purchase of defense materials, equipment, and loans under the Defense Production Act. Present experience indicates that manufacturers and contractors have been able to finance plant expansion and initial work on military orders in large part from their own working capital and private financing, frequently backed by Government commitments.

This point was covered, as you will recall, by the Secretary of the Treasury yesterday.

Elsewhere in the budget, while there have been some revisions upward and downward, the only other sizable revision is an increase in net expenditures for the mortgage purchase program of the Federal National Mortgage Association. The January budget anticipated a substantial volume of sales of mortgages held by the FNMA. Most of these are 4-percent GI housing mortgages guaranteed by the

Veterans' Administration. One of the effects of the recent general increase in interest rates for Government and other obligations has been to make these mortgages relatively less attractive to prospective purchasers. Therefore, it now appears that the volume of sales by FNMA will be substantially less and the purchases by FNMA greater than was anticipated in January. As a result, net expenditures for this activity in 1952 are now estimated at \$200 million in contrast to last January's estimate of net receipts of \$500 million. The net change, therefore, is an increase of \$700 million in expenditures.

These are the major changes in the 1952 budget outlook since last January. In total, they represent a net reduction of slightly more than \$3 billion. Budget expenditures are now estimated at \$68.4 billion. The net changes I have mentioned and the reason for them are shown in the attached table.

(The table referred to follows.)

Estimated budget expenditures, fiscal year 1962

TABLE 1

Program	January 1962 estimate	April 1962 estimate	July 1962 estimate	Source of funds for 1962
<b>Major national security:</b>				
Defense Department, military functions	28.9	28.9	28.9	
MFDAF	1.1	1.1	1.1	
Other foreign aid	1.1	1.1	1.1	
Stockpiling	1.1	1.1	1.1	
Atomic Energy Commission	1.1	1.1	1.1	
Maritime activities	1.4	1.4	1.4	
Defense production and economic stabilization	1.4	1.4	1.4	
Defense housing and civil defense	1.4	1.4	1.4	
<b>Total</b>	<b>39.9</b>	<b>39.9</b>	<b>39.9</b>	
<b>Major open end:</b>				
Commodity Credit Corporation	1.3	1.3	1.3	
Federal National Mortgage Association	1.3	1.3	1.3	
Postal deficit	1.3	1.3	1.3	
Veterans readjustment benefits	1.3	1.3	1.3	
Transfer of payroll taxes to railroad retirement trust fund	1.3	1.3	1.3	
<b>Total</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	
<b>Other:</b>				
Veterans' Administration covering readjustment benefits	1.3	1.3	1.3	
Interest on the public debt	1.3	1.3	1.3	
All other	1.3	1.3	1.3	
<b>Total</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	
<b>Total budget expenditures</b>	<b>49.9</b>	<b>49.9</b>	<b>49.9</b>	

REVENUE AND EXPENDITURES

Senator MILLIKIN. Is your table a breakdown of the different types of anticipated expenditures?

Mr. STAATS. That is right, and it gives a brief explanation as to the reasons for the revision in the estimate in each case.

Up to this point I have discussed expenditure estimates for the new fiscal year. To understand the full impact of the current defense program, however, some mention should be made of the amount of new appropriations and other financial authorizations which have been enacted and requested since the aggression in Korea. The new obligational authority enacted by the Congress will be the major determinant of the level of expenditures for 1952 and beyond.

As you know, expenditures flow from authorizations or appropriations; some of them occur in the same year as the authorization and others in subsequent years, depending on the type of authorization, the time required for making contracts, receiving deliveries of the goods and paying the bills.

Let me illustrate how the obligational authority now available and requested will affect expenditures in the future. In the fiscal year 1950, total new obligational authority enacted amounted to \$50.2 billion. Expenditures in 1950, however, were \$40.2 billion, some of them arising from authorizations enacted for prior years. In the fiscal year 1951, which is now closing, appropriations and authorizations already enacted amount to \$80.6 billion. Expenditures for 1951, however, will be about \$44.5 billion. Requests for new obligational authority for 1952, most of which are now before the Congress in the major appropriation bills, will be between \$90 and \$100 billion. In 1952, the estimated expenditures of \$68.4 billion—

Senator MILLIKIN. Will you hold up for just a second?

Mr. STAATS. I believe possibly the next paragraph here will clarify this a little bit further, Senator.

Senator MILLIKIN. Yes.

Mr. STAATS (continuing). Are again less than the authorizations requested.

Thus, in a 3-year period, from 1950 to 1952, new obligational authority of about \$225 billion will be granted if these requests are enacted, whereas expenditures will total about \$150 billion. On this basis, it can be seen that the Federal Government will enter the fiscal year 1953, 1 year from now, with a carry-over of around \$75 billion in authorizations for these 3 years still available for expenditures. This does not take into account any 1953 appropriation requests. Contracts will have been entered into and goods ordered for virtually all of this amount, but actual delivery and payment will not be made until 1953 or beyond.

These figures clearly demonstrate that the full impact of the defense effort upon expenditures will not be felt until 1953 and beyond.

The CHAIRMAN. You are speaking of fiscal 1953?

Mr. STAATS. That is right.

The CHAIRMAN. All right.

Mr. STAATS. Expenditures for the military functions of the Defense Department, on the basis of estimated production and delivery schedules, will rise substantially in 1953. During the last quarter of the current fiscal year our military expenditures, including military end items shipped to our allies, are running at an annual rate of around \$28.8 billion.

Senator KERR. Will that be the second quarter in the calendar year of 1952?

Mr. STAATS. That is right.

Senator KERR. Before you go further, unless it is answered later, Mr. Staats, you gave a figure a while ago of nearly \$80 billion in appropriations and authorizations. I think it is in about the middle of the third paragraph on page 4. Will you please tell us what percent of that figure is appropriations, and what percent of it is authorizations?

Mr. STAATS. I do not have that breakdown as between authorizations and appropriations. Most of it at the present time, Senator, is in the form of appropriations.

The Congress for the past several years has not favored the use of contract authorizations, as such, preferring rather to make authority available in the form of appropriations so that it is clearly understood what is involved.

Senator KERR. Now, this term "authorizations" as you use it here, those are authorizations for contracting obligations and contracting for the purchase of material and equipment, and so forth, as distinguished from the term "authorization" as used in connection with an authorizing act of the Congress for . . .

Mr. STAATS. That is right.

Senator KERR (continuing). A flood-control project, but with reference to which appropriation has to be made before obligations can be incurred under such authorization.

Mr. STAATS. Yes, that is a very good point, and I am glad you brought it up.

Senator KERR. Fine.

Mr. STAATS. It is now estimated that in the last quarter of 1952, these expenditures will be at an annual rate of over \$52 billion. This rate will continue to rise through the fiscal year 1953.

As a result of this increasing rate, direct military expenditures, including military assistance to our allies, can be expected to total between \$55 and \$65 billion in 1953, as compared with about \$42 billion in 1952. In addition, other national security programs such as stockpiling, atomic energy, defense production and economic stabilization and maritime activities may amount to another \$5 billion in 1953. Other Government programs which include veterans' benefits and interest on the public debt, even if held below their present level, will amount to almost \$20 billion.

Senator MILLIKIN. So you are talking about \$85 billion in fiscal 1953, is that right, roughly?

Mr. STAATS. That is right, roughly, \$85 billion.

Thus, it may be assumed at this time that budget expenditures for 1953 may total between \$80 and \$90 billion.

Senator KERR. In order that I may get my mind cleared up a little bit, Mr. Stam, the evidence before us is that our staff estimates that the present revenue laws, plus the enactment of the bill before us, if it should become law, or one that would produce an equal amount of revenue, would bring in \$68 billion in fiscal year 1952.

Mr. STAM. \$66 billion.

Senator KERR. \$66 billion in fiscal 1952.

Mr. STAM. A little more than \$66 billion.

Senator KERR. Has there been an estimate of what it would bring in in fiscal 1953?

Mr. STAATS. No, we have not made any estimate on receipts for 1953.

Senator KEHR. Yes. All right.

Senator MILLIKIN. Has the budget made an estimate?

Mr. STAATS. I do not believe we have, Senator. It is possible that the Treasury may have, but I do not believe we have in the Budget Bureau.

Senator MILLIKIN. Do you see any reasonably sound way of making the projection?

Mr. STAATS. I think any such projection will necessarily have to make certain assumptions as to the level of the national income. I would think that certain assumptions could be made if we could agree or if agreement could be reached as to what those assumptions should properly be.

Senator MILLIKIN. Who can give us the best authoritative information on that?

Mr. STAATS. I would think the Treasury Department would probably be in the best position to supply those statistics. I have not discussed it with them as to whether or not they would feel that it would be feasible to make such estimates, but I believe that if anybody could supply those from the executive branch, the best estimate would probably be developed there.

Senator MILLIKIN. Without disparaging the Treasury or praising the Council of Economic Advisers, do not the Economic Advisers have something to do with that subject?

Mr. STAATS. The Council of Economic Advisers does make estimates by way of projections for the period in advance, in the economic report in January, and in the midyear report that will be out very soon.

Senator MILLIKIN. It seems to me their reports—and I am speaking from rough memory—are full of predictions as to what our national income is going to be over future periods of time.

Mr. STAATS. But there would be, it seems to me, in addition to the national income, a great deal of other analysis that would be required by way of estimates on particular types of business activity, which would involve the excise taxes, customs, and factors of that kind.

Senator MILLIKIN. You would have to break it down if you wanted to apply existing rates?

Mr. STAATS. That is right.

Senator MILLIKIN. You obviously would have to break it down as to the source of tax.

Mr. STAATS. That would be correct.

Senator MILLIKIN. Yes.

The CHAIRMAN. Mr. Pechman, has the Treasury made any estimate of the receipts for fiscal 1953?

Mr. PECHMAN. No, Senator. The latest estimates we have were given to you by the Secretary, and they are for fiscal year 1952, but if the committee wishes I think we can get some approximate estimates for you.

As Mr. Staats indicated, it will be necessary to make certain assumptions about income levels and corporate profits, and so on which may, of course, be wide of the mark, since it will be more than 2 years ahead of the time.

The CHAIRMAN. Well, we wish you would project 1952 into 1953, and through 1953, from there on, such assumption as you are required to make.



Mr. PECHMAN. We will have that information inserted in the record.

(The information referred to follows:)

The Bureau of the Budget supplied the committee with an estimated range of Federal expenditures in the fiscal year 1953 of \$80 to \$90 billion. A rough approximation of net budget receipts for fiscal year 1953 consistent with this level of expenditures is about \$63 billion under present tax laws.

The CHAIRMAN. All right, Mr. Staats.

Senator KERR. In order to pin point this information just a little bit more, if Congress should pass the tax bill now before us, and if the staff's estimate of \$66 billion of revenue for fiscal 1952, taking into account receipts under existing law and the proposed law, is reasonably accurate, and if your estimate on page 4 in the last line of the fourth paragraph, the estimated expenditures for fiscal 1952 would be \$68,400,000,000, we would expect a deficit for that fiscal year, aside from any moneys that we have on hand when we went into the fiscal year—that would be \$2,400,000.

Mr. STAATS. That would be approximately right; that would be approximately right.

Senator KERR. So if the Treasury's estimate that we will go into fiscal year—that fiscal year with a surplus of \$3 billion, then the enactment of the present law or one producing that amount of revenue, and the airing out of the expenditure program on the basis which you now estimate, would permit us to go into fiscal 1953 without a deficit at that time.

Senator MILLIKIN. Senator Kerr, may I suggest that that hinges on what they do with the surplus. If they applied it, for example, to the national debt-----

Senator KERR. I understand that if the \$68,400,000,000 represent the expenditures, that they will make in fiscal 1952, then if they did pay the surplus on the national debt that would increase the expenditure figure to the extent that they did it.

Senator MILLIKIN. That is exactly what I am getting at. If they used the surplus for retirement of the national debt, it would not be available to increase surplus or to lessen a deficit in fiscal 1952.

The CHAIRMAN. Your assumption, Senator Kerr, is based upon the further assumption, I assume, that the Congress will not make any reduction in expenditures.

Senator KERR. Yes, sir. That is, that would reduce the estimated figure here of \$68,400,000,000.

The CHAIRMAN. All right, Mr. Staats.

Senator MILLIKIN. May I ask a further question on that, Mr. Chairman?

The CHAIRMAN. Yes.

Senator MILLIKIN. If the Congress reduced the proposed expenditures say, from 2 to 3 billion, if the surplus to which Senator Kerr referred would not be applied to the national debt, but would become available for the general purposes of the Treasury, and if we passed a tax bill, oh, let us say, in the order of 5 to 6 billion, there would not be a deficit for fiscal 1952, would there?

Mr. STAATS. Granting those assumptions-----

Senator MILLIKIN. Yes.

Mr. STAATS (continuing). I believe that would be right.

Senator MILLIKIN. Thank you.

(There was discussion off the record.)

The CHAIRMAN. All right, Mr. Staats.

Mr. STAATS. Under present projections the build-up of our military readiness, Federal expenditures for national security programs will probably reach a peak late in the fiscal year 1953, or early in the fiscal year 1954.

The peak in military production and deliveries of military equipment, of course, will come before the peak in budget expenditures. Our estimates of expenditures have been based in part on procurement and delivery schedules, as programmed by the Defense Department, the Munitions Board, and the Office of Defense Mobilization. Present schedules call for a gradual reduction in the rate of expenditures for national security programs during the fiscal year 1954.

After our military-readiness objective has been achieved --

Senator MILLIKIN. It goes without saying that depends on whether things accord with the projected circumstances.

Mr. STAATS. That is right. That is the reason I place so much emphasis, Senator, on these three factors here at the beginning of my statement.

Senator MILLIKIN. Yes. An all-out war, for example, would throw this whole thing into the garbage can, would it not?

Mr. STAATS. Oh, yes.

Senator MILLIKIN. Yes.

Mr. STAATS. After our military-readiness objective has been achieved, the level of expenditures for the military functions of the Defense Department under present assumptions of strength, are likely to be sustained at a level of \$40 billion. Approximately half of this amount is necessary merely to support a standing armed force of 3.5 million men. It includes pay, food, clothing, housing, and similar support for the maintenance of the men and women in uniform.

That figures out around \$5,400, I believe, per soldier, and it is merely a matter of calculating that as against 3½ million men.

Senator MILLIKIN. Then, roughly adding your nonmilitary expenditures, according to your predictions here, we will have to face, even if things go well, short of durable peace, we will have to face a national-expenditure budget of, perhaps, not less than \$65 or \$70 billion a year, is that right?

Mr. STAATS. The expenditures in the nonmilitary area here for 1953, which I believe I have given you, run about \$20 billion, and it would be some additional in the security area, such as stockpiling, and so on.

Senator MILLIKIN. Under your figure of \$40 billion for military, and if you add \$20 billion or \$25 billion for other purposes, you have got \$65 billion.

Mr. STAATS. That is right.

Senator MILLIKIN. And the point that, perhaps, I should make is that \$65 billion will continue the heaviest tax burden that this country has ever suffered, even after you get through with the major part of your military program.

Mr. STAATS. \$65 billion would be an approximate figure for the period 1954 that we are talking about under these assumptions, so—

Senator MILLIKIN. So that on Budget's assumption, there is no prospect in the foreseeable future, even if we do not have to move into all-out war, and even after we have reached our peak of military expenditures and get down to what you might call a maintenance basis, of anything resembling a reduction in taxes, is that correct?

Mr. STAATS. That is correct. But I would again like to emphasize the nature of the assumptions under which we are operating for the period 1954.

Senator MILLIKIN. That is right.

Senator BYRD. The \$65 billion is for military expenditures?

The CHAIRMAN. No; \$40 billion, and about \$23 to \$25 billion-----

Senator KERR. That is in the fourth paragraph on page 5.

Senator BYRD. In 1953 it will total between \$80 and \$90 billion.

Mr. STAATS. That is correct.

Senator BYRD. How long will that continue on that level, do you think?

Senator KERR. One year, he says.

Mr. STAATS. We are indicating that the peak in the military expenditures will come approximately at the end of fiscal 1953, and we are indicating that under these assumptions that we have made, Senator, that that should then level off to a rate of around \$40 billion for the military. That assumes that the present strength or the strength contemplated in the budget that is before the Congress, is maintained.

Senator BYRD. Well, Mr. McNeil testified before the Armed Services Committee that it would be \$48 billion.

Mr. STAATS. It depends on the particular period that we are discussing. The peak would come about the end of fiscal 1953, and then it would scale back to that level, reaching a rate of \$48 billion or \$40 billion after that time. It would depend a good deal on what the particular time period is that we are discussing.

Senator BYRD. The peak would be in fiscal 1953, you would think, and that it would be between \$80 and \$90 billion. Well, there is a \$10 billion leeway there which is quite important.

Mr. STAATS. We have projected this on a quarterly rate basis, and it is our opinion based upon the evidence that we have been able to obtain from the Department of Defense that military expenditures will reach their peak either in their fourth quarter of fiscal 1953 or the first quarter of fiscal 1954.

Senator BYRD. Then, after fiscal 1953 what do you think would be the level?

Mr. STAATS. After 1953 under these assumptions as to strength, the level that would be sustained is around \$40 billion—around that figure.

Senator MILLIKIN. Military.

Senator BYRD. Military. What do you think the total will be? That does not include the arming of the nations in Europe, that military figure?

Mr. STAATS. This is direct military, I believe.

Senator BYRD. All right. There are \$40 billion for that after fiscal 1953. What will the others be?

Senator TAFT. Can we get that, whether it includes the Allies? You say this includes the Allies?

Mr. STAATS. The \$40 billion, Senator Taft, are for the military; it is for the military alone.

Senator TAFT. I presume by that time we would not have anything for aiding the Allies.

Mr. STAATS. There could well be some additional amount for the mutual assistance program and for stockpiling, and some of the other

items that we have included in this national security area. But I had placed an outside figure on that of a rate of a total in the security area in addition to military of about \$5 billion, and about \$20 billion for all other functions, which was the basis on which we arrived at the \$65 billion.

Senator MILLIKIN. So you are guessing \$5 billion to add to the \$40 billion, and then you add \$20 billion on top of that?

Mr. STAATS. That is right.

Senator MILLIKIN. So roughly it would be not less than \$65 billion, and that assumes that the Congress does not increase its nonmilitary expenditures, is that correct?

Mr. STAATS. That is right.

I want to make this point though in connection with that \$5 billion. That \$5 billion includes the assumption that there will be some additional program for, or a continuing program for, mutual assistance. It includes the continuation of the stockpile, atomic energy development, certain maritime activities which will still be in the picture at that time.

Senator BYRD. In this \$65 billion, how much of it is for the aid to Europe in different forms, either military aid, arming the nations, or economic aid?

Mr. STAATS. I do not have with me the breakdown of the \$5 billion.

Senator BYRD. You have got \$40 billion for direct military. How much is there for the civilian?

Mr. STAATS. We have assumed that would continue at the same level as we have assumed in this statement for 1953, roughly \$20 billion.

Senator BYRD. That is \$60 billion. Then, you have allowed \$5 billion.

Mr. STAATS. For these other security programs which will not and which are not—

Senator BYRD. You did not allow for the aid to Europe?

Mr. STAATS. Yes.

Senator BYRD. Arming Europe and economic aid? What have you allowed for that?

Mr. STAATS. It is in the \$5 billion. I would have to supply you with a rough breakdown of that \$5 billion. I do not have that.

Senator BYRD. The atomic bombs, I should think, that would be in the military.

Senator TAFT. No; that is—

Mr. STAATS. We have carried that separately.

Senator BYRD. You may carry it separately, but it is certainly a vital part of our defense program.

Mr. STAATS. That is right.

Senator BYRD. And in ascertaining what we spend on defense it should be included in the defense figure.

Senator MILLIKIN. Are you including it in your \$20 billion for non-military purposes?

Mr. STAATS. It is included in the \$5 billion.

Senator MILLIKIN. In the \$5 billion.

The CHAIRMAN. In the \$5 billion.

Senator MILLIKIN. The whole business, then, economic aid to Europe, military aid to Europe, and atomic energy, and possibly some other items are all compressed within the \$5 billion.

Mr. STAATS. That is right. You might say that the defense expenditures, that the estimates that we are assuming here would run about \$45 billion.

Senator MILLIKIN. Would it be luridly imaginative to say instead of \$65 billion it might well be \$70 billion or \$75 billion?

Mr. STAATS. Well, that would be a matter of judgment, Senator, again depending on what assumptions we are making here for this period ahead.

Senator MILLIKIN. I mean, under the assumptions we are discussing here. Would it be, I repeat, luridly imaginative to say that it might well be—let us say \$70 billion?

Mr. STAATS. Well, a range of \$5 billion on a projection of this kind—

Senator MILLIKIN. You certainly would not say it could not exceed \$65 billion, is that right?

Mr. STAATS. No; I would not be prepared to say that.

Senator MILLIKIN. So that it might, I repeat—would it be luridly imaginative to say that it might reach, let us say, \$70 billion?

Mr. STAATS. I would think that a range of \$60 billion to \$70 billion would not be out of line.

Senator MILLIKIN. Thank you.

Senator TAFT. There are two things I do not quite understand. Do you assume we are going to cut down military expenditures by not ordering a lot of airplanes? Why do you assume we are going to stockpile forever and ever? It seems to me that if you start a stockpile, you finish it. Also, why do you assume that this mutual aid is not going to become mutual aid? Why should we be appropriating and providing aid after 4 years of aid to Europe? Why do you assume those assumptions?

Mr. STAATS. I think the present thinking with respect to the mutual assistance program would involve expenditures running at least through fiscal 1954.

Senator TAFT. I meant 1954. We are talking about this \$65 billion which is what you say when we get back to normal, 1955 or 1956.

Mr. STAATS. That is the reason I broke out the \$5 billions. It is hard to say on the basis of present forecasts that the \$5 billion would be a level that would continue on indefinitely.

Senator MILLIKIN. That is a guess.

Mr. STAATS. That is right, and it would depend entirely on the level of these individual programs. But the \$40 billion represents a translation of the dollars under the present assumptions as to cost that it would take to run armed forces of 3¼ million men.

Senator MILLIKIN. I think it was developed, Senator Taft, before you came in that under these estimates—take them at \$65 billion or take them at \$70 billion—we shall have to continue until we have durable peace in the world the highest rate of taxation ever known, and that under these assumptions there is no prospect within any measurable period of time when you can reduce the taxes that will be required to cover that kind of a budget. I am not speaking now of the peak budget of 1953. I am speaking of what you might call the maintenance budget after we get over the peak.

Senator TAFT. If the Russian threat continues.

Senator MILLIKIN. If the Russian threat continues, is that correct?

Mr. STAATS. Yes.

Senator BYRD. Let us take for 1953, that is \$85 billion; that is the median; and then you think for 1954 it will go down to \$65 billion?

Mr. STAATS. You would be on a declining rate, Senator.

Senator BYRD. That is what I am getting at. If you spend \$85 billion in 1953, I doubt that you are going to go down \$20 billion in one year.

Mr. STAATS. The \$40 billion reduction would not be completely achieved in the fiscal year 1954.

Senator BYRD. But you give the impression, as I see it, after fiscal 1953 we will get on a level of \$65 billion.

Mr. STAATS. I do not mean to give that impression. The peak here is the end of fiscal year 1953, or the first quarter of fiscal 1954. At that point we will start on a declining basis to a level of \$40 billion. I hope it is a level.

Senator BYRD. Let us take the \$85 billion for 1953. You stated it is between \$80 billion and \$90 billion. Now, in 1954 what is your estimate—what is your estimate for 1954?

Mr. STAATS. We do not have a precise estimate on 1954. I could give you our best approximation on that, but I have not developed it.

Senator BYRD. It would be pretty close to \$85 billion because you started your expenditures in the last quarter of 1953, and then your heavy expenditures will run over to 1954.

Senator TAFT. And you said you think you expected to reach the end, at the end of 1953, so presumably it would go on for a while in 1954, would it not?

Mr. STAATS. It starts declining rapidly after the peak, but in order to arrive—

Senator BYRD. But you have only got the peak in only one quarter in 1953.

Mr. STAATS. In order to arrive at this \$40 billion you would have to assume a larger level of expenditures in fiscal 1954. Then, the \$65 billion that we are talking about—the level would be somewhere between the \$65 billion and the \$85 billion.

Senator KERR. Would it be safe to say on the basis of your estimate you figure that as you went out of 1954 you would have declined to an annual rate of \$65 billion?

Mr. STAATS. That is generally the feeling.

Senator BYRD. What about 1954? Would it then be around \$75 billion generally?

Mr. STAATS. If you assumed a midpoint between \$85 billion and \$65 billion; I do not know just how that curve is.

Senator BYRD. That is the best estimate we can make, is it not, if you say it is between \$80 billion and \$90 billion—assuming it is \$85 billion, and the next year you anticipate a reduction of \$10 billion?

Mr. STAATS. I would like to supply you with a statement on that, but for present purposes, I think the \$75 billion is a midpoint in between that would be as good as I could give you.

Senator BYRD. When you supply that would you put it on a quarterly basis, all of these years, 1952, 1953, 1954, 1955, as long as you can project it?

Mr. STAATS. Right.

(The information referred to follows:)

*Estimated projection of budget expenditures, fiscal years 1952-55*

[Annual rates. In billions]

Fiscal year:	Total expenditures
1952.....	68.4
1953.....	80.5-90.5
1954.....	72.0-82.0
1955.....	65.0

These estimates are based on many assumptions of the kind described on pages 116 to 118. They represent the best judgment we can make at this time of the trend in expenditures so far in the future. Quarterly projections through fiscal year 1953 are shown, but it is not possible at this time to estimate 1954 and 1955 by quarters with any validity. For more detail on these estimates for fiscal years 1952 and 1953, see page 247.

Senator BYRD. But you think that ultimately some time it will get back to \$65 billion?

Mr. STAATS. Assuming that the strength of the Armed Forces is maintained at the level at which——

Senator BYRD. That \$65 billion would be—suppose we have inflation, more inflation. That will change these figures a great deal, too?

Mr. STAATS. That is right.

Senator BYRD. It is all a guess except it is probably a minimum guess. These are all minimum figures; they may all be exceeded?

Mr. STAATS. The price assumption is on the basis of the end of March prices.

Senator BYRD. But I mean your figures here are probably minimum figures.

Mr. STAATS. I would say that that is generally right.

Senator BYRD. They may be exceeded?

Mr. STAATS. That is right.

Senator BYRD. Considerably.

The CHAIRMAN. All right, Mr. Staats. Will you continue.

Senator TAFT. Mr. Staats, there is one thing that has always interested me. We assume certain figures for the military. Do you not think that a complete study of all military expenditures might substantially reduce the military budget? We had a Hoover Commission and everything else, and we have had various other studies, but in the Army, the Navy, and the Air Corps, there never has been a particular effort to turn down what they have asked for so far as Congress is concerned.

Mr. STAATS. That is right.

Senator TAFT. Do you not think it is worth while if they are going to take \$65 billion at the peak, and \$40 billion afterward, to have an outside comprehensive expert commission that could make a study of even the military problems involved, and see if we cannot get the same thing for less money?

Mr. STAATS. Well, I would like to say this——

Mr. TAFT. Or more for the same money, whatever you want.

Mr. STAATS. But I think that generally the point brought out in the report of the Joint Committee on the Economic Report is one which we feel is very valid, namely, that when the defense program is taking this proportion of the total budget, that we cannot do too much by way of seeing what could be done to achieve economies in the military operation.

Senator TAFT. I felt when we had a big Army—we usually had a skeleton Army—but when we had a big Army in wartime we have not been able to stop to question what they have asked for. It has just been appropriated. If this is going on for 10 years or the rest of our lives, it seems to me that a fundamental study of the Army, Navy, and Air Corps methods, and everything else, even in the military phases, military experts on it could possibly secure a substantial reduction.

Mr. STAATS. I do not think there is any question but that it needs a great deal of attention. I know that the Deputy Secretary with whom we have been dealing most directly on this matter is very much aware of that problem, and is giving a lot of attention to it through the McNarney committee, the Defense Department has recently appointed a new management engineer who is responsible directly to the Secretary in the Department.

The Assistant Secretary for Manpower has inaugurated a very intensive program on manpower utilization in the Department of Defense. But the point that you make is a very good point. I am sure it has been given a lot of attention, but the question of ways and means as to how you can do it is—

Senator BYRD. When will this manpower study be effective? They are getting all their employees now. They are adding employees all the time. The armed services have been adding about a thousand or 1,500 a day. If you get them on the payroll, you cannot get them off. We have found that out by experience. Why don't they start at the Pentagon Building? They have got 35,000 civilian employees at the Pentagon Building alone. It has not been touched; nothing has been done. Mr. Johnson talked about it.

Senator MILLIKIN. Every report we get as Senators shows that they are falling over each other's feet over there.

Senator BYRD. Once they get them on the payroll you cannot get them off. I have talked to Mrs. Rosenberg, and I cannot learn when she is going to get anything in operation. It has been all talk and no results.

The CHAIRMAN. That is why it has been on an ascending scale, Senator Byrd, all expenditures.

Senator BYRD. The idea of adding 1,000 to 1,500 a day in the armed services—it was 2,000 a day for a while—civilian employees.

Mr. STAATS. As you know, a great many of those employees are actual production workers.

Senator BYRD. Some of them are; 50 percent of them are, but the others are just clerical. There is great room and great opportunity there to save money.

The CHAIRMAN. Mr. Staats says he is going into that a little later, Senator Byrd, and then we shall have a breakdown that will be helpful when we get that point.

Senator WILLIAMS. Mr. Chairman, I would like to ask one question along those lines. I think this is a good suggestion that we should study the military expenditures, but Congress has put into operation many of the recommendations of the Hoover Commission in civilian agencies. How much saving has there been as a result of the Hoover Commission's reports? I have supported most of those reports but, frankly, I have been very much disappointed, and have been unable



to find any savings in any of the agencies, and I wish you would tell us how much this fiscal year represents a saving as a result of the Hoover Commission.

Mr. STAATS. The recommendations of the Hoover Commission with respect to the Department of Defense have been almost completely carried out, as you know, and there have been various estimates as to what savings have been achieved within the Department of Defense.

Senator WILLIAMS. Well, in the Department of Defense and civilian agencies, too; how much savings do you think that there is represented in this fiscal year's budget that we are working on as a result of the adoption of the Hoover Commission's reports?

Mr. STAATS. The development of estimates as to savings resulting from reorganization have been very, very difficult to obtain. The Hoover Commission itself struggled with the problem and, as you may know, the Hoover Commission itself declined to make an estimate as to the savings that could come about as a result of this recommendation. There were a number of estimates made by others as to what those savings would involve, but the Commission itself declined to make an estimate as to the savings that would come about as a result of its recommendations.

Senator WILLIAMS. That is the point. You say that we all know that some savings have been the result. I would like to know or have just an estimate, because if you know there have been savings you must have an estimate.

Mr. STAATS. We can cite certain savings, and we know there are savings, but the precise savings, to be very honest with you, are almost impossible to obtain for a large Department like the Department of Defense, particularly when it has come about at a time when you are increasing expenditures for the Department rather than keeping them on a relatively uniform basis.

Senator WILLIAMS. Let us forget the Defense Department momentarily, and speak of the civilian agencies, those which are not affected by the Defense Department.

How much savings have we had in the reorganization plans of any of the civilian agencies?

Mr. STAATS. I do not have any estimate as to what is involved. The Citizens' Committee for the Hoover Report have made some estimates on that.

Senator WILLIAMS. I think that is your position as the Bureau of the Budget—you are in the best position to say whether or not there have been any savings. Could you say that there have been any savings?

Mr. STAATS. I think there have been some savings as a result of it. Many of them have resulted in improved management. For example, if you vest the authority of a commission in the chairman in an effort to get better administrative direction over the operations of the commission, the question is, How much savings do you achieve in a case of that kind?

Senator WILLIAMS. You still have not answered my question. You are not in position to say that there has been any direct financial savings then, so far as the taxpayer is concerned, are you?

Mr. STAATS. I would not agree that is the case. We have made some savings, and I think we could supply you with a number of examples. The only thing I wanted to make clear was that any

over-all estimate as to savings resulting from reorganization recommendations, whether from the Hoover Commission or otherwise, are extremely difficult and almost impossible to support when you get into some of the kinds of recommendations that were made by the Commission and which have been put into effect.

Senator WILLIAMS. Well, you recognize when they came to Congress, most all of them came with the recommendations and a price tag on them.

Mr. STAATS. Yes, but there were no estimates of savings made by the executive branch agencies.

Senator WILLIAMS. And they said if we will put them into effect those savings would result. You never disputed it in the budget that if we put them into effect that there would be these savings, and I have noticed in these budgets that are coming down to us this year that after these agencies are consolidated, and you have put two or three of them together, instead of costing less money they are costing us more money, and instead of dropping employees, they have all got more employees than the two agencies had when they were separate.

Most of the time when we set up one agency and consolidated two or three agencies into one, it seems that we set up another pyramid above them.

Mr. STAATS. The same question was raised with the Budget Bureau in all the hearings by the Expenditures Committee on each of the plans that were presented by the President to carry out the Hoover Commission recommendations.

We cautioned the committee in each case in the same way that I am qualifying my reply to your question, on the difficulty of making a precise estimate on the savings which might come about.

Senator WILLIAMS. I wish you would make a survey—

Mr. STAATS. We can supply you with what we have. I am not trying to avoid your question in any sense.

Senator WILLIAMS. I wish you would, because I have been very much disappointed in it, as one who supported it, because from what I can see from any part of the Hoover recommendations which have been put into effect, it is that we give the agencies more power, more personnel, and they enthusiastically put those recommendations into effect, but so far as economies are concerned, there has been an absolute ignoring of that on the part of all the executive departments, and if I am wrong in that I wish you would correct me, and supply it for the record to show it.

Mr. STAATS. I could show you that there have been substantial savings resulting from the Hoover recommendations which have been adopted.

I would hesitate very much though to give you any over-all estimate from all of the Hoover Commission recommendations that have been put into effect as to the exact amount of savings. I do not think it can be done, very honestly.

Senator WILLIAMS. And it is almost so insignificant that it cannot be placed in the record?

Mr. STAATS. There have been very substantial savings on some of them.

(The information referred to follows:)

Although a substantial proportion of the recommendations of the Commission on Organization of the Executive Branch have been put into effect, it is not feasible to make a reliable estimate of the total dollar savings resulting from those

recommendations. Because of the many factors involved, the Bureau of the Budget has not been able to calculate the precise savings resulting from Hoover Commission recommendations, nor has it felt justified in asking the departments and agencies to undertake the extensive and costly research that would be required to compile such an estimate. The Hoover Commission itself very wisely declined to make an estimate of the over-all savings that would result from its recommendations. Although its task forces did make such estimates in some of their reports, the Commission itself mentioned dollar figures for expected economies in only one instance. In spite of the fact that the Hoover Commission did not attempt to make an over-all estimate, various other organizations and individuals have made estimates of savings. However, we have not been able to find a single instance where such estimates are accompanied by information to support the claim of savings; nor have we, on our own investigation, been able to substantiate these claims. After careful analysis we conclude that while large sums of money can be saved by improved management in the executive branch, there is no valid basis for assertions that such amounts are readily measurable. To reduce Federal expenditures would require major reductions in, or elimination of, programs specifically prescribed by law.

The paragraphs below outline several of the reasons why it is not feasible to identify specific savings resulting from Hoover Commission recommendations:

1. The major recommendations of the Hoover Commission are aimed at more effective direction, control, and coordination of Federal policies and programs. The basic purpose of such recommendations is to improve the quality of service to the taxpayer—not necessarily to reduce appropriations at all. For example, the Hoover Commission recommended a grouping in the Department of Commerce of major nonregulatory transportation activities of the Federal Government. The reorganization plans transferring the Bureau of Public Roads and the functions of the Maritime Commission to the Commerce Department and the creation of an Under Secretary of Commerce for Transportation are all designed to achieve a unified and coordinated Federal program for transportation. Although administrative savings may result from such arrangements to coordinate transportation activities, the major benefit to the public will be the more effective development of our transportation system to meet the needs of commerce, industry, agriculture, the general public, and national defense.

2. The basic recommendations of the Hoover Commission are concerned with establishing an organizational structure that will permit the agency heads to improve the effectiveness, efficiency and economy of his programs. The Commission recommended that there be a clear line of authority from the President to agency heads and from agency heads to their subordinates. Similarly, the Commission recommended that responsibility for internal administration of regulatory commissions be vested in the chairman. The adoption of these recommendations does not, as such, produce identifiable savings. It provides a framework within which improvements can be made. Where tangible dollar savings do result, they are likely to occur as a part of the day-to-day operations improvements that take place in any well-run organization. This continuing job of carrying out internal improvements within the departments and agencies has been given emphasis under the President's management program, which was initiated by Executive Order 10072 of July 29, 1949. The management-improvement programs in the individual departments and agencies are constantly bringing about improvements in quality of service, in the effectiveness of operations, and in the cost of doing business. Where dollar savings can be identified, they are usually the result of a long period of effort, with many people contributing to the final product.

The Commerce Department is an example of such a management-improvement program. It recently was able to identify savings of over \$8 million during an 18-month period, with an additional anticipated annual saving of nearly \$3 million. However, no estimate was made as to the proportion of this saving which was made possible by adoption of Hoover Commission recommendations.

In the Treasury Department, examples of management-improvement program savings include: (a) During 1950, the Fiscal Service, working through the Fiscal Service Management Committee, effected management savings totaling more than \$6 million, including savings resulting from improvements initiated during the period 1947-49. (b) In the Bureau of Public Debt the reduction of five regional offices to three resulted in an annual saving of \$250,000. (c) A depositary-receipt procedure was developed by the Bureau of Internal Revenue, in cooperation with the Fiscal Service, to cover employment taxes, as well as income taxes. For the half year the new procedure was in operation, savings from

elimination of compensation to the commercial banks amounted to \$500,000. (d) Savings resulting from the modernization of the intaglio presses in the Bureau of Engraving and Printing, which will ultimately increase the output of currency by approximately 30 percent, are estimated at over \$1 million a year. (e) In the Bureau of Internal Revenue notable progress has been made in the utilization of time-saving operating equipment and in the development of more efficient procedures. Savings during fiscal year 1950 were estimated at 480 man-years.

It should be emphasized that it is extremely difficult, if not impossible, to establish a direct relationship between Hoover Commission recommendations and the savings cited above.

3. Undoubtedly the greatest difficulty in identifying specific savings is caused by the changing nature of Federal programs and agencies. Since Federal programs are designed to meet the needs of the public, changes in economic conditions, international developments, and other factors produce a continuing series of changes in Federal programs. New programs, changes in the scope of existing programs, in amount of workload, in the quality of service, in price levels, and in the supply of manpower and materials are among the variables that can affect the amount of money required to perform a particular service for the public. For example, the program for unification of our Armed Forces has undoubtedly brought about great dollar savings. However, such savings are impossible to identify in a period when the demands of the defense emergency have increased military expenditures from \$11.9 billion in fiscal year 1950 to an estimated \$42 billion for 1952. In the process of formulating the military budget, estimates of requirements take into account anticipated savings due to improved organization, procedures, and methods. Similarly, in civilian agencies, each succeeding budget estimate takes into account the operating improvements that have been devised during the past year. Although the increased productivity from this continual tightening-up of efficiency may not be apparent, the long-run effect is noticeable. For example, the Bureau of Internal Revenue from 1947 to 1951 experienced a 5 percent increase in the number of taxpayers, a 37 percent increase in investigation work, and a 29 percent increase in revenue collections; yet through a series of operating improvements it was able to decrease its staff by 4.5 percent over the same period without impairing efficiency.

The difficulty of identifying savings because of the continual changes in Federal programs is also illustrated by the establishment of the General Services Administration. That agency, created pursuant to recommendations of the Hoover Commission, has initiated a number of programs to simplify or standardize Government procedures in the areas of procurement and property management. The scope of Federal procurement activities, and hence the budget estimates, have greatly expanded to meet the needs of the defense mobilization program. Many savings have, nevertheless, been made by the new agency. For example, negotiations with carriers for freight-rate adjustments produced savings of over \$1,700,000 in 1950, use of long-term contracts and telephone engineering produced savings of \$385,400, and establishment of records centers in four cities is estimated to have saved over \$1,843,000.

Pursuant to Hoover Commission recommendations, several studies of the administration of territories under United States jurisdiction in the Pacific have been made. Although those studies have pointed the way to more efficient ways of administering the territories, it is an extremely difficult accounting problem to determine the actual extent of savings. The Department of Interior estimates that one study resulted in an annual saving to the Federal Government of over \$2 million by replacing ships and planes manned by naval personnel with civilian transport facilities administered under contract. It is estimated that the annual direct and indirect subsidies for operating costs were reduced by about \$1 million.

Where a program is relatively stable, a comparison of the size of its budget before and after a reorganization sometimes can provide a rough indication of savings. For example, Reorganization Plan 22 of 1950 transferred the Federal National Mortgage Association from the Reconstruction Finance Corporation to the Housing and Home Finance Agency. The primary purpose of that transfer was to assure that there would be close coordination between the secondary-market operations of Federal National Mortgage Association and national housing policies. In addition, the administrative expense of that program has been reduced by about \$1 million in a period when the portfolio of Government-held mortgages was increasing.

4. Many programs are underway to improve the management of the executive branch. Although in many cases these efforts are benefiting from the suggestions or the impetus of the Hoover Commission, it should be pointed out that most of

the improvement efforts were initiated either prior to or independently of the Hoover Commission recommendations.

The joint accounting program, carried on by the General Accounting Office, the Treasury Department, and the Bureau of the Budget, in collaboration with all other executive agencies, is an example of one of these programs. Illustrations of economies under this program include (a) savings of nearly \$1 million by elimination in the General Accounting Office of certain operations which were common to the General Accounting Office and the Treasury Department; (b) at least \$150,000 was saved by the revision of accounting for public-debt coupon interest and related operating procedures in the Treasury Department; (c) in the Maritime Administration (Commerce Department), revisions in procedures, as well as various reorganizations within the Division of Accounts and the accounting branches of the district offices, permitted in 1 year a reduction in accounting personnel from 392 to 285 employees; (d) in the Bureau of Reclamation (Interior Department) a reduction was made of 35 percent in positions, about \$40,000 in payroll expense, in one operation alone in the Washington Office of the Bureau; (e) in the Department of Defense the adoption of a simplified method of scheduling disbursements and collections on electrical accounting machines and revision of related procedures should result in the elimination of more than 100 clerical positions in regional accounting offices in the Department of the Navy, with comparable savings possible in the field disbursing activities of the Departments of the Army and Air Force.

Senator TAFT. Mr. Staats, one more question: Is it not somewhat more difficult for the Budget Bureau to exercise budget control over the military expenditures than other civilian departments? Do you not get into a field where you just cannot say "No" to a military man when he says thus and so?

Mr. STAATS. On the question involving strength, which relates to questions of strategy and mission and questions as to whether or not you ought to move from one type of equipment to a more expensive type of equipment, where the technical judgment of the Department of Defense has been given to it, I would say that it is very difficult for the budget to question those kinds of decisions.

Once the strength is determined by the President and by the Congress, that in itself determines very largely the scope and the cost of this military operation.

But, on the other hand, I want to say this, that the Budget Bureau, working with the Office of the Secretary of Defense, almost on a continuous basis—we have our staff and their staff working on the most intimate terms—has been able to accomplish some very major savings as a result of the review they have given the budget which is now before the Congress at the present time.

Senator TAFT. I have, for instance, talked with some high generals, who say that out of a million and a half men, they think they can get 30 divisions instead of 24 that are called for in this present set-up. In other words, they think they can get more men into fighting divisions, compared to the number of people in uniform. That kind of question is pretty well beyond the budget, or does the Budget go into that?

Mr. STAATS. We get into that kind of question in terms of whether or not the plans that have been developed are consistent with each other, particularly on the procurement side.

We have been able—I think it is fair to say—

Senator TAFT. Do you have any control over their ordering things that last for 5 years when all they need is something to last for 1 year?

Mr. STAATS. We have been able to do quite a bit in that direction.

Senator TAFT. We hear stories—I do not know whether they are true or untrue, but you hear stories—constantly of things being

ordered from the First World War which are still around because they ordered in such tremendous quantities.

Mr. STAATS. The matter of the control of military schedules when you have so many procurement officers is a very difficult one. The Deputy Secretary has been giving some attention to that, and so has the Munitions Board. The latter, I think, has within the last few months developed a much more active program, designed to avoid just the problem you are talking about. It is very easy, particularly on the soft-goods items, which are available, to procure ahead more rapidly than on some of the hard goods items—the long-lead-time items which do involve components and parts that are extremely difficult to obtain. There must be somebody who is supervising the situation to be sure that the procurement is on a uniform basis, and that you are concentrating procurement to the maximum extent in one service.

Senator MILLIKIN. Mr. Chairman, I would like to focus some of this down to one specific thing. I would like to bring it down to the working level of these employees that Senator Byrd talks about, and I would like to bring it into relation with the activity of the Bureau of the Budget.

You, for example, have Budget representatives checking constantly, let us say, in the Pentagon to see whether the number of employees is required by the workload. Do you make that kind of a day-by-day constant check on the personnel, let us say, for example, in the Pentagon?

Mr. STAATS. Senator, I want to be very frank with you. The amount that we can do by way of looking at individual operations in the Department of Defense is very limited. We have a very small staff. The responsibility for the kind of review you are speaking about has to rest with the top administrative officers in the Department of Defense.

Senator MILLIKIN. All right. Now, I think that is a very candid answer.

Mr. STAATS. We want to be sure that they have a system which will achieve that, and that is about as far as we can go, unless we happen to notice particular cases.

Senator MILLIKIN. You are concerning yourself with system and the mechanics of the thing, in the main, and you are at the present time, let us say, because you do not have sufficient staff—let us assume that—relying upon the defense agencies themselves and not to oversupply the personnel side of the business; is that correct?

Mr. STAATS. That is right. We would look at the recruitment figures in terms of the level of the build-up. But generally our review is in terms of the totals. When it becomes a question of a specific office or a specific division, we do not have the staff to get into it on that kind of a basis.

Senator MILLIKIN. Is that true as to the Government, as to all of the agencies of the Government, military and nonmilitary?

Mr. STAATS. Relatively. It is much more difficult in an operation such as the Department of Defense, because it is so widespread and involves so many different kinds of operations than it is for a very small agency where you can measure the workload very clearly in relation to the job.

Senator MILLIKIN. I think that is quite obvious, but I am trying to find out now, if I have understood your testimony—you do not have a constant system of inspection in the Pentagon, just to give focus term to my question? You do not have a constant system of inspection or service or whatever you want to call it, to see that the personnel do not exceed the workload; is that correct?

Mr. STAATS. That is right.

Senator MILLIKIN. Do you have any kind of an organization of the type that I am suggesting, along the line, in the Government activities?

Mr. STAATS. The Department of Defense itself has facilities.

Senator MILLIKIN. I understand that. I am talking now solely about the Bureau of the Budget.

Mr. STAATS. The Budget Bureau does not have the staff.

Senator MILLIKIN. To do that work either in the Pentagon or generally throughout the Government?

Mr. STAATS. That is right.

Senator MILLIKIN. So that in the last analysis we have to rely on the agencies themselves to keep their staffs pruned to their workload necessities; is that correct?

Mr. STAATS. I want to make this qualification to that: The budget review which we make annually does involve a very careful analysis in each of these agencies with respect to the needs for personnel, not only for increases in personnel but for the need for personnel already on the job.

Senator MILLIKIN. Let me make it more specific.

Mr. STAATS. That kind of a review, however, is made very largely through hearings which the Bureau holds or through a number of inspections we make in the agencies.

Senator MILLIKIN. You, I think, perhaps are in the same position as the Appropriations Committees of Congress; you have to be content with spot checks; is that correct?

Mr. STAATS. That is right.

Senator MILLIKIN. That is correct.

So that in the main, you have to take the assurances of the heads of these departments in the military and otherwise, in the main, just as the Appropriations Committees of the Congress have to take those assurances; is that correct?

Mr. STAATS. That is very largely true; and the——

Senator MILLIKIN. That is true. All right.

Now, then, does that not lead to the suggestion that if we are ever to get at this personnel problem that Senator Byrd is so interested in, and everyone else is interested in, and see that we do not have excessive personnel to carry the required—I am not talking about functioning now—I am assuming for my present purposes that the function is all right; I am merely talking about the number of people required to carry out the function.

Will we not have to develop some kind of an agency on behalf of Congress, whether working for the Appropriations Committees or whether working for what we once set up as sort of a joint budget arrangement, which has been abandoned and forgotten—would we not have to work up some kind of an agency on behalf of the Congress that is in a position to maintain surveillance and inspection over those

agencies of the Government so that we can see whether the personnel are insufficient to carry the workload, is right or is too much?

Mr. STAATS. I would submit that as far as being able to do a detailed inspection job on each individual operation of an agency, it would be impossible for any central agency, be it the Budget Bureau or any other office, to provide detailed scrutiny on day-to-day operations.

I think basically we must recognize that the over-all fiscal control, including the over-all estimate of personnel requirements is something that the Budget Bureau and the President can determine and control. The committees of Congress can do the same. But in the final analysis you have to rely on the agency head and the supervisor to judge whether or not a given unit has too many people in it to do the job that it has to do.

Senator MILLIKIN. I suggest that is where you have to go-----

Mr. STAATS. That is what you have to rely upon.

Senator MILLIKIN (continuing). But you cannot take his word for it; you have got to have some kind of an organization that will get down to the grass roots problem, and we have not got it; you have not got it; the Congress has not got it, and something of that kind has got to be provided, I respectfully suggest, if we are going to get rid of the fat in personnel.

Mr. STAATS. Well, the question of how many people it takes to do a given job is a matter of judgment.

Senator MILLIKIN. I admit it will take a lot of people, but it will save a lot of money, I suggest, also.

Now, there is no question but that the techniques of determining whether the help is excessive for a given workload are well established in private industry; there is no difficulty about it at all.

There are experts in those lines who can walk into any department of a private industry and say, "Here is your correspondence workload," let us say, "and you have got umpty-ump stenographers; you have got umpty-ump file clerks; you have got umpty-ump supervisors. It is either insufficient, it is all right, or it is excessive."

Those techniques are well known, and yet we do not practice them right down at the level where you are going to achieve economies, if you ever are, so far as excessive personnel is concerned, that Senator Byrd has talked about.

Mr. STAATS. I want to clear one point here with respect to operations which are common to all agencies--personnel work, voucher and payroll activities, activities of that nature--we do have the kind of analysis you refer to. We have set definite standards for these common services. They are now being applied.

Senator MILLIKIN. Yes.

Mr. STAATS. We have worked these standards out and they are applied through the budget process.

Senator MILLIKIN. Is that applied in the Pentagon?

Mr. STAATS. Oh, yes. The difficulty comes-----

Senator MILLIKIN. Are you prepared to say that out of your agency's own inspections in the departments of this Government, are you prepared to say that we could not have excess personnel for the workload?

Mr. STAATS. No. What I am referring to is on standardized operations, the common paper-work operation, where you can reach



some agreement as to the number of people that it takes to do a given job on a systematized basis. The standards result from careful study. That has been applied across the board in all the Government agencies. We have ratios of the number of people permitted for a given volume of workload.

The difficulty comes, and the difference of opinion comes, on the operations that are not standardized.

Senator MILLIKIN. Yes. There are we floating in the dark.

Mr. STAATS. There it becomes in so many cases, a matter of judgment as to how many people a supervisor has to have to do the job that he has before him.

Senator MILLIKIN. Would you say that the Congress should not set up some sort of a mechanism of its own to maintain an independent check of the type that I am referring to?

Mr. STAATS. No, I did not mean to imply that. All I say is——

Senator MILLIKIN. You did not imply that. I am asking you whether the Budget would oppose anything of that kind.

Mr. STAATS. All I am saying is that any agency of that kind would be subject to the same difficulties that the Budget Bureau has had on the nonstandardized type of operation.

Senator MILLIKIN. There might be difficulties.

Mr. STAATS. It is extremely difficult, for example, to appraise the needs of a general counsel's office, say, or any operation that is not subject to close workload analysis.

Senator MILLIKIN. Let us assume there are difficulties. There are also difficulties for taxpayers to meet these bills we are putting on them, and I think we have got to get busy and adopt some techniques that will give the Congress a greater supervision over the detailed expenditures of our money.

We can sit around and make mechanical changes in organization until we are blue in the face. We can sit around and draw lovely organization charts, but when we get all through I doubt whether you save 5 cents, and I think it is dubious whether you have increased efficiency. You cannot put good men in charge of an organization, for example, by drawing a symmetrical chart. You know that, and everybody else knows that.

Mr. STAATS. Certainly.

Senator MILLIKIN. And it is like merging crippled companies in private life in the hope of making a strong company. When you do that you usually wind up having one company which is all crippled instead of one strong company, because the whole company will be no stronger than the parts, and I think we have an overdevotion to the notion that we can sit around the table and say: "Oh, this organization chart lacks symmetry. Now, let us get this in better shape; let us make a better combination here and work out efficiencies of that kind."

Mr. STAATS. I assure you, Senator——

Senator MILLIKIN. When you do that you run into the very complexities that Senator Williams is talking about. You cannot demonstrate your savings. But, as a businessman, you can look through any department of your business and you can say, "Am I employing too many people or too few, or is this about right," and until we get this Government down where we can figure it that way, we are not going to make any savings, I respectfully suggest.

Mr. STAATS. I want to assure you that in the matter of organization of agencies we do not approach it from the organization chart basis either. We realize as fully as you have indicated the difficulties of approaching it on that basis.

Senator MILLIKIN. I have known businesses, and every man in this room has known businesses, that operated under organization plans that would shock any efficiency expert, that have been highly successful; and we have all known of the sheriff's red flag to go on businesses that were following a beautiful chart, but were being run by nincompoops, who were overhiring people or underhiring people, and not knowing how to run their business. I am not sneering at an attempt to get an efficient organization. My point is that we overweight that, and think miracles are going to happen if we say, "Let us have one agency instead of two." That may lead into some minor economies if you have good men in charge of the new consolidation. You may get more efficiency. But when it comes down to this tremendous workload that Senator Byrd is talking about, we will never get rid of it unless we weigh it and analyze it at the grass roots, to wit, in these agencies and departments themselves rather than at the higher levels, which concern themselves, as you have pointed out, primarily with plans and mechanics, and things that do not get down to the measurement of the workload.

Excuse all of this. Please excuse all this testimony on my part.

Senator BYRD. Mr. Staats, the last figure that we have on personnel was 2,242,076, and for the past year there have been increases at the rate of more than a thousand a day. I understand that that increase would continue for some time to come until they reach, say, 2,800,000 or 2,900,000.

Mr. STAATS. I believe the employment contemplated for 1952 was around 2,700,000, as the average.

Senator BYRD. 2,700,000; but it may increase after this next fiscal year, may it not? In other words, you propose to add 300,000 more than the number as compared to May 1.

Mr. STAATS. That would be the average employment in fiscal year 1952.

Senator BYRD. That is only in the fiscal year.

Mr. STAATS. I do not have information as to the projection on personnel into fiscal 1953.

Senator BYRD. But you will add 300,000 more.

Mr. STAATS. On an average; yes.

Senator BYRD. This is the figure for May 1. You have May and June; that will add about 60,000 more. That will run it to 2,500,000, and then if you put 300,000 on top of that, it will be about 2,800,000 at the end of the next fiscal year. That is about right, is it not? Is that not the highest civilian payroll we ever had except at the war peak?

Mr. STAATS. We had more persons in World War II.

Senator BYRD. You had more employees. I am speaking of the payroll. I mean increases in wages. The payroll is as high now as it has been in the peak of World War II.

Mr. STAATS. I do not have the figures here on that.

Senator BYRD. Well, of those employees, you spoke of industrial employees, and only 30 percent of them are industrial workers, and 70 percent of them or 1,685,000 are white-collar workers.

Now, you propose to add 300,000 more to that. I am just wondering where this thing is going to end, because the payroll in March was running at an annual rate of \$8,300,000,000, for civilians alone.

Now, I particularly want to ask you about this. It is a matter I have been very much interested in.

We have gotten a report, the committee of which I am chairman, on nonessential spending, that you have in the Defense Department 3,022 civilians and uniformed persons in advertising, publicity, and public relations jobs, and the payroll cost is \$10,100,000, and for the next fiscal year that number will be increased to 3,800 publicity people for an annual payroll of \$13 million.

What do they do? What is the work of 3,825 people who got \$13,400,000 for publicity? That is the report that I have got from the Department. They are for the purpose of advertising, publicity, and public relations jobs.

Mr. STAATS. Are these just figures on information personnel that you are talking about?

Senator BYRD. Yes; it is advertising. We sent a questionnaire out which included advertising, publicity, and public relations jobs, and we got an answer showing that this year salaries, pay, and allowances are costing \$10 million, and there were 3,022 employees. In the coming year it will be \$13 million and 3,800 people. What does the Army and Navy, and so forth, have to publicize requiring 3,000 to 4,000 people?

Mr. STAATS. I believe that those figures include the work that they do for the recruitment of personnel into the services, Senator. I would be glad to go into that matter.

Senator BYRD. I wish you would give me a breakdown further on it, but I am quite sure those figures do include the recruitment activities of the three services.

It says advertising, publicity, and public relations. That is the classification there. There may be something of recruiting in that.

Mr. STAATS. I am quite sure that it is.

Senator BYRD. But there are a lot of people in the Pentagon Building who are engaged in publicity, is that not correct, both in uniform and out of uniform?

Mr. STAATS. They do have a sizable information staff for the three services.

(The information referred to follows:)

#### PUBLIC-RELATIONS ACTIVITIES IN THE DEPARTMENT OF DEFENSE

The Department of Defense, in preparing these figures, followed the definition of "public-relations activities" set forth in Bureau of the Budget Bulletin 50-10. Included in the public-relations category are preparation of releases and articles for newspapers and periodicals, broadcasting, advertisements (except in connection with the acquisition of property and the recruitment of personnel), exhibitions, preparation of films and publications not required by law, etc.

Senator BYRD. The total Military Establishment in May of civilian employment, May 1951, was 1,207,619. We have one civilian for every three in uniform. Is that an unreasonable proportion to have, almost one civilian for every three in uniform?

Mr. STAATS. Of course, when you get into the question of the ratio of civilians to men in uniform, that depends a good deal on the size of the uniformed personnel. I think it ought also to be pointed out

that the cost of a civilian in the Department of Defense, on the average, is less than the cost of an individual in uniform, so that one of the problems that we have is that in reducing civilian personnel too far there is a tendency to use men and women in uniform to do jobs which are really civilian jobs.

Senator BYRD. But haven't you got too many in all? The civilian pay is \$3,660 average. You have got 1,200,000 in civilian service, and a year ago you had 754,000. You have increased in 1 year by 453,000. You have got one in three now; with the enlarged Army, you have one civilian for every three in uniform, and some of the uniformed people are doing clerical work, too, as you know; is that right?

Mr. STAATS. That is right.

Senator BYRD. Many of them.

Mr. STAATS. I think it has to be borne in mind that the Department of Defense is expanding at a very rapid rate. They are expanding at a rate which is about equal to the expansion that took place in World War II.

Senator BYRD. I know that, but before the expansion occurred you had one civilian to every three in uniform, and a great many of those in uniform are doing what we call paper work. I have not been able to get the number of them, but you know there are a considerable number in uniform doing the so-called clerical work.

I think we ought to have Mrs. Anna Rosenberg here. She is in charge of manpower in the Military Establishment. I think the greatest waste in manpower in all the Government is in the use of civilian personnel by the military. I think Mrs. Rosenberg should be requested to come before the committee and tell us what she is doing. I think this is a very important matter.

The CHAIRMAN. Mrs. Rosenberg is scheduled to appear next Tuesday.

Senator BYRD. In fiscal 1950 we appropriated, authorized, and otherwise made available obligational authority totaling \$50 billion, and \$40 billion of that was spent. In fiscal 1951 we made authorizations, appropriated \$87 billion, and \$45 billion of it was spent.

In fiscal 1952 it is requested that we appropriate \$94 billion and \$69 billion in expenditures, so you have got somewhere in all of this legislation \$78 billion unspent.

Senator TAFT. That is what he says in his statement, \$75 billion.

Senator BYRD. \$75 billion. Why is it they continue to bring in supplemental bills asking for further appropriations and further obligations, contractual obligations?

Mr. STAATS. This \$75 billion represents contracts for delivery of goods which will take place in the subsequent fiscal year, so it is money already obligated and committed which has not been spent because the goods have not been submitted.

Senator BYRD. And that has been put on an expenditure basis in the figures you gave?

Mr. STAATS. That is right.

Senator BYRD. But aren't we piling up still further authorizations, and isn't this true, too, that the Navy Department has not canceled some of the authorizations made for the last war?

Mr. STAATS. I am not familiar with that.

Senator BYRD. In other words, they have got a lot of authorizations, made prior to these 3 years that I mentioned, that have not been canceled. Does the budget look into that from time to time to see whether we have got a backlog of unused authorizations?

Mr. STAATS. Are you speaking of authorized projects, public works?

Senator BYRD. Authorizations for projects that were in the last war. As you know, we practically gave them a blanket authorization.

Mr. STAATS. I think I might clarify this statement here. The authorizations you are referring to here are, by and large, appropriation authorizations in the sense of authorizations to obligate funds, and it would not embrace——

Senator BYRD. Would it not be a good idea to get up legislation to cancel all these authorizations that are not up to date? I think you would find, if you looked into it, that a good many billions are still on the books. I think they have been canceled, except in the Navy. I would be glad to receive any information you have.

Mr. STAATS. I will be glad to check into it.

(The information referred to appears at p. 182.)

Senator BYRD. That should be done, should it not? It ought to be done more or less on a current basis.

Mr. STAATS. We have attempted wherever we can to place the financing of all of these programs on the basis of annual operations, so that it is clear to the agencies, to the Congress, and to the public what is involved. I am talking about authorizations in the sense of authorizations by the Congress to an agency or to obligate funds for a given purpose.

Senator BYRD. What do you mean by an obligational authority? Is that not an authority under which they are going to make a contract?

Mr. STAATS. That is right. It is usually an appropriation.

Senator BYRD. Even though the appropriation has not been made?

Mr. STAATS. No.

Senator BYRD. They could make a contract, for instance, for a naval vessel that takes 3 to 4 years to build.

Mr. STAATS. There are a few of those old authorizations left, but they are being placed on the basis of appropriations as fast as we can.

Senator BYRD. When you start to build a battleship you do not appropriate that whole sum in 1 year when it takes 4 years to build it, do you?

Mr. STAATS. Our present practice worked out with the Appropriations Committees of the Congress calls for appropriating the whole sum in 1 year. Some years ago we would recommend appropriations only for the amount necessary to spend.

Senator BYRD. Within that fiscal year.

Mr. STAATS. Within that fiscal year.

Senator BYRD. The point I am making is that an obligational authority permits these people to obligate the Government, and you have to appropriate; is that not right?

Mr. STAATS. The appropriation, in most instances, constitutes the obligational authority to go ahead with that work.

Senator BYRD. I do not get it clearly yet. Let us take a battleship. It takes about 4 years to build a battleship, costing \$200 million, or whatever it may be, and there is only appropriated \$50 million a year.

You only appropriate \$50 million a year, the expenditure for that fiscal year, but you give obligational authority to contract for that battleship.

Mr. STAATS. At the present time we would request an appropriation for the entire \$200 million. For contract authority enacted in earlier years, however, that is true; you have the obligational authority to go ahead and work on the battleship, and appropriate each year the amount required for that year's expenditure.

Senator BYRD. You mean you make a contract with a private shipyard; you have got to make a contract of some kind.

Mr. STAATS. That is right.

Senator BYRD. And the obligational authority then binds the Government to make the appropriation whether they want to do it or not, unless they want to cancel it.

Mr. STAATS. But the amount of appropriation for a given fiscal year would be the amount that is required for liquidating the obligation of that part of the battleship that is going to have to be-----

Senator BYRD. Just for that fiscal year.

Mr. STAATS. That is right.

Senator BYRD. But the Navy Department can contract for the entire battleship and we are, therefore, obligated to pay it, or pay damages, if we decide to cancel it, is that not true?

Mr. STAATS. I believe that is true.

Senator BYRD. I mean you cannot get a shipyard to build a battleship just on a one-fourth contract.

Mr. STAATS. Yes, contracts are entered into with the shipyard covering the total estimated cost of the ships.

Senator BYRD. And the point I am getting at-----

Mr. STAATS. It represents a commitment on the part of the Government to go ahead; that is absolutely right.

Senator BYRD. The point that I am getting at is that the obligational authority is entirely different from an ordinary authorization; is that not right? In other words, the obligational authority, as I understand it, is authority to authorize a given agency of the Government to enter into a contract for the construction of something that goes beyond that fiscal year, beyond the appropriation that is made.

Mr. STAATS. I think the possible confusion here comes about in terms of what we mean by "obligational authority" as we use it in the budget, "obligated authority" represents both appropriations and contract authorization.

Senator BYRD. But appropriations are made for only that fiscal year.

Mr. STAATS. That is right.

Senator BYRD. Therefore, you can obligate the Government, in the case of a battleship in the sum of \$200 million, although only \$50 million will be spent in the fiscal year.

Mr. STAATS. That is right.

Senator BYRD. And, after you once obligate it, it is not like another authorization; you have got to carry it through.

Mr. STAATS. That is right; once you start a battleship or airplane.

Senator BYRD. There is a distinction here, there is a reason I am pressing this, because I think there is a very important question involved, that obligational authority is different from ordinary authorization, which is not effective until you appropriate for the entire

amount; while obligational authority is authority under which they can obligate and put the burden upon the Government for a period of time far beyond the appropriation that is made for it.

Mr. STAATS. But the net burden that is involved in the 3 years that I have referred to here in the statements involved \$75 billion.

Senator BYRD. I understand that. I am getting at this thing of authorizations and obligational authority.

Mr. STAATS. Authorizations as used here are authorizations to go ahead and commit the Government.

Senator BYRD. There are two different kinds of authorizations. You have got to have a legislative authorization to undertake a new function.

Mr. STAATS. That is right.

Senator BYRD. And that is not effective until you appropriate money for it.

Mr. STAATS. That is right.

Senator BYRD. But if you have obligational authority then you can make a contract in the name of the Government which must be met——

Mr. STAATS. That is right.

Senator BYRD (continuing). Beyond the fiscal year that you appropriate for.

Mr. STAATS. For example, in the military public works bill, which is now before the Congress, the authorization which is before the legislative committee is in excess of the appropriation estimate which is being submitted on that.

Senator BYRD. The point I am getting on that—I do not make myself clear to you yet—the point I am getting at is the authority of Congress over these different classes of authorizations. In the ordinary authorizations we can refuse or appropriate, and that ends it.

Mr. STAATS. That is right.

Senator BYRD. But under obligational authority, if the agency of Government enters into a contract, then we have got to fulfill that contract regardless of whether the money is appropriated or not.

Mr. STAATS. Yes.

Senator BYRD. And then you appropriate on a current year's basis only; you do not appropriate for the full amount——

Mr. STAATS. That is right.

Senator BYRD (continuing). Of the obligation.

Mr. STAATS. That is right.

Senator BYRD. I think there is something there that should be studied in the future because there are a great deal of obligational authority.

Mr. STAATS. It takes many months to get delivery on a mine sweeper; it takes as much as 36 months. Several years ago we might have requested contract authority and then you would not appropriate at one time for the full 3 years.

Senator BYRD. What I am saying is we can authorize this, but we can use our judgment later as to whether we are going to appropriate for it. But with obligational authority that is not the case.

So I would like to know if you could give us some report as to these particular obligational authorities, when they are used, and for what purposes and to what extent we have them now.

Mr. STAATS. We will be glad to supply you a statement on that.

Senator BYRD. Very well.

(The information referred to appears at p. 182.)

Mr. STAATS. I wanted to make it clear that the \$75 billion here does represent funds which will have been appropriated, together with other authority by Congress.

Senator BYRD. I understand that. But we have obligational authority for beyond the \$75 billion.

Senator KERR. I think he has told us that the \$75 billion would include both the appropriated money and the amounts with reference to which binding obligations to take and pay had been made.

Senator BYRD. No; only for that current year.

Senator KERR. No; the authorization-----

Senator TAFT. But you have not included some that might be carried over from the last year that somebody might pick up. Those are not included in your figures.

Mr. STAATS. Those are not included.

Senator TAFT. The Senator suggests there may be some of those.

Senator BYRD. Let us understand each other. If you make a contract for a battleship for \$200 million, in which you pay \$50 million for 1 year, do you put \$200 million in the budget?

Mr. STAATS. On those, Senator, we put in the appropriations to liquidate the-----

Senator BYRD. Just for the current year.

Mr. STAATS. Estimated expenditures are included just for that current year.

Senator BYRD. And the Government still owes \$150 million, which do not appear in the expenditure budget, until later years.

Mr. STAATS. The work is completed, and then-----

Senator BYRD. In the next 4 years. I do not think Senator Kerr understood that.

Senator KERR. Yes; I think I do, and I know that it is perfectly easy for us to get the information here that we could agree on because I had asked him the same questions, Senator Byrd, before you arrived here, but if I have understood his testimony, he has told us that there would be certain expenditures within the next three fiscal years that in addition to that, with reference to part of it or all of it, there would be financial obligations in certain amounts, and the figures he has given us, as I have understood him, comprehend both amounts, that is, those for which they expect appropriations, and those for which they expect the authority to make binding obligations that will later ripen into appropriations.

Senator BYRD. They are not separated in the budget; that is the point I am getting at. The obligational authority is not separated from the authorizations.

Senator MILLIKIN. Mr. Chairman, in view of all this discussion, I would like to pin point an answer to this question: Is your estimate of \$75 or \$70 or \$80 billion-----

Senator KERR. Let us set that at \$75 billion, and identify it so that we will understand what you are asking.

Senator MILLIKIN. I was just about to identify it--as to your estimated expenditures for fiscal 1953, whether it be \$70, \$75, \$80 billion, whatever the figure might be-----

Mr. STAATS. No, sir; the \$75 billion-----

Senator MILLIKIN. Wait a minute.



Mr. STAATS. I am sorry.

Senator MILLIKIN. I have not asked my question yet.

Mr. STAATS. I am sorry.

Senator MILLIKIN. Does that estimated figure of expenditures include all of the money that you actually expect to expend in that fiscal year?

Mr. STAATS. Some of it.

Senator MILLIKIN. Or is there hovering over that a lot of obligational stuff that might come in in addition?

Mr. STAATS. The \$75 billion represents money which has been appropriated or authorized during these three fiscal years, which will remain unexpended at the end of fiscal year 1952, and which will be

Senator MILLIKIN. I think I am changing the subject on you --

Mr. STAATS (continuing). Which will be expended in 1952, 1953, and 1954.

Senator MILLIKIN. Take it on a new basis. I think I am changing the subject on you. You have made certain estimates of expenditure for fiscal 1952. Actually more than that will be spent during fiscal 1952.

Mr. STAATS. That is right.

Senator MILLIKIN. What do you say it is for 1952?

Mr. STAATS. \$68.4 billion.

Senator MILLIKIN. What do you estimate it will be for 1953?

Mr. STAATS. We had estimated for 1953 somewhere between \$80 or \$90 billion.

Senator MILLIKIN. Is that all the money you estimate that will be spent in those two fiscal years that will be spent out of the Treasury?

Mr. STAATS. That is right.

Senator MILLIKIN. That figure is not subject--those figures are not subject--to further lifts due to the operation of obligational authority or anything else? That figure includes your estimate of maturing obligational authorities, is that correct?

Mr. STAATS. That is absolutely right.

Senator BYRD. On a current year's basis, but it does not include the total amount that the Government is obligated to ----

Senator KERR. That is covered on page 4, Senator.

Senator TAFT. He has estimated though in the following fiscal year.

Senator BYRD. I am discussing this from the standpoint of the control of Congress over these matters. In other words, if we make these authorizations, then it is beyond our power to do anything about it. That is right, is it not?

Mr. STAATS. It represents expenditures which have been authorized in prior fiscal years.

Senator BYRD. That is right, but what I mean is that the appropriation bill includes money for obligations that Congress can do nothing about. I mean it is for commitments already made.

Mr. STAATS. Without some control at the time the appropriation is made, that is true. The expenditures are made at the time the bills come due and the goods are delivered.

Senator BYRD. I have often thought of this obligational authority as I call it--when we considered the question of Congress reducing these expenditures.

MR. STAATS. The appropriations and other obligational authority is a very important factor in terms of the control of expenditures in subsequent years, that is true.

Senator BYRD. So far as the Congress is concerned.

Mr. STAATS. You are absolutely right.

Senator BYRD. So far as we are concerned, if we grant obligational authority, it is beyond the power of Congress to change it, although that money may not be spent for years afterward, and the annual budget includes only such part of a particular obligation, as will be spent in one year.

Mr. STAATS. That is right.

Senator BYRD. We still have the obligation, that has got to be met.

Now, if Congress wants to revise the appropriation bill or reduce it, they cannot do it in these particular items.

The point I am getting at is if we could get a clear picture as to how many authorizations have been made, how much obligational authority Congress has made, then we can consider it, as compared to the expenditure budget for each fiscal year. Now, the figures you are talking about are on an expenditure basis, is that not correct?

Mr. STAATS. That is right.

Senator BYRD. In that fiscal year.

Mr. STAATS. The point you are bringing up is well illustrated in the fact that in fiscal year 1952 there would be \$34 billion of that expenditure total which will represent the liquidation or payment of bills which have been authorized by appropriations or other authorizations by Congress in prior years.

Senator BYRD. Prior years; yes.

Mr. STAATS. In other words, the Congress for this year is faced with the fact that there are going to be \$34 billion of bills coming due this year out of authorizations in prior years.

Senator BYRD. Which is nontouchable, so to speak. The same thing applies to what this Congress does for the next fiscal year and the following fiscal year.

Mr. STAATS. That is right; and that is basically the point that I was trying to bring out, Senator, in addition to these figures that I have used here on page 4. The Congress will have authorized and appropriated a total of \$225 billion in those 3 years.

Senator BYRD. But there is a difference between the two about which I have not been able to make myself clear.

Senator TAFT. He means appropriated and authorized, both.

Senator BYRD. No. An ordinary authorization is subject to future action by an appropriation. Congress can decline to appropriate for an ordinary authorization. But it cannot decline to appropriate for what I call obligational authority.

Mr. STAATS. Authorizations are of two kinds: One is the kind which the legislative committees have made, which authorizes, say, a military public works project or projects, but about which nothing can be done with respect to spending any Government money until the Appropriations Committee has acted upon it, and the Congress has approved it.

There is a second kind of authorization which, as I indicated, we have been trying to get away from, which is an authorization to contract which has been included in appropriation bills.

Senator BYRD. That is known as an obligational—

Mr. STAATS. Which does enable the contracting officer to go ahead and obligate the Government.

Senator BYRD. That is an obligational authority.

Mr. STAATS. That is right.

Senator BYRD. That is, there are two kinds.

Senator TAFT. Does anybody call it a contractual authority?

Mr. STAATS. But obligational authority embraces both the appropriations as well as the contract authorities which have been written into appropriations; they are both the same.

Senator TAFT. I think if you wrote "obligational" it is a confusing word.

Mr. STAATS. That is right; we are trying to get away from it.

Senator TAFT. It is an appropriation which is an obligational authority, which may or may not be spent that year; as a matter of fact, it has to be obligated that year.

Mr. STAATS. That is right.

Senator TAFT. It seems to me you had better refer to these things that Senator Byrd is talking about as contractual authorities.

Mr. STAATS. That is right.

Senator BYRD. I am using the term "obligational authority" because that is the term that has been used in the budget. Maybe "contractual" would be better.

Senator MILLIKIN. Can we take a case here of a \$200 million battleship which is authorized, and that sets up some implications of obligational authority, some implications of obligations to complete it. But during a given fiscal year you spend, say, \$50 million on it, and if the program goes through you will spend \$50 million the next year, and \$50 million the third, and \$50 million the fourth. That reflects in these over-all expenditure estimates that you are giving to us. All right.

Now, you do not set up the \$150 million that is not spent during this fiscal year as an indebtedness of the Government for the reason that the Appropriations Committee might not appropriate for the \$150 million that remains to be spent in succeeding fiscal years, is that not correct?

Senator BYRD. They have to do it.

Senator MILLIKIN. As they did in the case of the aircraft carrier that was started but was never finished. The Congress retains the right to end these unmaturing obligations resulting from long-term programs.

Mr. STAATS. That is true.

Senator MILLIKIN. Therefore, you could not set it up as a debt of the Government, except as possibly a contingent debt.

Senator BYRD. They would have to pay big penalties. I am not talking about setting it up as a debt of the Government; I am talking about the power of Congress to control these authorizations which once made take away from the Congress the right to refrain from future appropriations unless you want to pay liquidated damages?

Now, they stopped the aircraft carrier at Newport News. They contracted for \$180 million for it, and paid, I think, \$20 million damages, and 2 years later they contracted for another airplane carrier at the same yard for \$220 million, and it was a smaller one than the other one, and they lost about \$40 million.

Of course, they can stop a contract by paying the damages for it, but that is a very costly thing. But for all practical purposes, after an obligation is made is a contract, it is a legal contract, and can be enforced on the Government. If you cancel it you have got to pay the damages.

What I am really getting at is to ask the Budget Bureau to give to the committee a statement of such authority, that is out of date; in other words, that which is on the books, and et cetera be used, but ought to be reviewed by Congress again before any action is taken. Is it not true that quite a number of agencies have unspent or unused authorizations, dating back over the years?

Mr. STAATS. Contract authorizations which have been made.

Senator BYRD. I mean authorization, contract authorizations, or otherwise.

Mr. STAATS. I do not have information on that with me. There may well be cases where contract authorizations have been made available in the past which have not yet been obligated. We would be glad to look into that and supply the information to you.

Senator BYRD. I think Congress ought to cancel it so that we will have a chance to approve or disapprove the authorization, instead of having the agency go ahead and use it, and then the Congress be obligated to make the payment.

Mr. STAATS. In other words, the Congress can exercise its judgment at the present time in the light of the current situation. I get your point.

Senator BYRD. Congress must look at these matters from an appropriation standpoint. As a matter of fact, we are tying our hands in advance by these authorizations and contractual authorizations.

Senator TAFT. Is it not true of the highway program, the State-aid programs, and is it not true of a very large part of the budget today that we cannot this year save anything because the obligation is there, and if we want to start saving on those things we have got to change the highway bill now for next year?

Senator BYRD. We did that last year. We made changes. We can cut the amounts.

Senator TAFT. You cannot cut the amounts because they are contracts with the States. You have got to do it a year ahead of time. In fact, the Joint Economic Committee has in preparation the laws that would have to be changed now if we want to make savings next year.

Senator BYRD. We did cut it last year because I offered the amendments. We cut it \$200 million.

Senator KERR. Yes; I remember that very sad and tragic event. [Laughter.]

Senator TAFT. That was an obligational authority for the succeeding year; that was a year ahead, and we have to start now.

The CHAIRMAN. You have to do that public roads fund a year ahead.

Senator TAFT. Just as a little side question that has no interest here, have you any estimate of what the Korean War has cost us?

Mr. STAATS. I do not have a breakdown of that figure.

Senator TAFT. I notice the actual increase in all military expenditures over the previous year, when there was no war at all, even when there was no defense program, seems to be only 6½ or 7 billion dollars for the 12 months, the actual expenditures.

Senator KERR. The actual outlay in money.

Senator TAFT. For the actual outlay of money. Can you say how much of that 7 billion is chargeable to the Korean War? Is there any guess, apart from maintaining the same forces, so to speak, without a war?

Mr. STAATS. I do not know, Senator, whether there is any way that you could get it.

Senator TAFT. That is very interesting.

Senator BYRD. I have seen the figures of a billion dollars a month.

Senator TAFT. That cannot be. The whole cost of all the Armed Forces and the new program and everything else, with more men, is only 6½ to 7 billion dollars over the previous year, apparently, in expenditures.

Senator BYRD. But they have used a lot of their existing forces.

Senator TAFT. That is what I assume.

Mr. STAATS. They have used existing stocks.

Senator BYRD. And that has to be replaced by other materials.

Senator MILLIKIN. Does anybody have any figures?

Mr. STAATS. I do not know.

Senator BYRD. I do not know.

Senator TAFT. Supposing this peace is made, is that going to decrease the military expenditures, and if so, by how much?

Mr. STAATS. The figures that we are giving here today assume arbitrarily consumption for Korea through this calendar year. There is a considerable pipeline involved for the Korean operation.

Senator TAFT. Sure, you could not stop that right away.

Mr. STAATS. What would actually happen would be that that pipeline would go for reconstruction; it would also go for the building up of our war reserves and other factors. A cessation of hostilities would not have a material effect, in other words, on these over-all figures that you have given.

Senator TAFT. But you would not venture a figure on what the Korean War has cost, somewhere between 5 and 10 billion, or anything?

Mr. STAATS. We could develop a statement on it.

Senator TAFT. I would like to see it. I think it is very material in this, too.

Mr. STAATS. There is no real cost accounting available as to what it would be in Korea.

Senator TAFT. You would have to do a lot of qualifying, I understand that, and explain why you estimated this, but if you could do that, I think it would be very interesting.

Mr. STAATS. We will make an effort to do it.

(The compilation of information requested was not complete at printing of this record.)

Senator WILLIAMS. In other words, if the war stopped in Korea today it would make a difference in the over-all expenditures, because even though there were material in the pipelines, that would build up our reserves that much faster, and would build up in the other end.

Senator MILLIKIN. If and when we get through with Korea we will be confronted with from 10 to 25 billion dollars for the rehabilitation of Korea, if we ever get through with that.

Senator TAFT. We have got to build it up again.

Senator BYRD. In other words, to get my motion in concrete form, I want to ask Mr. Staats to furnish to the committee all the authorizations that are now on the statute books separating the what I have called obligational authority from the ordinary authorizations, and then give his opinion as to those that should be canceled by an act of Congress; in other words, authorizations that are not needed in the immediate future which Congress should review before they are used.

Mr. STAATS. Are you referring now to the whole budget or just to the Department of Defense?

Senator BYRD. I think all if you can get it. I particularly want the Navy. I understand they have a lot of authorizations that have not been canceled.

Mr. STAATS. You are interested in authorizations which would enable the agency to go ahead and enter into obligations without --

Senator BYRD. And the other authorizations also because it is contended there is a moral obligation on Congress to make an appropriation when an authorization is passed.

Mr. STAATS. Even though there is no contract authority?

Senator BYRD. I do not want to ask too much. So, perhaps, if it is too burdensome to make in the whole field --

Mr. STAATS. Suppose we look into it.

Senator BYRD. I especially want the armed services, to start with. I want the total, all the amounts authorized, and separated in these two categories.

Mr. STAATS. Yes.

The CHAIRMAN. All right, starting with the armed services.

Senator BYRD. And going back, you understand, to the last war, because I think there are a good many that have not been canceled.

Mr. STAATS. All right.

The CHAIRMAN. All right, Mr. Staats.

(The information referred to follows:)

Data obtained from the Department of the Navy indicate that outstanding tonnage authorizations for Navy shipbuilding (for which no funds have been appropriated, or estimates submitted to Congress) are as follows:

Act	Public Law	Congress	Tonnage
Mar. 27, 1934 (Vinson-Trammell Act)	135	73d	489,088
May 17, 1938 (20 percent Expansion Act)	528	75th	39,070
Jan. 14, 1940 (11 percent Expansion Act)	209	76th	6,040
July 19, 1940 (20 percent Expansion Act)	757	76th	161,808
Dec. 23, 1941 (3 percent Expansion Act)	389	77th	8,756
July 9, 1942	668	77th	551,683
Mar. 10, 1951	3	82d	258,470
Total balance, July 1, 1951.			1,504,925

We are informed that legislation is now being considered within the Department of Defense to repeal existing shipbuilding-authorizing legislation.

In this connection, it has been the practice in the last few budgets and appropriation acts to carry a dollar limitation on the amount of obligations which may be incurred for new ship construction and for conversion of existing vessels.

Senator KERR. I would like to ask a couple of questions, Mr. Chairman.

I was perfectly clear in my mind about an hour ago about what the fourth paragraph on page 4 meant. I think I still am, but I would like to comfort myself with just a little reassurance.

The second sentence in the paragraph says that on this basis it can be seen that the Federal Government would enter the fiscal year 1953, 1 year from now, with a carry-over of around \$75 billion in authorizations for these 3 years still available for expenditures. This does not take into account any 1953 appropriation requests.

However, you have told us that for 1953 you estimate that the out-of-pocket expenditures for all purposes of Government will be between \$80 billion and \$90 billion. Now, naturally, we do not know what part of that will come out of this carry-over of \$75 billion. However, I have assumed that your estimate is that for that fiscal year 1953 the over-all expenditure will be between \$80 billion and \$90 billion, including not only that part of this \$75 billion carry-over that will be expended during those 12 months, but it will also include the ordinary operation of Government that you now expect will be paid for, and it will also include, as you estimated, any amount that might be included in that sentence which says that this does not take into account any 1953 appropriation requests.

Mr. STAATS. That is right. The expenditures in fiscal year 1953 will be made up of two things: One is the part of the \$75 billion, which will be expended in that year, some of that \$75 billion will not be spent of course until 1954 and 1955.

Senator KERR. I understand.

Mr. STAATS. Plus now appropriations which will be enacted for the fiscal year 1953. Total expenditures will be made up of those two general categories of items.

Senator KERR. Now, then, if I understand this paragraph, this \$75 billion carry-over that you identify here will, as you now estimate the situation, include every dollar of so-called contractual obligations which you now estimate will have been provided for or created or legislated between now and then?

Mr. STAATS. That is correct.

Senator KERR. And that means whether they have already been provided for by appropriating legislation or whether they are provided for by appropriating legislation in response to further requests from the Budget.

Mr. STAATS. That is right, Senator Kerr.

Senator KERR. Just one further question---that reaffirms the way I had understood that. Now, we have talked about the reduction of personnel.

Do you think it will ever be possible to reduce appreciably the personnel now employed in Government until that day when the Civil Service Commission's operations are either changed or abolished to the extent that the retention of personnel will be based on the judgment of those employing the personnel as to the production brought about by the employee, and until the day that those employing will have some---some---minute though it may be, authority to relieve, change, hire, or fire personnel on a basis of their actual productivity rather than on the present arbitrary basis of having any vacancy that might occur filled from a civil-service register, or having any need for service that might exist by reason of the failure of somebody already on the payroll having been taken from a civil-service register, declining to perform the service, and the hiring agency being unable to relieve him because of the restrictiveness of the civil-service program?

Senator TAFT. Is that one question? [Laughter.]

Senator KERR. I will sum it up in this way: Do you think it will ever be possible to reduce the overhead of Government from the standpoint of personnel until the Civil Service Commission is abolished, and the agencies permitted to hire and fire on the basis of services rendered?

Mr. STAATS. I would like to answer your question in this way: The Hoover Commission went into the problem you have touched on here, very carefully.

Senator KERR. I just want to say this in that connection, and off the record.

(Discussion off the record.)

Mr. STAATS. On this particular point, the Hoover Commission did recommend much greater decentralization of authority to the agencies with respect to the control of personnel than they now have.

The general outlines of that approach have been approved by the President in the form of legislation which is now pending before the Congress.

Senator KERR. In the form of legislation requested?

Mr. STAATS. That is correct. We feel that this legislation would go a long way toward improving personnel procedures in the Government. The legislation has been recommended by the President and by the Civil Service Commission. I myself have personally testified in favor of it before committees of Congress.

Senator KERR. Would you go a little further—and I do not want to be in the position of advocating the abolition of the Civil Service Commission, but I am in the posture of asking you if you care to answer it, if you do not think that the only avenue whereby substantial reduction of personnel can be brought about will be when that agency has within itself the authority to hire and fire on the basis of services rendered rather than on the basis of as now operated under the requirement of civil service?

Mr. STAATS. There is no denying the fact that an employer in the Government does not have the freedom of selection or the freedom to fire that you have in private business.

Senator KERR. Is it not true that he just has to operate on the basis of what the various employees, once they become employees, are willing to do until that day when their abuse of their position is so pronounced that they can be fired under the present cumbersome and limited method of hiring and firing?

Mr. STAATS. I think that that is too strong a statement.

Senator KERR. Well, it may be exaggerated just a little bit for emphasis, but not much; is it? [Laughter.]

Mr. STAATS. Well, the Government is a big operation, and there are lots of different departments. The situation varies a great deal from department to department, just as it varies from business to business outside the Government.

The question of veterans' preference, the question of selection from civil-service registers, the question of the right of an employee to appeal in case of dismissal—these are undoubtedly factors which contribute to the cost of the personnel operations in the Government.

Senator KERR. And the inefficiency of operation.

Mr. STAATS. I do not think anybody will question it. But the people and the Congress have decided that is the way it should be



done in the Government. I think, given those factors, that, by and large, the supervisors, the agency heads, have done a very good job.

Senator KERR. I do, too, but I was trying to figure out how they might be able to do a better one, and it looks to me like they would have to be able to get those log chains from around them before they ever have much chance of real success in it.

Now, if you agree with that, say so, and if not, tell me to what degree you might agree.

Mr. STAATS. Well, Senator, that is an awfully tough question on which to generalize. I do not think that you can put it in any quantitative terms. It is not possible to do so. I do think that it is a fact, that those considerations do contribute somewhat to the cost of personnel operations in the Government. That is a fact. But-----

Senator KERR. Would you go this far with me. Is there any other single factor that you can think of that contributes as much to the excess cost, whatever it may be?

Mr. STAATS. Of course, I am not quite so willing to assume, as you apparently are, that there is all this excess personnel that we are talking about. Now, I will say this-----

Senator KERR. I have not identified the amount of it. It has been indicated here that there might possibly be excess personnel.

Mr. STAATS. I would be willing to say this: In an expanding operation like the Department of Defense, where the program is building up rapidly, and where everybody assumes that they are going to need a lot more people than they now have, and the job has not shaken down, there are going to be places where there is excess personnel. I think that the Defense Department would agree with that.

But I do think you have a special situation in an expanding program of that kind, different from what you have with an old-established agency such as Agriculture, Interior, or the smaller regulatory agencies. I do not think that you can put your finger on any one of these factors and say that is responsible for the situation in this particular case.

Senator KERR. I do not, either.

Mr. STAATS. It may be one of the things.

Senator KERR. It is one factor that is as responsible for this-----

Mr. STAATS. I will give you my own personal judgment.

Senator KERR. I would like you to.

Mr. STAATS. One factor that is more important than any other matter that we are talking about in the reduction of personnel is the kind of a supervisor that you get on the job, and the quality of the top personnel.

Senator KERR. Where do they get those supervisors now?

Mr. STAATS. They are getting them very largely by promotion from within, as it should be.

Senator KERR. Don't they take them from civil-service registers?

Mr. STAATS. Well, they are getting them from people who are already on the job, who have come in initially from civil service.

Senator KERR. I understand, but aside from those positions filled by Executive appointment, do they not all come from civil-service registers?

Mr. STAATS. Well, wherever civil-service registers have been established.

Senator KERR. Is there any place that they have not been established?

Mr. STAATS. I do not believe there are very many as of right now. There are many registers which are not available; and the Commission permits agencies to hire outside the registers. Generally what you say is true, however.

Senator KERR. In other words, then, if, in your opinion, the one avenue that would yield the greatest benefit is in connection with the quality of the supervisory personnel—

Mr. STAATS. That means you have got to—

Senator KERR (continuing): If in the meantime that supervisory personnel is entirely or nearly all entirely limited from the names that are available in the civil-service registers—

Mr. STAATS. No, that is not correct. In an agency—for example in our agency—the question of who is selected for key supervisory personnel is on an agency-wide basis. In some cases we go outside the Bureau of the Budget for key personnel.

Senator KERR. How often? How many places are there in the Bureau of the Budget that can be filled, other than from civil-service registers if there are names on civil-service registers from which to take them?

Mr. STAATS. For employees who are not in the Government now, all come from civil-service registers; but for employees who are already in service, they are permitted to transfer to our Bureau, or we are permitted to promote them.

Senator KERR. Do you not transfer them from one civil-service register to another?

Mr. STAATS. Not from a register; they are already off the register when they become employees.

Senator KERR. Well, then, he was taken from a civil-service register.

Mr. STAATS. That is right, originally; that is right. But he may have been in the Government 2, 3, or a dozen years.

Senator KERR. He has got a certain civil-service classification; has he not?

Mr. STAATS. That is right. But the point I have been trying to emphasize is that if you get a good supervisor he can do these things we are talking about such as getting people off the roll and reducing the size of the personnel complement required to do a given job.

Senator MILLIKIN. Does he not reduce his salary in so doing?

Mr. STAATS. But for him to stay in the Government, he must receive a good salary.

Senator MILLIKIN. But would he not reduce his salary if he had a lesser number of employees?

Mr. STAATS. No, sir. I have heard that statement. We have checked into it in many cases where it was called to our attention, and we called it to the attention of the Civil Service Commission. There may have been such cases.

Senator MILLIKIN. Do you pay a man according to the size of the operation?

Mr. STAATS. No, not in all cases; not at all.

Senator MILLIKIN. You say not in all cases. I mean, is it not a normal, natural rule to pay the man according to the size of the operation?

Mr. STAATS. It is only one factor among many.

Senator MILLIKIN. I understand that. Is it not a normal and natural thing to pay a man according to the size of the operation?

Mr. STAATS. According to the responsibility of the operation. It may be 1 person under him or may be 500.

Senator MILLIKIN. If you double the number of the people he has to oversee, you have added to his responsibility and, therefore, it may cross his mind that he is increasing his pay, if he does that.

Mr. STAATS. All I am saying is that that is one factor. There are probably many others in the situation.

Senator MILLIKIN. I am not saying there are no more. I am not saying it is complete. I am just talking about one factor.

Mr. STAATS. That is one factor.

Senator MILLIKIN. If you pay a man according to his responsibility, if you increase his responsibility by increasing the payroll, human nature sends certain thoughts through the man's head; is that not correct? [Laughter.]

Mr. STAATS. That may not be tantamount to a promotion, though.

Senator MILLIKIN. The distinguished witness would not gainsay the operation of human nature; would he?

Mr. STAATS. But that might still not mean that he gets a promotion.

Senator MILLIKIN. He gets a promotion, and he should get a promotion, according to the increase of responsibility. But the question, sir, still remains as to whether there is need for more help, thus increasing his responsibility, and that raises the question as to whether he will aid in increasing the help in order to increase his responsibility, in order to increase his pay, and I think that the operations of that kind are perfectly natural.

Let me ask you a question.

Mr. STAATS. Could I comment a little further on that?

Senator MILLIKIN. Yes.

Mr. STAATS. It is one point I think is important here. I believe it was 2 years ago that the Congress enacted legislation which was designed, in part, to deal with the general point that you and Senator Kerr have referred to. It was legislation authorizing the agencies to make awards to employees who do a good job and, particularly, to the supervisors who were able to reduce the size of their operation. That is still a fairly new program, but it shows a considerable amount of promise. It will help in the direction we are talking about.

Senator MILLIKIN. I am not disparaging that program completely, but it is like giving a man a watch for 50 years of service.

Mr. STAATS. Some of these awards have been very substantial.

Senator WILLIAMS. You say you are trying that out in a few agencies now?

Mr. STAATS. That is in operation. It is in process of being placed in operation in all of the agencies.

Senator WILLIAMS. It has been placed in operation in some agencies?

Mr. STAATS. Yes.

Senator WILLIAMS. Could you furnish a list of the names of those agencies and the employees they had before you put that in operation, and the number of employees they have now?

Mr. STAATS. We can furnish you with that information; yes, sir.

Senator WILLIAMS. You will furnish us with that information?

Mr. STAATS. Yes.

Senator WILLIAMS. Because I would like to have it.

## (The information referred to follows:)

Appreciable use of the awards program established by title X of the Classification Act is just now getting under way in the executive agencies. The agency annual reports for the fiscal year 1950 indicated that 13 agencies had established their awards committees by June 30, 1950. Between that date and the end of the calendar year 21 additional agencies established committees. They have now been established in all of the permanent agencies having an appreciable number or percentage of their employees subject to the Classification Act.

The only awards actually granted by the end of the fiscal year 1950 were given in the Treasury Department, which had made awards totaling \$1,500 to a group of 54 supervisors and employees in its Division of Disbursement for their contribution to a savings of \$158,000 achieved in the issuance of veterans' national-service life-insurance refunds. The reports for fiscal year 1951 are now being prepared in the agencies, for submission to the Bureau of the Budget on September 15. Fuller use of the awards has been made during that fiscal year, but the exact extent will not be known until the reports are received.

In addition to the fact that appreciable use of the awards is only now commencing, savings achieved under the program would not necessarily be reflected in over-all personnel reductions in an agency. Assignments of added functions and increases in workload, particularly in a period of national emergency, over-balance the personnel economies received. Economies permit the assignment of some of the personnel to these new functions, yet provide only a part of the new personnel required. Other economies might permit only the more adequate performance of functions already assigned or the reduction of work backlogs. For these reasons the table presented below in accordance with the committee's request is not considered to indicate the value or potential value of the program.

*Agencies which had issued regulations for granting employee awards under title X of the Classification Act as of Jan. 1, 1951*

Agency	Date of Instructions	Employees on date of instruction	Employees on Mar. 31, 1951
Agriculture Department.....	Mar. 28, 1950	69, 531	68, 552
Bureau of Budget.....	May 31, 1950	523	523
Civil Aeronautics Board.....	Aug. 22, 1950	602	650
Civil Service Commission.....	Mar. 30, 1950	3, 574	3, 871
Commerce Department.....	Aug. 29, 1950	63, 614	56, 139
Economic Cooperation Administration.....	May 2, 1950	1, 121	1, 300
Export-Import Bank.....	Nov. 17, 1950	123	129
Federal Mediation and Conciliation Service.....	Apr. 13, 1950	337	356
Federal Power Commission.....	Apr. 18, 1950	725	735
Federal Security Agency.....	May 31, 1950	33, 631	34, 758
Federal Trade Commission.....	Sept. 27, 1950	626	673
General Accounting Office.....	Dec. 22, 1950	7, 041	6, 920
General Services Administration.....	Aug. 28, 1950	26, 982	28, 479
Housing and Home Finance Agency.....	Mar. 9, 1950	12, 745	13, 675
Interior Department.....	Dec. 1, 1950	62, 741	61, 262
Interstate Commerce Commission.....	May 3, 1950	2, 133	2, 144
Justice Department.....	Aug. 8, 1950	26, 050	28, 958
Labor Department.....	July 7, 1950	6, 847	7, 488
National Advisory Commission for Aeronautics.....	Dec. 18, 1950	7, 139	7, 400
National Labor Relations Board.....	Nov. 6, 1950	1, 473	1, 559
National Security Resources Board.....	Aug. 10, 1950	358	184
Railroad Retirement Board.....	Dec. 6, 1950	2, 117	2, 081
Reconstruction Finance Corporation.....	Nov. 13, 1950	3, 507	2, 016
Securities and Exchange Commission.....	June 22, 1950	998	1, 045
Selective Service System.....	Dec. 29, 1950	7, 227	7, 981
Smithsonian Institution.....	Mar. 30, 1950	679	896
State Department.....	Dec. 19, 1950	9, 119	9, 727
Tax Court of the United States.....	Mar. 28, 1950	126	127
Treasury Department.....	.....do	91, 631	91, 625
Veterans' Administration.....	Nov. 30, 1950	180, 629	182, 988
Total (except Department of Defense).....		608, 249	614, 729
Department of Defense:			
Office of Secretary of Defense.....	Nov. 2, 1950	1, 940	2, 098
Air Force.....	Sept. 1, 1950	149, 027	202, 750
Army.....	Oct. 25, 1950	370, 062	444, 924
Navy.....	Sept. 8, 1950	306, 268	394, 039
Total, Department of Defense.....		830, 897	1, 043, 807
Grand total.....		1, 439, 146	1, 658, 536

Senator MILLIKIN. I would like to ask the witness another question, which is a side question.

You made quite a little talk, and I am not quarreling with what you had to say, about the general principles you talked about, with respect to the principle of pay-as-you-go.

Do you believe we can operate this Government on a pay-as-you-go basis when we reach fiscal 1953?

Mr. STAATS. I am not prepared to say at what point the pay-as-you-go principle cannot be applied.

Senator MILLIKIN. Do you think we can raise \$80 billion by taxes?

Mr. STAATS. I am not prepared to say that you can; no.

Senator MILLIKIN. You would not say that; would you?

Mr. STAATS. No, sir.

Senator MILLIKIN. What is your personal judgment on that? Now, remember fiscal 1953 starts a year from now.

Mr. STAATS. That is right.

Senator MILLIKIN. You can bring in all this talk about increase of national income, but can you offset the point that I am making by an increase in national incomes between now and the beginning of fiscal 1953, to support an \$80 billion tax bill without destroying the economy?

Mr. STAATS. Of course, the percentage of the national income which will be taken by the Government, or at least the ratio of expenditures to national income, contemplated in the 1952 budget is about 25 percent.

Now, in 1945, which was the peak year of the World War II expenditures, the ratio was 52 percent. We were not on a pay-as-you-go basis, as you know, in 1945.

Senator MILLIKIN. That is right; that is the point.

Mr. STAATS. But the question has to be answered, in my opinion, in relation to the evidence as to what is happening to the economy otherwise.

Senator MILLIKIN. In your judgment, do you think——

Mr. STAATS. Excuse me—the private sector in the economy can play as important a part in determining that level as the level of the Government expenditures themselves.

Senator MILLIKIN. Let me ask you, do you think that between now and a year from now there is going to be such an increase in our national income that we could then meet the collection of revenue of \$80 billion?

Mr. STAATS. I have no basis for judgment, Senator, as at what point the pay-as-you-go policy could not be applied. I think that would be the judgment of the President and his principal advisers—that we should go much further in the direction of pay-as-you-go for this defense program than we did in World War II.

Senator MILLIKIN. I think everyone will agree on the pay-as-you-go principle, short of the point where it injures the economy seriously, so we are trying to grope around here trying to find what that point is.

Mr. STAATS. That is right. I would not minimize the difficulty of the decision. It is a very difficult question.

The CHAIRMAN. You said it would reach about 25 percent of the national income just now; you meant for Federal taxes. You are not considering local and State taxes?

Mr. STAATS. That is right.

Senator TAFT. Mr. Staats, there is one thing I would like to ask about. You make a statement here that at the present time we are running at the rate of \$28.8 billion—I think it is—for the military, which would make about \$53 billion altogether, and then you make another statement concerning the last quarter of 1952 that we will be running at the rate of \$52 billion for military, which would be \$77 billion altogether. Where do you think we will be in November? I mean, this is a question of time. When we really need these taxes, what rate do you think we will be running into November 1951? Have you got that, or say the last quarter of 1951—I guess you do it by quarters.

Mr. STAATS. The last quarter of fiscal 1951 or calendar 1951?

Senator TAFT. Calendar 1951.

Mr. STAATS. The figure that I have here, Senator, is about \$9.8 billion for the second quarter of fiscal 1952.

Senator TAFT. Is that military only or both?

Mr. STAATS. That would include your mutual assistance program, also.

Senator TAFT. At \$9.8 billion, so that multiplying that by 4, would be \$39 billion—it would be \$39.2 billion, and roughly speaking you are adding \$25 billion for domestic, so you would be running at the rate of \$64.2 billion, and our estimate of taxes now is that we are going at the rate of \$60 billion.

Let me ask one other thing.

Mr. STAATS. The total for all Government activities.

Senator TAFT. I just arbitrarily added \$25 billion to your \$39.2 billion.

Mr. STAATS. We have calculated as \$16.3 billion for all activities.

Senator TAFT. How much?

Mr. STAATS. \$16.3 billion is the quarterly figure.

Senator TAFT. So that makes \$65 billion instead of \$64 billion; so that you figure in November we will be spending at the rate of \$65 billion. This tax would not reach that much, of course, in actual receipts by November.

What about cash? There is something to be said in an emergency thing for your preventing inflation. We are not trying to cover the money that goes into trust funds and so forth; in other words, we are only trying to balance the cash budget instead of the technical budget. How much is that about? \$3 billion a year?

Mr. STAATS. It would be about \$3 billion.

Senator TAFT. The difference between balancing cash and technical budget is about \$3 billion.

Mr. STAATS. That is right, this year.

Senator BYRD. But that \$3 billion does not go to the Government. You are speaking about social security collections.

Mr. STAATS. That is right.

Senator TAFT. I was not looking at that. I was looking at the inflationary aspect. As long as you balance your cash budget, the Government expenditures are not inflationary, isn't that a correct statement?

Mr. STAATS. That is right.

Senator BYRD. Of course, these trust funds spend money.

Senator TAFT. They have to be counted in the budgetary figure, and it ought to be balanced, but in an emergency, if you are looking

at inflation only, you can look at the cash budget instead of the other.

Mr. STAATS. If you are looking at the effect of Government expenditures on the economy, then the cash budget approach is the better approach.

The CHAIRMAN. Suppose we allow Mr. Staats to finish his statement.

Senator BYRD. I just want one more question about personnel. Has not the Budget Bureau got the right now, and does it not fix quarterly ceilings for personnel in each agency?

Mr. STAATS. No, sir, Senator; we do not.

Senator BYRD. I think Mr. McNeil testified that he has it in the armed service under this Hoover recommendation. I offered the amendment to the bill. How does his authority compare with yours?

Mr. STAATS. He is the Controller for the Department of Defense.

Senator BYRD. And he can fix ceilings each quarter or each month?

Mr. STAATS. He has that authority if he cares to do so, but there is no statutory requirement that he do so.

Senator BYRD. The Budget Director does not have the authority to fix ceilings?

Mr. STAATS. Our control is through the apportionment of the funds.

Senator BYRD. Isn't that the same as fixing the ceiling?

Mr. STAATS. We would not fix a specific number of people on the payroll.

Senator BYRD. But if you cut the payroll funds down you could do it.

Mr. STAATS. Yes.

Senator BYRD. If you proposed to go into it, the Budget Bureau could do it.

Mr. STAATS. I hope I have not given the impression that we have not done a great deal; we have.

Senator BYRD. I am just talking about finding a way to do it.

Mr. STAATS. Under the authority and responsibility of the apportionment procedure we could.

Senator BYRD. You could do it, or Congress could do it by cutting the appropriation. It is not as impossible as it would seem. That is all.

The CHAIRMAN. All right, Mr. Staats, let us finish up your regular statement here.

Mr. STAATS. Returning now to fiscal year 1952, I would like to discuss with the committee the question of achieving sizable reductions of expenditures. As you know, the Bureau of the Budget has the responsibility, under the President's direction, for preparing the budget estimates which are transmitted to Congress. Last fall in considering the estimates of the various agencies a concerted and intensive effort was made to adjust all programs to meet the realities of the national emergency. Some programs were sharply curtailed, others were redirected to bring them in line more realistically with new national needs. Total reductions made in the requests of the agencies exclusive of the Defense Department and the military assistance program, amounted to well over \$4 billion. These included both direct reductions in appropriation requests as well as the elimination of proposed new programs.

Senator BYRD. You do not regard that as any saving, do you? You reduced the requests of the agencies; that is no saving. They always make much larger requests than they expect to get.

Mr. STAATS. In many cases, Senator, those reductions were achieved on a basis of matters of judgment as to what was required to do the job by the agency.

Senator BYRD. But there is no saving involved. They simply make an excessive request and you reduce that request. It is customary and it is done every year for every Budget Director.

Mr. STAATS. It is savings in the same sense that any saving is made beyond what an individual thinks he ought to have.

Senator BYRD. It is not necessarily a reduction in funds as compared to the previous year; it is merely a reduction in what they request.

Mr. STAATS. In some cases it represented a reduction over the prior year's program and in that sense it does represent savings.

Senator MILLIKIN. Isn't what it is somewhat like my asking you for a \$50 loan and you loan me \$25. You have gained \$25, and I have lost \$25. Isn't that what it comes down to?

Mr. STAATS. I would not agree with your analogy. I think that the point Senator Byrd makes here is in terms of whether or not the request for the fiscal year 1952 that we have reviewed was all in addition to what the agency had in the prior year or whether or not it represented any reduction in the amount that the agency had in the fiscal year 1951.

Senator MILLIKIN. I think his main point is, if I understand it correct, that reducing a request is not a saving. Of course, he is completely sound in that.

Mr. STAATS. It is the same in this case though in that it is the same as any savings that would be made by the Congress.

Senator MILLIKIN. It is a saving only in the sense that had you not cut them down they would have had more. [Laughter.]

Mr. STAATS. I agree with that.

The CHAIRMAN. That is right.

Mr. STAATS. In many instances the full effect of these reductions will not be reflected in expenditures until 1953 or later. Sharp reductions in authorization for rural electrification loans and hospital construction grants illustrate this point.

Authorizations requested for new loans by the Rural Electrification Administration have been reduced from \$383 million in 1951 to \$109 million in 1952. Expenditures for the program, however, will drop off less sharply, from \$312 million to \$209 million. This is because more than \$240 million of the funds estimated for 1952 will be paid from prior year funds to meet obligations already incurred by the Government.

Similarly, the 1952 Budget recommended a reduction of \$85 million in new authorizations for grants to states for hospital construction. Expenditures, however, will decline only \$4 million in 1952. This arises from the fact that all of the 1952 expenditures will be made from funds already obligated in prior years.

Programs of the Corps of Engineers, the Bureau of Reclamation and other construction agencies have been significantly redirected both in 1951 and 1952, as a result of two specific decisions. The first decision was to move forward, particularly in critical power-shortage areas, to complete projects involving power. This decision followed a careful review of present and potential power requirements of the defense



effort. The second decision called for the curtailment or deferral of all other public works upon which construction could be stopped without undue economic waste.

Senator WILLIAMS. Mr. Chairman, could I ask a question at that point?

Mr. STAATS. Yes, sir.

Senator WILLIAMS. The second decision, if I understand it correctly, is the work that you did as the result of the Presidential directive to set aside these programs, is that correct?

Mr. STAATS. A review of all of these programs was made, Senator, after the Korean outbreak, and a further review was made after the Chinese entered the war.

Senator WILLIAMS. That is right. As a result of the President's directive put out in August, if I remember correctly, that you should reexamine all these programs and suspended or curtail - - -

Mr. STAATS. The President issued such a directive. It was in July, I believe, of 1950.

Senator WILLIAMS. 1950.

Now, after you suspended a program, of course, I can recognize that you might make a mistake occasionally, and a program then would not be reinstated until it had been put in the position of complaints filed, and a resurvey was made which showed that it was essential to the national defense, and you might put it back into the budget, is that correct?

Mr. STAATS. That is right. The language of the conference committee report last year was to require that on any start of a river and harbor or flood-control project the Secretary of Defense would have to make a certification that it was essential for defense.

Senator WILLIAMS. That is right; and such was done, is that the fact?

Mr. STAATS. That is right; and there were a total of between, as I recall it 85 and 90 Corps of Engineers projects which were either curtailed, suspended, or not started.

Senator WILLIAMS. A little better than that, 96 I think it was.

Mr. STAATS. I do not recall that.

Senator WILLIAMS. I congratulate you on that, and I have done that.

Now, that leads me to the next question in this budget that is coming before us this next week, where I notice that those same projects which you cut out, 96, are in this year's budget to the extent of \$280 million.

Mr. STAATS. No, sir.

Senator WILLIAMS. Oh, yes. It came from you.

Mr. STAATS. I do not believe that is the fact. The projects were eliminated at that time.

Senator WILLIAMS. I obtained from you under date of March 1, 1951, a list of the projects, and in December 1950 you sent me a list of the 96 and, as I said before, I think you did a good job in setting those aside, but those same identical projects by name are in this year's budget to the tune of some \$280 million. I obtained all these figures from you, and if there is an error, I would like to have them corrected. I was wondering between now and the time this bill is fixed—it was my understanding that you resurveyed those projects

and I wonder if you would furnish me with a copy of the dates that these projects were re-surveyed, and the reasons they were put back into this budget, because otherwise I feel that they should be stricken out.

Mr. STAATS. I am not familiar with the specific situations. The projects which were stopped as a result of the survey which the President directed be made, are not, I believe, back in the budget.

Senator WILLIAMS. If they are back in the budget, you will agree with me that there should be a certificate as to whether they had been reexamined, otherwise they are back in error; is that correct?

Mr. STAATS. I would have to check into the situation, Senator.

Senator WILLIAMS. I mean, that is a reasonable assumption; is that not right?

Mr. MACPHAIL. The conference committee report on the general appropriation bill last year carried a provision in it that no new starts could be made for any Corps of Engineers project unless there had been a certification by the President that it was essential to the national defense.

Senator WILLIAMS. That is correct, and in addition to that, might I interrupt you to say that the President put out a directive in July or August to the effect that even those existing projects should be re-surveyed and curtailed.

Mr. MACPHAIL. That is correct. So that in effect two actions were taken as a result of the action by the President and by the Congress last year: One affected the 23 new starts which were originally included in the bill by the Senate. Of those, only three have been certified by the President as being essential to the national defense. The remainder were not started.

Beyond that, however, there were some 30 or 35 projects which were stopped which were going in 1950. I believe that two of those, the Red River of the North and Schuylkill River, were included in the 1952 budget; in other words, they had been stopped in 1951, but because of the situation provisions for them were included in the budget. I will have to check that.

Senator WILLIAMS. Well, you check, and when you check I refer you to the letter of March 15, 1951, which was obtained from you, and referred to the Department of the Army, Corps of Engineers, and they sent a list, a list that I obtained from you, of the projects which were about 96, and which had been checked off as nonessential, and I forwarded that list to the Bureau of the Army Engineers with this year's budget, asking how many were back, and I noticed there were some \$280 million back in, and I am sure either they are in error or else there are slips, and I hope you will furnish me with them. I think next Thursday the bill is coming up.

Mr. MACPHAIL. Can I have the date of the letter from the Secretary of the Army to you?

Senator WILLIAMS. Yes, March 15, 1951; and these projects were all listed by name.

Mr. STAATS. I am sure there is some error or misunderstanding.

Senator WILLIAMS. I forwarded the list that I obtained from you and asked them to tell me which went back in.

Mr. STAATS. During the current fiscal year a total of 30 Corps of Engineers' projects which had been under construction in 1950 received no additional funds. In the 1952 budget, the base of going

projects has been further reduced. Nearly 35 projects which were under construction in 1951 have been recommended for deferral in 1952, and no funds have been recommended for them. The total cost of completing those deferred projects is well above \$200 million.

The question of further curtailment of river and harbor and flood-control projects can be answered only in terms of the power which would be lost or the economic waste which would result. In the flood-control field, for example, 10 large projects now under construction will cost \$184 million in 1952, or about 60 percent of all construction money included for flood control. On the average, those 10 projects are 73 percent completed. The choice, therefore, lies between flushing projects with substantial power benefits which are already nearing completion, or shutting them down for an indefinite period and running the risk in many cases of losing partially completed structure or paying the claims of contractors now at work on the sites.

The same basic decisions must be reached with respect to projects which have no power potential. Should we, for example, complete in 1952 the Chain of Rocks improvement on the Mississippi River which will permit passage of 10,000,000 tons of river traffic through difficult rapids; or should we allow the works which are already more than four-fifths completed at a cost of more than \$33.5 million to lie unused?

The determination of whether or not expenditures for public works should be reduced must be made on the basis of answers to questions such as these. Actions already taken in 1951 and recommended in the 1952 budget redirect the civil-works programs of the Government on an orderly and realistic schedule, which takes into account the progress and potential of each individual project.

Because it is impossible for any individual to comprehend the physical expenditure of \$70 billion, there is an understandable tendency to dismiss a varying percentage of the budget total as "waste," "extravagance," "fat," or even "pork." Yet, we in the Bureau of the Budget can seldom find agreement on the part of the agencies, the Congress, or the general public as to which items in the budget qualify for one of these labels. This is because the budget is not designed to satisfy the wishes of only one individual, or only one group, or of only one State or region.

The midwestern farmer will frequently label the construction of a petroleum-experiment station in Pennsylvania as "extravagance." A Pennsylvania businessman will frequently call soil-conservation payments to midwestern farmers "wasteful." On one thing, however, both will usually agree: Expenditures for dredging New York or San Francisco Harbors to admit deeper-draft shipping are just so much "pork." Of course, the businessman in New York or San Francisco will not necessarily concur.

In my judgment, the general charges hurled at Federal spending overlook an elementary but highly important fact about the budget—the fact that the budget is large because our responsibilities as a Nation are large. It will remain large as long as those responsibilities remain large.

Senator MILLIKIN. That is perfectly true, but the question, of course, is whether the operations are larger than they need be to carry out the proper functions of the Government; because we have a large business, the biggest business in the world, does not excuse waste if it occurs.

Mr. STAATS. I was rather directing my point, Senator, to the statement that is frequently seen in the papers that this so-called waste is responsible for the fact that we do not have a balanced budget. The point that they very frequently overlook is that these commitments are commitments for programs or program outlays, which do not go for personnel or supplies or services, but go for payments to contractors and payments for grants or for public assistance, and things of that kind. To be sure, there is a difference of opinion as to whether they ought to be carried on, or at what level they should be carried on, but I think—

Senator MILLIKIN. Of course, if you are going to approach it from an over-all standpoint, you have got to consider function as well as ways in how that function is operated.

Mr. STAATS. That is exactly the point in which that distinction is made.

Senator FREAR. May I ask Mr. Staats a question?

The CHAIRMAN. Yes.

Senator FREAR. When a project is approved by the Bureau of the Budget or the Corps of Engineers, is it approved in toto or in parts, and how are the appropriations made, in toto or in parts?

Mr. STAATS. The Corps of Engineers project would first have to go before the Public Works Committee for authorization. After it is authorized, then the question arises as to when and if it should be placed in the President's budget. That comes to the Congress for review. At such time as it is approved in the budget or is otherwise provided for by action of Congress, the funds are then appropriated for the starting of that project, and the funds are appropriated in sufficient amount to defray the obligations that will be incurred in that year.

Senator FREAR. Yes, sir. Then that goes back to the paragraph where unless you continue to make appropriations you have to pay the engineers off. I don't know just where that paragraph is, but when you contract with a contractor to do it, you contract with him to do so much work, and you have the money available to do that amount of work.

Mr. STAATS. That is right.

Senator FREAR. Then why would you have to pay an engineer off or a contractor off?

Mr. STAATS. Well, the contractor, say, enters into a contract.

Senator KERR. Let me ask you right there, there are times you give a contract, and then the Executive issues a freeze order with reference not only to uncontracted projects, but also with reference to those where contracts have actually been made, issued, and work is in progress.

Mr. STAATS. That is right. He may have work in progress; he may have ordered supplies himself for future work on that project. He may have contracts with his employees for a certain period of time which commits him to certain expenses. Those represent claims he would have against the Government in the event the Government issued a stop order in advance of the time that had originally been set.

Senator FREAR. I assume that is in the contract that you make with the general contractor?

Mr. STAATS. That is right.

Senator KERR. In other words, the only time you ever have a liability to him for work not done or in connection with his damage because of work stoppage is where you exercise the right which you made very clear you had to start with, and you stopped him while the work was in progress, and then you actually stop the work, and do not permit him to finish the contract which you have given him to do.

Mr. STAATS. That is right.

Senator FREAR. Are there not instances where there may be a \$200 million project, and you have only given the contractor 25 or 30 percent of that, maybe \$50 million? I notice in here you have uncompleted projects, but the contract, perhaps, could have been completed on that project as far as that one general contractor was concerned.

Mr. STAATS. That is right.

Senator FREAR. Thank you.

The CHAIRMAN. All right, sir.

Mr. STAATS. The plain fact of the matter is that national security programs alone will account for \$48 billion, 70 percent of all Federal expenditures in 1962. Of the remaining \$20.4 billion, two large programs account for more than half; interest on the public debt, \$6 billion, and veterans benefits, \$4.9 billion.

Senator KERR. Does the \$48 billion figure there, Mr. Staats, include the foreign aid and the Atomic Commission?

Mr. STAATS. Yes, sir.

Senator KERR. Fine.

Mr. STAATS. There remains \$9.5 billion or about 14 percent of the total budget. It is this area of Government spending in which it is frequently claimed that large savings can be made through reduction of "nondefense" or "nonessential" spending. In reviewing the estimates for this portion of the budget, both the executive and legislative branches are forced to recognize that under existing law there are many programs not subject to budgetary or appropriation control in any single year.

Senator TAFT. Plus the \$56 million that the Senate passed the other day.

Mr. STAATS. Which is not in the President's budget.

Senator FREAR. Is that in addition to what you collect from the social security?

Mr. STAATS. This is public assistance, which is all ----

Senator FREAR. All appropriations. Thank you.

Senator MILLIKIN. May we assume because it is not in the budget that the President will veto this bill?

Mr. STAATS. I cannot speak for the President on that, Senator.

The CHAIRMAN. All right.

Mr. STAATS. Other items, for example, are action by the several States, which will amount to \$1.3 billion in the coming year. Other items not readily controllable in a single year include price support activities of the Commodity Credit Corporation in the amount of \$300 million, transfers of payroll taxes to the railroad retirement trust fund estimated at \$800 million—

Senator KERR. Just a minute right there. You mean that the railroad retirement trust fund receives \$800 million a year from the Treasury, the taxpayer?

Senator TAFT. No.

Mr. STAATS. There are tax collections, and they represent transfers to the fund via appropriations.

Senator KENN. Does that mean it costs the Government \$800 million?

Mr. STAATS. They are defined as a budget expenditure for purposes of the budget totals.

The CHAIRMAN. They are collected, however, Senator.

Senator TAFT. Payroll taxes on railroad workers.

Mr. STAATS. They are both in budget receipts and budget expenditure totals.

Senator KENN. But the \$800 million, while you transfer it, it is actually a part of the budget, is actually derived from payroll taxes enacted to bring in that amount of money?

Mr. STAATS. That is correct, sir.

Senator FREAR. Does the Government appropriate any money toward the railroad retirement fund except that which is collected from the employees of the railroad?

Mr. STAATS. There are certain payments made by the Federal Government in the nature of payments for veterans, I believe, who were in service and who made no payments to the fund because of their service. We will be glad to supply it for the record.

Senator BYRD. It shows up on both sides, the receipts and expenditures.

Mr. STAATS. That is right.

Senator FREAR. With the exception of this difference which is appropriated by the Congress, I assume?

Senator BYRD. It is not tax money.

Mr. STAATS. Some of that is tax money.

The CHAIRMAN. Some of it is tax money.

Senator KENN. What percent of that would you estimate to be general tax money?

Mr. STAATS. We would have to supply that figure.

#### RAILROAD RETIREMENT FUND

The amount of the Federal contribution for military service credits is \$38 million for fiscal year 1952, which will be roughly 5 percent of total transfers.

Senator KENN. What is it roughly?

Mr. STAATS. It is about 30 or 40 million dollars.

Senator BYRD. Administrative expenses.

Mr. STAATS. Also some payments, Senator Byrd, in connection with the payments for the accounts of the veterans.

Senator BYRD. Veterans.

The CHAIRMAN. To carry their social security, to keep them on the rolls while they were in the services.

Senator TAFT. I think the cost of administration is paid out of the railroad fund itself.

Mr. STAATS. I believe so.

The CHAIRMAN. Yes; that is paid out of its own funds.

Senator FREAR. Just for information, just like these payments that were made by the Federal Government for veterans, why wasn't that through the Veterans' Administration appropriation? Why is it through the pension, as a matter of information?

Mr. STAATS. I am not sure I understand you.

Senator FREAR. You say that part of the direct appropriation, that is taxpayers' money that goes into this fund, and that is for the payment of social security for veterans when they were off. Why was not that payment made to this fund from the Veterans' Administration? I realize it is still taxpayers' money, and it still has to come through an appropriation; in other words, we are not getting all of the information as far as the veterans' costs are concerned if we get them partially through this source, and maybe there are others.

Mr. STAATS. Well, your point would be right, but I think that it was felt that it would be better to handle it in this way because it goes into a trust fund, out of which payments are eventually made, and it keeps the trust fund intact on this basis.

Senator FREAR. I am sure you had a good reason for it. I mean, I was not criticizing.

Mr. STAATS. Your point is right, if you wanted a total figure as to the cost of the veterans' benefits, this ought to be included.

Senator FREAR. I agree with you.

Mr. STAATS. Then there is a postal deficit of \$300 million even assuming some increases in postal rates, net purchases of home mortgages by the FNMA of \$200 million, and expenditures for public roads of \$475 million. These few programs alone will cost \$3.4 billion.

Senator KERR. Just refer to the postal deficit. Does that include the amount paid to the commercial airlines in the form of reimbursement for losses that they might sustain?

The CHAIRMAN. Subsidy mail, you mean?

Senator KERR. Well, call it subsidy, grant-in-aid, whatever you wish.

Mr. STAATS. It does include that figure.

Senator KERR. Can you tell us approximately what that figure is estimated to be for this year?

Mr. STAATS. Well, the payments made to the airlines, as you know, have never been separated as to the cost of carrying the mail as against the amount of assistance to the airlines to keep them on an expanding basis.

There is legislation pending before the Congress at the moment which would provide for such a separation which would enable a figure of that kind to be ascertained. But as of now, it is virtually impossible to ascertain what that figure is.

Senator FREAR. Is that same statement true with respect to railroads as well?

Mr. STAATS. You mean the railroads, cost to the railroads, of carrying the mail?

Senator FREAR. Yes.

Mr. STAATS. No; that figure is known.

Senator KERR. That figure is on a value received basis, supposedly.

Mr. STAATS. Yes.

Senator FREAR. But there is still a little subsidy in there, is there not?

Mr. STAATS. That would be a matter of judgment, Senator.

Senator TAFT. The railroads claim not.

The CHAIRMAN. They claim they are losing money.

Mr. STAATS. In the one case of the airlines, though, everybody recognizes that there is money in there to assist the airlines. That situation is not true with the railroads.

Senator WILLIAMS. I might say, Mr. Chairman, to the Senator from Oklahoma that the Interstate and Foreign Commerce Committee is holding hearings on this bill, at this time, and they do have an estimate that has been compiled by a group of auditors that is available.

Senator KERR. Could you give me generally what the estimate is?

Senator WILLIAMS. I have it over in the office, but I have not had time to look at it.

Senator KERR. Fine.

Senator WILLIAMS. I was afraid you would ask.

Mr. STAATS. The remaining \$6.1 billion or about 9 percent of the budget provides for the activities of most Government agencies. Some of these also are extremely difficult to control. Among them, for example, are such items as the contribution of the Federal Government to the civil service retirement fund of more than \$300 million, grants to States for hospital construction of \$130 million, and expenditures for REA loans in the amount of \$269 million. Also included is an amount of \$200 million for the Coast Guard which, as you know, faces an expanding program, particularly with respect to port security during the coming year. Other large items which might be mentioned are \$254 million for the Bureau of Internal Revenue and \$199 million for the Civil Aeronautics Administration. While these programs are not necessarily directly related to defense, it must be recognized that the cost of collecting revenue and the job of operating the Federal airways gets bigger, not smaller, in a time of greatly expanded economic activity.

Senator WILLIAMS. Could I ask a question at that point? You list the amount of contributions to these different funds, the retirement fund, and so forth. How do you come to saying that that is the actual amount that is necessary to put those funds on an actuarially sound basis? In other words, how much contingent liability are we accumulating each year on those particular funds?

Mr. STAATS. I think we would have to supply that to you.

Senator MILLIKIN. In the case of the social-security trust fund, there is a contingent liability on everything that is in it, because you are putting Federal bonds in there which some day, I assume, will be paid.

Senator WILLIAMS. I did not mean that. This \$300 million, for instance, you put into civil-service retirement funds, will be reinvested or loaned back to the Government. I did not mean that—

Mr. STAATS. You meant from an actuarial standpoint?

Senator WILLIAMS. If you set it up on an actuarially sound basis, as you would in an insurance company, how much would the Federal contribution be annually required to put that fund on an actuarial basis?

Mr. STAATS. With respect to the civil-service retirement fund, it is my understanding that the \$300 and-some-odd million requested for the Government's contribution is designed to maintain that fund on an actuarially sound basis.

Senator WILLIAMS. Would you give me a letter to that effect, because I have been trying for 4 years to get it.



Mr. STAATS. The situation varies in many of these funds, because it depends on the —

Senator TAFT. It pays all costs, but I do not know whether the Federal Government is making up the back part of it.

Mr. STAATS. There was a period of time when the fund was not on an actuarially sound basis, and one of the problems was whether to go back and pick up.

Senator TAFT. There was a period of time that there was not any fund at all.

Mr. STAATS. That is right.

Senator WILLIAMS. I would like to know just how close that is, because I requested that information some time ago, and I am sure it is my fault for not following through, and I just neglected it.

Mr. STAATS. But if you exclude that period when there was no fund, then it is my understanding that on the civil-service retirement fund it is very nearly on an actuarial basis.

Senator WILLIAMS. I have seen an estimate that it would take as much as \$600 million. I would like to know just how much it would take.

Mr. STAATS. You want to know what the situation is in each of these funds?

Senator WILLIAMS. Will you furnish that information for us as to each of these funds, because it is a part of the expenditures that we should recognize, as to whether we are putting them in currently or not, because we do have the obligation.

(The information referred to follows:)

#### GOVERNMENT CONTRIBUTION TO CERTAIN TRUST FUNDS

##### THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND

At present the actuarial formula used to determine the Government's contribution to the civil service retirement and disability fund is (a) a normal contribution rate of 2.6 percent of covered payroll plus (b) a deficiency contribution rate of 4 percent of the unfunded deficiency (consisting mainly of the accrued liability which represents the present value of the retirement system's liability for service rendered prior to the effective date of the system).

Using this formula, the amount the Government must contribute to keep the fund adequate will vary from year to year depending upon (a) changes in the normal contribution resulting from increases or decreases in the size of covered payroll and increases or decreases in benefits and (d) changes in the amount of the unfunded deficiency resulting from increases or decreases in benefits and the Government's failure to make the full contribution required in previous years. Estimates of these variables are made each year by the Board of Actuaries of the fund and are reflected in the contribution requested in the President's budget. For the past 3 years the amounts requested have been:

1950.....	\$329,607,000
1951.....	333,344,000
1952.....	320,450,350

The method used by the Government to finance the civil service retirement and disability system differs from the method used by those systems which are financed through insurance companies only with respect to the treatment of the unfunded deficiency. Under a retirement system financed by insurance policies an unfunded deficiency would not exist and premiums would be set at a rate which would provide for the current funding of all the money needed to meet the future liabilities of the retirement system. Most private, self-administered retirement systems allow for a prior service obligation and include in their periodic payments an amount to liquidate this deficiency over a reasonable period of time.

Whether the retirement system is financed through an insurance company or is self-administered, the adequacy of the fund to meet its liabilities will ultimately

depend on the ability of the employer to meet his continuing obligations to the fund.

Under the method of financing the civil service retirement and disability fund the Government recognizes its unfunded deficiency, but, rather than provide for its amortization, it has chosen to include in its contribution an amount equal to the interest which the deficiency would be earning if it were funded and invested in Government securities as are the funded moneys of the system. So long as the Government continues to operate and to recognize its obligations to the retirement system, the annual contribution, as determined by the actuarial formula outlined above, will be sufficient to maintain the solvency and adequacy of the fund.

#### THE FOREIGN SERVICE RETIREMENT AND DISABILITY FUND

The actuarial formula used to determine the Government's contribution to the Foreign Service retirement and disability fund is (a) a normal contribution rate of 11.21 percent of covered payroll plus (b) a deficiency contribution rate of 11.57 percent of covered payroll.

Using this formula, the Government contribution recommended in the President's budget and needed to maintain the fund on a sound basis have been:

1950.....	\$3, 515, 500
1951.....	2, 233, 000
1952.....	4, 627, 000

The same considerations which affect the size of the Government's contribution to the civil service retirement and disability fund and the adequacy of the fund apply to the Government's contribution to the Foreign Service retirement and disability fund and its ability to meet its liabilities.

The one difference in the method of financing the two funds is that the deficiency contribution portion of the Government's contribution to the Foreign Service retirement and disability fund includes a payment to amortize the accrued liability by 1985.

#### RAILROAD RETIREMENT AND DISABILITY SYSTEM

At present the Federal Government levies a 6-percent tax on the salaries of railroad employees and a 6-percent tax on the payroll of the railroads. During the fiscal year the estimated receipts from these taxes are appropriated for transfer from the general fund to the railroad retirement and disability fund. While legally this appears as an expenditure of the Federal Government, the Government does not bear the cost, as an employer, of this retirement system as it does for the civil service and Foreign Service retirement and disability systems. However, the Government does contribute money to the railroad retirement account to meet the cost resulting from allowing free military service credit for retirement purposes.

#### OLD-AGE AND SURVIVORS INSURANCE

The Government makes no contribution to this fund from general revenues, but transfers the payroll taxes levied on employees and employers to this fund. In determining the rate of these taxes the Congress satisfied itself that the present taxes would provide sufficient money to keep the fund adequate at least until 1955.

Mr. STAATS. In recent months there has been increasing discussion of methods by which the number of Federal employees could be reduced. Certainly the Congress should be alert to every opportunity to eliminate unnecessary personnel and prevent duplication. This is true under any circumstances. It is imperative in a time of national emergency. It should be recognized, however, that half of all Federal employees are employed in the Department of Defense, the majority of them in so-called blue-collar jobs in arsenals and navy yards. Another 21 percent are employed in the Post Office and an additional 8 percent in the Veterans' Administration. About 550,000 employees carry out all other programs of the Government, including such activities as the Bureau of Internal Revenue, the Weather Bureau, and the FBI. If this group were reduced by half—a step which would

seriously impair if not prevent carrying out the laws which the Congress has enacted—the total savings would amount to less than \$1 billion.

Senator FREAR. Mr. Staats, in that paragraph you said:

Certainly, the Congress should be alert to every opportunity to eliminate unnecessary personnel and prevent duplication.

That does not mean that the Bureau of the Budget is not alert also, does it?

Mr. STAATS. By that I mean the Congress has the right to know what the Bureau of the Budget is doing as well as what the agencies are doing by way of reduction in personnel.

Senator WILLIAMS. As near as we can determine, the Bureau of the Budget has taken the recommendations of the agencies and accepted them.

Mr. STAATS. No, sir; that is not correct.

Senator TAFT. Of course, there might be extra personnel in the Post Office and Veterans' Administration. I do not think you should leave them out.

Mr. STAATS. Or in the Department of Defense.

Senator TAFT. Yes.

Senator KERR. Do these 550,000 employees include the Members of the House and Senate and their staffs?

Mr. STAATS. This includes all civilian employees, I am informed. I bring up this point of the breakdown here not for the purpose of saying that savings cannot be accomplished in these other areas, but there are so many reports that have been made that all you need to do is to cut out the personnel from the nondefense agencies and you can make a very substantial cut in the budget. That is not the case.

(Discussion off the record.)

Senator KERR. Did you say that your personnel is now limited, Mr. Staats?

Mr. STAATS. Yes, sir; and it will be more limited by the cut that Congress is proposing to make on us this year.

Senator KERR. Was the action taken by the Senate recently an action which will limit it more for the next 2 years?

Mr. STAATS. Yes, sir. We will suffer a reduction of about 10 percent of our personnel.

Senator WILLIAMS. How does it compare with the personnel in the last 3 years?

Mr. STAATS. Senator, we have undergone a reduction since 1945 of about 15 percent in our personnel, and we have not asked for any increase at all to do this job since the beginning of this emergency.

Senator MILLIKIN. How many employees have you?

Mr. STAATS. We have about 500 people altogether, including clerical personnel.

Senator MILLIKIN. How many in Washington?

Mr. STAATS. We have 4 small field offices making up a total of about 20 people.

Senator MILLIKIN. Here in Washington?

Mr. STAATS. No. Those are in the field.

Senator MILLIKIN. Then, roughly, you have 500 people here in Washington?

Mr. STAATS. No; the 500 comprises our total.

Senator MILLIKIN. Well, how many have you here in Washington?

Mr. STAATS. We have about 475.

(Discussion off the record.)

Mr. STAATS. I wanted to say this, Senator, that so far as the personnel of our Bureau are concerned, we have many employees who are now working 60 to 70 hours a week, for which they get no overtime pay. We had men working on the military budget before it came up here to the Congress, for example, who, with the people in the Defense Department, worked in many cases practically all night long and every week end. I want to assure you, and I would like to say this clearly for the record, that the people who have been concerned with this military budget, on both sides of the river, have made a very, very conscious effort and, I think, a very good effort to reduce this military budget by every practicable means without hurting the effective force of it.

Senator BYRD. Mr. Chairman, may I make a statement? I have to leave.

The CHAIRMAN. Yes, Senator Byrd.

Senator BYRD. Mr. Chairman, I want to say that I have been in contact with the Budget Bureau a great deal, and it is a very efficient organization. I will pay that tribute to the people there. Of course, the Budget Bureau is agent of the President, and they must do what the President tells them to do.

I want to correct, however, the impression the committee may have gained that the so-called economies that have been made, will result in spending less money for what we call the nonessential civilian expenditures. As a matter of fact, the budget, as submitted, is the highest budget in the history of the United States, so far as domestic civilian expenditures are concerned.

Under this budget, if it is adopted, we would spend \$9.8 billion for purely domestic civilian expenditures, not including interest on the debt, not including the veterans, not including the armed services, and not including the economic aid to Europe; \$9,800,000,000 compared to \$8.6 billion last year, and compared to \$3.6 billion in 1946, which is about \$6 billion more than the peak of the war year 1946.

I would like to have the privilege, Mr. Chairman, to insert in the record a carefully prepared statement in answer to the testimony on the 1952 budget giving figures to show that notwithstanding the so-called cuts that have been made, that we are spending for these peacetime nondefense expenditures more than any time in the history of our Government, and by every impulse of economy and judicious management we should be spending less. I also want to comment on the matter of civilian personnel.

The CHAIRMAN. You may put it in, Senator Byrd.

(The following information was subsequently submitted by Senator Byrd:)

The statement by the Assistant Director of the budget contains several passages on which I should like to comment.

I should like to preface my comment with a statement of my high regard for the Bureau of the Budget, for the factual information which it develops, the

expert analyses which it makes, and the capabilities and industry of all the members of the Budget Bureau staff whom I know. I know also that the Bureau of the Budget is an agent of the Chief Executive and that as a general rule it must interpret the information and analyses which it develops in conformance with administration policy.

With this in mind I should like to comment first on the statement by the Assistant Director of the budget that "last fall, in considering estimates of the various agencies \* \* \* some programs were sharply curtailed and others were redirected to bring them in line more realistically with new national needs. Total reductions made in the requests of the agencies exclusive of the Defense Department and the military assistance programs amounted to well over \$4 billion. These included both direct reductions in appropriation requests as well as the elimination of proposed new programs."

I think it is fair to comment on this statement as follows:

1. Appropriation requests by the various agencies of the executive branch are reviewed every year by the Bureau of the Budget. And there is reason to believe that the Bureau, acting for the President, reduces the original requests by nearly all of the agencies every year. The agencies know this and prepare their original requests accordingly. What counts is what the Chief Executive recommends to Congress, and following that review last fall the President recommended to Congress an expenditure budget of \$9.8 billion—\$1.2 billion more than in the previous year's budget—for strictly domestic-civilian expenditures, exclusive of the military and related items, exclusive of foreign assistance, exclusive of interest on the debt, and exclusive of veterans expenditures.

2. With respect to the statement that agency proposals eliminated from the budget included both direct reductions in appropriation requests as well as elimination of proposed new programs, it should be added that after other new programs were eliminated the President inserted his federalized education program, the Brannan plan to socialize agriculture, the Ewing plan to socialize medicine, and the President's committee plan for civil rights. Although the amounts budgeted for these items showed up in the budget document this year as relatively small expenditure items, or with no expenditure estimate at all, all of them were in the budget message and no one on earth could estimate the astronomical cost of any one of them or all of them.

Next I should like to comment on the statement by the Assistant Director of the Budget that, "The general charges hurled at Federal spending overlook an elementary but highly important fact about the budget—the fact that the budget is large because our responsibilities as a Nation are large. It will remain large as long as those responsibilities remain large."

I think it is fair to comment on this statement as follows:

1. Undoubtedly the national budget of the United States has now been turned into a global budget financed by the taxpayers of 48 States in this country.

2. The fact that criticisms of the administration's budget most frequently are in general terms is due to the bigness of the budget and the impossibility to detail the criticisms with brevity. Actually a great part of the criticism is based on detailed facts which are usually too numerous to enumerate in reasonable space. After all the budget of the United States is a document of 1,312 pages of 9 by 11½ inches, plus an appendix of 378 pages.

3. Neither bigness of the budget nor bigness of the responsibilities we have assumed is to be regarded as a license to be remiss in requiring efficiency and economy in every expenditure item.

Three paragraphs in the statement of the Assistant Director of the budget are devoted to narrowing down the reducible items virtually to a point where no reductions can be made short of rewriting the Federal Code.

By my own calculations, based on figures in the budget document, the record of domestic-civilian expenditures by major functions, exclusive of military and related expenditures including atomic energy, Coast Guard, merchant marine, Alaska and Panama development, etc., foreign assistance, veterans, and interest on the debt, follows:

(Compared with war, postwar, and new emergency years)

Expenditure categories	Fiscal years (in billions of dollars)				Funding request 1952
	War peak 1946 actual	Postwar 1948 actual	New emergency		
			1950 actual	1951 estimate	
<b>DOMESTIC-CIVILIAN</b>					
1. Social welfare, health, and security . . . . .	1.0	1.9	2.2	2.6	2.6
2. Housing and community facilities (including mortgage purchases) . . . . .	.2	.1	.3	.4	.1
3. Education and general research . . . . .	.1	.1	.1	.1	.5
4. Agriculture and agricultural resources (including OIC) . . . . .	.7	.6	2.8	1.0	1.4
5. Natural resources . . . . .	.3	.0	1.0	1.3	1.2
6. Transportation and communication (including postal deficit) . . . . .	.4	1.0	1.4	1.6	1.1
7. Finance, commerce, and industry . . . . .	.1	.1	.2	.4	1.6
8. Labor . . . . .	.2	.2	.3	.2	.2
9. General government . . . . .	1.0	1.6	1.0	1.2	1.3
Total domestic-civilian . . . . .	3.0	6.1	9.0	8.0	9.8

<sup>1</sup> Figures may not add precisely to totals due to rounding.

The Assistant Director of the Budget concludes his statement with comment that employees to carry out the executive functions of the Government outside of the Defense Establishment, Post Office Department and Veterans' Administration exceed a half million by some 50,000, along with other statements which follow:

"It is important to recognize that improvements in management and organization--as essential as they are--cannot by themselves balance the budget."

"The budget deficit cannot be explained in terms of numbers of Federal personnel or alleged duplication of Government agencies."

"There is no valid basis for assertion that vast sums of money can be saved by eliminating waste and duplication in the Federal bureaucracy."

"The big issues in the budget are program issues--programs which have been requested by the people and approved by Congress."

"To reduce Federal expenditures substantially requires the major reduction in, or the elimination of programs specifically prescribed by law."

In these statements it would appear that the Assistant Director of the budget himself is engaging in a general defense of the budget at the same time he protests general criticism of the budget.

I think it is fair to comment on these generalities as follows:

1. The Military Establishment alone has been increasing civilian employment at the rate of 1,000 a day for more than a year, and under the ceiling fixed by the establishment this rate of increase appears to be approximately the schedule for the coming year. If this rate were required by the Military Establishment (and I do not concede that it is) it would be all the more reason, in view of the present manpower demands, for sharp curtailment in employment by other agencies.

2. Something over 2 years ago the Congress enacted the so-called top flight pay bill. A former director of the budget, among others, testified that this bill would enable the Federal Government to get better administrators and thereby increase economy and efficiency in Government. For the most part all this bill did was to raise the pay of the administrators already on the rolls, good, bad, and otherwise. Later, the super pay rate was enacted. In fact, Congress has enacted virtually all of the recommendations by the administration, by the Hoover Commission, and others who profess to know what new "tools of management" would increase economy and efficiency in the Federal Government. And yet disregarding all of the global responsibilities we have assumed, including defense of half the world, strictly domestic-civilian expenditures--which should be coming down--continue to rise.

Even more shameful is the fact that the situation in the Federal Government has reached such a point that the Congress is now considering a proposal to set up a commission to rewrite the Ten Commandments into a special code of ethics for Government officials in an effort to raise the Government from the moral morass to which it has descended.

3. Obviously the budget deficit cannot be explained completely in numbers of Federal personnel or the alleged duplication of Government agencies. But neither can it be denied that these are two concrete factors in the requirement for deficit financing, when the Federal executive civilian payroll is costing upward of \$8½ billion a year for the salaries of 2.5 million employees. In terms of money, with pay increases included, this was the cost of the Federal civilian payroll at the peak of World War II.

4. To say there is no valid basis for the assertion that vast sums of money can be saved by "eliminating waste and duplication in the Federal bureaucracy" is to overlook a few of the many examples, such as the Hoover report statement that Federal publicity costs \$105 million; the Civil Service Commission statement that there are more than 4,000 known press agents in the Government service; that General Marshall knows that the 3,000 military and civilian personnel used by the Department of Defense for public relations is supposed to be increased this year by 25 percent and that the cost of their services is to be increased by more than 30 percent; that the military alone is spending \$5½ million for paid advertising; that the Government is operating 190,000 nonmilitary motor vehicles more than a billion miles a year, at a maintenance and operations cost of more than \$100 million a year exclusive of chauffeur pay; that just to open its doors the Economic Stabilization Agency spent \$22,000 for easy chairs and daynappers (that which has been spent since for luxury furniture is in addition); that the Air Force is paying regular civil service rates plus tuition to send pupils to business schools in order that they might qualify to be typists; that the Public Health Service is spending money to telegraph vital statistics offices in States to know how many marriage certificates were issued during the preceding month; that the Agriculture Department has been selling butter to Italy at 15 cents a pound while the Army is buying oleomargarine at 25½ cents a pound; that the President is requesting millions to subsidize medical students to fill a shortage of doctors and nurses at home while the ECA is sending Public Health Service doctors, nurses, and scientists to outlandish places in Burma; executive branch agencies estimate that in the coming year they will increase their mail at the rate of nearly a million pieces a day for an average of at least one letter a month for every man, woman, and child in the United States; that the Air Force is planning to buy nearly \$2½ million worth of refuse trucks at \$12,109 apiece as compared with \$6,000 trucks used for collecting refuse in the Nation's Capital; etc.

These are a few examples of waste, extravagance, etc., selected from the thousands of items in the Federal budget. They not only illustrate waste, but by the space consumed, the language required, and the time it takes to read them, they also illustrate why those who criticize waste and extravagance in the Federal bureaucracy must, on most occasions, refer to the subject in general terms.

I trust that the constant drumming of platitudes about bigness of bureaucracy and bigness of global responsibilities by the professional bureaucrats will never dull the competent and capable employees of the Bureau of the Budget into relaxing their efforts to ferret out and eliminate waste and extravagance.

5. Of course there are big program issues. Of course tremendous reductions can be made in elimination of programs specifically prescribed by law. But the Chief Executive has some responsibility of leadership in such reductions. To date such leadership has not been manifest. I do not recall any suggestion as to the repeal or the curtailment of any such programs by the Chief Executive since we started postwar astronomical budgets. On the contrary, we have a stubborn and persistent recurring demand--backed up by high-powered, expensive propaganda--for such new gigantic programs as the Brannan plan for socializing agriculture, the Ewing plan for socializing medicine, the President's committee plan for unconstitutional civil-rights programs; and, the Keyserling plan for expanding socialized housing, and the program for federalizing education.

Senator WILLIAMS. Mr. Chairman, could I direct a question along the lines of cutting down this personnel? There are certain things that I think the Bureau of the Budget can do that maybe they have not done, and I refer specifically to either your 1948 or 1949 budget. I know that is going back, but it is just an example of the point. I got the story of this out of your own budget that was submitted to Congress. It was the United States Spruce Corp., and in the budget you requested Congress to give you some more money to help liquidate this corporation which Congress had authorized the liquidation of

in 1920, and it followed down all through the years, and in 1948 and 1949 you were still asking us to help liquidate that corporation, and in your budget you asked us to provide for the money to furnish the salary for one man, the president, a chauffeur for the man, a Cadillac car, and a secretary and an administrative assistant; those were the personnel.

Now, I checked further, and the only business that that corporation had was that they were liquidating the assets of the firm, which was a conditional sales contract where it had sold a railroad. Everything had been done—everything had been sold before, and there were two semiannual payments on the principal and interest that were coming into that corporation. In other words, they only handled two semiannual payments a year. They were sending those on in here to the Treasury Department, and for those two collections a year—and this is all set out in there, it developed that was all, and you had continued that year after year asking us to put up the money and to extend it and liquidate it, and last year you requested it again, and it was only when Congress put the deadline on it to fire them and get them off in 30 days, we finally did it, and you cannot say you did not have the personnel because it took a lot of personnel just to write it up. Why didn't you close it up?

Mr. STAATS. If you have the material on it----

The CHAIRMAN. What corporation was that?

Senator WILLIAMS. That was the United States Spruce Corp., and that shows the list. You had a chauffeur for the president, and a car, all to go down to an office, apparently, to collect two conditional sales contract payments—I mean two payments.

Mr. STAATS. I am not personally familiar with it.

Senator WILLIAMS. I think you should study that corporation.

Mr. MACPHAIL. The liquidation of the United States Spruce Corp. is quite a famous event that went on for some years, as you point out. I recall it in connection with the 1948 budget----

Senator WILLIAMS. It took 48 actions of Congress to kill it.

Mr. MACPHAIL. We would be very happy, though, to submit for the record or to you, Senator, the decisions which underlay putting it in the budget for 1948. I do remember the situation.

Senator WILLIAMS. I remember it. You can submit it for the record, because I think it is very interesting for those who have not read it, and I am glad to say that it was finally killed, but the only way we killed it was to just have the Congress include a little amendment that all the men were to be lost and off the payroll, fired by a certain date. I think it is dead; I do not think you transferred it. I have not found it any more.

Mr. MACPHAIL. We will look for it.

#### UNITED STATES SPRUCE PRODUCTION CORPORATION

On June 28, 1922, a suit for dissolution of the Corporation was filed in the Superior Court of the State of Washington by the United States as a stockholder. Of the remaining assets at that time, the principal one was notes receivable from the sale of the Port Angeles Western Railroad on June 17, 1922. Under the terms of the sale, title remained in the United States Spruce Production Corporation until all deferred payments were made. In 1929, the railroad was sold to the Sol Duc Investment Co., of Port Angeles, Wash. The operation of the railroad was unprofitable, and was complicated by the imposition of State taxes on the purchaser's equity in 1937. At that time, suit in foreclosure was instituted, the property retaken by the United States Spruce Production Corporation, and it



was resold to the Sol Due Investment Co. Unprofitable operations continued, and it was necessary in 1939 to extend the time for completion of final payment. The final decree of dissolution was entered on December 12, 1946, and unpaid balances on the outstanding notes transferred to the War Department for collection.

The long delay in liquidation of the Corporation was due to the fact that it was not possible to dispose of the logging railroad owned by the Government, and it was necessary that some agency protect the interests of the Government in the matter. It should be noted that the Corporation was under the jurisdiction of the Superior Court of the State of Washington in liquidation proceedings during the entire period.

The Government Corporation Control Act (Public Law 248, approved December 6, 1945) required that budgets of wholly owned Government corporations be transmitted to the Congress as part of the annual budget. The first submission under this act was the corporation supplement to the 1947 budget, on May 2, 1946. Since then the corporation budgets have been included in the regular budget documents.

Statements and schedules pertaining to the United States Spruce Production Corporation appeared for the first time in the budget for fiscal year 1947 in accordance with the above-cited act. In the middle of that fiscal year (December 12, 1946) the Corporation was dissolved by judicial decree, and operations were terminated. Since, in order to facilitate comparisons, it is standard budgetary practice to show the actual and estimated figures for the 2 years preceding the budget year, the schedules showing the financial operations of the Corporation in fiscal years 1946 and 1947 were included in the 1948 budget, and the schedules covering operations in fiscal year 1947 were included in the 1949 budget. Thus, although the schedules were included in the 1948 and 1949 budgets in order to report fully and completely on the operations of the Corporation to the time of liquidation, no new appropriations were requested in either year.

(See United States Budget, Fiscal Year 1948, p. 1343, and United States Budget, Fiscal Year 1949, p. 1249.)

Senator WILLIAMS. The significant part of it is that they had been out of the tree business since 1922, and they had a little railroad up there, and they sold it in two payments, and they collected only two payments a year, and it would have been a very simple matter, as Congress told you to do years ago, instead of letting the payments come right into the Treasury, to collect, it would not cost anybody anything to collect it, and it was a hundred percent waste.

Senator TAFT. Has the witness finished his statement?

Mr. STAATS. Not quite. I would like to say apropos this remark, we did liquidate the Philippine War Damage Corporation. We liquidated that one ahead of schedule.

Senator WILLIAMS. Maybe we found out how to do it.

Senator TAFT. But now we will have a Korean War Damages Commission.

Mr. STAATS. I have two paragraphs remaining here.

The CHAIRMAN. Yes, sir.

Mr. STAATS. I believe very strongly that we must make reductions wherever possible, and that we must push for proper organization and efficient management in the conduct of Government affairs. The very size and complexity of the Federal program makes it doubly imperative that all of us in Government insist that the taxpayer receive a full dollar's worth of service for every dollar spent.

However, it is important to recognize that improvements in management and organization—essential as they are—cannot by themselves balance the budget. The budget deficit cannot be explained in terms of the numbers of Federal personnel or the alleged duplication of Government agencies. There is no valid basis for assertions that vast sums of money can be saved by "eliminating waste and duplication in the Federal bureaucracy." The big issue in the budget are program issues—programs which have been requested by the people and

approved by the Congress. To reduce Federal expenditures substantially requires the major reduction in, or the elimination of, programs specifically prescribed by law.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. In other words, real economy in this Government has got to be made by the elimination of certain functions that we have undertaken.

Mr. STAATS. That is our strong conviction.

Senator TAFT. Mr. Chairman, I have here the rates of expenditure, military and total, for some period. Evidently you have it by quarters up through fiscal 1953.

Mr. STAATS. We have it by quarters.

Senator TAFT. Is that correct, that you have that estimate? Would you attach that so that we have a picture of the way the budget grows each quarter, the rate each quarter? It is a little easier to understand in terms of annual rate, four times the quarter, but whichever way you want to do it, I would like to have for each quarter the rate of military and total expenditure. You see, that is what we need in judging the taxes and how fast we need them.

Mr. STAATS. We have them by total expenditures quarter by quarter.

Senator TAFT. Yes. And also you have the total military expenditures in each quarter apparently.

Mr. STAATS. Yes.

Senator TAFT. Of military plus foreign aid. If you do that, I would be obliged if you would attach that to your testimony.

Mr. STAATS. We would like to supply that if we could insert some narrative.

Senator TAFT. You have it here by years, annually, but I would like to see it by quarters to see how you think the program is going to grow.

Mr. STAATS. Yes, sir.

(The information referred to is as follows:)

The estimates requested follow. They should be qualified by the same considerations mentioned with respect to the estimates requested by Senator Byrd. (See p. 141.)

*Estimated quarterly projection of budget expenditures, fiscal years 1952-55*

[Annual rates. In billions]

Fiscal year and quarter	Major national security programs			All other programs	Total expenditures
	Defense Department military and MDA <sup>1</sup>	Other	Total		
<b>1952:</b>					
I.....	32.8	4.4	37.2	20.4	57.0
II.....	35.2	6.0	45.2	20.0	65.2
III.....	43.6	6.4	50.0	18.0	68.0
IV.....	52.4	7.2	59.6	23.2	82.8
Total.....	42.0	6.0	48.0	20.4	68.4
<b>1953:</b>					
I.....	53.0-53.0	7.6	60.6-70.6	19.2	79.8-89.8
II.....	54.0-54.0	6.8	60.8-70.8	19.2	80.0-90.0
III.....	55.0-55.0	5.6	61.6-71.6	17.2	78.8-88.8
IV.....	57.0-57.0	4.0	61.0-71.0	22.4	83.4-93.4
Total.....	55.0-55.0	6.0	61.0-71.0	19.5	80.5-90.5

Senator TAFT. It is a very difficult thing to judge. Hasn't there been much more of a lag in expenditures than any of these people expected?

Mr. STAATS. The revision of the estimate that we made on the military itself from January to the present time comes about in part from slippages on production schedules, but it comes about, in part, from the fact that we did not have the detailed figures before us in January. We included only a tentative estimate in January, so that part of this revision comes about as a result of our detailed review of the budget.

Senator TAFT. Have you any idea at all how far in advance of the expenditure figure you are using here, you might say, the inflationary effect of the letting of contracts takes place? Of course, when you let a contract, that man goes out and buys all the materials, and a little later he begins to pay labor on that contract before the Government pays anything. Is there any way to guess the inflationary effect of those things in advance of actual expenditure, say it was 6 months or do you have any idea what it is?

Mr. STAATS. It is very difficult to judge when this takes place, whether at the time of the letter of intent or whether the time the budget is submitted.

Senator TAFT. Of course, it would be different for every contract. But I just wondered about a general average. Undoubtedly the inflationary effect takes place before the actual-----

Mr. STAATS. Mr. Cohn might be able to speak to that.

Mr. COHN. We have discussed, Senator, with the staff of the Joint Committee on the Economic Report and with the staff of the Council of Economic Advisers, and many university people who have been interested, and we have just not been able to work up any satisfactory kind of a lag or gap that will fit the situation. The contracts are so varied, some of them for aircraft which have lead times in excess of 1 year, some of them for equipment with lead times of 3 to 6 months, that anything we do just is not good enough to use for any firm policy conclusion.

Senator TAFT. We just know that it is some months ahead.

Mr. COHN. That is right, sir.

Senator TAFT. That is all you know.

The CHAIRMAN. Anything further, Senator Taft?

Senator TAFT. I do not think I have anything else.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. No.

The CHAIRMAN. Senator Millikin?

Senator MILLIKIN. No.

The CHAIRMAN. Senator Williams, is there anything else you wish to request from the Budget at this time?

Senator TAFT. What is your last estimate on this year's surplus now?

Mr. STAATS. On 1951?

Mr. COHN. We think the expenditures, sir, will be about 44.5. I looked at the June 27 daily statement this morning just 2 days to go, and on the basis of that, I think it will probably be about 44.5 or 44.6 billion of expenditures.

Senator TAFT. And the surplus then will be how much, somewhere between three and four?

Mr. COHN. It looks like it will be in the neighborhood of \$3.5 billion.

Senator TAFT. Three and a half billion.

Mr. COHN. But the June 15 collections are tapering off, and just how much will come in in the last few days is subject to-----

The CHAIRMAN. The Treasury estimated, Senator Taft, yesterday, that the cash yesterday was 4.312, but there would be about a billion dollars that would have to go out at the very end of this month, tomorrow, so that would pull it down to about 3.300. That is the nearest we could get. That is the best the Treasury said it could give us.

Senator TAFT. When do we get that figure, as soon as Monday?

Mr. COHN. The final daily statement will be available Tuesday morning, and the Treasury might have it over to the Printing Office Monday night, sir.

The CHAIRMAN. You cannot shed any light on that, can you, Mr. Pechman?

Mr. PECHMAN. I think what was said is correct, sir.

The CHAIRMAN. You will have it on Tuesday anyway?

Mr. PECHMAN. Yes, sir; Tuesday morning.

Mr. STAM. It looks like about 3.5.

The CHAIRMAN. All right. If there is nothing further, we will conclude.

Mr. STAATS. Mr. Chairman, I would like to express my appreciation for the courtesy of the committee. It is a very difficult problem to proceed on in a short period of time.

The CHAIRMAN. We certainly would like to express our appreciation to you and your staff, and we may call you back sometime during the hearing.

Mr. STAATS. We will be glad to come here.

The CHAIRMAN. It takes a long time for us to digest these very difficult budgetary problems, and so we may have to have a renewal of our review.

Mr. STAATS. I have been there a long time, and even I got mixed up on it once in a while.

The CHAIRMAN. Well, we appreciate your appearance very, very much, and that of your staff. Thank you very much.

We will recess until 10 o'clock on Monday.

(Whereupon, at 1:15 p. m., the committee adjourned, to reconvene at 10 a. m., Monday, July 2, 1951.)

# REVENUE ACT OF 1951

MONDAY, JULY 2, 1951

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

The committee met pursuant to recess at 10 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman), presiding.

Present: Senators George (chairman), Connally, Kerr, Froar, Millikin, Taft, Butler (Nebraska), and Flanders.

Also present: Elizabeth B. Springer, chief clerk.

Colin F. Stam, chief of staff, Joint Committee on Internal Revenue Taxation.

The CHAIRMAN. Let the committee come to order.

Mr. Stam, we will start with you this morning. A few days ago you appeared before the committee in executive session and gave an explanation of the bill. You were unable to complete. You may proceed until Mr. Johnston comes. I believe you were on the subject of withholding of dividends.

Mr. STAM. Yes, sir. We were talking about withholding at the time the committee closed, withholding on dividends and interest.

The CHAIRMAN. Now, will you explain this to us? I was detained at the White House that morning and did not hear your statement. I understand that the bill proposes withholding on all dividends, regardless of size; is that right?

Mr. STAM. That is right. The withholding tax is imposed at a rate of 20 percent. That is straight across the board. It applies to the ordinary corporate dividends and to certain payments made by stockholder in lieu of dividends—that is, the short sale transaction that we had in the bill last year—and to interest on registered or coupon bonds of corporations, interest on deposits with stock brokers, and interest on amounts held on deposit by insurance company, and interest on Federal tax refunds.

The withholding provisions would apply to dividends and interest payments made after December 31, 1951. In other words, they would not go into effect until next year.

Senator MILLIKIN. Does it apply to securities which are up for collateral?

Mr. STAM. It would apply to any payment of interest. In other words, it does not apply to obligations between individuals. It is only corporations.

The interest withholding provisions do not apply to interest on Government bonds or to interest on bank deposits. The dividend-withholding provisions do not apply to the ordinary type of patronage dividends of cooperatives.

Now, the bill that came over last year required withholding on the cooperatives, and also on the mutual savings banks and building and loan associations. Under the House bill, they took out entirely any provision requiring withholding on these patronage refunds and also on the interest on deposits paid by mutual savings banks and building and loan associations.

Senator TAFT. By the way, was there a very close vote in the House committee on the question of taking out taxes on cooperatives and building and loan associations? I saw some column where they mentioned that.

Mr. STAM. There was quite a close vote.

Senator MILLIKIN. What were the stated reasons? Not the actual reasons, but the stated reasons?

Mr. STAM. I might say, on this question of withholding, here is this problem that they were faced with in regard to the cooperatives. You see, in your consumer cooperatives, the dividends, generally speaking, paid by them are not income to the payee. It is merely a reduction in the price. So the House people felt that if you just had withholding, the burden would fall entirely on farmers' cooperatives and not on the consumer. Of course, there are ways of applying the tax to consumer cooperatives.

Senator TAFT. They turned down the question of taxing it, did they not, taxing any dividends at all?

Mr. STAM. First they turned down the proposition of levying a tax on farmer cooperatives and mutual savings banks and building and loan associations.

Senator TAFT. That was turned down by a close vote?

Mr. STAM. That was turned down by a fairly close vote.

Senator TAFT. But of course, having turned that down, there would be no sense in withholding them. There would be nothing to withhold.

Mr. STAM. Then on withholding, in the case of these patronage refunds, they do constitute income to the patron.

The CHAIRMAN. To the individuals?

Mr. STAM. To the individuals.

Senator TAFT. I thought patronage refunds just went to reduce his expenses doing business as a farmer.

Mr. STAM. It does enter into the computations of gross income. So it does constitute income, you see, to the patron, and he is supposed to include it in his return. So you could have required withholding on those dividends. But when you got around to the question of the consumer cooperative, you could not say it was income to the consumer, because most of those purchases are not in connection with business; they are merely personal purchases for goods to be used in the home, and it constitutes, according to the rulings, a mere reduction in price. It does not constitute income.

Senator TAFT. Take these dividends. Why is it not possible for our corporations to file all payments of dividends and simply do a clerical job of going right through the thing? Are there not calculating machines and IBM machines that would take those things and check them against the corporation returns and the returns of dividends by individuals and get a check on it? Could not a smart fellow get up a machine that would simply require just one operation for taking every return and running right through them? You do

not have to audit a return. That may take a little more time. But I cannot understand why the checking of dividends cannot be done in an almost automatic way, and, with a proper IBM machine, turning that thing up in a minute.

Mr. STAM. Of course, you have a lot of dividends paid to nominees you know.

Senator TAFT. Pardon me?

Mr. STAM. You have a lot of dividends paid to nominees that are not the real owners.

Senator TAFT. Those have to be checked. You will have to check that. If they have not returned them as their dividends, send them an order and say, "Whose dividends are they?"

Mr. STAM. We had discussions with many of these outside groups on withholding, and they indicated, for example, last year that they had a lot of difficulty with withholding receipts, requiring these withholding receipts to be furnished to the individual recipient, as in the case of wages. You furnish a withholding receipt, you know, to the wage earner. And that is sent in, you know, to the Bureau. But the corporations and people that have to make these accounts out said that that would put a tremendous burden on them.

Senator TAFT. That is if you have this withholding. But if you do not have withholding, if they simply have to report to what individuals they paid dividends, surely they must have those lists all made up.

Mr. STAM. You see, if they have to file these duplicate lists, they claim they do not have the machines to prepare the duplicate lists that would be required, to send one in for all these people that they pay dividends on. Now, that is the reason why, when we had these conferences with them, we worked on this problem, and it was determined that if we could just have a straight across-the-board withholding on the entire amount of dividends paid out without any regard to whom they were going to, they said they could handle it all right, and that would be much less burdensome than requiring information returns for the small amounts of each individual recipient.

Senator TAFT. They have to pick out everybody that gets more than \$100 today and do it. I cannot see why they cannot do it just as easily through the whole bunch. It would be just an automatic proposition. They have a list of stockholders. They have them on cards, maybe. But they can run through them and make the list. Any corporation at the request of any stockholder has to furnish them a list of the names of stockholders.

Mr. STAM. But you see, they have a tremendous list. Take A. T. & T.

Senator TAFT. That is a long list, surely.

Mr. STAM. And they have to go through and pick out duplicates later. It is quite a problem, they say.

Senator TAFT. I do not see why the list is not right there. They have to pay the dividends. Surely it is easier to make a list than it is to pay the dividends every month or every quarter, which they do.

Mr. STAM. You see, under the bill if you adopt this withholding system straight across the board, that would relieve them of the withholding of returns.

The CHAIRMAN. Is that the House program? Is that the House scheme?

Senator TAFT. Twenty percent across the board.

Mr. STAM. That is right.

The CHAIRMAN. Across the board. And the corporation simply remits it to the Treasury in a lump sum?

Mr. STAM. That is right.

The CHAIRMAN. Without anybody's name?

Mr. STAM. That is right.

Senator FLANDERS. Mr. Chairman-----

Senator TAFT. Without any names?

Senator FLANDERS. Yes.

Mr. STAM. Then the taxpayer, on his return, knows the net amount of dividends that he has received. And he can increase that by-----

Senator TAFT. That is rather a violent assumption for the people not making any returns. They have forgotten all about it.

The CHAIRMAN. Mr. Johnston has arrived, Mr. Stam. We shall have your explanation later so that we may hear Mr. Johnston now.

Mr. STAM. Thank you.

The CHAIRMAN. Will you step forward, Mr. Johnston?

Mr. JOHNSTON. I am sorry, gentlemen. The traffic delayed me.

The CHAIRMAN. We are glad to have you. Those traffic conditions are a little off this morning because of the transportation strike.

**STATEMENT OF ERIC JOHNSTON, ADMINISTRATOR, ECONOMIC STABILIZATION AGENCY, ACCOMPANIED BY G. GRIFFITH JOHNSON, ECONOMIC ADVISER**

The CHAIRMAN. Mr. Johnston, have you a prepared statement you wish to submit to us?

Mr. JOHNSTON. I do, Senator George.

The CHAIRMAN. Very well. We shall be glad to hear from you. You would rather not be interrupted until you finish this statement?

Mr. JOHNSTON. I think that would be preferable, Senator George.

The CHAIRMAN. All right. You may proceed with your statement, and after that, if there is questioning, you will be glad to assist us as far as you can, I am sure.

Mr. JOHNSTON. Yes.

At the very start of my testimony today I want to get on the record that I am in no sense an expert on the technical phases of revenue legislation. As a businessman, I have had to live with the tax laws and comply with them, and, to the extent that I could, understand the provisions dealing with my own businesses, but I cannot match the members of this committee in knowledge or background in this vast and complex field.

I am making this qualifying statement so there will be no misunderstanding as to my purpose here. It is not to presume to tell you how I think you should write this bill section by section and item by item.

But in the Economic Stabilization Agency we have been handed some pretty complex problems of our own and we are trying to do the job assigned to us, however distasteful the job of imposing controls on the economy of America happens to be to me. Since your job of raising taxes is undoubtedly distasteful to you, I hope we have your sympathies in our job to the same degree that you have our sympathies in yours.



And I want to say quite frankly that we need your help. The final structure of the tax bill on which you are now working will have tremendous, if not overriding, influence in determining the success or failure of the efforts to stabilize the economy during this grave emergency in our national life.

Everything I have to say today is predicated on the assumption that we are going to continue our defense production and rearmament program substantially along the lines delineated so far by the Congress.

I assume, too, that even a cease-fire in Korea, should it come about, would not be regarded by the Congress as a signal for the emergence in the very near future of an altogether new world order secure against Communist aggression. I assume that the Congress agrees the Communists are not yet ready to turn from a policy of imperialism and world conquest to a new policy of trust, understanding, tolerance, and peace.

In other words, I assume we are both looking at this tax problem today from the same viewpoint—in terms of a billion-dollar-a-week mobilization program.

In view of this, then, what is the function a new tax bill should be assigned? Should it be to keep our defense spending on a pay-as-we-go basis and thus avoid deficit financing, or should it be merely to raise a little more revenue and thus give us a slightly smaller operating deficit?

I think it has to support the first function, pay-as-we-go. I believe deeply that our tax policy must be on this basis if we are to prevent inflation from imperiling the buying power of the dollar—the buying power not only of the consumer's dollar but of the Government's dollar, too.

Pay-as-we-go taxation is essential to a stabilized economy. Without it, we face deficit financing, and consequently enlarged purchasing power, with no additional supply of civilian goods and services for this greater purchasing power to buy.

Our job of preventing inflation even with a balanced Federal budget is already about as tough a one as I would care to undertake. We cannot be absolutely sure we can lick inflation in the next few years even with balanced Federal expenditures and receipts. Weakening of price and wage control provisions of the Defense Production Act would make the job vastly harder than it already is. Failure to provide adequate taxation would make the job almost impossible.

I say that sincerely and with complete conviction.

Let me tell you why I take such a dim view of finding any painless way to stabilization.

Suppose we utilize our resources as efficiently and effectively as possible to increase our production of military and essential civilian goods.

Suppose we apply sufficiently stringent credit controls to prevent borrowed money from being used to bid up prices.

Suppose we maintain a balance between prices and wages and hold them in line.

Now even if we do all those things but don't raise taxes, we still face the prospect of an inflationary gap by mid-1952 of from \$10 to \$20 billions.

This assumes, as I have tried to make clear, strong, not weakened, price and wage controls; strong, not weakened, credit controls;

strong, not weakened, policies of reducing unnecessary expenditures. It assumes increasing production efficiency.

There are so many variables in such a calculation, of course, that it is virtually impossible to predict the size of that gap precisely. I have to depend for my estimate on the best economic and fiscal information I can obtain. And these are the figures I get—from \$10 to \$20 billions.

Senator MILLIKIN. Fiscal 1952?

Mr. JOHNSTON. Yes.

Senator TAFT. You say mid-1952. You were talking about that rate then?

Mr. JOHNSTON. Yes; mid-1952.

Senator MILLIKIN. May I pursue that question a little further? Are you referring to a total deficit of from \$10 billion to \$20 billion at the end of the fiscal year, or are you talking of a rate predictable from the middle of 1952?

Mr. JOHNSTON. From the middle of 1952; that is, an inflationary gap which is estimated to be at an annual rate of \$10 to \$20 billion by midcalendar year 1952, which is the end of fiscal year 1952.

Senator KERR. As of the middle of 1952, as I understand it.

Mr. JOHNSTON. That is right, Senator.

Senator KERR. It will have increased by that time so that it will have reached that level?

Mr. JOHNSTON. That is right, Senator; that level.

That represents the estimated difference between the disposable income in the hands of consumers and of business in the coming year, and the current dollar value of the goods and services which will be available for civilian purchase.

If we were to drop our defense production and rearmament program completely right now, the problem would not exist.

We would, however, have an altogether different problem such as I personally would not like to contemplate—the problem of defending ourselves and our freedoms against a foe who is patiently waiting for us to drop our guard. I think all Americans recognize this, and would want neither to drop our defense effort at this time nor even significantly reduce its accelerating speed. I certainly hope we do not reduce it. Most of us, I am sure, would gladly pay, whatever the cost, to insure the survival of our freedom in a world in which freedom can exist.

So the basic issue continually comes around to that one central question: Do we need a defense effort in the vast proportions we have decided upon? I think we must depend largely upon our best military brains for the answer to that. I am willing to take their answer.

Senator TAFT. I understand they recommended \$100 billion, and the President cut it down to about \$50 billion. Are you taking their view on everything? Who is it that takes this view? Does the military or do civilians make the final decision?

Mr. JOHNSTON. Senator Taft, I did not know that they recommended \$100 billion.

Senator TAFT. I only saw that in the paper. I did not verify it.

Senator KERR. As one member of the committee, I will not say that that is conclusive evidence, not even if you saw it in a pretty good paper.

Mr. JOHNSTON. If you are agreed we must go ahead with the present mobilization program, then it is our conviction in ESA that the Congress must provide the economic weapons—to enable us to mount such an effort without destroying our strength internally by inflation.

The inflationary gap can be made up only by increased taxes and increased savings. Otherwise, the gap will sooner or later explode in inflated prices. Unless temporarily restrained by drastic price and wage controls, this could set off a new spiral of inflation.

Inflation is a tax on each American, as you know. But unlike the kind of taxes you gentlemen can devise, it is a tax which falls hardest on those least able to pay. It is a tax which brings famine to the poor; suffering, disillusionment, and despair to the lower-income groups, and to those on fixed incomes, such as the social security pensioners for whom you provided increased benefits just last year. Those benefits have been eaten up already in inflation.

Inflation is exactly like the dope habit which has recently come so shockingly to public attention as a result of the work of another committee of the Senate. Unrestrained inflation in the kind of distorted production economy we must sustain in the next few years would be as habit-forming and as debilitating as a narcotic. You can cure the dope habit, and you can cure the inflationary habit, but it takes Spartan measures.

For the fiscal year which ended at midnight Saturday, we were most fortunate in having a budget surplus of something over \$3 billion. That surplus was, in a large measure, due to the foresight of this committee and of the Congress in enacting revenue bills last September and last January. It would be pleasant, indeed, if we could see ahead a similar surplus—or any surplus—for the current fiscal year at current tax rates.

Senator TAFT. However, the surplus is due more to the failure to spend the money that was given, more than to any new taxes.

Mr. JOHNSTON. I think that is probably true, Senator.

Senator TAFT. It was low expenses, rather than the other thing.

Senator MILLIKIN. I think that is commendable.

Mr. JOHNSTON. I think it is a commendable situation, too.

Senator KERR. I want to say, Mr. Chairman, that I would like to thank the witness for congratulating us on our accomplishment, even though our contribution was small.

The CHAIRMAN. We contributed to it to the extent of \$10 billion, which is not small, I would say.

Senator KERR. I do not think so. But that was the tenor of the Senator's remarks.

Mr. JOHNSTON. Even the tax rates contemplated in the bill now before you, as it passed the House of Representatives, cannot be expected to provide us with a surplus at the end of the 1952 fiscal year, beginning this week. Quite the reverse can be expected.

Depending upon what modifications the Congress may make in spending programs, our expenditures for this current fiscal year will run to an estimated \$68½ billion. Secretary Snyder testified, I think, before you last week that current taxes will probably yield about \$58½ billion. That means, if we do not raise taxes at all this fiscal year, we will run a deficit of about \$10 billion.

It means that if you pass the House bill, you would bring in—over a full year—an additional \$7.2 billion. But the House bill would not become effective under its present terms until September 1. So even if it were enacted immediately it could bring in not \$7.2 billion this fiscal year but substantially less—about \$4½ billion.

A \$10 billion bill enacted immediately, with increased rates to take effect today, could avoid a deficit in this fiscal year in the Federal budget. That, of course, is impossible, but for every cent less than this amount, you must cut corresponding amounts out of the appropriations bills. Will it be done? Can it be done? Is it safe to do it?

That is the nature of the problem. I could say it is your problem—but it is not just your problem. It is the problem of every American. It is certainly a problem that we in the Economic Stabilization Agency must take into account in carrying out our assignment from the Congress.

When I say that prices and wages will go up if we do not have a sufficiently strong tax program, I mean that is true no matter what kind of a price and wage control bill the Congress finally gives us.

Senator MILLIKIN. Will not wages go up if you do have a sufficiently strong tax bill?

Mr. JOHNSTON. Yes; I think they will go up; there is no question about it.

On paper, in theory, ESA can hold prices and wages tightly in line by ukase, by decree. But as a practical matter, you gentlemen know that price controls cannot hold and wage controls cannot hold for a protracted time if stern steps are not taken to keep purchasing power within bounds. With excess money in their pockets and limited goods on the shelves, people naturally will try to buy the things they want.

Siphoning off that purchasing power through added taxation is not going to please the people who pay the taxes. No one likes to pay higher taxes. You gentlemen don't. I don't. The wage earner or the corporation president, the stock broker or the small retailer, have a common view of taxes which affect them personally, and it is, of course, a critical view.

But we are buying something precious with our taxes. We are buying what we cherish most—a way of life 175 years old this week—a way of freedom.

The men who bought our freedom for us 175 years ago—with their lives—didn't make the purchase outright. They made the down payment. Americans have been meeting the regular payments ever since at tremendous cost in blood and taxes. I think it is up to us to meet our payments when due.

Now, gentlemen, I would like to show you, before we proceed further, a few charts that I think might be of some interest.

Griff, you might want to explain this chart.

Senator KERR. If you get it a little farther back, the gentlemen of the press can see it.

Senator MILLIKIN. Do not get it back so far that no one can see it.

Mr. JOHNSTON. These bars represent the increase in production and total expenditures, these two, from the second quarter of 1950 to the first quarter of 1951.

Senator MILLIKIN. Are you talking in volume or in dollars?

Mr. JOHNSTON. Production is in volume, and expenditures are in dollars. In other words, production went up about \$20 billion, in

physical terms, and expenditures went up \$40 billion in money terms, the difference being the increase in prices that we had in this period.

Senator MILLIKIN. Let me get this straight. Starting with your production, forgetting for a moment the prices that are put upon that production, are you talking about an increase in units of production?

Mr. JOHNSTON. That is right; increase in units of production; increase in spending in current dollars.

Senator FLANDERS. How do you subtract units from dollars?

Mr. JOHNSTON. This increase in production is valued at constant prices. It so happens that it is valued at the fourth quarter of 1950 prices.

Senator FLANDERS. Then it is dollars?

Mr. JOHNSTON. Let us put it in real terms. It does not reflect any increase in prices.

Senator KERR. What it means is \$20 billion of production more than had previously been produced.

Mr. JOHNSTON. That is right.

Senator KERR. But in terms of 1950 dollars?

Mr. JOHNSTON. That is correct, sir.

Senator KERR. The base line there being the starting point, both for the rate of production and the amount of available money in the hands of people to spend; is that the idea?

Mr. JOHNSTON. That is correct. In physical terms production went up \$20 billion.

Senator TAFT. From when to when?

Mr. JOHNSTON. From the second quarter of 1950 to the first quarter of 1951.

Senator TAFT. Give us the dates. The second quarter of——

Mr. JOHNSTON. 1950.

Senator TAFT. You mean, pre-Korea?

Mr. JOHNSTON. Yes.

Senator TAFT. You are talking about calendar years?

Mr. JOHNSTON. Yes.

Senator TAFT. The second quarter of 1950——

Mr. JOHNSTON. To the first quarter of 1951.

The CHAIRMAN. That would be from July 1950 to January 1951?

Senator TAFT. Nine months?

Mr. JOHNSTON. Six months.

Senator MILLIKIN. The physical volume of production increased, and in terms of money; is that right?

Mr. JOHNSTON. Yes.

The CHAIRMAN. That commenced in April, then?

Mr. JOHNSTON. To describe it another way, this \$20 billion represents physical increase in production; this \$40 billion represents the money value of that increase in production.

Senator KERR. That is not what you said awhile ago. You told me awhile ago that that brown line represented the increased rate of production in terms of dollars of 1950 value.

Mr. JOHNSTON. That is correct.

Senator KERR. You told me that the second column there represents the increase in the amount of money which people had to spend.

Mr. JOHNSTON. No, sir; I am sorry. This is the increase in the amount they spent.

Senator KERR. The increase in the amount of money that people spent?

Mr. JOHNSTON. That is correct.

Senator KERR. Was it spent for that production, or was it spent--- period?

Mr. JOHNSTON. It was spent -- period. But if you had the total bars on here---and the next chart does---the total of the production bar and the total of the expenditure bar would be the same. In other words, the production would be equal in dollars to the expenditures.

Senator MILLIKIN. I believe you would help us if before you go further you would tell us what the ultimate point is of your chart.

Mr. JOHNSTON. All right, sir.

Senator MILLIKIN. Then we can follow your analysis.

Mr. JOHNSTON. Here we can carry over to a projection from the first quarter of 1951 to the first quarter of 1952, of the calendar year. This represents the increase in output, again valued the same way as this, and this represents the increase in total expenditures, assuming we have an effective stabilization program. Now, an effective stabilization program would assume several things. First, it would assume in this projection a tax bill yielding about \$10 billion. It would assume sufficient controls over business investment, inventories, and so on, so that you would have an actual reduction in the amount of business investment----

Senator KERR. Business inventories?

Mr. JOHNSTON. Inventories, plant, and equipment.

Senator KERR. The only place you would have the reduction would be in the inventories, would it not?

Mr. JOHNSTON. No, sir----

Senator KERR. How are they going to reduce the amount that they have in physical properties?

Mr. JOHNSTON. This is the expenditure on new properties. Now, they are already limiting, for example, commercial construction, so that it would be anticipated that there would be a substantial decline in the construction of theaters and stores, and so on.

Senator KERR. Generally, is what you are telling us that that red block there represents a desired reduction in the rate of expenditure for inventory, plant and equipment?

Mr. JOHNSTON. That is correct, and also housing is in there, residential construction.

Senator KERR. Is your goal in residential construction to get the rate below 850,000 units a year, or is that the goal you seek and the one you have in mind when you describe a stabilized situation?

Mr. JOHNSTON. This assumes reaching a rate of residential construction I believe something a little below 850,000 units a year, or approximately that level.

Senator KERR. Now, Mr. Wilson recently announced, I thought, that the desired goal was 850,000.

Mr. JOHNSTON. Yes. But this reflects approximately that goal.

Senator TAFT. I do not want to interrupt there. But can't you make a consecutive statement of what this is all about and what it is that you were trying to tell us? Take the chart away and tell us what you are trying to tell us.

Mr. JOHNSTON. This is a chart leading up to this other one.

Senator TAFT. This had nothing to do with taxes directly. This is a question of holding down spending, so that your pressure will not be so strong. You can hold this down by various methods.

Mr. JOHNSTON. The moral of this chart, very simply, is that unless we have the controls which are implicit in an effective stabilization program, instead of having dollar expenditures at something like this level during the next year, there will be something considerably higher than that, and since production will rise only a relatively small amount, the balance will exert considerable pressure on prices.

Senator KERR. You are exerting a little pressure to get higher taxes to take that off, then?

Mr. JOHNSTON. Yes; that is correct.

Senator TAFT. And the more effective your stabilization program is, the fewer taxes you need; is that the argument? That is, if you cut down all housing, if you check now the construction of automobiles so that the workmen do not get that money, then you do not need to have taxes so much?

Senator KERR. I think what he is saying is that the more taxes you take, the less pressure there will be.

Senator TAFT. In other words, what is it you are trying to prove to us now? You are trying to prove ultimately, I assume, that you have to have taxes. But can you begin at the beginning and tell us what the story is?

Mr. JOHNSTON. Let us show this other chart first.

Senator BUTLER. I think his objective can be seen in the top mark there on the right. He is attempting to show that with the stabilization program, we can accomplish those things.

Mr. JOHNSTON. This was a precedent to this chart showing all the things that are needed. Now, in this chart this is for the second quarter of 1950. It shows wages and salaries, farm income, business, professional and rent income, and other income, totaling \$215 billion. Now, this is the consumer expenditures, savings and taxes, totaling \$215 billion, and this was the supply for these consumer expenditures, and they were in balance.

We take the first quarter of 1951. We show that wages and salaries have gone up to this amount, farm income in this amount, business, professional and rent in this amount, and the other in this amount, so that you have \$241,600,000,000.

Senator KERR. When was that?

Mr. JOHNSTON. The first quarter of 1951.

Now, your consumer expenditures have gone up to this amount, \$205 billion. Here are your savings and here are your taxes. Now, this was the supply of goods and services available, slightly higher than over here, and this price increase of \$15,200,000,000 was the amount necessary to balance the expenditures. In other words, this was the money available for expenditures which was spent, but the goods and services were only this amount; so we had to have a price increase of that amount to compensate for it.

Now, over here is the projected first quarter of 1952. Again, wages and salaries are going up again, and, as you have noticed here, there are more people in the labor force, overtime, and all these things. The farm income is up, as you have noticed here, to approximately \$20 billion. Professional, business, and rental incomes are up to \$35,000,000,000; other income is up here another \$30 billion, to \$270,000,000,000.

Senator KERR. Is that your estimate of individual income?

Mr. JOHNSTON. That is right. Now, this over here is the first quarter of 1952. This will be consumer expenditure, providing we have a stabilized program and a large tax program. If you will notice, savings have gone up from \$10,100,000,000 to \$27,500,000,000.

Senator FREAR. How can you predict those savings at \$20,000,000,000 in the first quarter of 1952? That is an assumption, I know.

Mr. JOHNSTON. Of course, it is an assumption. We are assuming we will have some vigorous bond drives. We assume more people will save for life insurance. As a matter of fact, savings have gone up materially this present quarter over what they were the first quarter of this year. During the second quarter they went up materially, in the annual rate, over what they were in the first quarter.

Senator FREAR. That is factual, is it not?

Mr. JOHNSTON. That is factual.

Senator FREAR. We have been led to believe in some quarters here that people have been withdrawing their savings accounts and cashing in their E bonds.

Mr. JOHNSTON. They did in the third and fourth quarter of last year and they did somewhat in the first quarter of this year. But in the second quarter of this year, there has been a swing upward, and we have had more stability.

Senator FREAR. Very good.

Mr. JOHNSTON. Now, if you will notice, we assume here that this represents the goods and services available, only about the same in the first quarter of 1951, slightly larger, just about the same.

Senator TAFT. It showed a 20-percent increase in production in 9 months. You are not going to go on that?

Mr. JOHNSTON. No, no; not for civilian consumption. Total production would include production for military use as well.

Senator TAFT. I know; for all purposes.

Mr. JOHNSTON. Yes. This is civilian consumption. Now, you will notice if we have an effective savings program and if we have this increased tax program, this slight increase in price here will balance the amount of consumer expenditures. But if we do not have an effective tax program and if we do not have an effective savings program, this line here will have to compensate for the difference, and you will have this much price inflation. In other words, this bar here will extend up just as far, gentlemen, as an effective tax program and an effective savings program fails to mop up the additional spending power of the people.

Is that perfectly clear, why these two charts were shown?

Senator TAFT. I do not think that you need to prove the general prospects. If the people have a lot of excess spending power, from military expenditures, they are going to force prices up, I agree. I think that is quite clear.

Mr. JOHNSTON. It shows how it forced prices up in the first quarter of this year.

Senator TAFT. Why didn't it force them up in the second quarter?

Mr. JOHNSTON. Why didn't it force them up in the second quarter? Because we had greatly increased savings. We also, we think, had a pretty effective wage and price control.

Senator KERR. And they were already up to a level that, when added to other things you talked about, compensated for the level of income?



Mr. JOHNSTON. That is true.

Senator TARR. From the 1st of March to the 1st of June, there was a drop in wholesale prices, indicating that the thing had been met; that is correct, is it not?

Mr. JOHNSTON. There was a drop in wholesale prices. There has not been a drop in the cost of living, as you know. That went up again.

Senator TARR. That went up once again.

Mr. JOHNSTON. Four-tenths of 1 percent from April to May.

Senator TARR. That occurred in wholesale prices, and that drop has not yet had time to be followed by the retail prices.

Mr. JOHNSTON. That is right.

Senator TARR. But you do have the drop in wholesale prices.

Senator FLANDERS. This is a consumer income and spending chart. Now, there is one thing that puzzles me quite a bit. Taxes reduce the supply of money in the hands of consumers and make it possible, presumably, to obtain this balance. But those taxes go to the Government; the Government uses them to buy things which in part, at least, go into the market for the same materials that the consumer goes to. So the pressure on these materials is not entirely reduced by taking it out of the hands of the consumer and giving it to the Government. The Government again bids against the consumer for steel; he bids against the consumer for aluminum, copper, and agricultural products. He bids against the consumer all along the line, so that the taxation does not seem to be an answer to the problem of the pressure on the supply of goods.

Senator TARR. That is right.

Senator KERR. I take it, Mr. Johnston, that you are going on the premise that the Government is going to be buying a certain amount, anyway. The Government has certain commitments and certain purchases that it has to make for this defense program; that is correct; is it not?

Mr. JOHNSTON. That is correct.

Senator FLANDERS. I would like to get the answer to my question.

Mr. JOHNSTON. Senator Flanders, I will give you one.

Senator KERR. If they do not get the money to pay for it from taxes, they have to get it from borrowing; is that your premise?

Mr. JOHNSTON. That is true.

Senator KERR. If they get it in taxes, then that money is not available to compete with the Government for the purchase of these materials?

Mr. JOHNSTON. That is true.

Senator KERR. If they do not collect it in taxes, they still have to buy it anyway. So then they resort to deficit financing, and therefore they have both the money they get by borrowing and the money that the taxpayer had because you did not take it in taxation, competing against each other for the same materials?

Mr. JOHNSTON. That depends on whether the financing is done by individual savings or done by bank financing. If it is done by bank financing of course it does not take any money out of the spending stream. It adds money to the spending stream, and consequently is inflationary. If it is taken from the individual, it does sop up a certain amount of purchasing power to the extent of the loans, which he would not have available for other purposes.

Answering Senator PLANDERS, it is true that there is a certain amount of expenditure by Government for the things which the consumer uses. It is also true, however, that there is a vast amount of money that is not spent for things which the consumer uses; it is spent in labor, largely in labor, and in other things which must be taken off the market either by taxes or by further savings.

Senator PLANDERS. It takes labor off the market from producing consumer goods.

Mr. JOHNSON. That is right.

Senator PLANDERS. And there again it adds more pressure on the available commodities.

Mr. JOHNSON. That is right, Senator. That is why we have to have taxes and increased savings, to take away those earnings from labor because they are for goods and services that are not in consumption.

Senator PLANDERS. I would like to make this observation. It seems to me that when we get to talking about taxation as a means of reducing inflation, we are not getting at the heart of the matter. We are getting at the heart of the matter if we say that taxation reduces the necessity to resort to bank borrowing. There you have something. But taxation in itself, it seems to me, does not reduce the pressure on the demands for goods or the demand for labor or any of the other elements that go into the inflationary spiral. The only effect, in my mind, that it has is that it combines with individual savings; it reduces the necessity for resorting to bank borrowing. I think we had better quit talking about taxes per se as being a means of combating inflation.

Mr. JOHNSON. Senator, taxes can be inflationary as well as deflationary, as you know.

Senator PLANDERS. They are neutral.

Senator TARR. Go ahead. That is what interests me. Don't you think you reach a point in taxation where practically all additional taxes are inflationary?

Mr. JOHNSON. In the first place, some taxes, in my humble opinion, are inflationary per se, and there is a point, unquestionably, that you reach in all taxes where they may be inflationary. I do not know where that point is, Senator.

Senator TARR. Take payroll taxes. They are reflected directly in the cost of goods, and they necessarily increase the cost of goods, do they not?

Mr. JOHNSON. That is right. And so could sales taxes. Sales taxes are reflected in parity.

Senator TARR. Of course, as I see it, the effort to tax is an attempt to say to the consumer, "You have to cut down your standard of living to the extent that we need the goods for production."

Now, in time of peace, the consumer does not respond to that request very strongly, and he does everything possible to get out of it. He passes those taxes on. The corporations pass those taxes on. When you get a tax that everybody thinks is an unfair tax—that is a psychological problem, partly—the tendency to pass it on is stronger and stronger. And it comes back in prices. The wage people come in and say, "Look. The cost of living has gone up. We have to have more."

Take these excise taxes, for instance. They raise the cost of living. And this bill has a lot of excise taxes in it. They raise the cost of living. That goes into the cost-of-living index.

Mr. JOHNSON. They do somewhat. Some of them do and some of them do not, Senator.

Senator TARR. I do not know. I do not suppose they count liquor in the cost of living.

Mr. JOHNSON. That is right.

Senator TARR. But they do count a lot of other things in. So labor comes around and says, "All right. Under these cost-of-living indexes, we have a right to go up." And you recognize that.

Mr. JOHNSON. That is right.

Senator TARR. And you have not said a word about not counting excise increases as you should have in that cost-of-living index. Now, today you have let them go ahead with cost-of-living increases and wage increases.

Mr. JOHNSON. Of course, Senator, they are figured in the parity formula, as you know. You cannot exclude them in one and allow them to figure in the other. You gentlemen passed a law.

Senator TARR. You mean, it is counted in the parity formula?

Mr. JOHNSON. That is right. You gentlemen passed a law computing excise taxes in the parity formula.

Senator TARR. We were not talking, however, about what you now call doubling, practically, the whole tax burden, which changes the whole picture. Now, all I am suggesting is that inevitably we passed the law because of public opinion—inevitably, higher taxes mean inflation just as much as higher borrowing, it seems to me. Maybe it is not so much as higher borrowing, but if you get beyond a certain point in taxation, it seems to me to be inflationary.

Mr. JOHNSON. What we are trying to say, Senator, is that if you have this money in the hands of the people as purchasing power, we ought to devise means and methods of taking a part of it away as purchasing power to balance the goods available with the purchasing power.

Senator TARR. I am suggesting that in time of war you could do that perhaps successfully. You are going to have an awful time in times of peace to take it away from them, because they are going to resist that bitterly and they are going to try to pass it on to somebody else and let that somebody else pay it, who is the ultimate consumer, whose prices are higher.

Mr. JOHNSON. Senator, how are you going to take it away from them if you are not going to do it by taxation? Do you want to have increased savings?

Senator TARR. I think you ought to cut your program. I think you ought to hold your program to not more than the \$70 billion a year that is contemplated. I do not think you ought to proceed from \$40 billion this year to \$70 billion next year and \$90 billion the next year. And that is the way your whole program is. This \$70 billion, perhaps we can meet. But if you go on, then, and want \$90 billion to balance the budget in the following year, as the Budget testified it probably will be, I say you are getting onto a field where those taxes are going to be just as inflationary as anything else. You are not going to avoid inflation by that next \$20 billion in taxation.

Mr. JOHNSTON. I think I said in my prepared statement, Senator, that even the balancing of the budget will not avoid these inflationary pressures.

Senator TAFT. Obviously, if you said that, you remove all basis for asking us for price and wage controls.

Mr. JOHNSTON. I see.

Senator TAFT. You did not say that.

Mr. JOHNSTON. But the very thing you said, Senator, a moment ago was that if you do not take this money away, it will reflect itself in higher prices by the corporations, in that they reflect higher taxes in their prices, and higher taxes will reflect in higher wages for labor. That is the reason we have price and wage controls, to try to prevent that, Senator.

Senator TAFT. Yes; and it has not been very successful up to date.

Mr. JOHNSTON. I think it has been pretty successful.

Senator TAFT. No. It has been these other things.

Senator MILLIKIN. Mr. Chairman, I think that this committee is reasonably well informed on the effect of taxes. That happens to be our business. For the purpose of this hearing, I would like to hear from Mr. Johnston what he is going to do in his field on the problems that he has indicated.

Mr. JOHNSTON. What would you like?

Senator MILLIKIN. It is not what I would like.

Mr. JOHNSTON. What would you like to hear? That is what I was going to say.

Senator MILLIKIN. At this point, I would like to have your function in this business, what you intend to do to stop this inflation, as far as it is within your power.

The CHAIRMAN. Mr. Johnston, there is no question that we must have taxes to keep this budget balanced, if possible. But I do not think there is any doubt on this earth that when you get taxes to a point where there is not anything left, the man who is paying those taxes has no incentive to hold down his costs of production. He has no incentive to hold down wages. It is bound to be inflationary, when you get it up beyond a certain point. Do you not think that is correct?

Mr. JOHNSTON. Senator, I think we have used our whole tax program to destroy the incentive in our economy. I think the time is approaching when your group or some other group of the Congress should consider taxes from the point of view of putting back the incentive in the economy. I think that there are means and methods by which probably that can be done. I am no expert on it. But certain it is that we must increase the incentive and not lower the incentive.

The CHAIRMAN. Your taxes always become inflationary when you have destroyed any necessity for savings on the part of the man who is making something.

Mr. JOHNSTON. That is right.

The CHAIRMAN. And he figures it is going to the Government, and he says, "What is the use of saving? What is the use of holding down costs? It does not make any difference where your costs are."

Now, that is just human nature. And that is the way it works out. It does not make any difference what theories we devise. It actually works out that way.

Now, Senator Millikin wants to know, assuming that we know a little bit about the effect of these taxes, and they will be pretty rough on a lot of people, what you are going to do.

Senator MILLIKIN. I am not disparaging Mr. Johnston's wisdom across this whole field.

The CHAIRMAN. I understand.

Senator MILLIKIN. But I would like to have his wisdom in his own field.

Mr. JOHNSTON. All right, Senator. I do not pretend to have a fraction of the wisdom that you have on this tax field, because you have been an expert on it, and I am not and do not intend to be, as I said in my opening statement.

Now, regarding economic stabilization, there are many facets to this, of course. The desire has been to stabilize prices and wages and hold them in line. We froze prices and wages.

Now, in the process of freezing prices and wages, there were many inequities. Some had not increased their wages or their prices. On the price side, there were many firms that held the line in November and December when the Government asked them to. There were many who did not. Most of them did not. And many increased them unconscionably. So the program has been to freeze prices, to allow those prices which are unjustly below to be increased, what we call the roll forward; to allow those prices which are unconscionably high to be rolled back, and there are many that we felt should be rolled back and still allow normal margins of profit. That is the program on prices.

On wages, when we froze wages, there were about 2,500,000 workers who had received wage increases of 10 percent or more during the previous year, most of them in the defense industries. There were approximately 50 percent of all workers who had received no wage increases during this period. So the Wage Board devised a 10 percent formula, which was a catching-up formula, if you wish to call it that, for preventing increases, if possible, on those wages that had already been increased, and allowing those that had not been increased to come up to what we could call a parity formula, and try to hold them there, except for inequities and hardship cases which the Congress provided for in this legislation.

Now, that has been fairly well done. There are some exceptions to it, but it has been fairly well done.

In the foreign field, the desire has been to try to stabilize the imports. Many of the imports have a profound effect upon our economy, such as wool, of which we get 70 percent from abroad, or copper, of which we get 30 percent from abroad, or natural rubber, of which we get almost 100 percent from abroad, and so forth.

Now, on these items, the desire of the Economic Stabilization Agency has been to devise means and methods of lowering the prices. Take wool. We have tried to discuss with the principal wool growers the methods of allocation of wool at reasonable prices. When I took this position, wool was around \$3.87 a pound. Today, I think, it is a little less than \$2 a pound. We have discussed allocation without any success.

We have investigated the prospect of erecting synthetic wool plants, as we erected synthetic rubber plants at the beginning of the

last war, providing the Armed Forces can use a percentage of wool, and providing others can use synthetic wool.

Whether that study of this program, which I think is fairly well known to the wool growers, has had an effect on reducing the price, I cannot answer definitely. But certainly that program is under investigation.

On copper, we have attempted to hold the price on copper. The domestic price is 24½ cents a pound. We recently increased the price of Chilean copper to 27½ cents a pound, which also increased the price of Canadian and some other copper producers.

Senator KERR. Why was that?

Mr. JOHNSTON. I beg your pardon?

Senator KERR. Why was that? What was the justification of it?

Mr. JOHNSTON. The State Department felt that we must increase it. The Chileans could get more money for their copper from other countries than we were willing to pay.

Senator KERR. Was the situation one where you either had to do that or let the copper go elsewhere?

Mr. JOHNSTON. That is right. And also a fair share of the Chilean economy is dependent, as you know, upon copper. They get a percentage of the price between, 14 cents and the selling price, I think it is; and also taxes on copper make up a large portion of their revenue.

Senator KERR. But it was a situation, so far as we were concerned, of either paying a price that would compete with what they could get elsewhere or not getting the copper that we need?

Mr. JOHNSTON. Right. And we are very desperately short of copper. As a matter of fact, we will be short on the present program maybe 100,000 tons this coming year, and maybe 150,000 tons.

Senator TAFT. Chile threatened to go Communist, too, did they not, if we did not?

Mr. JOHNSTON. That was in the picture also, I was informed.

The CHAIRMAN. What are you doing about tin?

Mr. JOHNSTON. Tin? It was recommended that we not stockpile tin because the price was going up. A central purchasing agent was established on tin, the RFC. Mr. Symington, has been buying tin and selling it. By stopping stockpiling and by a rigorous Government-purchasing program, the price of tin has been brought down from about \$1.85 or \$1.88 a pound to its present price, I think, of \$1.18 or \$1.20.

Senator TAFT. What are you going to do about manganese?

Mr. JOHNSTON. What do I think about manganese?

Senator TAFT. What are you doing about it? I have been informed that the regular supply of manganese was going along pretty well, and then the Government's stockpiling went in, and the private people found themselves competed with by the United States Government all over the world, and it forced the price of manganese up and cut down the amount they could get, and it has gotten to a situation where our steel mills are going to have a very difficult time getting enough manganese in the next quarter. I do not know that that is true. I do not assert that. I was told that.

Mr. JOHNSTON. I think, Senator, that is not true. I think that the steel mills will not have a very difficult time getting manganese. There has been an attempt to stimulate the production of manganese

abroad and domestically, as you know. We can get enough manganese out of the slag piles in this country to run us for a protracted period of time.

Senator TAFT. The point was that in the foreign ports, the stockpilers had gone over and competed with our own buyers to the extent that it took away a lot of the regular source of manganese.

Mr. JOHNSTON. There is no question about that, Senator, that when the Government steps in as a stockpiler, there are tendencies for the prices to go up. There is no argument about that. In some instances, we have recommended the cessation of stockpiling, where we felt that it could be done logically and effectively, in order to stop the price.

Senator MILLIKIN. I think you raised a delicate point there, Mr. Johnston, that if you did not stockpile and if we got into a real world war, the failure to stockpile would crucify everyone who had been associated with that failure.

Mr. JOHNSTON. That is absolutely correct, sir.

Senator MILLIKIN. I think that you have a very delicate point there of stockpiling and at the same time not stockpiling.

Mr. JOHNSTON. That is right.

Senator MILLIKIN. I do not know whether we have wisdom enough to achieve this balance. But blood does not drip from my jowls over the fact that someone has been trying to stockpile, when we all know that we should stockpile.

Senator TAFT. It is not that so much. It is that they go over to the foreign countries and bid up against our own buyers. Either they ought to buy through the private people and let them do the buying and provide it, or else they ought to take over the whole business the way they have in rubber. You ought not to have Americans over there competing for that scarce material.

Mr. JOHNSTON. There are some rubber people who think we ought not to have done it through a central buying agency in rubber.

Senator TAFT. That is open to debate.

Mr. JOHNSTON. All of these things, Senator, are open to debate. The thing that we have to do is to attempt to do the job in as logical and painless a way as possible. I do not attempt to say that that is always either logical or painless. All we attempt to do is to try to do the best we can. But I do want to say to you, gentlemen, that those foreign materials are very vital in a stabilization program, and we have attempted through many methods to bring down the price, and I think that we have been effective through no small measure in bringing down the price of tin and the price of wool. I think we have been effective in no small measure in bringing down the price of rubber. I think we have been effective in other means of bringing down prices.

Senator TAFT. Senator Johnson's committee claims that they have brought down the price of tin.

Mr. JOHNSTON. Who?

Senator TAFT. Senator Johnson's subcommittee of the Armed Services Committee claimed that they did the job over the heads of the Government officials, or the executive departments. However, that is something else.

Mr. JOHNSTON. We do not care who gets the credit. All we are interested in is stabilizing the price, and we have no authority in our agency, as you know, beyond making recommendations.

Senator MILLIKIN. What is your allocation program as you see it in the future? What is your allocation program so far as consumer goods are concerned?

Mr. JOHNSTON. The allocation program changes from month to month depending upon the military requirements, but as you know, it looks as though we are going to cut back the allocation to civilian consumption of most of the metals very drastically in the fourth quarter of this year.

Senator MILLIKIN. What is your rule for allocation? When do you apply allocation, and when do you feel you should not apply it?

Mr. JOHNSTON. Well, the military make demands for essential items which are beyond the amount that can be furnished and still take care of normal civilian requirements, and normal civilian requirements are cut down.

Senator KERR. You mean normal civilian provisions.

Mr. JOHNSTON. That is right. We cut down the allocations to civilians of those items.

Senator FLANDERS. Do you have any way of checking on the stockpiling—

Senator MILLIKIN. Excuse me, may I ask one question?

Senator FLANDERS. Yes, excuse me, Senator.

Senator MILLIKIN. What is your program, if any, for allocations in the field outside of goods, emergently needed by the Government?

Mr. JOHNSTON. We have no—in the first place, Senator, let me make it perfectly clear that we have no allocation powers ourselves at all in ESA. All we can do is to recommend.

Senator MILLIKIN. Yes.

Mr. JOHNSTON. Allocation is done by NPA.

Senator MILLIKIN. All right. What is your program of recommendation?

Mr. JOHNSTON. For those items outside of civilian requirements, the military requirements, we have no recommendations, Senator.

Senator MILLIKIN. Why do you ask us to impose blotting taxes when you have no program for blotting up consumer goods?

Mr. JOHNSTON. Well, we do, Senator, for those items which are necessary for the civilian requirements.

Senator MILLIKIN. But beyond that, that is why I am questioning that.

Mr. JOHNSTON. Beyond that, if they are not needed for the military.

Senator MILLIKIN. I am not recommending that kind of a program. I want to find out what you fellows are going to recommend.

Mr. JOHNSTON. We feel if it is not needed for the defense requirements, we have no right to recommend the blotting up of civilian goods.

Senator MILLIKIN. Yes.

Mr. JOHNSTON. We think the law of supply and demand should govern that under a free enterprise system.

Senator MILLIKIN. That is inflation.

Mr. JOHNSTON. I beg pardon?

Senator MILLIKIN. That is inflation.

Mr. JOHNSTON. No, that is the reason we want you gentlemen to mop up some of this in taxes, and in increased savings.

Senator MILLIKIN. Why, when we mop up in the taxes do you not mop up, and I am not recommending it—why do you not mop up through allocation of consumer goods?



Mr. JOHNSTON. Then you have rationing, Senator.

Senator MILLIKIN. We are mopping up consumer goods with these taxes.

Mr. JOHNSTON. Then you have rationing, Senator.

Senator MILLIKIN. All right.

Mr. JOHNSTON. I do not want rationing.

Senator MILLIKIN. I do not want it either, but I am questioning you as to whether you had that in mind.

Mr. JOHNSTON. Obviously, we have it in mind if such a necessity should develop, but we do not like to contemplate rationing. We would rather do it with other methods, and we think we can.

Senator MILLIKIN. I am not interested in your mental ease. What I am interested in—

Mr. JOHNSTON. I never have any mental ease, Senator.

Senator MILLIKIN. What are you contemplating in the way of blotting up consumer goods, while, at the same time, you are advocating that we blot up consumer goods?

Mr. JOHNSTON. We are only—

Senator MILLIKIN. It is an unpleasant thought, most unpleasant for me, but I just want to know, as uncomfortable as it may be to think along that line, what are you gentlemen thinking about along that line.

Mr. JOHNSTON. Senator, outside of the goods needed for the military effort, we have nothing in mind regarding the blotting up of civilian goods.

Senator MILLIKIN. All right, that answers my question.

Mr. JOHNSTON. Yes.

The CHAIRMAN. Mr. Johnston—

Senator MILLIKIN. But you have no objection to our blotting it up by taxes?

Mr. JOHNSTON. No, not at all. That is the way it should be because we think we should have a pay-as-you-go program.

Senator MILLIKIN. We cannot have a pay-as-you-go program, I respectfully suggest. Do you think we can have a pay-as-you-go program on the \$80 billion expenditure program for 1953?

Mr. JOHNSTON. I think that would be a difficult thing to do, Senator.

Senator MILLIKIN. Of course.

Mr. JOHNSTON. I think you would have a pay-as-you-go program in fiscal 1952; that is the program we are facing today.

Senator MILLIKIN. 1952 is easy to think about, but the real challenge here is to think about 1953, when we talk about pay-as-you go, and would you not say that, as Secretary Snyder has said—he said, in effect, it would require a lot of, I think he said unconventional taxes of the type that we have never indulged in before to balance an \$80 billion budget, wouldn't you say that?

Mr. JOHNSTON. I think that is absolutely right, but I think we must face fiscal 1952 without too much regard for fiscal 1953 and fiscal 1954, because we know that there is always a high mortality among bureau estimates. I presume that the bureaus themselves are the nearest thing, as someone said, to immortality, but there is a high mortality among bureau estimates.

Senator MILLIKIN. There is a high mortality among bureaucrats. [Laughter.]

Mr. JOHNSTON. I hope that mortality hits me soon. [Laughter.]

Senator MILLIKIN. Mr. Johnston—

Senator FLANDERS. There is a high degree of transmigration among bureaucrats.

Mr. JOHNSTON. Yes.

Senator MILLIKIN. We cannot close our eyes to 1953 because the Government has not closed its eyes to 1953; the Government is planning a peak of expenditure during fiscal 1953.

Now, we would be quite irresponsible here if we did not quite face that fact also, and think of the tax consequences.

Mr. JOHNSTON. Gentlemen, I do not want you to close your eyes to 1953 or 1954. I think you should have your eyes thoroughly opened to them, as we have.

All I am saying is that we do have a problem in 1952. We think you gentlemen can balance the budget for 1952. That would be effective, in our opinion, in a stabilization program.

Senator MILLIKIN. Let us see how we could balance that budget. We could balance that budget if we assumed the usual incorrectness in the estimates of revenues; that would lower somewhat the budget requirements of the fiscal 1952 period. If we were to assume, in addition, and maybe by the time we have a tax bill it will be an accomplished fact—if we assume, let us say, that, oh, a couple of billion—a couple of billions were taken off foreign aid. You could balance the budget without a \$10 billion tax bill. I am not now recommending it; it is the purpose of this hearing, to see what can be done.

Mr. JOHNSTON. Those are matters that I think you are much more expert in than I, Senator.

Senator MILLIKIN. Yes.

Senator FREAR. Mr. Chairman, may I ask Mr. Johnston what types or forms of taxes does he think are the least inflationary.

Mr. JOHNSTON. Well, again, I think you know more about that than I do, but my opinion is—

Senator FREAR. You are giving me more credit than I deserve.

Mr. JOHNSTON. I beg your pardon?

Senator FREAR. You give me more credit than I deserve when you are talking about these men over here.

Mr. JOHNSTON. Well, you are certainly more expert than I, no argument about that.

In my opinion, taxes which directly reflect themselves in prices, such as sales taxes, or excise taxes, have a more inflationary tendency than those which take away incomes, such as income taxes themselves.

Now, there are some excise taxes that are probably not inflationary because they do not go into the cost of living, Senator, but I think that in general the taxes which are most deflationary are the personal income taxes.

Senator TAFT. There are exceptions to that, are there not? After all, these automobile people are shouting their heads off, and if you put more taxes on automobiles, a lot of people stop buying automobiles, so that would presumably be deflationary, so you cannot say that the sales taxes necessarily are one or the other.

Mr. JOHNSTON. We think that would be very beneficial.

Senator TAFT. I think that is very difficult to say. I just think the total burden in the long run is what is inflationary. If the thing is too high, it finally gets on into the consumer, and raises all prices.

Senator FREAR. I think you answered the question. Today they may be inflationary, and tomorrow they may be deflationary.

Senator CONNALLY. Generally speaking there, aren't most any taxes effective as to deflation. If you add to the cost of articles, do you not decrease the consumption of those articles?

Mr. JOHNSTON. That is true, Senator; but in some items and in some instances, by adding to the cost of the item you add to the parity formula, because parity goes up as certain taxes go up, and you have the escalator clauses, as parity goes up other things go up, so they can be inflationary.

In general, it is my personal opinion that the tax bill which has been passed by the House is not inflationary, although I recognize thoroughly what Senator Taft has said, that in the long run taxes may be inflationary.

We think that the House bill, over the short run, is not inflationary, but will have a very salutary effect in enabling us to stabilize the economy, and I can assure you that that is a very difficult thing to do.

Senator TAFT. Mr. Johnston, is it not clear that personal income taxes are the most deflationary?

Mr. JOHNSTON. That is what I said.

Senator TAFT. The only way you get around them is the pressure by the workmen to get them back into higher wages. If you respond to that, they are no longer deflationary, but it seems to me that personal income taxes are a direct attack on spending.

Mr. JOHNSTON. That is correct, Senator.

Senator TAFT. It is tougher, it is harder for us, and everybody else, but it seems to me clear that is the most deflationary attack.

Mr. JOHNSTON. It would have to be the most Spartan way to do it, but it is the best.

Senator TAFT. I am just talking about inflation and deflation.

I suggest that you have got to make allowance for the comment of Senator Flanders, that what you take in in taxes, you spend, so whether the first round, the first impact, of that tax money is inflationary or deflationary, depends on what it is spent for, is that not correct?

The CHAIRMAN. Senator Butler wished to ask a question.

Senator BUTLER. Mr. Johnston, speaking a moment ago about the apparently beneficial results that have been obtained by our control agencies in the purchase of a certain material, that we have to import, such as copper, tin, manganese, and other minerals, especially, I noticed in the financial page of yesterday's paper, there was a long column indicating that the sterling and dollar balances abroad were in a very critical shape, and that they, our friends abroad, now, especially Great Britain, look to us to help them bring up their balances again.

I wonder if we accomplished anything by reducing the prices of those materials that we have to import, and then turn around and give all the benefits back in the shape of a foreign aid?

Mr. JOHNSTON. I think so, Senator, because, as we increase the prices, we increase the prices that they must pay for those items, and we make it much more difficult for them to export.

These sterling balances are obtained primarily through the export of manufactured goods, and if you increase the prices of the raw materials that go into those manufactured goods, you make it much

more difficult for Great Britain, as an illustration, to export and to sell in the open market.

Senator BUTLER. How much of this 8½ billion foreign aid proposal that is suggested now will go to make up for the advantages that we have gained or may have gained, in the purchase of materials from those peoples abroad?

Mr. JOHNSTON. I do not think any of it, Senator, as I see the figures. I do not know whether I have them available here or not, but almost all of it—for instance, we will take in the quarters of 1952, beginning this fiscal year. Economic aid, as I have the figures, has been cut down to half a billion dollars in the first quarter of 1952; 4 billion in the second quarter; 3 billion in the third quarter; and 3 billion in the fourth quarter of 1952.

Senator TAFT. What is that? You have got the figures wrong, not billion.

Mr. JOHNSTON. Half a billion, four-tenths of a billion, three-tenths of a billion, and three-tenths of a billion. That is a total of economic aid for the entire fiscal year, as requested, of only \$1½ billion, as I have the figures. The request for MDAP, military aid, is accelerated from three-tenths of a billion to five-tenths, to seven-tenths, to 1 billion, and in the fiscal year 1953, economic aid is only 1 billion, but MDAP aid is 8 billion.

In other words, I do not think that we are trying to compensate for the lowering of these prices.

Senator, one of the problems that we face with these foreign countries—and many of their representatives have been in to see me—is that we bid up prices for foreign products, as Senator Millikin or Senator Taft well said a few moments ago.

Senator BUTLER. On copper?

Mr. JOHNSTON. On many of these things. We are the world's largest consumer of nonferrous metals, Senator, and we use 50 percent of the world's production—50 percent is used in America. We use 61 percent of the world's production of copper; coffee, 64 percent of the world's production, and so forth. So, as we go into the market and bid on those items, we bid up the price and make it more difficult for these European countries to get those items at all.

Consequently, there is great resentment in Europe, in many quarters, and I think there is no question that some of the resignations from the British Cabinet were a result of the tremendous amount of raw materials we were buying, which had the effect of shutting off raw materials from European countries. I think a stabilization program is absolutely essential, Senator, if we are going not only to rearm and to hold the price line at home, but to have friends abroad. I think a stable program is essential for that.

I think it is not logical reasoning to hold we bid up these foreign prices and let them go on the theory that it will aid their dollar balances.

Senator BUTLER. Can you support the policy of paying 27 or 28 cents for Chilean copper, and 3 cents less for domestic?

Mr. JOHNSTON. Yes, sir. I think we can support that very well. The domestic producers are making reasonable profits. If I remember their profits for the—

Senator BUTLER. The cost of production abroad must be less than it is domestically.

Mr. JOHNSTON. It is, but please bear in mind that some copper is being sold for 50 cents a pound. Germany has bought copper at 50 cents a pound in small quantities. Some of this foreign copper is being sold at these prices.

Now, we have held the price at 27½ for Chilean copper by agreement with Chile, and by agreement with Canada, which has gone along with us. They are the big copper producers.

There are some other foreign copper producers who are charging higher prices and getting it, 40, 45, 50 cents a pound, whereas we have held it to 27½ cents.

Now, to come to the two-price system: We recommended to the President, who recommended to the Congress, the suspension of the copper import duty. That was 2 cents a pound. We were living with a differential of 2 cents a pound between the domestic and foreign price of copper, and we were living with it for a protracted period, Senator, before I took this position.

One of the first things we recommended was the removal of the import duty on copper of 2 cents. That removal compensated for most of the 3 cents, all but 1 cent.

We have asked the domestic producers to absorb the entire 3 cents. They were absorbing two, and we are asking them to absorb 1 cent more.

How long we can do that, I do not know, and my personal opinion, Senator, is that we are going to come to a time very shortly where we are either going to have to subsidize imported copper by paying the difference between the imported price and the domestic price, or raise the domestic price to the import price level.

We shall have to do one or the other soon, because we cannot live, in my opinion, with that 3-cent differential. That is one of the difficulties, for we have to try to hold this price down, because copper is an important metal that goes into the making of many necessary items.

Senator KERR. What you are saying is that the world price of copper is a good deal higher than 27½ cents?

Mr. JOHNSTON. That is right.

Senator TAFT. Much higher than what we are allowing our own producers to get in this country.

Senator KERR. That is even true of cotton.

Senator MILLIKIN. Mr. Chairman, I would probe three or perhaps four of the techniques that are under the jurisdiction of Mr. Johnston.

You have mentioned subsidies. What is your thinking as to subsidies in fields, possibly other than those that you have just mentioned?

Mr. JOHNSTON. I would like to answer that for you Senator. May I just say one other thing in answer to Senator Butler, because I just thought about it. That is this: the continued paying of high prices for these raw materials benefits the raw material countries, which are not now in a dollar deficit position.

Quite the contrary, Senator, they are very much the opposite, and it does help the producing nations, like Britain, who must depend upon the export of the manufactured products to live. So that is another reason we must try to hold down the price of imported raw materials.

Now, on subsidies, we have recommended the use of three types of subsidies, Senator. We recommend what we call subsidies for high-cost producers in this country, particularly in metals.

For instance, rather than raising higher the price of tungsten, a product which is badly needed—we have raised the price, incidentally, to \$65 a unit. The price before Korea was—I have forgotten—around \$40, wasn't it, Griff—

Mr. JOHNSON. \$30.

Mr. JOHNSTON. \$30 a unit, and we have raised it to \$65.

Incidentally, most of those tungsten producers, as you know, are exempt from the excess-profit tax, but nevertheless we have raised it to \$65, but rather than raising it higher, we think it would be preferable to subsidize those high-cost producers to get added tungsten out rather than raising the price higher than \$65.

Senator MILLIKIN. Does that, roughly speaking, run across the essential field of materials?

Mr. JOHNSTON. Yes.

Senator MILLIKIN. In what other fields do you contemplate —

Senator TAFT. The amount subsidized would be a comparatively small proportion of the total output, would it not?

Mr. JOHNSTON. That is right. It would be very small, Senator, but it would give an added 10, 12, 15 percent production, which might be very vital.

Senator TAFT. Yes.

Mr. JOHNSTON. Then, we have recommended the use of subsidies for high-cost producers of food.

Senator MILLIKIN. Give me an example.

Mr. JOHNSTON. Griff, do you remember an example of that?

Mr. JOHNSTON. The most notable example of that sort of a subsidy operation would be the nonprocessing meat slaughterers who do not get the additional revenues from byproduct that the big packers do. Consequently, they find it impossible to work on the same margins that the packers do, and if you want to have a meat-controlled structure extending down to retail with dollar and cents ceilings, without subsidies, you have either to raise the margins beyond the point that the big packing houses need or you squeeze the small ones.

Senator MILLIKIN. Where else do you contemplate subsidies?

Senator TAFT. I would be absolutely against that. I think that is absolutely unsound from every standpoint of price control. I just do not see that at all. Never mind, go ahead.

Senator MILLIKIN. Where else do you contemplate subsidies, outside of the mineral field?

Mr. JOHNSTON. The third is the import field.

Senator MILLIKIN. Besides the small packer?

Mr. JOHNSTON. The third is the import field.

Senator MILLIKIN. Import field?

Mr. JOHNSTON. Copper is an illustration. If we have to raise the price—we think that two-price system on copper is untenable, but we are going to try to keep the price of copper at 27½ cents, although there is great pressure, Senator, to raise it above that. That is the reason I went to Canada a week ago to talk to the Canadians about this copper situation.

Senator MILLIKIN. Are we in a preclusive buying situation, as we were in World War II?

Mr. JOHNSTON. What do you mean by preclusive?

Senator MILLIKIN. We went in and bought highly essential critical minerals at whatever the cost was.

Senator FLANDERS. Brazilian industrial diamonds.

Senator TAFT. To keep them away from the Germans.

Senator MILLIKIN. Have we gotten into that?

Mr. JOHNSTON. No; we have not gotten to that. We do not contemplate-----

Senator MILLIKIN. Do you contemplate it?

Mr. JOHNSTON. We do not contemplate it at the moment.

Senator MILLIKIN. Go ahead.

Mr. JOHNSTON. Well, the subsidies on minerals or other imported items, to try to keep the domestic price reasonably steady. If we are unable to make any deal in the field, where we can bring the price down, we may have to subsidize. In the case of-----

Senator MILLIKIN. What do you intend to do in the purely domestic field?

Mr. JOHNSTON. We have recommended nothing for consumer subsidies.

Senator MILLIKIN. What is your thinking on it, Mr. Johnston?

Mr. JOHNSTON. I am opposed to consumer subsidies if we can possibly get away from them, and we have requested nothing at the present time for consumer subsidies.

Senator MILLIKIN. Do your associates feel the same way? Does Mr. Wilson feel the same way? Does Mr. DiSalle feel the same way?

Mr. JOHNSTON. I do not want to answer for them.

Senator MILLIKIN. What do you think?

Mr. JOHNSTON. I am reasonably sure they feel the same way about it.

Senator MILLIKIN. Now, let us get into roll-backs, to the extent not prevented by Congress, what are your roll-back plans?

Mr. JOHNSTON. Well, Congress is at the moment preventing us from doing any, of course.

Senator MILLIKIN. Let us assume to the extent that Congress does not prevent you, what are your roll-backs?

Mr. JOHNSTON. May I stick one more minute to subsidies?

Senator MILLIKIN. Sure, I wish you would.

Mr. JOHNSTON. There is one other point I want to talk to you about.

Senator MILLIKIN. But I will not forget the roll-backs.

Mr. JOHNSTON. I will not either; that is definitely engraved in our minds.

On the use of subsidies, for instance, we have contemplated the use of subsidies on wool prices to hold low-cost clothing in line, so that it would not go up higher.

We do not want to use subsidies and that is the reason we have been talking about the stimulation of the building of synthetic wool plants, or wool substitutes plants, so that we can avoid the use of a subsidy. Probably with the present prices on wool going down, we can avoid such a subsidy. But it is that kind of a thing in the subsidy field which we would like to have permission to use, but only in those instances where we have to use it. We would use every other means to avoid it, as in wool, to illustrate.

Senator MILLIKIN. You have covered the whole field of subsidies up to the present time?

Mr. JOHNSTON. That is right.

Senator MILLIKIN. Now, let us go to roll-backs. To the extent not prohibited or impaired by Congress, what is your roll-back program? How wide is it? Over what articles; when do you intend to put them into effect and so forth and so on?

Mr. JOHNSTON. Well, we have several things on roll-back. Of course, as foreign prices decline more and more, as raw materials decline, as they have, for instance, in wool from \$3.87½ a pound to less than \$2, we have contemplated rolling back the prices of products in which these raw materials were used to a level where they would reflect the lower price in foreign raw materials. That is one method of roll-back.

Senator MILLIKIN. How far back?

Mr. JOHNSTON. Well, so that they would have the same profit margin.

Senator MILLIKIN. I mean——

Senator TAFT. What is that?

Senator MILLIKIN. To Korea?

Senator TAFT. I heard something about the same profit margin.

Mr. JOHNSTON. We would have the same base period plus the cost of raw materials. I probably should not have used the word "profit."

Senator TAFT. No; not that, exactly.

Senator MILLIKIN. How far would you roll back to pre-Korea, if you wanted to, or some intermediate point? Would you go back to pre-Korea?

Mr. JOHNSTON. There has been no intention to go back to pre-Korea.

Senator MILLIKIN. You have no authority to go back to pre-Korea.

Mr. JOHNSTON. No; and we have no intention of doing so.

Senator MILLIKIN. Give us some other examples of that roll-back.

Mr. JOHNSTON. Well, certain scrap materials, for instance, zinc and copper scrap, have been selling above the price of virgin metals the roll-back of those scrap metals would be to the virgin-metal prices.

CPR 22 provides that to the selling price prior to Korea could be added the increased costs of materials up to December 31, and factory-labor costs up to March 15.

Senator MILLIKIN. Now, come to the technique for doing that. At the moment what I want are the subjects. What roll-backs did you contemplate on July 2?

Mr. JOHNSTON. Those were the roll-backs that were contemplated in the manufacturing field, in the machinery field, and in the cotton-textile field.

Senator MILLIKIN. What items? Will you make a résumé?

Mr. JOHNSTON. In the manufacturing field——

Senator MILLIKIN. The whole manufacturing field?

Mr. JOHNSTON. Right; the whole manufacturing field.

Senator MILLIKIN. The whole textile field?

Mr. JOHNSTON. Yes; the whole cotton-textile field.

Senator MILLIKIN. Yes.

Mr. JOHNSTON. And the whole machinery field.

Senator MILLIKIN. Yes.

Now, we come to your technique for doing that, in accomplishing those roll-backs. What were your prospective devices to see that there was not a confiscatory element in it?



Mr. JOHNSTON. Well, we allowed their selling price, their highest selling price, in any one of four quarters prior to Korea, with certain other exceptions—technical details—which I am sure you do not wish me to go into. Then we allowed them to add to that highest selling price the increased cost of factory labor to March 15, and the increased costs of materials or supplies up to December 31, and that became the new selling price on the product. Any price in excess of that was rolled back, or any price lower than that was rolled forward.

Senator MILLIKIN. You made no allowance for overhead, for example?

Mr. JOHNSTON. In certain specific industries, yes; but, in general, no.

Senator MILLIKIN. In general, no?

Mr. JOHNSTON. No.

Senator MILLIKIN. Senator Taft has raised a question of margins of profit. What are the conventional margins of profit—how did that enter the calculation?

Mr. JOHNSTON. That does not apply to CPR 22 or to the manufacturing field. We have allowed the producer to take his selling price, the highest selling price, in any one of these four quarters, whatever it was, and add to that selling price these other costs of labor and material.

Senator MILLIKIN. So aside from the direct cost of labor and material, your formula does not contemplate other costs?

Mr. JOHNSTON. No.

Senator MILLIKIN. No.

Senator TAFT. Why not, Mr. Johnston? Incidentally, the Senate bill which passed with Senator Millikin's amendment permits you to say exactly what you said you want to do, except to add those other costs. Why don't you want those other costs?

Mr. JOHNSTON. I will tell you, Senator Taft, why we do not.

Senator TAFT. Some were making profits and others were not making profits, but why should not you have, at least the addition of all costs, if you are going to go back 8 months and figure it at that time?

Mr. JOHNSTON. Because we thought there was a very much larger volume of business and as a manufacturer myself, I know that your profits increase tremendously with volume, and there has been a much larger volume of business since the four quarters prior to Korea.

Senator TAFT. Well, in some things, and in a lot of other things it is not so. I mean, in fact, some things are well off from what they were, certainly, in the post-Korean period.

Mr. JOHNSTON. We have made some exceptions to that, Senator, where we found that was not a good base period. For instance, we have allowed the machinery people to add other overhead costs, but in general we have felt that we should not allow that—we have tried to have, Senator, a tight price policy.

Senator TAFT. For instance, is it contemplated, or perhaps already in force—there is a big freight increase which is not allowed in your formula at all.

Mr. JOHNSTON. That is right.

Senator MILLIKIN. How does a man meet those costs?

Mr. JOHNSTON. Well, he meets it, we think, out of increased volume. If, on the other hand—

Senator MILLIKIN. Increased volume, as you know, as a businessman, may increase your deficit, and may hasten the day of your bankruptcy.

Mr. JOHNSTON. If you are losing money.

Senator MILLIKIN. If you are losing money.

Mr. JOHNSTON. That is right. But if you are making money, it will increase your profit tremendously.

Senator MILLIKIN. There is consideration given to the fact that a man may be losing money?

Mr. JOHNSTON. We do give consideration; we have another formula dealing with the hardship and inequity cases.

Senator MILLIKIN. That is right. Tell us about that.

Mr. JOHNSTON. Where a manufacturer is in a deficit condition we grant him relief.

Senator MILLIKIN. In individual cases?

Mr. JOHNSTON. That is right; and also we have the basic formula—the basic policy—of allowing a whole industry to come in and get a price increase if profits of that industry are lower than 85 percent of the three best years from 1946 to 1949, inclusive.

Senator TAFT. By the way, what right do you have to do that? The act says distinctly you can take only into consideration the changes in profits after Korea.

Mr. JOHNSTON. Specifically what, Senator?

Senator TAFT. It says that you can take into account decreases and increases in profits after June 24, 1950, and you have gone back 4 years to base your price-fixing on.

Mr. JOHNSTON. Well, we have felt that it was a formula which was relatively easy to administer.

Senator TAFT. I am asking you how you justify it within the terms of the act.

Mr. JOHNSTON. We thought legally we were entirely justified—at least, our legal counsel says that we were.

Senator TAFT. I think he is wrong. I cannot see any basis for that. You might use that in one individual case, perhaps, as a basis for relief from a general regulation, but I do not see how you can base a general regulation under the act.

Senator MILLIKIN. How many items were involved in your contemplated July 2 roll-backs?

Mr. JOHNSTON. I cannot answer that. Can you, Griff?

Mr. JOHNSON. No, I cannot. It would be several thousand.

Senator TAFT. Several hundred thousand?

Senator MILLIKIN. Several hundred?

Mr. JOHNSON. Several hundred thousand items, of which a very large proportion would get rolled forward, and some would be rolled back.

Senator MILLIKIN. Some would be rolled back, and some would be rolled forward?

Mr. JOHNSON. Yes.

Senator MILLIKIN. But the total aggregate of roll-backs and roll-forwards in terms of items would have been of what order?

Mr. JOHNSON. Several hundred thousand.

Senator MILLIKIN. Several hundred thousand.

Now, let me ask another question, having to do with your techniques, talking about roll-backs. What wage roll-backs do you contemplate?

Mr. JOHNSTON. We contemplate no wage roll-backs because I don't know how you can take out of a man's pay check what he has already received.

Senator MILLIKIN. Do you have any control over—

Senator TAFT. That is no answer, Mr. Johnston.

Mr. JOHNSTON. Oh, yes, Senator Taft; I do not mean to be captious about it. How can you take away from a man that which he has already received, and still have him work in a tight labor market?

Senator TAFT. That is not a roll-back. A roll-back is that hereafter he shall have less.

Mr. JOHNSTON. I mean, take it out of his pay check in the future; in other words, his pay check would be lower in the future.

Senator TAFT. You are saying it is an impossible political thing to do. I agree with you. [Laughter.]

Mr. JOHNSTON. Well, I think it is impossible as a practical thing to do.

Senator MILLIKIN. At no point here have I discussed the merits of what you are doing or contemplate doing. I am not discussing the merits of a wage roll-back, but I wanted to find out what you have in mind on that subject, and what you have in mind is that there will be no roll-backs on wages; is that correct?

Mr. JOHNSTON. My mind is crystal clear on that.

Senator MILLIKIN. Now, wages will increase as other costs increase if they do increase; would you not say so?

Mr. JOHNSTON. That is right. I think there is no method of preventing wage increases if the cost of living goes up. History has been, in democratic countries, that inevitably wage increases follow increases in cost of living sooner or later.

Senator MILLIKIN. But you have no techniques to prevent that?

Mr. JOHNSTON. No. We are trying to hold the wage line—the Wage Stabilization Board is—under the cost-of-living formula, from January 15, 1950, plus some exceptions.

Senator MILLIKIN. What is the general result of your activity so far in terms of over-all figures?

Mr. JOHNSTON. The general result of the activity thus far has been the cost of living has been held relatively stable since prices were frozen—wages and prices were frozen.

Now, there has been an increase of less than 2 percent since that period, as contrasted with an increase of approximately 8 percent in the period prior to the freeze.

Senator MILLIKIN. You do not take exclusive credit for that result; do you?

Mr. JOHNSTON. Oh, no; we do not take exclusive credit for anything.

Senator MILLIKIN. Did you have in mind overinventory in many places, along the line, that has had a tendency to reduce prices?

Mr. JOHNSTON. I think a number of policies, Senator, have contributed. Little things such as this wool situation. The contemplated building of synthetic wool plants has dropped down the price of wool and stabilized it. Where the price would have gone had some of these things not been done, I do not know, and neither does anybody else.

Senator MILLIKIN. I would not contend that the result does not follow a complex of factors.

Mr. JOHNSTON. That is right; it is a complex of many things.

Senator MILLIKIN. I am trying to see what would be your view of the items of the complex.

Mr. JOHNSTON. No. 1, I think, is the psychological effect on the American public of the freezing of wages and prices, the feeling on the part of the people that they do not need to dash in and buy something and hoard it. It was a psychological factor and, in my opinion, it certainly prevented, when wages and prices were leap-frogging over each other, it prevented, and almost completely stopped, the increase of wages and prices.

Senator MILLIKIN. But the whole field of economics, to the extent that it has not been hobbled, was also operating.

Mr. JOHNSTON. Of course, Senator.

Senator MILLIKIN. When, for example, the excessive inventories, when they have existed, have been exhausted, there will again be enormous pressures, buying pressures on the market, is that not correct?

Mr. JOHNSTON. Senator, the inventories were not too excessive in relation to prices.

Senator MILLIKIN. I am not talking about averages——

Mr. JOHNSTON. Over-all averages.

Senator MILLIKIN. Over all; I am talking about particular businesses.

Mr. JOHNSTON. Particular businesses, all right. They were not so excessive in January. It was a fact that after January buying declined, but inventories and production continued, which caused the inventories in certain lines.

Senator MILLIKIN. It all comes to the same thing. It is excessive inventory in relation to the expectations of business.

Mr. JOHNSTON. That is right, but the inventories were not there when we froze wages and prices. I am saying it was the psychological effect. People stopped buying, or retarded their buying, or their hoarding, in the hopes that things would be lower, and inventories began to accumulate.

I know that my own inventories in my west coast companies increased materially after the 26th of January due to previous buying and previous commitments, the commitments of the managers who thought that prices would continue to go up, or that there would be shortages.

The inventories—the burdensome inventories—that have accumulated, to a large extent, have been principally since January 26.

Senator MILLIKIN. Well, to the extent that they have been lessened, assuming we continue our military program, there will be later scrambles to restore those inventories, is that not correct?

Mr. JOHNSTON. That is my opinion.

Senator MILLIKIN. And that will exert another problem for you, is that correct?

Mr. JOHNSTON. A very definite problem in our opinion.

Senator MILLIKIN. Now, do you figure that your activities have in any respect psychologically discouraged production?

Mr. JOHNSTON. We have no evidence that it has discouraged production.

Senator MILLIKIN. It would not be impossible, would it?

Mr. JOHNSTON. Of course, it is not impossible.

Senator MILLIKIN. I mean, when you surround the whole front of industrial activity with uncertainty, which I suggest is the inevitable result of undisclosed roll-back policies, is there not a natural tendency to go slow on future productive programs?

Mr. JOHNSTON. There is nothing, I feel, very uncertain about the program. The program has been very definite and has been very easily understood by manufacturers for several months. There is only the one roll-back contemplated; there are no future roll-backs of any shape, form, or variety contemplated, and there should be no uncertainty.

As a matter of fact, I think there has been much more certainty in the picture during the last few months than there would have been through constantly rising prices and inflation, with no man knowing where it would stop or how it would affect him.

Senator MILLIKIN. I was not denying the certainty there, but what you are saying is the certainty that people have had of the uncertain situation has had certain psychological effects.

Mr. JOHNSTON. I say that there was no certainty of an uncertainty.

Senator MILLIKIN. You say there is a certainty of a certainty?

Mr. JOHNSTON. A certainty of a certainty.

Senator MILLIKIN. A certainty of a certainty?

Mr. JOHNSTON. Of a certain type. [Laughter.]

Senator MILLIKIN. Is that the type that might deter advances in prices and, I suggest might deter a certain amount of productive activity?

Mr. JOHNSTON. I think if there were that uncertainty, Senator, that you would be correct. I have seen no evidence of it in any of the indices available to us, and my personal opinion is there is far less uncertainty than there would have been under a rapidly developing inflationary movement.

Senator MILLIKIN. You believe that had your contemplated July 2 roll-back been put into effect that everyone would have been happy with it, would have thrown their hats in the air with joy over the perfect solution that you achieved of our problems?

Mr. JOHNSTON. Senator, I certainly do not think that. I am not naive enough to think that, because all of us want escalation, everybody wants escalation, including the Government, and every individual wants it—escalation is a very pleasant thing for a while, while it is going on.

Now, I have had manufacturers in my office in the last 2 weeks who have told me the amount of their roll-backs, and their roll-forwards, and incidentally, it was much more roll-back than roll-forward, and I have yet to have a single manufacturer tell me that it was a bad thing to do. I do not say that they like it, but they all have said—

Senator TAFT. I will find quite a lot for you; if you want to see them; I will find quite a lot for you.

Mr. JOHNSTON. All right; I would not mind talking to them. They have not told me that it was a bad thing to do. They do not like it, of course.

Senator MILLIKIN. When do you expect to be back at your office? [Laughter.]

Mr. JOHNSTON. Maybe I should never go back.

Senator MILLIKIN. I think I could send you a couple of hundred over there before nightfall.

Mr. JOHNSTON. Maybe I do not see the right people, Senator.

Senator MILLIKIN. I am quite sure that you make an effort to.

Mr. JOHNSTON. I tell you many of these people, Senator, who come up to you and complain very vociferously, undoubtedly, I see some of them, I am sure, and some of them come in to see me and complain bitterly about it, but when I say to them, "Well, your profits are so much larger than they were before, and you are making a reasonable profit," and they admit that they are, and they say, "well, we don't like it, but I guess it is the fair thing to do."

Senator TAPP. Most of them claim they are not. They claim the second quarter is going to be much worse than the first. I do not know whether it is true or not.

Mr. JOHNSTON. The first quarter, Senator, before taxes, was at an all-time high.

Senator TAPP. It was good, but they all said the second quarter is bad, because it depends on semipermanent goods.

Mr. JOHNSTON. We anticipated that the second quarter would not be as good as the first, and the third quarter not as good as the second, and the fourth not as good as the third, but we thought over all it would not be bad; and the same goes for agriculture and labor.

Senator TAPP. I do not think it will be bad, but the trouble is in making all these rules you run into a lot of them—a lot of people that do not fit, and another thing is a lot of people cannot interpret OPR 22, and find out what it is going to mean.

Senator MILLIKIN. Mr. Johnston, one more question about your own techniques, and you touched on it a moment ago. Just what is your technique for considering profits along the way?

Mr. JOHNSTON. Well, Senator, as a businessman I know that profits are the blood and circulatory system of any business; you have got to have profits and you have got to have reasonable profits.

Senator MILLIKIN. As a businessman you know that.

Mr. JOHNSTON. Of course.

Senator MILLIKIN. But in your official position——

Mr. JOHNSTON. In my official position I have tried——

Senator MILLIKIN (continuing): How do you regard the matter, and what attention do you pay to it, and so forth?

Mr. JOHNSTON. Well, we pay a great deal of attention to it.

Senator MILLIKIN. So that in the end you have to form a conclusion as to what is a just and an unjust profit?

Mr. JOHNSTON. No; we do not try to do that, Senator.

Senator MILLIKIN. What is the purpose of your thinking on that subject?

Mr. JOHNSTON. We try to enable business to make, but let me first emphasize—there is no order out which limits profits. There is no order that we have that limits profits.

Senator MILLIKIN. But you just said that you naturally contemplate profits. I am groping now as to what the direction of your thinking is on that subject. Do you reach a conclusion—you have said so that "you have been making a lot of profits," so you must have been looking into the subject, and you have formed a judgment on the amount of profits that constitutes a lot of profits, and I assume that by the same token you reached a judgment where profits have not existed or have been rather meager; is that not correct?

Mr. JOHNSTON. That is true, and in those instances, I have recommended that they get price relief so that they can make a reasonable profit based upon an industry profit or a pro-Korean profit.

Senator MILLIKIN. So that you are in favor, roughly speaking, of maintaining, let us call it, a reasonable profit?

Mr. JOHNSTON. That is right.

Senator MILLIKIN. Despite all of those other techniques which we have inquired into?

Mr. JOHNSTON. Right, Senator.

Senator MILLIKIN. Is that correct? Thank you very much.

Mr. JOHNSTON. Yes, sir.

Senator TAFT. Mr. Johnston, I have a few questions I would like to ask. In the first place, you say frankly there will be no roll-back of wages. According to these various indexes, the cost of living since Korea has gone up about 8 percent, and wages in manufacturing industries have gone up 8 percent at the same time. So, if you roll back on prices, and it really works to reduce prices, you are not going to reduce wages to correspond; is that correct from what you say?

Mr. JOHNSTON. We would not reduce wages to correspond to what, Senator?

Senator TAFT. To the reduction of the cost of living that you would bring about by a roll-back in prices.

Mr. JOHNSTON. We do not think we are going to reduce the cost of living.

Senator TAFT. Then I do not understand-----

Mr. JOHNSTON. We think we can hold the cost of living reasonably steady.

Senator TAFT. It seems to me the impression the public gets is that the roll-back is going to reduce the cost of living. That is the thing that is going out to every newspaper and every editor—that this roll-back means a reduction in the cost of living. You say that there is no reduction in the cost of living—you say that now?

Mr. JOHNSTON. I say that now. But it prevents an increase in the cost of living, Senator, because if you get no roll-backs and get these roll-forwards, you get in large number-----

Senator TAFT. You froze everything as of February 1; I do not see any necessity for increasing prices for anybody, roll-forwards or anything else.

Mr. JOHNSTON. I see many for them.

Senator TAFT. In special industries, I admit there are some.

Mr. JOHNSTON. There are many industries that, on the formula we have adopted, are entitled to it.

Senator TAFT. You have this formula that nobody can understand. [Laughter.]

Yes, these small fellows tell me that they have gone to accountants, and the accountants say, "We cannot give you enough men to figure out under that rule what your prices have to be."

People have had these—people particularly who make a large number of parts for machines and parts for automobiles, and that kind of thing, where they have got a thousand products in maybe a relatively small plant—they say it just cannot be done. It would take them years to do it.

Well, that is really off the subject.

Mr. JOHNSTON. Yes.

Senator TAFT. What I wanted to suggest was that this roll-back business is not going to reduce the cost of living, and that your wage policy admits—in fact, not only, it seems to me, that you cannot roll it back, but that you are going forward. I quite agree to an increase in wages necessary to effect a rise in the cost of living. I think you have got to give people an increase to meet increases in the cost of living, but you also have recognized the 4 cents a year, or whatever it is—4-percent increase in General Motors' escalator clause, which has no relation to the cost of living, and is at an assumed increase-in-productivity figure, which may or may not be there.

Having recognized that, how can you refuse to give 4 to every other workman in the manufacturing industry, as we go on there? Is there any way to prevent a steady increase of wages now that you have recognized that escalator factor?

Mr. JOHNSTON. The 4-cent improvement provision in the contract, General Motors claims, is all set by an improvement in productivity. Whether or not it is, they say it is.

Senator TAFT. Whether or not that was the theory, particularly when they are made to change over from one product—a large part of their business from one product—to another, who knows whether there will be any productivity increase at all, and yet the formula works. It does not require any proof of increase in productivity, that is certain.

Mr. JOHNSTON. Well, Senator, I think all things taken into consideration, the labor policy is a very tight labor policy, and I really do think so.

Senator TAFT. You have already—this 10-cent thing was set up by the Board—

Mr. JOHNSTON. Ten percent.

Senator TAFT. Ten-percent increase. Now, that has been punctured already in five or six very important cases—very important cases—up to 15 percent.

Mr. JOHNSTON. That is right. And there were reasons for that, Senator, which I am sure, had you been sitting on the Board, you would have seen.

Senator TAFT. I am not questioning it; I am only suggesting to you that this is no freeze, and that your policy is inevitably defeating your idea of preventing inflation, because it is creating all this purchasing power that you want us to mop up in taxes; you are just nullifying our tax increase. We are only proposing a three-point increase here on personal incomes—3 percent.

Mr. JOHNSTON. Three percent.

Senator TAFT. Of net income; and you are increasing, admitting in your escalator clause, 4 percent in every year of manufacturing wages. You are just taking away in that increase everything that you are asking us to do in taxing income.

Mr. JOHNSTON. Oh, Senator, the 4 cents would be about 2 percent.

Senator TAFT. Well, to that extent, at least, you are nullifying exactly the mopping-up process that you are asking us to prescribe, by imposing additional income taxes.

Mr. JOHNSTON. In addition, I have proposed to the Board that that be granted only on the basis of a certification by the manufacturer of an increase in productivity, and it not be used as a price increase.



Senator TARR. Have you any control over the Board, Mr. Johnston?

Mr. JOHNSTON. I think I have some.

Senator TARR. Well, just how much? My recollection is that they went ahead with these puncturings of these ceilings without consulting you.

Mr. JOHNSTON. They have a good deal of autonomy, and they must have in their methods of operation.

Senator TARR. And a majority of that Board is made up of manufacturers and labor representatives, both of whom have a kind of, at least, weak feeling toward holding prices down, is that not correct, or wages?

Mr. JOHNSTON. I do not think that is true of the manufacturing group on the Board—the industry group.

Senator TARR. Would they not much rather settle strikes, rather than risk a strike, pay the increased wages, and pass them on to the Government and consumer? Isn't that natural? Isn't that human nature? How can you expect them to do otherwise?

Mr. JOHNSTON. I do not think so, Senator. I think that when it is a matter of a wage increase in the man's own plant, he is inclined to get back to work and to grant the wage increase; but, abstractly, when he is sitting on the Board, he does not join with labor in granting wage increases.

As a matter of fact, the proof of the pudding is in the eating. Take the last War Labor Board: I think there were only two or three cases in all the history of that Board in the thousands of cases that went through that Board, where management and labor joined together against the public members.

Senator TARR. Has any important labor contract since this was frozen been turned down by that Board?

Mr. JOHNSTON. There have been many important labor cases that have not been acted upon.

Senator TARR. There may be, I do not know if they are rejecting any single contract made.

I think it is very difficult. In fact, my general philosophy is that you cannot do it, but I am just trying to bring out the fact that you are not doing it; that is what I suggest.

Mr. JOHNSTON. Senator, let me just give you a few—I would like to have the other Senators have a few—cases in the situation.

We will take the shipbuilding case, the 15 percent case.

The law says that hardship and inequity must be taken care of. Here was an industry that was depressed, and there was very little shipbuilding during the years 1948 through 1950. There were no increases in the shipbuilding industry, whereas there were wage increases in industries employing similar lines of craftsmen.

The result is we arrive at a period when we do want to build ships, and that industry has a lower wage scale in proportion than other industries in the same area.

Senator TARR. Cannot the same argument be used by taking the scale of a favored people who have strong unions, like the coal miners and the automobile workers, so that everybody else is a hardship case because they have not as much as they have? Is not that generally the philosophy of this hardship case?

Mr. JOHNSTON. No, that is not true, Senator; and furthermore, what kind of wage rise do you think, without wage controls in key industries where manufacturers are bidding against each other in

order to get labor—what kind of wages do you think there would be today?

Senator TAFT. Up to today you would not have anything different from what you have given.

Mr. JOHNSTON. I disagree with you intensely, Senator. I think you would have a much higher scale. Look what Mr. Lewis got for the coal miners in January before the wages were frozen.

Senator TAFT. Just supposing Mr. Lewis had had this business 3 months later and had struck. I would be willing to bet you a hat that he would have gotten what he wanted, and the methods would have been found to adjust the thing to let him get it.

Mr. JOHNSTON. Well, Senator, I do not wear hats, but I think I would be glad to take you on on that.

Senator TAFT. As a matter of fact, you had to come in after he got it and approve it retroactively.

Mr. JOHNSTON. The agreement was made prior, and if you—

Senator TAFT. And you automatically proceeded to accept agreements made before a certain date, so that this one could be accepted.

Mr. JOHNSTON. No, that was—

Senator TAFT. So the question would not be raised.

Mr. JOHNSTON. No, Senator, that would have to be true with all contracts. It did not only apply to that.

Senator TAFT. You could have made an earlier date. This was not really closed, as a matter of fact, as I understand it; it was not signed up before the date fixed, was it? You finally had to rule that it was in effect made, although not signed up.

Mr. JOHNSTON. Neither was the Chesapeake & Potomac Telephone Co.

Senator TAFT. Wasn't that the ruling?

Mr. JOHNSTON. And several others.

Senator TAFT. I know—

Mr. JOHNSTON. All I am saying to you, Senator, is in a tight labor market, with employers bidding in defense industries for labor, you have the same law of supply and demand that you have with respect to commodities. We know the great difficulty that we are having with commodities, in holding them in line under the law of supply and demand when they are tight.

Senator TAFT. I do not say you have not done as good a job as you can; I am just suggesting this freeze theory is not going to work in peacetime, and you are going to have to make these changes, as you have admitted this annual increase in General Motors is going to have to be reflected in every workman in the United States, and you have to admit that you are retreating in your course so you are at sea with labor, and that means you are going to have to retreat, of course, on prices, it seems to me. I do not see how you can avoid it.

Senator FREAR. Mr. Chairman, can I ask a small question?

The Chairman. Yes.

Senator TAFT. I want to ask one other line of questions.

Mr. Johnston, on the question of the timing of this tax bill, how fast are these contracts going out? How fast is this Government expenditure going to take place? You testified before the Labor Committee, and I asked you at that time, and you made certain answers which I think the committee would be interested in.

You made a statement, for instance, along the line that you thought by November contracts would be actually let covering the supply of \$50 billion worth of goods at the rate of \$50 billion a year.

Mr. JOHNSTON. That is right. I have the supporting figures for that if you are interested.

Senator TAFT. Yes, I am interested.

Mr. JOHNSTON. These are the latest figures that I can get. Please bear in mind, Senator, this varies from month to month, up and down.

Senator TAFT. You wrote me a letter on June 18, giving certain figures.

Mr. JOHNSTON. That is right.

Senator TAFT. Yes.

Mr. JOHNSTON. Now, the best available information I have is the fiscal year 1952—I am talking about security program payments—that for the first quarter, that is the quarter we are now in, the expenditures will be 9.6 billion.

In the fourth quarter of the last fiscal year, Senator, which we just finished, it was 8.5 billion, and in the third quarter, which was the January quarter, it was 6.6 billion, and in the quarter before that, 5.2, and in the quarter before that, 4.2.

Senator TAFT. When you say security contracts, what do you mean?

Mr. JOHNSTON. I am talking about—I am breaking the total security program into the Department of Defense expenditures, the MDAP expenditures—

Senator KERR. The what?

Mr. JOHNSTON. The military defense expenditures for Europe.

Senator TAFT. Foreign.

Mr. JOHNSTON. The economic aid program. The stockpiling program and the atomic energy program. That is what I am breaking it down into, and the total is what I call the total for the security program. This fiscal year, on the present estimate, the total would be \$47.6 billion. Now, that is about \$2 billion less, Senator, than what I originally told you.

Senator TAFT. You told me there that you thought you could get up to 50 billion—

Mr. JOHNSTON. That is right.

Senator TAFT (continuing). By November of this year.

Mr. JOHNSTON. We will get at the annual rate of 50 billion, according to the—

Senator TAFT. Well, the annual rate of the military expenditures in fiscal '52, the year just beginning, according to the budget, is 44 billion. That does not include foreign aid, and you would have to throw in 6 or so, to get 50 billion for the year.

Mr. JOHNSTON. Would you like me to give you these figures? They are all broken down here, if you want to see them.

Senator TAFT. What I want to know is from the timing standpoint how far you would be spending them in November.

Mr. JOHNSTON. These are the billions—you see, it shows how—

Senator KERR. A little louder.

Mr. JOHNSTON. Maybe you would like to have me read them?

Senator TAFT. Yes.

I think this table should go into the record.

Senator KERR. I think so.

The CHAIRMAN. Please put it in the record so that we all can see it. Senator TAFT. Your figures now are what?

Mr. JOHNSTON. I would prefer not to put these in the record. These are supposed to be confidential figures to me.

Senator TAFT. You are now in accord with the budget?

Mr. JOHNSTON. That is right.

Senator TAFT. The budget has given us already the confidential figures.

Mr. JOHNSTON. On atomic energy, too?

Senator TAFT. Not in detail, but the total.

Mr. JOHNSTON. I do not mind putting the total in the record, but I hate to have it broken down.

The CHAIRMAN. Give us the total.

Senator TAFT. You have total expenditures for fiscal 1952, of 67 billion—

Mr. JOHNSTON. Yes, 67½ billion. It should be 68½ billion.

Senator TAFT. And the budget gave us the other day about 68.4, so that is substantially the same.

Now, your military expenditures during the fiscal year, or whatever you call your security, how much is that?

Mr. JOHNSTON. All right. The military expenditures for the fiscal year—and I will give them to you by quarters—the total security program, not broken down, for the first quarter is 9.3 billion.

Senator TAFT. Is this the contract business or does this include the personnel, paid personnel in the Armed Forces?

Mr. JOHNSTON. This is total, Senator; this is total.

Senator TAFT. All right.

Mr. JOHNSTON. The second quarter is 11.3 billion; the third quarter 12.5 billion and—that is at the rate of 50 billion a year. The fourth quarter is 14.9 billion, totaling 48 billion dollars. Those are the latest figures as of this morning.

Senator TAFT. Forty-eight billion? That includes the 44 billion here for Armed Forces, plus 4 for foreign aid apparently?

Mr. JOHNSTON. That is the right security total.

Senator TAFT. So, roughly speaking, your figures are the same as the budget figures for fiscal 1952.

Mr. JOHNSTON. Approximately the same; yes, sir.

Senator TAFT. So you figure that by November, we will be spending at the rate of 11 billion; that is not contract, however, is it? I mean, the contracts would be smaller than that?

Senator KERR. It would be larger.

Mr. JOHNSTON. They would be larger than that, Senator.

Senator TAFT. Actual operations, payments on contracts.

Mr. JOHNSTON. Payment on contracts would be smaller than that; actual awards of contracts will be much larger.

Senator TAFT. You have here—this is marked confidential, so I don't know if I had better ask you about it—Mr. Knowles furnished me with a statement giving the total number in value of the Department of Defense obligations from July 1 to the 30th of April—contracts let. Is there any secret about that? That is not marked particularly.

Mr. JOHNSTON. I would not think so, Senator.

Senator TAFT. As long as it is not broken down. The breakdown may be confidential.

You give that as \$26.2 billion in contracts let since the first 9 months of the fiscal year. Have you that? Is that brought up to date at all or have you not got the figures yet for this quarter?

Mr. JOHNSTON. Let me see if I have any figures up to date on that.

I have the total expended for the military program domestically, if you would like that, for hard goods, soft goods, and construction without any pay in it at all, Army pay or maintenance.

Senator TAFT. That is what I have here as 26.2 billion for 6 months.

Mr. JOHNSTON. Yes. Griff says that the latest figures we have are to add about 12 billion for the fourth quarter.

Senator TAFT. For the fourth quarter?

Mr. JOHNSTON. Yes, to that.

Senator TAFT. So that you say today you are letting, roughly speaking, in 12 weeks \$12 billion in contracts?

Mr. JOHNSTON. That is right.

Senator TAFT. So you repeat the statement that you are now letting, or the Government is now letting, defense contracts at the rate of a billion dollars a week, approximately?

Mr. JOHNSTON. That is right. It is a little higher than that, Senator; it is going up higher. It will probably be a billion one or a billion two.

Senator TAFT. What I want to hear from you if you can make a case, is whether this tax bill should be passed right away or to wait. We are faced with this problem: We have just come through here with a year in which the Government has a surplus of 3½ billion dollars, and we have to be pretty well assured of what is going to happen now in spending in the next 6 months before we are justified in asking the people to pay more taxes after a surplus; that is the problem, that is the difficulty that I have. We have to answer to our constituents as to what their taxes are.

Mr. JOHNSTON. Our best estimates, Senator, are that you will have a deficit in this quarter of a little over a billion dollars.

Senator TAFT. In the 3 months.

Mr. JOHNSTON. In the 3 months, and probably that is lower than the figure I originally told you because the production of goods has been a little slower than we contemplated; the delivery of goods has been a little slower than we contemplated.

Senator TAFT. Of course, the billion dollars—

Mr. JOHNSTON. A little over a billion, yes.

Senator TAFT (continuing). Is a good deal less than the deficit we had in the first quarter. The first quarter is always a bad quarter; the money comes in the last quarter of the year.

Mr. JOHNSTON. That is seasonal; that is not the actual cash; that is a seasonal adjustment for the year.

Senator TAFT. That is a new definition; I am not interested in the statistical adjustment. That is a new one on me. How about the real deficit. I am not interested in the statistical adjustments.

Mr. JOHNSTON. What will the real deficit be?

Senator TAFT. If there is only a billion-dollar deficit in 3 months, we might as well have a vacation in August and then come back later.

Mr. JOHNSTON. That is a seasonal adjustment, Senator. I cannot tell you; I think John Snyder could tell you better than I could—he probably testified.

Senator FLANDERS. You mean a seasonally estimated one?

Mr. JOHNSTON. That is right.

Senator FLANDERS. Do not use "adjustment" because that makes a phoney budget. If you mean that you estimate the seasonal effect of receipts and expenditures, that is intelligible.

Senator TARR. I do not see the seasonal adjustment. I don't quite get that.

Mr. JOHNSTON. What we are trying to say is if your tax rate was your present tax rate for the year, that instead of running a surplus as you run these other quarters, the second, third and fourth quarters, you would run a deficit on the over-all fiscal year basis.

Now, what the deficit will be, actual cash deficit will be, I cannot tell you because it unquestionably, as Senator Taft says, will be much higher than that, much higher than that. But you accelerate, you see, Senator FLANDERS, from total expenditures in the first quarter of this year of 14.4 billion, you accelerate to about 20½ billion in the fourth quarter of this fiscal year.

Senator FLANDERS. Is that what you mean by a seasonal adjustment?

Mr. JOHNSTON. That is probably what I mean.

Senator FLANDERS. That is intelligible.

Senator TARR. All right, Mr. Chairman, I am through.

The CHAIRMAN. Senator Frear?

Senator FREAR. Just one question, Mr. Johnston. At what period previous to the present time do you think that wages, prices, and profits were in the most equitable terms?

Mr. JOHNSTON. We think that January, 1950, was a period when there was the best balance between wages and prices.

Now, there is no period when there is not inequality in the wage and price structure.

Senator FREAR. I think we will admit that.

Mr. JOHNSTON. But we feel there was a relative period of stability in the latter part of 1949 and the early part of 1950, and the cost of living index put out by the BLS on January 15 reflected, in our opinion, a period of relative stability in the whole economic picture, and that is the reason we have used January 15, 1950, as a base for cost of living adjustments.

Senator FREAR. There were the least inequities in there?

Mr. JOHNSTON. Yes, sir.

Senator FREAR. I have a formula I want to present to you, but I don't want to burden the committee with it.

Mr. JOHNSTON. You certainly may have all the time you wish.

Senator FREAR. If I can have about 3 minutes.

Mr. JOHNSTON. You certainly can have all the time you want.

The CHAIRMAN. Are there any other questions of the witness?

Senator FLANDERS. Will you tell us, Mr. Johnston, what your responsibility is for allocations?

Mr. JOHNSTON. I have no responsibility, Senator, for allocations. That is NPA and DPA. I have only the responsibility of recommendations.

Senator FLANDERS. I noted that up until now you have been charged with everything; you are charged with the question of our defense expenditures—if you want \$90 billion or thereabouts—so I want to be clear in my own mind that you do have responsibility for suggestions on allocations?

Mr. JOHNSTON. I do; yes, sir.

Senator FLANDERS. Have you any information or means of information which would indicate whether the contractors for the armed services were stocking material materially faster than they were using it?

Mr. JOHNSTON. We have had—I have had some information that that is true; that in certain instances raw materials were stocked more rapidly than they were being used as against future contracts.

In the few instances we have been able to trace down, in some instances we found that the information was erroneous. Unquestionably, however, there is some of it that is true, but I do not think that it is any large amount.

There has been some speculation in materials, hoarding them in warehouses, not by contractors, but for future sales.

Senator FLANDERS. Yes.

The smaller manufacturers, using such raw materials as steel and copper and so on, I judge by the correspondence which I get are very fearful of getting any possible fair attention to their needs—I am speaking of those who make things for the civilian economy rather than the military. They seem to think they will get a raw deal, whether it is done by individual allocation or whether the allocation for civilian goods is left to the suppliers to do in accordance with judgment, and their possible relations to their customers.

Mr. JOHNSTON. In other words, they do not only not get raw materials but they get a raw deal in other things.

Senator FLANDERS. Yes.

Mr. JOHNSTON. Senator, we have tried to compensate for that. We have requested NPA and DPA, and Mr. Wilson has approved the allocation of materials for essential civilian goods and essential civilian supplies to keep the price down, and to keep civilian supplies rolling, and I think we will have no great difficulty with that.

Contrary to what happened in the last war where there was not adequate assignment of raw materials for civilian goods by the War Production Board, that is not true today; and I think that there has been the utmost cooperation between Mr. Wilson's office and this office in the allocation of raw materials for essential civilian use, and I see no reason why that should not continue, Senator; and I think many of these apprehensions of the manufacturers are based upon fear rather than actuality.

Senator FLANDERS. Yes.

It does, of course, have some reference to the inflationary problem since the civilian goods become in short supply on account of inequitable distribution of materials, and again you get a decrease in available goods, and inflationary pressure.

Mr. JOHNSTON. That is the reason why CMP was set up, Senator, to try to allocate these essentially scarce materials among the civilian producers.

The CHAIRMAN. It will have a considerable effect on revenues if there is not an adequate allocation.

Mr. JOHNSTON. We recognize that, Senator George, and that is the reason—

The CHAIRMAN. And while you properly emphasize the cease-fire will not change the program that is ahead of us substantially, I hope it will change one thing: I hope it will change any form of hysteria

on the part of the military that they can get everything that they want to get.

Mr. JOHNSTON. Well, Senator, that is one of the things that I have tried to do, to emphasize to the military just that, and I think we have been fairly successful in it. For instance——

The CHAIRMAN. I hope you will be encouraged and strengthened when you have a cease fire, because I think the people back home have some change of sentiment, and that ought to have some bearing on the military.

Mr. JOHNSTON. Just to take a minor thing, tin plate for tin cans for the beer industry. We have tried to keep that rolling for the beer industry, because they cannot get bottles or sufficient equipment for bottling. They have to have cans. This is a tax problem, a revenue problem.

The CHAIRMAN. That is pretty serious.

Mr. JOHNSTON. We have looked at all those angles. I have mentioned beer as one of the many things.

The CHAIRMAN. But it allows tin to be brought from abroad. All tin is bought by the Government, is it not?

Mr. JOHNSTON. Senator, it is not tin. It is tin plate, and it has to be put on plate. It has to be put on a special type of sheet, as you know, and that sheet is in very short supply. Yet we have insisted that reasonable amounts be allowed to go to the beer manufacturers, so that revenue would be kept up. In other words, we have tried to keep in mind, Senator, not only the civilian requirements but the revenue requirements. You are thoroughly right when you say if you cut off these supplies to essential civilian producers you do materially interfere with revenue collecting.

The CHAIRMAN. You certainly would not have much trouble in mopping it up, mopping up income, if you cut off all scarce material or if there is not an adequate distribution of your scarce materials.

Mr. JOHNSTON. Senator, this job has more facets to it than a Belgian cut diamond, and we are trying to look at all the facts simultaneously. I can assure you it is not easy, because you bear in mind not only the civilian requirements and the military requirements and the foreign procurements, but all of these things we think it is our job to advise and counsel with other Government agencies. I do want to say to you that up to this time other agencies and departments have been very cooperative in attempting to achieve results.

The CHAIRMAN. Are there any further questions?

Senator KERR. I would like to ask just on question, if I might.

The CHAIRMAN. Yes; Senator Kerr.

Senator KERR. Questions have been asked here seeking information and what effect certain policies would have on production. Can you tell us how the rate of production as of today compares with 12 months ago, first in the field of civilian supply and, second, in the field of military supply and, of course, that would then give us the information as to the over-all picture.

Mr. JOHNSTON. Well, on the rate of civilian supply, the information we receive is that civilian production is approximately at the same level that it was in the first quarter of this year.

Senator KERR. You mean as it was 12 months ago?

Mr. JOHNSTON. No; the first quarter.

Senator KERR. Six months ago?



Mr. JOHNSTON. That is right.

Senator KERR. How did that compare with the first quarter of the last fiscal year?

Mr. JOHNSTON. It was approximately——

Senator KERR. Or the July 1 quarter of 1950?

Mr. JOHNSTON. As I remember the figures—and our economist is here to correct me—as I remember the figures, it was about \$21 or \$22 billion higher in the first quarter of this calendar year than it was in the first quarter of the last calendar year, but it has held reasonably steady in the second quarter of this calendar year.

Senator KERR. Wasn't that comparable to the second quarter of the last calendar year?

Mr. JOHNSTON. No; it was way above the——

Senator KERR. No; I mean the differential is comparable.

Mr. JOHNSTON. Yes; the differential is comparable.

Now, on military goods, the military has stepped up appreciably. Military production has stepped up appreciably since the first of this year, this calendar year. It has stepped up appreciably, and I think it stepped up—well, I don't have those figures; I do not have them. I think it stepped up in the neighborhood, on an annual basis, of around 20 billion.

Senator KERR. That was with reference to a field which had produced how much in terms of dollars?

Mr. JOHNSTON. Well, that field had been producing, in terms of dollars, at the rate of about 19 billion on an annual basis. Would it not be that, Griff?

Mr. JOHNSTON. At the present time?

Mr. JOHNSTON. No; last year. In other words, the last calendar year it produced at the annual rate of 18 or 19 billion, and is producing during this calendar year at the rate of about 39 to 40 billion.

Senator KERR. In other words, we are today producing in the civilian field about \$20 billion ahead of a year ago, and in the military field about 20 billion above a year ago.

Mr. JOHNSTON. Right, sir.

Senator KERR. Which is a total of about 40 billion which is, in reality, in between a 15- or 17-percent increase in the over-all in the rate of production.

Mr. JOHNSTON. No; that is not correct, Senator; that is too high. That is in dollars.

The CHAIRMAN. That is the dollar increase.

Mr. JOHNSTON. It is a little too high.

Senator KERR. Is it not increased from 225 billion to 285 billion?

Mr. JOHNSTON. No; it has increased from 265 billion to about—well, what was the figure before? It is a little over 300 billion now.

Senator TAFT. What are you talking about? I mean, what is the total of what?

Mr. JOHNSTON. Gross production. In other words——

Senator TAFT. Not gross products, because gross products is 300 billion to start with, and it is up to 340. What is this figure?

Mr. JOHNSTON. I think it was 270, and it is now at the rate of 310.

Senator KERR. Is it 265 or 270 for the calendar year 1950?

Mr. JOHNSTON. I think we are running at the rate now of 310.

Senator KERR. Well, that is——

Mr. JOHNSTON. That is about 40 billion——

Senator KERR. That is about 45 billion above.

Mr. JOHNSTON. That is right.

Senator KERR. It then resolves itself to a mathematical problem of what increase 310 is to 265, does it not?

Mr. JOHNSTON. Or 275.

Senator KERR. How does that lack of being 15 percent, just between you and me?

Mr. JOHNSTON. Just between you and me it is pretty close. I think the figures are wrong.

Senator MILLIKIN. May I ask a question?

Mr. JOHNSTON. It was 279, the annual rate, 279.8, which is practically 280.

Senator KERR. That was the calendar year 1950.

Senator TAFT. Which page are you reading from? Which page is that?

Mr. JOHNSTON. That is page 2 of the Economic Indicators for June 1951.

Senator TAFT. Page 2?

Senator KERR. It had not attained that rate as of 12 months ago, had it?

Mr. JOHNSTON. Yes; the gross national product in 1950 was 279.8.

Senator KERR. Well, I say it had not attained that rate as of June 30, 1950.

Mr. JOHNSTON. No, sir.

Mr. JOHNSON. It was about 270 billion in the middle of 1950.

Senator KERR. If it is 280 for the year, what will it be for this year?

Mr. JOHNSTON. 272 for the third quarter.

Mr. JOHNSTON. First quarter, 263.

Senator KERR. What will it be this year?

Mr. JOHNSTON. 310 annual rate.

Senator KERR. Then the over-all increase is 30 billion?

Mr. JOHNSTON. Well, 313.9.

Senator TAFT. That is the first quarter?

Mr. JOHNSTON. That is the first quarter. We are taking that as

an annual basis.

Senator KERR. The 280 was an annual basis; is that not right?

Mr. JOHNSTON. That is right; annual basis.

Senator KERR. What is your estimate for the total for this annual—

Mr. JOHNSTON. About 330, as I recall.

Senator KERR. 330? That would be an increase of 50 billion.

Senator TAFT. Eighteen percent; eighteen percent between the first quarter of last year and this year.

Senator KERR. The year's total is going to be between a 15- and 20-percent increase.

Mr. JOHNSTON. Yes, sir.

Senator KERR. That would not indicate there had been any great slow-down in production caused by any freezing.

Mr. JOHNSTON. Oh, goodness, Senator, I don't think the wage and price controls have had any effect in retarding production.

Senator KERR. I thought so.

Mr. JOHNSTON. Quite the contrary.

Senator KERR. I thought we had to get the facts in the record.

Senator TAFT. I think they have been wholly ineffective; I think the drop in the increase was due to a lot of other things.

Senator KERR. In the final analysis the record itself will probably be the best evidence of the situation.

Mr. JOHNSTON. No question about that.

The CHAIRMAN. But you are just getting into the period of sharp allocations.

Mr. JOHNSTON. Yes, sir.

The CHAIRMAN. That is the point I was making, Senator Kerr.

Mr. JOHNSTON. That is right.

Senator KERR. Mr. Chairman, I was not addressing my questions at the line of questions which the chairman had asked.

The CHAIRMAN. Senator Millikin, you said you had another question.

Senator MILLIKIN. Do you agree, Mr. Johnston, that money spent for consumer goods is the most dynamic, so far as inflation is concerned?

Mr. JOHNSTON. Right, sir.

Senator MILLIKIN. You agree that, perhaps, 70 percent of the income available for the purchase of consumer goods is in the bracket from \$5,000 on down? What techniques do you recommend to this committee for increasing the tax take from people who find themselves in those lower brackets?

Mr. JOHNSTON. Well, our personal assumption in the ESA has been that there must be a fairly substantial bite on those groups below \$5,000 although we dislike it. We feel that is the only thing to do to effect stabilization.

Senator MILLIKIN. Are you satisfied with the scheme of the bite in the House bill?

Mr. JOHNSTON. We feel that the administration, Secretary Snyder's, program is a more effective program in that it takes more from the lower groups.

Senator MILLIKIN. Thank you very much.

The CHAIRMAN. If there are no further questions, thank you very much.

Mr. JOHNSTON. Thank you very much, Senator, for your courtesy.

The CHAIRMAN. We will meet at 10 o'clock in the morning.

(Whereupon, at 12:35 p. m., the committee recessed to reconvene Tuesday, July 3, 1951, at 10 a. m.)



# REVENUE ACT OF 1951

TUESDAY, JULY 3, 1951

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

The committee met, pursuant to recess at 10 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Connally, Byrd, Kerr, Frear, Millikin, Taft, and Butler (Nebraska).

Also present: Elizabeth B. Springer, Chief Clerk.

Colin F. Stam, chief of staff, Joint Committee on Internal Revenue Taxation.

The CHAIRMAN. Mr. Wilson, you may have this seat right here.

Mr. WILSON. Thank you, sir.

The CHAIRMAN. Mr. Charles E. Wilson, Director of Defense Mobilization, is before the committee this morning. I believe you have a prepared statement, Mr. Wilson? I believe you do.

## STATEMENT OF CHARLES E. WILSON, DIRECTOR OF DEFENSE MOBILIZATION, ACCOMPANIED BY R. A. CORREA, GENERAL COUNSEL; AND ARTHUR SMITHIES, CONSULTANT

Mr. WILSON. Yes, sir.

The CHAIRMAN. You may proceed with it.

Mr. WILSON. All right.

The CHAIRMAN. Will it interrupt you if you should be questioned as you read your prepared statement?

Mr. WILSON. Just as you please, sir.

The CHAIRMAN. Other members of the committee will probably be here in a while. They are very sensitive to traffic congestion during this transportation strike and some of them may be a little late, but they will all be coming in.

Mr. WILSON. Shall I proceed, Mr. Chairman?

The CHAIRMAN. Yes, sir; you may proceed.

Mr. WILSON. I know that all of you are aware of the necessity for adequate revenues to support our mobilization program. In considering the Revenue Act of 1950, your committee took the lead in providing a sound financial basis on which to build the first stage of our production program. Now you again have the opportunity to place our defense program on a pay-as-you-go basis.

There are many perplexing problems in the tax bill now being studied by your committee. I do not intend to discuss these specific problems with you, since witnesses, from within Government and without, more familiar with the particular issues involved, have already ap-

peared and will continue to appear before you. With your permission, I prefer to leave to them recommendations of a detailed nature.

My concern today, however, is with the broader problem: The relationship of taxes to the mobilization program.

There are three points that I wish to emphasize to the committee: First, that our defense program must continue to go forward vigorously; second, that our military requirements must be fulfilled on schedule; and third, that these must be accomplished without weakening our economic structure.

Some of you may be wondering what effect a truce in Korea will have upon our defense-mobilization program if current negotiations are successful.

The answer is, It will have no effect. Our defense mobilization must be based, not upon the Korean fighting, but upon what we know to be the ultimate aims and present tactics of the Soviet Union. Until we know that there is a genuine change in the long-term aims of world communism, we cannot afford to slow the pace of our own defense build-up and our aid to other countries.

Since the war in Korea began, \$42 billion in orders for military goods and facilities have been placed and contracts are being let at the rate of 3.5 to 4 billion dollars per month. The speed with which production goes forward under these contracts in part determines the rate of military expenditure during the fiscal year. Deliveries of end items and construction activity have already reached a level of \$1.5 billion monthly and within a year from now deliveries are scheduled to increase 4 billion dollars a month.

Senator MILLIKIN. Is that the calendar year or fiscal year?

Mr. Wilson. Fiscal year, Senator.

In discussing future expenditures, I am using figures previously furnished to the committee by the Bureau of the Budget. As you know, my office does not prepare those estimates.

The total estimated expenditures for fiscal 1952 are expected to exceed \$68 billion, \$48 billion of which is earmarked for national security. These figures are based upon estimates which are considered to be conservative. But on the basis of these estimates it seems clear that we may be faced with the prospect of a deficit in the fiscal year 1952. As the Assistant Director of the Bureau of the Budget said in his testimony:

A delay or an acceleration of deliveries of heavy military equipment under contracts involving many billions of dollars can shift several billion dollars of expenditures from one fiscal year to another.

As you know, my job as Director of Defense Mobilization is to see that the military requirements, as determined and scheduled by the military, are met, and met as nearly as possible on time. This means it is necessary to clear the way for military and essential civilian production by curtailing nonessential production, diverting materials, and providing aids to necessary expansion of productive facilities. It also means removing obstacles to production and expediting conversion to military production in order to assure an adequate flow of military end items. Frankly, however, I am not satisfied with our progress in achieving defense production.

In order to overcome delays we are now taking definite action to assure our production goals. Shortages of machine tools have caused a longer time lag between placement of contracts and actual receipt

of goods than was originally expected. We are working on this problem and have eased the shortage to some extent through the pooling of contracts for machine tools and by releasing tools from the reserve which was accumulated at the close of World War II. We are also taking additional steps concerning pricing, and allocation of machine tools, as well as the utilization of second-hand and rebuilt tools by defense contractors. Similarly, to speed up the production of aircraft we are establishing an Aircraft Production Board along the lines of the Board which was so successful during World War II and have set up a similar Electronics Production Board.

We have also introduced a controlled materials plan to channel steel, aluminum, and copper to essential uses. Under the controlled materials plan producers of defense and defense-supporting items will receive an allotment of these materials and a priority for other materials on the basis of approved production schedules. These materials are made available by the contractor to subcontractors in the proper quantities to assure completion of the contract. Non-defense consumption of controlled materials is reduced by limiting purchases to fixed proportions of normal usage. Even more complete allocations are necessary for some other metals, particularly the alloying metals, such as columbium, cobalt, and tungsten.

Senator MILLIKIN. What is columbium?

Mr. WILSON. It is a metal that is not in very wide supply, and it is used in the alloying of steel for making it stand high temperatures, and for toughness.

Senator MILLIKIN. Where is it produced?

Mr. WILSON. In the United States. We have a supply, but it is not a very free supply. There is not very much of it.

Through these and other measures we expect a rapid increase in defense production. If these measures are fully successful, there could be a shift of several billion dollars in expenditures from 1953 to the current fiscal year. Under these circumstances, the deficit for 1952 could be larger than is presently expected.

Even under ideal circumstances it will take until 1953 to reach the peak of deliveries under our program. By then tanks, planes, and guns will be rolling off the production lines in real volume. Our mobilization program, therefore, calls for substantially increased military expenditures during that year. Even though the expenditures for fiscal 1953 cannot now be closely computed, it seems clear that the expenditures which must be made in that year strengthen rather than weaken the need for higher taxation at this time. If we can place ourselves on a pay-as-you-go basis for this year or even achieve a surplus, it may be unnecessary to take further tax action in fiscal 1953 even though we may have a deficit in that year.

Senator MILLIKIN. How do you reconcile that, Mr. Wilson, with your theory of pay-as-you-go?

Mr. WILSON. Well—

Senator MILLIKIN. It has got to be one way or the other.

Mr. WILSON. What I mean by that, Senator, is this: That if we are successful in production to the point we hope we can for military production, military requirements, that it is quite possible that our output, our expenditures in that year, with the other Government expenditures added, would be considerably beyond the tax take even on the basis proposed in this tax bill.

Senator MILLIKIN. This is not exactly clear to me and it is somewhat mystifying to me. How can we proceed then on a pay-as-you-go basis?

Mr. WILSON. Well, pay-as-you-go is, I guess, relative. We recommend the pay-as-you-go for 1952, but it seems quite unlikely that we are going to be able to—we may have a deficit even at that.

Senator MILLIKIN. Does it not seem quite clear to you, Mr. Wilson, that as far as fiscal 1953 is concerned, if your plans or any of the plans that have come to public attention mature, that we shall have a very sizable deficit in that year unless, as Secretary Snyder has suggested, we adopt new methods of taxation that heretofore have not been considered with respect to taxes?

Mr. WILSON. If we had a deficit in 1953 fiscal, it seems to me that we could contemplate then, if there was no change in the methods of taxation, and barring all-out war now—all bets are off if we have all-out war—then our expenditures for these military items which, of course, are the nub of our difficulties, that they are going to fall off in 1954 and 1955.

The CHAIRMAN. They would begin to level off when we do reach the peak?

Mr. WILSON. I would think, barring war, that the peak will be in fiscal 1953, and from that time on we ought to slide down.

Senator MILLIKIN. Your testimony so far has been, Mr. Wilson, that we will slide down, but that the plateau into which we slide, would still be in the order of magnitude that would require an increase in taxes at the present.

Senator TAFT. Not much in 1953.

Senator MILLIKIN. And during the remainder of that increase in the future, which means even in the plateau period, you have a rate of taxation which is higher than anything this country has ever known.

Mr. WILSON. I would think that we might have difficulty in balancing in 1953, even with this program, but that whatever deficit there was should be made up if we maintain the same tax rate, in 1954 and 1955. That is the way it appears to me.

Senator TAFT. No, Mr. Wilson. You are proposing, in effect, that we balance the budget at \$68 billion for 1952. And now, the figures given so far, and if you agree with them, in the budget would figure that we would spend \$20 billion more in 1953, so you are advocating that we borrow \$20 billion in 1953. Is that right, is that what you are proposing?

Mr. WILSON. We would have a loss—we would have a deficit in 1952 and 1953.

Senator TAFT. You think we ought to now plan for deficit financing in 1953 and probably 1954 as a lag, and you do not stop spending once you start going.

Mr. WILSON. In 1954 we—

Senator TAFT. Probably in 1954 it would still be a deficit if you only collect \$68 billion in taxes, would it not?

Mr. WILSON. We would reduce. I would think that in 1954 we would be all right.

Senator TAFT. What do you mean by "all right"? How much would you spend? You would not be back to your normal 65 billion that was testified to here—normal, the new normal 65. [Laughter.]

Somewhere between 65 and 85, is that right?



Mr. WILSON. Well, I figured just about between the two, but I do not know what it is going to be, by any means; but I cannot see why we could not look forward to a very, very substantial reduction of the military expenditures in 1954, fiscal 1954; I cannot see why that is not possible.

Senator TAFT. What kind of expenditures? Stop buying airplanes and tanks? Have we got enough of them, is that it?

Mr. WILSON. I think so.

Senator TAFT. You do not reduce the 3½ million men in the Army, Navy, and Air Corps.

Mr. WILSON. That is right, but you have got them outfitted, and you have got their reserves.

Senator TAFT. Will there not be new planes, or new plans for more airplanes, and various other things at that time to take up?

Mr. WILSON. I suppose that will never stop while you have any Army of 3½ million men, and in the good old American way we will obsolete the 1952 models and 1951 models; we always do.

Senator TAFT. I think you are optimistic a little about 1954. I think 1954 would be as bad as 1953.

Mr. WILSON. I certainly do not think we can go on forever spending in these years this tremendous amount of 50 billions of dollars a year.

Senator TAFT. I am glad of that conclusion finally.

Senator MILLIKIN. Mr. Wilson, if you finance your deficit in 1953 with bonds, and do not sell those bonds to the people, you will be fueling inflation some more, will you not?

Mr. WILSON. Unless you sell them to the people.

Senator MILLIKIN. Yes.

Mr. WILSON. Yes, that would steam up inflation.

Senator MILLIKIN. This is off the record.

(There was discussion off the record.)

Senator TAFT. Mr. Wilson, if we are going to borrow \$20 billion in 1953, why not begin gradually and borrow \$5 billion in 1952, and \$10 or \$15 billion for 1953? If you are going to begin this bond-selling proposition why not begin it at a gradual scale and see that it is done right and not do it all in one year? If you contemplate deficit financing in 1953, why not have deficit financing in 1952, which is just as extraordinary an expenditure, apparently?

Mr. WILSON. Well, it seems to me that—I happen to be an advocate, as nearly as possible, even under present circumstances of tremendous spending, of balancing up as nearly as it is possible to do so.

Senator TAFT. I am in favor of cutting the spending, frankly, so far as I am concerned, so that you can balance it.

I just do not think the Army has to spend any such tremendous sums in fiscal 1953; but it seems to me if you admit now that you are going to spend so much, and that you are going to have a deficit anyway, why not begin now with deficit spending and plan it carefully and get the bonds to the people's real savings; find out how you get them there, and start now instead of waiting for 1953 if that is what you are coming to anyway?

Mr. WILSON. But, Senator, do you think you are going to be very successful in selling those bonds?

Senator TAFT. I am not advocating it; I am only examining it. The press always makes that mistake. I am just trying to test the logic of your position, in which you say here is pay as you go out of the window in 1953, but not in 1952? I do not quite see the logic of it.

Senator MILLIKIN. There is another phase of the same thing, Mr. Wilson, that bothers some of the members, and, I think, very much:

We now have a rate of taxation at the present time, and whatever we may add as a result of the legislation that is pending before us, as we said before, is and will be the highest in history.

Mr. WILSON. Tremendous.

Senator MILLIKIN. Many of us fear a mild recession. I am not talking about a massive recession. Even a mild recession and carrying a tax burden of that kind might jeopardize the economy of this country. What do you think about that?

Mr. WILSON. I do not see how a mild recession is possible under present conditions, with this amount of Government spending on top of what is a pretty lush economy anyway, I do not see why we fear—

Senator MILLIKIN. Doesn't that somewhat depend on how much spending power you blot up?

Mr. WILSON. That, of course, is true, but I do not believe we are blotting up enough.

Senator MILLIKIN. If we proceed with these blotting up operations of spending power, by virtue of doing that you are slowing up in one side of your economy.

Mr. WILSON. That is right, but—

Senator MILLIKIN. If that were done in a profligate way it could lead to disaster, could it not?

Mr. WILSON. If it is done in a profligate way it certainly could. I certainly think it is a situation that has got to be watched very closely, but I have not seen any signs yet that there is that danger that is imminent; I do not see that.

Senator MILLIKIN. If you do not do that—I am talking more or less in terms of extremes now—of course, the job is to get a balance, but continuing to talk more or less in terms of extremes, if you do not do this blotting up, you are going to continue inflation, are you not?

Mr. WILSON. I think you will; yes, sir.

Senator TAFT. Mr. Wilson, when you say that in time of peace, in 1953, you do not think we can raise the taxes that are necessary to pay the expenses, does that not imply that we are spending beyond the capacity of this country to spend, and still maintain a normal economy?

Mr. WILSON. Yes; I think we are. I think you have got an extraordinary condition.

Senator TAFT. You think such a course is justified in time of peace?

Mr. WILSON. In time of peace, no, I do not think so; but I do not think this is a time of peace, Senator.

Senator TAFT. Well, it is a semipeace.

Mr. WILSON. Semipeace.

Senator TAFT. It is not war, all-out war.

Mr. WILSON. It is not all-out war.

Senator TAFT. And it is a condition we contemplate for 10 years to come, or maybe a long time, and I just wonder whether we are not assuming, by going all over the world and spending \$8 billion in foreign countries, a burden beyond the economic capacity of this country, whether that is not more dangerous than it is to postpone slightly this expenditure, cut out some of the things that are—well, I notice the House is cutting out a lot of military construction that has been in the Budget; the House Appropriations Committee this

last week has cut out hundreds of millions of dollars of military construction they do not think, at least, is absolutely necessary.

Can't we cut this thing to a point where we can be within the economic capacity of this country to stand it, without this business of borrowing money which, I think, inevitably will bring inflation, no matter how well the bonds are placed?

Mr. WILSON. Senator, I could not agree with you more about the necessity of scrutinizing these expenditures for the very reasons that you have laid out. But my own theory has been that we are in—I accept the fact that we are told we are in—a mess, and we have got to try to guarantee our security by building our might as quickly as we can, and I accept that.

Senator TARR. Yes; but where you build it is a question of expense, and that is one reason why I was opposed to this European Army project. It costs three times or twice as much to keep the men in Europe as it does in this country. Aren't we assuming obligations all over the world beyond the economic capacity of this country if you say we cannot raise the money in taxes to pay it? That is what you said, and that is the thing that is significant today in your testimony, that the other witnesses have not frankly admitted, that we have got to a point in taxation where in 1953 we cannot hope to balance the budget. That is the significant thing to me, and it seems to me it shows that we are attempting something beyond our economic capacity in this project that has to be somehow toned down. I am in favor of the project, in general, but it does seem to me to be on an extraordinary scale.

The CHAIRMAN. Mr. Wilson, did I understand you to say you think that if your program can be expedited, stepped up, the expenditures in fiscal 1952 may exceed somewhat the estimates?

Mr. WILSON. Yes; that could happen.

The CHAIRMAN. That could happen.

Mr. WILSON. Yes.

The CHAIRMAN. Well, 1953 would still carry a heavy load; at the same time you then anticipate that there will be some leveling off after 1953?

Mr. WILSON. That is right, Senator.

The CHAIRMAN. I am inclined—at least I hope you are correct.

Mr. WILSON. I would think we could level off.

The CHAIRMAN. Yes.

Mr. WILSON. In fiscal 1954 and barring war, all this, of course, is continually assuming that—

The CHAIRMAN. Oh, yes.

Mr. WILSON (continuing). I would think that 1954 and 1955 could stand a very considerable reduction.

Senator MILLIKIN. Pardon me, Mr. Chairman, had you finished?

The CHAIRMAN. No; I just want to call attention to the fact that our staff, not the Treasury staff, as of now estimates the expenditure for the fiscal year 1952, has already been revised downward by 3.2 billions—\$3,200,000,000, and I think that the staff is working along the right lines. Of course, the staff cannot do anything but estimate income. It cannot estimate expenditures; in other words, it can only forecast them, based upon the other fellow's information.

Mr. WILSON. That is right.

The CHAIRMAN. All right, Mr. Wilson.

Senator MILLIKIN. I would like to ask a question.

The CHAIRMAN. Yes, sir.

Senator MILLIKIN. Is it your understanding that the surplus for fiscal 1951 will become available for expenditure in fiscal 1952 if that were the Treasury decision?

Mr. WILSON. Yes, sir; that is my understanding, Senator.

Senator MILLIKIN. That is a fact to be considered in reaching a balance in fiscal 1952?

Mr. WILSON. That is right, sir.

Senator MILLIKIN. Well, there are several other questions I have. We have got to make some—what do they call it now—"guesstimates" on what the expenditures will be, and also we have got to make some "guesstimates" on whether the Treasury is underestimating the revenues for fiscal 1952.

All of those considered together might lead easily to a balanced budget, unless you increase your production, which must be paid for in fiscal 1952 to a very large extent.

Mr. WILSON. That is right.

Senator MILLIKIN. Let me ask you this: Supposing, after we pass 1953 and we get on this plateau, if by that time we have substantially reduced foreign aid, military and otherwise, and if by that time we will have seriously reduced the amount of expenditures we are pumping into the economy, might not that in itself produce a certain amount of recession?

Mr. WILSON. Well, it could be, Senator, I suppose, but to go back to the period around 1945, do you remember how we were all told by some experts that we were going to have 12 million people out of work and the national income was going to be reduced, and so on? However, the reverse was true.

Senator MILLIKIN. They forgot the little item of obsolescence.

Mr. WILSON. And the pent-up demand for goods.

Senator MILLIKIN. Which is the obverse of what I am talking about.

Mr. WILSON. And personally—I am no economic expert, and it must have been clear to you by now that I make no bones about being one—but in running my own business in 1945, I made plans to more than double it—

Senator MILLIKIN. Yes.

Mr. WILSON (continuing). And it worked that way.

Senator MILLIKIN. You were sound because in your particular business especially you had enormous pent-up buying demands.

Mr. WILSON. That is right.

Senator MILLIKIN. During the same period that demand was stimulated by obsolescence of the type of equipment that you make, but until we get out on an all-out basis we have a different situation.

Mr. WILSON. Well, we still are going to have tremendous demands for goods for export, in my judgment, when and if we get a period of real peace, in order to go to work in the world. There is still a tremendous backlog of material that we can supply, and I think that is going to be an incentive for our American business.

Senator MILLIKIN. I do not think our exports are going to dry up, but this—

Mr. WILSON. I think they will increase.

Senator MILLIKIN. But the testimony before this committee has shown that a considerable part of our exports at the present time is on a we-pay-the-bill basis, and assuming—that is my assumption, which is that we will either cut that out or seriously reduce it—assuming all these stimulations that Government gives to our economy, wartime preparation, foreign aid, assuming that that is reduced substantially, certainly there is that much less—

Mr. WILSON. That is right.

Senator MILLIKIN (continuing). Elevation in the economy.

Mr. WILSON. That is right.

Senator MILLIKIN. And unless that lag is picked up, and picked up rapidly by private enterprise, you are liable to have this recession that I am talking about, where your normal tax burden, as it now is under the new norm, might be very destructive.

Mr. WILSON. I would agree that there is that danger, there is no question about that. Maybe I am an optimist, made so by experience over a considerable period in business, but my best guess is that, being the dynamic economy it is, we are not going to recede, and in spite of those dangers—and I admit they exist—that you mention, I think that we are going to expand this economy; we are going to have the wherewithal to do it; and you are going to have a tremendous pent-up demand again, because while you have got about 61 million people employed, at the highest wages and salaries this country ever saw, why, they are going to have the wherewithal to expand this economy. They have got the desires, and I think industry and commerce are going to meet those desires, and I would look for an expanding economy.

Senator MILLIKIN. But you would not contend—assume that is true, and I verily believe it over the long term—you would not contend that within that long-term increase there will not be recessions.

Mr. WILSON. Oh, we do not seem to be smart enough to eliminate those entirely, and they may occur; yes.

Senator MILLIKIN. My whole point is, when you get into that kind of a situation, that with the tax burden we are talking about, the kind of tax burden we are talking about as a minimum, you are liable to precipitate a deeper recession.

Mr. WILSON. If you ever contemplate this kind of a tax burden for many years, I mean beyond this time when you have got to pay off such a deficit, which is the only time I would want to contemplate it, I just do not think our economy could expand under peacetime conditions with a tax burden like this. I think you would wreck it.

Senator MILLIKIN. Well, that is all I am driving at. I think that is correct.

Mr. WILSON. I would agree to that without any hesitation.

Senator MILLIKIN. That is exactly what I am trying to get at.

Senator BYRD. What percent—you have been the head of a very successful corporation, one of the biggest and best of the United States, what percent—through the years do you think a corporation could pay of its net earnings and still remain a vital, dynamic exponent of the private enterprise system?

Mr. WILSON. I think the percentage that was paid until you made the 1950 change—

Senator BYRD. What percent? We have before us a bill here that may tax the corporations 70 percent.

Can a corporation afford to pay 70 percent over a period of years and still expand and meet the demand of a growing economy—meet the demands which a growing economy places upon such a corporation?

Mr. WILSON. Not possibly.

Senator BYRD. What percent could it be?

Mr. WILSON. Less than 50.

Senator BYRD. Less than 50? The bill that we are now considering, as you well know, is going to greatly exceed that—

Mr. WILSON. Of course.

Senator BYRD (continuing). For a long period of time.

Mr. WILSON. For a long period of time. However, in a peacetime economy I do not think you can hope for expansion at that tax rate.

Senator BYRD. How long could we maintain our economy under this semiwar condition, taking from corporations from 65 to 70 percent of their net incomes?

Mr. WILSON. I certainly would not want to contemplate it beyond 1955.

Senator BYRD. Is that the great problem that confronts us? We can do this thing temporarily, but there is a long-range proposition. If it comes, with the threat of war to a democracy, it is just as damaging to our economy as war itself.

Mr. WILSON. That is right. If this is for a long pull, I do not think you can keep it up.

Senator BYRD. That is the reason that I questioned your judgment a little while ago when you said that we were in for a long-range prosperity, and an expanding economy, because there certainly is no hope of any reduction in taxes within the foreseeable future, because the Budget, and the Secretary of the Treasury, they gave us figures the other day for 1952 of \$68 billion in expenditures; 1953, 85 billion; 1954, perhaps 75 billion; and then leveling off to 65 billion in 1955. That is what disturbs me, and I would like you to address yourself to that, because this is a long-range thing that we are confronted with now.

We may not have a war, if we have it at all, for a long, long time to come, and still we are weakened here at home.

Mr. WILSON. If you do not have war by—take your own figures there—1955, when they said they would expend \$65 billion total for Government, why, I certainly think you are going to have to reduce, substantially reduce, your Government expenditures; substantially reduce them, reduce your taxes or else you cannot maintain this kind of an economy. I do not believe it is possible; I just do not.

Senator BYRD. In other words, you would say that 1955 would be right at the danger point?

Mr. WILSON. That is right. I do not think you can go beyond that. I would hope we could do something before it.

Senator BYRD. Then, you think in the long-range program, that a corporation or individual as well—many individuals in business—cannot expand their business and meet the demands of a growing economy if they pay more than 50 percent of their net income in taxes?

Mr. WILSON. I believe that.

Senator BYRD. Another thing: Suppose we reduce these expenditures to a point that they will pay only 50 percent. Then we have got to cut back to, say, 45 or 50 billion.

What effect will this have on this so-called prosperity that we have now?

Mr. WILSON. You mean after we have become strong?

Senator BYRD. Well, I am speaking not of the military end of it; I am speaking of the impact upon our economy here.

You said a few moments ago that you did not anticipate any recession because of Government spending.

Now, you say that after 1955 we have got to cut these things down in order to preserve our free enterprise system.

Mr. WILSON. If there is no war.

Senator BYRD. If we cut it down, say, \$25 billion in 1955, what is going to happen? Won't some recession occur?

Mr. WILSON. Well, I do not think so. I believe if you cut your taxes and give industry a chance to expand, that there may be a hiatus for a short time, but I think you can build up again because I think there is going to be a very considerable amount of savings accumulated, and a pent-up demand; and assuming that we maintain the same levels of income, why, I think you can have an expanding economy.

Senator BYRD. There will be a period of readjustment there. You cannot stop spending 15, 20, 25 billion of Federal money and not create some gaps in the economy.

Mr. WILSON. That is why I like the idea, if it is possible, but I am afraid that Joe Stalin will determine it, that if we come up to a period of relative might in 1953 that we begin to taper off if there is no war, and conditions are ripe, we begin the tapering process, and I mean cutting into it pretty well, in 1954.

Senator BYRD. What do you mean, cut the spending back? What figure would you think we should arrive at?

Mr. WILSON. I would certainly think that we could cut back 10 billions in 1954; maybe as much as 20 billions in 1955.

Senator BYRD. Then you would get down to—the figure is 65 billion here, that they gave us, Mr. Snyder and the budget people, in 1955. You would cut how much of the 65?

Mr. WILSON. In 1955.

Senator BYRD. I am speaking of the effect upon our economy, you understand?

Mr. WILSON. That is right. I am taking the military expenditures.

Senator BYRD. What can the economy stand, the total tax cost?

Senator TAFT. They figure 40 billion finally, current—40 billion for the military.

Mr. WILSON. Forty-six billion in 1953.

Senator BYRD. You would take 20 billion off the 65 billion; that is what it would be, and you think 45 billion?

Mr. WILSON. If the conditions were right.

Senator BYRD. And the business economy could, perhaps, stand an annual tax payment of 45?

Mr. WILSON. Yes.

Senator BYRD. If it continued in the high level of prosperity, but you do not think that it can possibly continue the present rate of taxation as contemplated in this bill beyond 1955?

Mr. WILSON. If you do not have war, I certainly do not think you can and have a healthy economy. I do not see how you can do it.

Senator BYRD. I agree with you.

The CHAIRMAN. All right, Mr. Wilson, suppose you finish the prepared statement.

Mr. WILSON. All right, sir.

The CHAIRMAN. You were on page 6.

Mr. WILSON. We cannot afford to wait while our defense program expands to the extent that we may be forced into deficit financing in order to pay our bills. I believe that we should keep financially current and even, if possible, build a surplus for the future effort to come—and that relates to this 1953 build-up and tapering off in 1954 and 1955. That is sound business practice and, I believe, sound government policy.

If we are not prepared to tax ourselves sufficiently now, there are two alternatives open to us:

1. We cut out the defense program. That, in my view, is unthinkable. The dangers we face are far more serious than the inconveniences of mobilization. And this is so even if we are fortunate enough to negotiate an acceptable peace in Korea. Those dangers are world-wide and we must not permit ourselves to be lulled into a sense of false security.

2. We can carry out the defense program through borrowing and abandon any efforts to pay-as-we-go. Such a course would expose us to all of the evils of inflation and seriously reduce the value of the dollar.

We will, of course, continue our price, wage, and credit controls as they will aid in keeping the lid on inflation. Direct controls, however, deal primarily with the results of inflation and do not strike at the roots. Without the fundamental step of removing excess purchasing power, they cannot do the entire job. Moreover, in a changing and expanding economy there is continual need for price adjustment. There must be some price increases where higher prices are needed to stimulate increased production. Unless there is an adequate tax program to dry up excess purchasing power, it is difficult to administer price and wage controls with the flexibility necessary to assure increased production.

Senator MILLIKIN. Where does the excess purchasing power largely reside in this country?

Mr. WILSON. Well, presumably it resides in the 60 million people employed. I think it is pretty much across the economy, but you have got 61,000,000 employed now, and that is a potent group to consider. The incomes are way up.

Senator MILLIKIN. You agree that, perhaps, 70 percent of the national income is in brackets from \$5,000 on down?

Mr. WILSON. I think so.

Senator MILLIKIN. If you are going to do any drying up, is it not a fact that the major field for drying up is that particular one?

Mr. WILSON. It is one of the places.

Senator MILLIKIN. You recommend that?

Mr. WILSON. Yes.

Senator MILLIKIN. Do you think the House bill accomplishes that?

Mr. WILSON. No; I do not fully.

Senator MILLIKIN. What specifically would you recommend to this committee?

Mr. WILSON. I am not prepared to recommend a figure, but I believe that that is one place that some of the increased burden, of course, should be applied.



Senator MILLIKIN. I am not making any recommendations either; I am trying to learn something. But it certainly is something that has to be considered.

Mr. WILSON. It seems to me it just stands to reason that there is a tremendous pool of income that is increasing, and has got to share this burden.

Senator MILLIKIN. Do you see any feasible way of allocation of goods that would affect that large segment of our economy?

Mr. WILSON. Allocation of goods?

Senator MILLIKIN. Yes.

Mr. WILSON. No; I do not.

Senator MILLIKIN. You do not think that is feasible?

Mr. WILSON. No, sir; I do not.

Senator MILLIKIN. So that in your judgment the only field would be the taxation field?

Mr. WILSON. Yes.

Senator MILLIKIN. In that segment of the economy?

Mr. WILSON. On a broad base.

Senator MILLIKIN. Thank you.

The CHAIRMAN. All right, Mr. Wilson.

Senator TARR. Mr. Wilson, just one thing: You are cutting back automobile production—

Mr. WILSON. Thirty-five percent.

Senator TARR. How much?

Mr. WILSON. Thirty-five percent.

Senator TARR. A substantial reduction. Do you think it is going to be possible to hold the price of automobiles with that reduction? For example, we had great difficulty with black markets in new and second-hand automobiles; new automobiles became second-hand overnight, and do you think it is feasible to control, price-control, and try to control the price of automobiles if you cut back that much?

Mr. WILSON. Yes.

Senator TARR. I think you should cut it back, but I am just wondering about the effectiveness of a price control.

Mr. WILSON. I think if we can keep it at 35 percent—35 percent of a tremendous production, you know. It is not as though we were cutting from a norm. We cut from a tremendously high production.

Furthermore, the market had been pretty well taken care of by the production of 1949 and 1950. As a matter of fact, cars are backing up already in many lines.

Senator TARR. That is true. But after 3 or 4 months, will not the whole thing resume itself in steady increase in purchasing power that you are creating?

Mr. WILSON. Well, of course, we are applying credit controls to try to stem that to the extent possible. Sooner or later, Senator, yes, I think so. I do not think in a few months. Sooner or later, I think it will become a problem. That is why I sincerely hope that we can complete this building of our military might by 1953 because I think by that time all of these problems, such as the one that you just raised—and I think it is a real problem. It will be enormously difficult to overcome—and that is why I personally am in favor of continuing this plan of making ourselves strong just as quickly as we can, getting that behind us so that we can resume a more normal economy.

Moreover, we must not permit ourselves to be misled by the fact that the inflationary upsurges of last June and late fall have been

contained. The present economic lull, I am convinced, is a temporary phenomenon and has provided us only with a breathing spell. As we reach the close of the order-placing, contract-signing, and tooling-up stage, as the number of people engaged in military production and industrial expansion increases, inflationary pressures will begin to mount. Civilian goods now piled up in warehouses will be gone and, because many materials in short supply will have been channeled into defense production, the warehouse shelves may not be entirely refilled. But with defense plants going full blast, there will be large amounts of money in the pockets of the people. If this excess purchasing power is not drawn off, economic stability will be difficult to achieve.

The tragedy of inflation is that it falls most heavily on those groups least able to afford it. The characteristic features of inflation are that various prices move upward at different rates and increases in income lag behind increases in prices. Individuals and institutions living primarily on fixed incomes—white-collar workers, widows, and pensioners, for example—are the hardest hit of all.

Failure to restrain inflation also has serious consequences on the cost of the production program to the Government. General Marshall has graphically described the ravages of inflation on our military build-up. The Secretary of Defense has pointed out that of the \$35 billion authorized for military purposes in the last fiscal year, 7 billion have been lost through higher prices.

Senator TART. Isn't that an exaggeration? Ultimately, after renegotiation and all—wholesale prices have only gone up about 10 or 12 percent or something of the sort; the cost of living is up about 8 or 9 percent. Does that not indicate either a careless letting of contracts, if that is the result, or is it not going to be recovered in renegotiation?

Mr. WILSON. Well, some of it may be. But just take soft goods as an example, Senator.

Senator TART. That is a tremendous increase. There has been no increase in the personnel pay; food has only increased 8 percent. Here is an increase of, he claims, 20 percent, which means there must be 40 percent in industrial goods, and so forth.

Mr. WILSON. Well, there has been 10 percent in wages entering into these defense contracts.

Senator TART. That is right. That is 10 percent, but this is 20 percent; he is talking about a 20 percent increase in all military expenditures of \$35 billion.

Mr. WILSON. Well, I do not have an analysis of his \$7 billion figure, but I know there are many many items where it is a whole lot more than 10 percent, and that is why I took it for granted that his figures may be correct. I have not checked them.

Just let me give you a couple of items. Blankets that cost seven dollars and some cents—I have forgotten how many cents—now cost him \$20. That is on account of the wool situation.

Senator TART. Now, that is down again.

Mr. WILSON. That is down again, but he bought them, and got millions of them at the high price of wool.

Senator TART. That is only one item.

Mr. WILSON. All right. Take shoes.

Senator TART. But your general increase—what about shoes?

Mr. WILSON. Well, a hundred percent higher.

Senator TARE. Well, they are not so for civilian purposes; why are they so for military purposes? I go out and buy the same shoes I have always bought at a 10 or 15 percent increase.

Mr. WILSON. Do you? Tell me where you got them, because mine cost me a lot more.

Senator TARE. I buy Regal shoes; I have bought them all my life.

Mr. WILSON. I have got to look them up. I just bought a pair last Saturday, Senator, and I felt that I had been hooked at the increase I had to pay, the same shoes I have been wearing for 30 years, and it was a whole lot more than 10 or 15 percent.

Senator TARE. The Government can buy them at wholesale—a tremendous contract. It seems to me there is something wrong with the procurement system if the Government is paying a 20 percent increase on everything. I just do not think it is possible. I think it is an exaggeration, so far as I am concerned, in Secretary Marshall's testimony.

Mr. WILSON. You would go along with 10 percent, would you, Senator?

Senator TARE. I think 10 percent is reasonable; yes. I think that was closer. If you take the over-all economic field, I think it might be a little higher, because wholesale prices have gone up.

Senator MILLIKIN. Let us settle for 15.

Mr. WILSON. Well, it is somewhere between the two. You have got some items that are up tremendously on account of—

Senator MILLIKIN. Senator Caphart questioned on the floor their statement about radio.

Mr. WILSON. Electronics?

Senator MILLIKIN. Radar, and so forth, equipment; television, and so forth. We are all guessing.

Senator TARE. That has all gone up very little, and the same testimony with respect to that said it was going up three times. If so, it is very poor management and procurement policies.

Senator MILLIKIN. We are all guessing, Mr. Wilson. I think General Marshall can make good his claim on the first bounce, but I do not think he has taken account of the fact that the Government gets a lot back of that money in terms of excess profits and in terms of income taxes.

Senator TARE. And renegotiations.

Senator MILLIKIN. And renegotiation, and so forth. But so far as the first bounce is concerned, I do not think General Marshall has any difficulty at all in making his case.

The CHAIRMAN. On the question of renegotiation, the Board has not actually been appointed, has it?

Mr. WILSON. I think not, sir.

The CHAIRMAN. The Renegotiation Board. There is a lag there in getting the renegotiation processes at work.

Senator BUTLER. Is it not possible that a lot of the inflation or apparent inflation is due to the fact that contracts are made recklessly or carelessly, I would say, with the idea that while we recover in a way in renegotiation, we have not gotten to renegotiation, and the additional expenditures have already been made, and money has been spent, with the hope of recapturing some of it.

I think it will be far better business to make their purchases and contracts on a competitive basis, like other people do, instead of just

buying everything on a negotiated basis. That is one of the greatest criticisms I have heard on the buying program since the Korean affair started.

Mr. WILSON. You are going to have other witnesses here who are responsible for that buying. I do not know what percentage they are buying on a competitive basis and how much on a negotiated basis. I would think, however, that the quicker we get the Renegotiation Board appointed and set up and get a set of rules for its operation, the better it would be, because—

The CHAIRMAN. It would seem that would be a wise course to follow. Of course, the contractors are going to be here, and they can still negotiate them, but if they are ready and have set up the rules and regulations, it strikes me that we ought to do it.

Mr. WILSON. I think for the protection of the Government and the protection of the contractors they ought to know what the rules of the game are going to be.

The CHAIRMAN. Yes, sir.

Senator CONNALLY. As a matter of fact, the existence of the Renegotiation Board and the appointment of its members will have a tendency to ease the Government's position, because the contractor knows when he comes up that he is going to be renegotiated if he is too high—

Mr. WILSON. That is right.

Senator CONNALLY (continuing). And he might cut his costs.

Mr. WILSON. That is right.

Senator CONNALLY. Isn't that true?

Mr. WILSON. Oh, yes. But I think, in fairness to both sides, whatever the rules of renegotiation are now ought to be known; it should not be a mystery.

Senator CONNALLY. Of course, they ought to be known.

The CHAIRMAN. Yes.

Mr. WILSON. That was not so in the last go-around.

Senator CONNALLY. Well, the last go-around, renegotiation was sort of an afterthought. They did not start out with that in view when they first began, and they woke up later on to decide that we had better renegotiate and get some of this money back.

The CHAIRMAN. All right, Mr. Wilson.

Mr. WILSON. This loss of guns, planes, and tanks to inflation, is not even compensated by a corresponding loss suffered by the enemy as it would on the field of battle. However, if we are to remain free, these losses of military supplies to inflation must be regained through additional appropriations, which, in turn, increases the need for additional taxes.

Unfortunately, there is no such thing as a painless tax program. The need to release materials for defense production and to curb inflation demands a broad-based tax increase. In a sense, a heavy tax program at this time, is like surgery. It hurts, but in the long run we will be better off for it. This increase, however, must be equitably distributed across the entire community so that all share the burdens necessary to protect our national security.

Senator TAPP. We call it taxation. If we called it draining off purchasing power, it makes it sound so much simpler and easier.

Mr. WILSON. Easier; that is right. [Laughter.]

That is, I think, a better way to put it.

When we are tempted to grumble about taxes, let us remember how really fortunate we are. Despite our enormous expenditures for armaments, we are continuing to maintain our civilian economy at or near pre-Korean levels. Our gross national product for fiscal 1951 is estimated at around \$305 billion, of which defense production has taken less than 10 percent. In fiscal 1952, of an estimated gross national product of \$330 billion, about 17 percent will go for defense, leaving output for civilian purposes almost as high as in 1951. At the height of our mobilization program, we expect to be devoting no more than 20 percent of our gross national product for defense.

It is difficult to estimate tax requirements precisely. Changes on the international front and the progress of research and development at home may demand rapid shifts in our program.

Senator MILLIKIN. Mr. Wilson—

Mr. WILSON. Yes, sir.

Senator MILLIKIN (continuing). You contemplate, assuming that there should be something resembling a peace in Korea, that the administration in power will reestimate its programs, or will it go ahead with the existing program?

Mr. WILSON. Well, sir, from all that I have heard, they will go ahead with the program.

Senator MILLIKIN. In other words, they are not going to stopcock the program—the theory of turning it off when things look kind of good, and turning it on again when it does not look so good?

Mr. WILSON. I think the enemy is too tricky, is known to be too tricky, to have us lulled into that false position, foolish position.

Senator MILLIKIN. You do not think we will be confronted with that sort of thing?

Mr. WILSON. No, sir; I do not. I certainly hope not for my country's sake, that we do not get into any such position as that.

I think it would be a horrible mistake to ease up on this program that we have gone ahead with. I will not say anything about the timing of it, but if we do not profit by what we have seen abroad of the enemy and his aims and ambitions, and continue to make this country militarily mighty, I think it would be one of the worst mistakes in our history.

Senator CONNALLY. It would be like demobilizing too quickly after World War II.

Mr. WILSON. The same.

Senator TAFT. Of course 8½ billion of this is for foreign countries.

Mr. WILSON. Yes, sir. That is what it is, about 6 for military assistance and 2½ for general ECA-type assistance.

Senator TAFT. There seems to be a certain question of a foggy understanding, of 1½ billion in there, whether it is military or economic.

Mr. WILSON. I do not know, Senator, I am sorry to say, but I was over there in Europe about 6 weeks ago, and talked to some of our allies among the few free nations left, and from what I could gain, I certainly am in favor of their getting strong, and bearing a part of this burden, just as quickly as they can, I mean this burden of the defense of the free world.

I am also convinced that some of them need help to do it, and, well, it is tremendously expensive.

Senator TAFT. Should it be \$8½ billion? that is the question.

Mr. WILSON. Well—

Senator CONNALLY. We are furnishing aid which is to our advantage as well as theirs, are we not?

Mr. WILSON. I think so, Senator. If you want them strong and they are unable to get strong, why, we would have to do it.

Senator CONNALLY. The reason we want them strong is not only for their own defense, but ultimately for our own defense, isn't that true?

Mr. WILSON. That is right, sir; I think it is.

Senator MILLIKIN. Mr. Wilson, would you not say that coming right down to brass tacks we can have no peace in the true sense of the word in this world until we reach an ultimate adjustment with Communist Russia?

Mr. WILSON. I do not think there is any question about it.

Senator MILLIKIN. And all of the other things are merely peripheral incidents—

Mr. WILSON. That is right.

Senator MILLIKIN (continuing). That may or may not bear on the ultimate problem which I pose to you. Is that not correct?

Mr. WILSON. I think that is well put, sir.

Senator CONNALLY. Do you not think that this present effort to get a cease-fire though is optimistic along the lines of ultimately there may be an improvement in our relations with Communist countries?

Mr. WILSON. That could be, sir; that could be; and I surmise that our experts in that field will probe and see whether that is so, whether it means more than just the possibility of peace in Korea.

Senator CONNALLY. If it is in good faith on their part, I am assuming.

Mr. WILSON. That is right.

Senator CONNALLY. Of course, if it is not, if it is a trick, a screen, to build up behind it for another war, why, that is different.

Mr. WILSON. That is right.

Senator CONNALLY. But we cannot ignore the opportunity to probe in and take advantage of whatever the situation may warrant.

Mr. WILSON. That is right, sir.

All this money we are spending, which certainly shocks a boy from New York, I think is insurance, is the best insurance policy for peace we could have with the state of the world today. It is an awfully high-cost insurance policy.

Senator BYRD. Yet you think if it is continued after 1955 it may destroy us.

Mr. WILSON. That is right. But I do not think you have to continue.

Senator BYRD. It may destroy our free-enterprise system.

Mr. WILSON. I do not think it has to destroy us, Senator.

Senator BYRD. That is the risk.

Mr. WILSON. Of course.

Senator BYRD. You have to conserve everything, and all unnecessary expenditures on the basis of the fact that it may.

Mr. WILSON. Some part of it, yes. But does it not stand to reason, Senator, that much of this money we are spending is for increased plant capacity, so that in the event of all-out war we would have enough steel and enough aluminum and all the other things, and for increased plant capacity for airplane manufacture, tank manufacture,

gun manufacture, right across the line? Well, that is all going to be in place by the end of 1953, so just take those expenditures alone; they are going to be reduced, that stuff is going to be in place and ready to go.

Senator BYRD. Well, the question is, of course, how much they will be reduced if we spend \$85 billion in 1953. It has got to be very substantial if that is so.

Mr. WILSON. That is right, to be helpful.

Senator BYRD. We have got to cut \$30 billion off of it.

Senator CONNALLY. Won't we be in a better position though with this preparation and this rearmament to withstand anything that may happen by our enemy, rather than to cut down below the point that we ought to expend?

Mr. WILSON. I think so, sir.

What I meant to say, Senator, and I think it is to the point you are making, is that by 1953 you are going to have tremendous stocks.

Senator BYRD. That is right.

Mr. WILSON. Not as much, maybe, as the military wants, but they are going to have substantial stocks of planes, of tanks, of guns, of ammunition, all across the line.

Now, it would certainly seem to me that after 1953 all this tremendous amount of money spent to get in that position, that is for the plants and for the development cost and tooling and all that sort of thing, that is behind us. There is one tremendous reduction that almost automatically comes in 1954 fiscal, so that it is reasonable and rational to say that after that—still if there is no all-out war—why, we can look forward to this reduction that we are all so hopeful of getting, and we are going to maintain our economy.

Senator BYRD. But I want to know, and I am very much interested in your opinion in this, because I think there is probably no man in America who can give an opinion that would be sounder and more to be relied upon than we have got to reduce that high level to the extent of probably 25 or 30 billion, otherwise the taxation would be such that it would seriously impair the system of free enterprise.

Mr. WILSON. That is right. I think it has got to be—I have not figured out exactly how much, but I think it has got to be substantially reduced after that.

Senator BYRD. You are probably aware of the fact that General Motors today is paying 62 percent of taxes. They would pay more under the excess-profits tax, except there is a ceiling of 62 percent.

Now, you know, and have already stated, that no company can go forward and meet its responsibilities in a growing economy and pay 62 percent taxes.

Mr. WILSON. It never would be what it is today if it had to pay 62 percent taxes for any length of time.

Senator BYRD. It seems to me that is a peril that confronts us as nearly as great as the war itself, what we are going to do in 1953 and 1954 in leveling off. I know it has occurred to you, as it has to many of us, that maybe Russia's objective is to weaken the economic system of this country over a long series of crises here and there, as it were, so that finally, when we do become weakened, and destroy and impair the free-enterprise system, as they did in England, we would be much more subject to being conquered—I do not know whether it is conquered in the sense of inflation—but we would be in a much more

serious condition, in a weakened condition, to withstand Russia than we are with our strong economy.

Mr. WILSON. That is right, sir.

Senator BYRD. There is no doubt that the free-enterprise system is probably the best safeguard we have got for the future, the mass production, the capacity of it.

Mr. WILSON. And a strong economy is a wonderful asset.

Senator BYRD. So I think we have got to pay some attention to that question, which is imminent now, 2 years from now, and we have got to decide whether we are going to reduce these enormous expenditures or go into a certain weakening of the free-enterprise system.

Mr. WILSON. I could not agree more heartily with anything that you have said.

Senator CONNALLY. On the other hand, all the money we spend now, we do not have to spend in 1953 or 1954; is that true?

Mr. WILSON. Yes, sir.

Senator BYRD. The history of this country has been that it is awfully hard to cut off expenditures when they are once started. I found that out. They always talk about getting them cut off at some future time, but they never get cut off.

The CHAIRMAN. Let Mr. Wilson finish this prepared statement, if you will.

Mr. WILSON. There is just one more little bit if you want to get it in the record.

We need to be in a financial position to move swiftly and surely to meet the needs of new and varied situations without incurring huge debts. Based upon our present conservative estimates and the need to meet the uncertainties of the future, I believe it would be unwise to go below the \$10 billion figure recommended by the President.

The CHAIRMAN. Now, are there any further questions, Senator Connally?

Senator CONNALLY. No.

The CHAIRMAN. Senator Millikin?

Senator MILLIKIN. Mr. Wilson, passing the question of waste, and like sin, everyone is against waste—

Mr. WILSON. Yes.

Senator MILLIKIN. Passing the question of waste, are you not, in fact, running what might be called a minimum—

Senator KERR. Just a minute, if you will, Mr. Chairman. I can hear both the noise in the room and the Senator, but I cannot distinguish or understand both.

The CHAIRMAN. Let us have order in the committee room. All right, Senator.

Senator MILLIKIN. Is not your program of preparation the minimum for maintaining the security of this country? In other words, there have been proposals that we should go on an all-out mobilization basis right now; that we should have controls clear across the board.

Posing the problem against that contention, are you not doing the minimum, and I again say, passing the question of waste, are you not doing the minimum in the way of military preparation? How could you do any less?

Mr. WILSON. Senator, of course, I am a Johnny-come-lately here. I have only been here 6 months, and when I came I was faced with this very question that you now pose.



Senator MILLIKIN. Yes.

Mr. WILSON. Should we do more, should we have an expanded program and pump up the production of military matériel faster. Well, I just do not believe that that would be a good program, because, in the first place, suppose you were successful in it, and you could get \$150 billion, which seems to be what we need to be strong by, say, 1953—suppose we tried to get that out of this economy in 2 years?

Well, then you did not have war. After you had pumped up the economy on that basis, I think we would go into the worst tailspin if you did that in a 2-year period.

Furthermore, I do not think you would have succeeded anyway. I do not think you can convert peacetime industry to wartime manufacture or the manufacture of war matériel, I do not think you can convert it in that period.

You did not do it before, and I do not think you would do it now.

Another thing it would have done, there would have been the worst dislocation of labor in this country. You would have had at times millions, just millions, of people out of work, while you were waiting to convert.

It takes 6, 9 months to convert these plants, and tool them up for the things that we are now tooling up for—so we adopted a plan. I do not know whether it is a good plan or not. Time will tell whether it is, but we adopted a 3-year plan; that is, that in fiscal 1951, 1952, and 1953 we would bring out a total in new plants and military matériel—we would bring out approximately \$150 billion in those 3 years, about a \$50 billion goal a year. I am just taking it roughly now.

In that way we would maintain a strong economy and we do not reduce the production of civilian goods so substantially as to provide bad shortages and black markets and all that sort of thing, but we do not attain our full strength, admittedly, until, say, 1953.

Senator MILLIKIN. Then, would you agree with me that what you have got is really a minimum program?

Mr. WILSON. I would say that it provides that.

Senator MILLIKIN. If there are risks, there are risks for that reason.

Mr. WILSON. There are risks in the interim; yes, sir.

Senator MILLIKIN. And your opinion is there would also be risks if you had an accelerated program?

Mr. WILSON. I think the risks would be greater, and I think we would do the greatest favor to our Communist enemies if we adopted any other plan, because I think we would do just what Senator Connally referred to before, we would get mighty militarily, and we would be broken and broke economically, and I think our enemies would have gained a great victory.

This way I think you have got some chance of a reasonably strong economy and a worth-while dollar at the end of the period.

Senator MILLIKIN. What you are contending is not at all inconsistent with achieving the utmost in economy without weakening the military program.

Mr. WILSON. That is right, sir.

Senator MILLIKIN. Yes.

Senator TAFT. Mr. Wilson, you admit that it is a question of degree?

Mr. WILSON. Of course, it is, Senator.

Senator TAFT. You cannot be certain whether you have hit the right point or have not hit it. You say it is too much if we do more and too little if we do less. But certainly it is all a question of degree.

Mr. WILSON. Absolutely. I would be the first to admit that. I may be wrong.

Senator TAFT. And we have already a revised estimate which has cut the expenditure estimate for 1952 by \$3 billion, from the administration itself.

Mr. WILSON. That is right.

Senator TAFT. The program which you are talking about is largely the manufacture of tanks and airplanes, and the whole military procedure?

Mr. WILSON. That is right, sir.

Senator TAFT. I have no reason to think that your judgment is wrong. But there are lots of other things outside of that, are there not?

Mr. WILSON. Many.

Senator TAFT. You have all this foreign aid question.

Mr. WILSON. That is right.

Senator TAFT. Which is a military question.

Mr. WILSON. Right.

Senator TAFT. Now, take the Korean War. I quite agree that if we make peace in Korea, that should not be any reason for letting up. On the other hand, surely it does not cost as much if we are not fighting a war as if we are fighting a war. Is that not true?

Mr. WILSON. Absolutely.

Senator TAFT. That would affect the total expenses?

Mr. WILSON. That is right.

Senator MILLIKIN. But your main effort is to get the country prepared militarily on an over-all basis, as distinguished from turning it on or off according to Korea?

Mr. WILSON. That is right.

Senator MILLIKIN. Or any other particular single incident that may occur around the world some place.

Mr. WILSON. Surely. Senator, if this were a corporation—and it is, in effect, it is the biggest corporation in the world—you would take a program that would give you the best possible costs of your rearmament. God knows, it is huge enough as it is, approximately \$150 billion to get strong. But if you go to this turning on and turning off, or if you try to get it out in a couple of years, you will pay a cost for what you get that would be tremendous.

Now, with all the calculated risks that there are in it—and they are inherent in it and I admit it—yet I think this program of about 3 years to attain this might will give us the best possible costs and will keep us in the soundest economy. That is my judgment, anyway.

Senator MILLIKIN. You could not do less, could you, and achieve your own objective?

Mr. WILSON. I am no military expert, Senator. As to what they need to attain this might, I have to leave that to the military experts. The Defense Department comes up with what that must be. I accept that. I do not analyze that. I am not a military man. I am just a manufacturer and a peddler. So I take their figures on what they need.

Senator BYRD. Mr. Wilson, I would like to ask this question—

Senator TAFT. What they need, Mr. Wilson, to carry out a foreign policy determined by the State Department; is that not correct?

Mr. WILSON. I do not know.

Senator BYRD. Mr. Wilson, have any studies been conducted to estimate how much of that will be obsolete, because a great deal of this money will go for airplanes and other things that may be all right today but will not be effective 6 months from now?

Mr. WILSON. I do not think that the obsolescence rate is quite that high, Senator.

Senator BYRD. I did not mean to mention any figure. You speak of \$150 billion, just as if that is all that is necessary to keep us prepared. But we have to keep up to date with all the latest inventions, of whatever description.

Mr. WILSON. That is right.

Senator BYRD. A lot of this stuff is going to get out of date for effective warfare; is that not correct?

Mr. WILSON. Not too badly in 3 years, Senator; some of it.

Senator BYRD. We are preparing for much longer than 3 years, are we not?

Mr. WILSON. After you get it, yes. The years go on, 1 year, 2 years, and some items will be obsolete by new inventions. That is right. I do not think there is any way out of that. But I think that you could take care of that obsolescence and the replacement of what becomes obsolescent out of the very much smaller appropriation that we ought to be able to anticipate after 4 or 5 years.

Senator BYRD. You spoke today in terms mostly of matériel, and so forth. We have an enormous personnel cost to sustain that.

Mr. WILSON. That is right. I did not question reduction in that present 3½ million Army and Navy and Air Force, sir, because as an American, I would hope that we do not begin to talk about cutting that down until we have effectuated some kind of plan with our enemy that looks for long-term peace.

Senator BYRD. That is included in this \$150 billion over the next 2 years, is it not?

Mr. WILSON. That is right, Senator.

Senator MILLIKIN. Even after you hit that peak after 1953, you will have probably \$30 billion or \$35 billion for military appropriation?

Mr. WILSON. Something like that.

Senator MILLIKIN. That ought to be sufficient to take care of—

Mr. WILSON. The maintenance of the Army and the obsolescence and such new weapons as you come along with. Maybe we will have all atomic weapons. I do not know. We obsolete pretty fast in this country, thank God. That is why we have the standard of living we have and such a wonderfully lush economy in normal times.

The CHAIRMAN. Are there any further questions?

Senator BYRD. Mr. Wilson, I would like to ask one question. What do you know about the failure to appoint the Renegotiation Board? It seems to me that that should be done immediately.

Mr. WILSON. I do not know. I have been frankly making some inquiries just last week, Senator, but I have not gotten the answers. That does not come in my shop, and I do not know anything about it.

Senator BYRD. That is very important about the whole thing, and I should think that you would recommend to the President that he make these appointments.

Mr. WILSON. I made up my mind that I would look into it, Senator, and find out what it is. I do not know.

Senator BYRD. Four months ago they were thinking about the high cost of these materials, but they had not even appointed the board for renegotiating the contracts. I make the suggestion that that would be a very pertinent matter for you to recommend to the President that he make those appointments.

Mr. WILSON. Yes.

The CHAIRMAN. He discussed that, Senator Byrd, while you happened to be out, I think.

Senator KERR.

Senator KERR. I would like to ask just one question.

Do you feel in your own mind and in your own judgment that the program that is outlined is within the capabilities of a sound economy, and that the doing of it will not impair the soundness of our economy? You think that, do you not, Mr. Wilson?

Mr. WILSON. Yes. I believe it is within the scope of our economy, which is currently sound. If we are going to continue this rate of expenditure for a considerable number of years, I would not say it would be sound.

But I think for the 3-year period, that maybe we talk too much about, but in gaining this military strength, I think it is sound, and if we can put it on as nearly a pay-as-you-go basis as you can, I think we can maintain a sound economy.

Senator KERR. And feeling that way, and confronted with the recommendations of the Defense Department, if you had to make a decision, would you not be as zealous in meeting the recommendations of the Defense Department on the basis of this 3-year, \$150 billion program as you would with reference to maintaining the position of the economy?

Mr. WILSON. That is right.

Senator KERR. Thank you, sir.

The CHAIRMAN. Are there further questions?

Senator BUTLER. Mr. Chairman, I do not know whether Mr. Wilson would care to express an opinion or not. He spoke of his trip to Europe and the conditions he found over there.

I just wondered if you had the impression that those whom we are trying to help abroad—of course, we are mainly interested in our own welfare for the future—but are those we are helping abroad doing as much proportionately with their situations as the American taxpayers?

Mr. WILSON. I went to two countries where General Eisenhower wanted me to look over the production situation, especially, and in both of those countries I got the impression—that is, France and England—that they were really making a very serious effort to increase their production of the military equipment they needed to meet the goals that had been established for them by the joint groups over there, and especially by General Eisenhower.

Of course, their problems are very, very much different from ours, and even after they expressed a willingness to go ahead with their production problems and meet them, then they encounter great difficulties about raw materials. We have to help them with that.

Unfortunately, they just do not have much that it takes for modern military weapons. That is true in both France and England, and that is what brings up this question of our supply of a number of these things.

Then in the matter of speed, trying to get them to get militarily strong within a reasonable time, that immediately brings up a problem of where they are going to get the machine tools to do it. They have not got them, and again we have to go in and supply the machine tools.

But in both places, it seemed to me they recognize the problem. There was complete willingness to try to find the means of meeting it. I think it is fair to say that they look to us for a very considerable amount of help if they are going to succeed.

Senator TAFT. I saw in the paper that you were disappointed, perhaps not with their effort, but with what had actually been accomplished up to date.

Mr. WILSON. Surely. It is true, Senator.

Could I say this off the record, or do you want it on the record?

Senator TAFT. No. I do not want it on the record.

The CHAIRMAN. Take it off the record.

(Discussion off the record.)

The CHAIRMAN. Mr. Wilson, we thank you very, very much. I think you have your press conference this morning, do you not?

Mr. WILSON. Yes. We are going to give the new report out, the second quarter report, sir.

The CHAIRMAN. We appreciate your appearance here. You have been helpful to the committee, and we thank you, sir, for coming over.

If it is agreeable with Mr. McNeil, who is next on the list, we shall allow Mrs. Rosenberg, the Assistant Secretary of Defense, to testify at this time.

Mrs. Rosenberg, will you come around, and we shall be glad to hear you now.

Mrs. ROSENBERG. Thank you very much, Senator.

I have a prepared statement, Senator, if I may read it into the record.

The CHAIRMAN. You would like to read that first, before answering questions?

Mrs. ROSENBERG. I would like to. But anything that you gentlemen care to do, I would be glad to do. I think many of the questions may be answered in this.

Senator KERR. Do you have copies of your statement?

Mrs. ROSENBERG. I am afraid I only have one, Senator. I prepared it last night, not knowing that I had to come up here, and that is all I have.

The CHAIRMAN. Mrs. Rosenberg, we will be glad to hear you now.

#### STATEMENT OF ANNA M. ROSENBERG, ASSISTANT SECRETARY OF DEFENSE

Mrs. ROSENBERG. Mr. Chairman and gentlemen, in appearing before this committee, I am deeply conscious of the importance to every citizen of how well the Defense Department does its job.

Manpower and manpower utilization, which is the subject I think you want to hear from me on, are not only men and figures, but also dollars, tax dollars. One of the measures of our effectiveness is dollars, how well we use them, and how few we are going to spend.

We all know that we are in for a long pull, one that will test this country's power of endurance as it has never been tested before. If we are to maintain the necessary military strength through this

protracted period of tension, we will have to plan our defenses on a basis that will hold our expenditures of money and manpower to the absolute minimum consistent with our national security.

I want to emphasize that when I say the necessary military strength, I am referring to the approximately 3,500,000-man strength set by the Joint Chiefs of Staff and approved by the President. This strength is a minimum one, essential for the coming year, regardless of when the Korean fighting ends.

In order to support these military forces, we require approximately, in the coming year, 1,500,000 civilians. This military and civilian personnel strength must be considered in relation to the total defense budget. Within the total expenditure planned for the fiscal year 1952, 23 percent will be required for military personnel costs, and approximately 10 percent will be required to pay for civilian personnel employed by the Department of Defense, which includes the four services, Army, Navy, Air Force, and Marines, and other individual defense establishments where production is being maintained.

Of these direct hire civilian personnel, approximately 40 percent are directly engaged in procurement, production, maintenance and operation of major materiel programs, or about 580,000 civilians for the coming fiscal year, as planned. Thirty-five percent are engaged in maintenance, modification of equipment, reactivation of stations, and in operating the depot supply system, approximately 540,000 civilians. The remaining 25 percent are engaged in service-supporting activities, such, for instance, as medical. Here alone, 54,918 civilians will be engaged.

Research and development will require 77,000; recruitment and instruction, 60,000; civilian components, 22,000; and the rest in fiscal administration, industrial mobilization, and DOD Establishment-wide activities.

It is the continuing policy of the Department of Defense to place as much of its production work as possible with private industry.

The following are estimates of employment generated in private industry through the expenditure of defense dollars for procurement and construction: 1950, June 30, approximately 1,000,000 people; June 30, 1951, 3,400,000 people; June 30, 1952, 5,700,000 people.

Even though the requirements for military and civilian personnel stated above were thoroughly reviewed prior to their submission to the Congress by the Deputy Secretary of Defense and the Comptroller, no additional civilians will be hired in the coming year above the current level without a further review and justification at all levels all the way up, and a final one at my office. The Department of Defense has recently established new procedure for the submission and justification of all manpower requirements, civilian and military. No ceiling increase will be granted until it has been tested by these yardsticks.

Senator MILLIKIN. Are you speaking of a ceiling in manpower or a ceiling in money?

Mrs. ROSENBERG. Ceiling in manpower, sir, as permitted by the money allocated in the 1952 budget.

We believe budget manpower ceilings establish a limit, and not a goal.

In the past few months, even before our new procedures which have been put into effect in the Department of Defense were established,

we had established civilian manpower ceilings in each military department and the Department of Defense itself, the Secretary's office, within the budget ceilings previously permitted for fiscal 1951—1,311,000 persons were originally the planned strength for the end of fiscal 1951. I am talking of civilian personnel. As a result of manpower ceilings imposed within this budget, we will end fiscal 1951 with a lower civilian personnel strength than we have been permitted, approximately 1,208,000.

We will continue to review the utilization of the personnel already in the Establishment.

A part of my job in the Defense Department is to work with the military services in developing and instituting programs to end waste in the assignment and use of personnel. We have no double standard for military and civilian personnel.

Senator MILLIKIN. May I interrupt the witness, Mr. Chairman?

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. Would you suffer from an interruption at this time?

Mrs. ROSENBERG. Not at all, Senator.

Senator MILLIKIN. Have you looked into the utilization of civilian manpower in the Pentagon?

Mrs. ROSENBERG. Yes, sir.

Senator MILLIKIN. What is your conclusion?

Mrs. ROSENBERG. If I may, I think part of this may be answered. I can give you my conclusion, sir, about the Pentagon and every other establishment. I think we in America have had such an abundance of manpower that we have been wasteful of dollars and manpower. We must tighten all our controls, and we are well on the way to doing it.

Senator MILLIKIN. What is your conclusion about the Pentagon?

Mrs. ROSENBERG. My conclusion about the Pentagon, sir, is the same as of every other Defense Establishment or every business establishment. I am sure it can stand improvement.

Senator KERR. You mean, a reduction, Mrs. Rosenberg?

Mrs. ROSENBERG. Either reduction or an additional taking on of work. The way we think we are effecting even now some improvement is that there are additional programs and additional responsibilities put on the armed services and the people in the Defense Department in the Pentagon and other places. Instead of permitting additional new personnel, we are making them take on these additional new responsibilities with the existing personnel.

I can give you an example of it, Senator, that I have taken on all the manpower functions and personnel functions, many of them which did not exist previously, as there was no manpower and personnel organization. I have so far taken on four civilians and one civilian stenographer additional, and I think I have assigned to me four or five military personnel. I have used three to four consultants who come in on per diem because I cannot get their services otherwise.

Now, we have assumed a very large increase of work, and the people who are right there have assumed it.

In the Munitions Board alone, they have put in additional improvements where I think they have reduced their staff by about 1,500—Mr. Jack Small is here, and he has these figures. The services are trying to do the same. And I think, sir, you are going to see that there is some improvement.

I must say that there have been some stories about the Pentagon that I would say are slightly misleading, because of the inclusion of the Washington area. For instance, one story carried the entire Washington area. That included Walter Reed, Fort Meade, and a lot of other places. It was not the newspaperman's fault who wrote it; it was the fault of the person who gave him a lump sum of everybody that was considered in the Washington area.

Senator MILLIKIN. I have no doubt that there have been exaggerations. But is it your present opinion that, at the present time, and under the present workload, the Pentagon is overstaffed with civilian employees?

Mrs. ROSENBERG. I cannot give you a categorical answer, Senator, because I know some places they are understaffed and some places we could effect economies, and we are trying to transfer people from the places we feel economies are due.

Senator MILLIKIN. I think you have answered it. In some places they are overstaffed and in some places they are not; and you would tend to bring about a better balance by moving those who have nothing to do into places where they might have something to do; is that correct?

Mrs. ROSENBERG. Yes, sir, in respect to those who might carry more of a workload, because I honestly think that no one is doing nothing in there.

Senator MILLIKIN. Is that a make-work program in there, or have you really considered the workloads in relation to the personnel problem? Have you really cut down your civilian-personnel staff to a point where at no place it is excessive, considering the workload?

Mrs. ROSENBERG. There is no work "made." We will not permit a made-work program. But I cannot say that either in civilian or military personnel, we are 100 percent perfect, sir.

Senator MILLIKIN. We assume that. But will you give this committee assurance that, as rapidly as may be, unnecessary personnel in the Pentagon will be eliminated?

Mrs. ROSENBERG. I can certainly give that assurance, sir. And I would like the committee, if you will be good enough, to receive some documents which will show how our new regulations for manpower requirements, allocation, and utilization are working out, and I honestly believe that we shall be able to do a creditable job.

Senator MILLIKIN. The reason I am talking about the Pentagon is I received quite a few communications from lots of people that lots of people there were falling over each others' feet, and had nothing to do.

Mrs. ROSENBERG. Senator, I have been in private industry for many years, and did labor utilization studies, and I must say that I heard the same thing. I doubt if there are people who have nothing to do. I think there are people who probably could be used at a higher skill and given more work, and we are going to see that everyone is used and that only people remain there for whom there is a job.

Senator MILLIKIN. You see, we have to ask for the cooperation of the people generally, and it is these horror cases that upset people. And I think that when we find them, they should be speedily corrected, if we are going to obtain the support of the people at large for our military programs.



Mrs. ROSENBERG. I agree with you, Senator, and I would be grateful if you call to my attention any case you know of, so that if we do not find it speedily, we can correct it.

Senator MILLIKIN. I am afraid I cannot give you that information, because I was told that I was to say nothing because it would cost the informant his job if his identity were revealed.

Mrs. ROSENBERG. If he does not have enough to do, it ought to cost him his job.

Senator MILLIKIN. I agree with you on that. But most people can be very busy and still have time to complain.

Mrs. ROSENBERG. I will find them, Senator, I will guarantee you, and it will cost them their job.

Senator MILLIKIN. Therefore, I am not going to tell you who said it.

Mrs. ROSENBERG. All right, sir.

Senator KERR. Do you still welcome information as to any place out there where there is surplus manpower?

Mrs. ROSENBERG. I certainly do, sir, and I will do my utmost to investigate it and give you an answer any time.

Senator MILLIKIN. Take another look at it. There is a lot of complaint on that. It may be exaggerated, but take another look at it.

Mrs. ROSENBERG. We are taking a look at it. I agree with you, Senator. It bears looking into.

May I continue, sir?

The CHAIRMAN. Yes, you may proceed with your statement.

Mrs. ROSENBERG. I said we have no double standard for military and civilian personnel. We believe we should not have anyone on the payroll in uniform, overalls, or white-collar work, unless the person contributes to the successful accomplishment of our military responsibility. Neither the Congress nor the people want us to allow our zeal for economy to strip the country of the needed protection or deprive our troops of every aid we can give them to assure their military effectiveness and their survival in battle.

Short of this, we must exercise the maximum economy. If we are to achieve the fullest and most effective utilization of our manpower, it is impossible to draw any rigid line of demarcation between civilian and military functions in the Armed Forces in this period of partial mobilization. And there is something very important, Senator, for all of us. We would like nothing better than a handy yardstick that we could use to prescribe that certain jobs had to be done by civilians only and others by military personnel only. The harder we try to develop such a yardstick, the more fallible we find it to be in this so-called partial mobilization period.

There are lots of jobs that could readily be performed by civilians while units are training in this country, but these will have to be done by soldiers when units go overseas: Clerks, cooks, communications men, and many others fall into this doubleheaded category.

To send companies into combat without experienced men in these capacities would undermine their ability to function effectively. And so we must keep these men performing functions until they are ready to leave with their units right here in the United States.

Senator CONNALLY. May I ask you there, with respect to civilians, do you have any trouble about discipline and control of the civilians?

Those in the Army, of course, you have control over them. But are there any difficulties with the civilians?

Mrs. ROSENBERG. We have no difficulty in discipline, Senator. We have difficulty in getting them to go to certain places, and we have difficulty—

Senator CONNALLY. That is discipline. If he was a soldier, you could send him to the place, could you not?

Mrs. ROSENBERG. That is true, sir. But in a democracy, we cannot order a civilian.

Senator CONNALLY. You do not have to employ that civilian if he is not going to go along with you. You ought to fire him.

Mrs. ROSENBERG. There are places, Senator, where we cannot even get civilians because they are such isolated places. But if a civilian does not go to the place we require him or her to go, we have to get another civilian who is willing to go.

Senator KERR. Are you under civil service in connection with these civilian employees?

Mrs. ROSENBERG. Yes; we are.

Senator KERR. Do you find that a help or a hindrance?

Mrs. ROSENBERG. We have had very good cooperation from the Civil Service Commission, where if the registers are exhausted or we cannot hire quickly enough, they permit us to notify the United States Employment Service and then hire in the open market, within civil-service regulations.

Senator KERR. Do you find difficulty in relieving yourself of employees who do not meet your reasonable standards, who take shelter under the protective features of the Civil Service Act?

Mrs. ROSENBERG. Senator, I have heard that ever since I have been in the Government. And the first time I went into Government I fired 21 people who had civil-service standing within 10 days, and I was told that they were all going to be reinstated. Not a one was reinstated. They did not know their job and did not do it.

I have never had difficulty. I think that people anticipate difficulty and are afraid to move.

Senator CONNALLY. You are a woman. They obey you better than they would the men, probably.

Mrs. ROSENBERG. Senator, that is music to my ears, but I wish it were a fact. It is not always so. It has its advantages and its disadvantages.

Senator MILLIKIN. Mrs. Rosenberg, I do not know that this applies to direct military problems, but again, speaking for myself, I get lots of complaints from people in my own home town that Federal agencies come in and so grossly outbid for services that the normal functions of the community are disrupted, and after they hire away employees, then the employees sit around with nothing to do. I say I am not sure that that applies to agencies that are under your supervision. But we are hearing a lot of complaints of that kind.

I recognize that if you are setting up an emergency agency, you have to get the help, and you may have to bid higher than a private organization. But there again it is a question of degree and judgment. The complaints that I get are that the wages are very exorbitant and cannot be competed with by local business. Then to put vinegar into the wounds, they see the people that they have lost standing around doing nothing.

Have you any comment on that?

Mrs. ROSENBERG. We have to hire according to civil-service regulations, even if we go out in the open market, and we have to hire on wages established by the Civil Service Commission, or, in the case of the Navy, we by law have to meet the average area rate, which means that in that particular instance, we are always behind the community, because after the community have raised their wages, we then have to establish an average wage and hire according to that.

As a matter of fact, that has caused us to lose a lot of people.

Senator MILLIKIN. Is that inside civil service, now, or outside?

Mrs. ROSENBERG. If they are not on the rolls—

Senator MILLIKIN. When you hire on the area rate, in what field is that?

Mrs. ROSENBERG. Construction, for instance, sir.

Senator MILLIKIN. And what gives you the right to do that?

Mrs. ROSENBERG. There is a law—I think it is 1870, an old Navy law, which directs the Navy—I am not sure of the date, but it is an old one—that they must establish an area rate, an average rate prevalent in the area, and hire all their people according to that. For instance, under wage stabilization, we cannot go ahead and establish a wage without first establishing the area rate and then getting the consent of the Wage Stabilization Board, the same as anyone else.

There is a certain amount of pirating going on between private industry and Government. So far I would say that at the moment being in Government, I hear more complaints in Government of people being taken away from them than I do of private industry. We have had complaints from private industry. We have investigated them carefully. In some instances we found they did lose people. In other instances we found that the employees left before we hired them.

Senator MILLIKIN. I want to get clear about this business of where you are confined to the area rate and where you are not confined to the area rate. What is the distinction?

Mrs. ROSENBERG. We are either confined, sir, to hire according to civil-service rates established by the Civil Service Commission for the job, the grade, or we have to hire by area rates, also established by law. We cannot put our own wages into effect anywhere.

Senator MILLIKIN. You have the choice?

Mrs. ROSENBERG. No, sir; we have not the choice.

Senator KERR. You had reference to the Navy on the area rate, did you not, Mrs. Secretary?

Mrs. ROSENBERG. Pardon me?

Senator KERR. When you are hiring for the Navy, you have the Navy law about the rate; is that not what you told us?

Mrs. ROSENBERG. That is right, sir.

Senator KERR. And otherwise you have the grade and the limitations and the specifications fixed by the Civil Service?

Mrs. ROSENBERG. That is right.

Senator BYRD. But you are speaking of industrial workers, are you not, Mrs. Rosenberg?

Mrs. ROSENBERG. Industrial workers.

Senator BYRD. That is for industrial workers, and not stenographers?

Mrs. ROSENBERG. Stenographers and administrative personnel, we must hire under the administrative rates.

Senator KERR. Even for the Navy?

Mrs. ROSENBERG. Yes, sir; for everybody.

Senator BYRD. When you speak of the Wage Board workers, that is construction work for the Navy?

Mrs. ROSENBERG. Construction work for the Navy.

Senator BYRD. And the white-collar workers are under Civil Service?

Mrs. ROSENBERG. That is correct.

Senator MILLIKIN. That is a very clarifying answer. I thank you.

Mrs. ROSENBERG. The problem of differentiating between civilian and military jobs is further complicated by the special requirements of a prolonged period of watchful waiting like the present. We must be ready for a sudden and devastating attack if it comes. We must have enough men constantly under arms to mount a swift counter-attack if the need comes.

We must have cadres to provide a base for rapid expansion in case of emergency. We must keep full the pipeline of replacement needed to insure relief for veterans of many months of overseas duty.

All this means that we are bound to have in our military installations men who have full training and are awaiting operational assignments or are on rotation.

From the standpoint of national preparedness, troop morale, and the economical use of defense funds, it makes good sense to keep these men occupied on necessary work at post, camps, and stations during their period of enforced waiting or during their period of rotation. To hire civilians to do these same jobs and keep our troops marching aimlessly would vastly increase the total cost to the taxpayer. No sound purpose would be served by condemning military personnel to demoralizing idleness simply because it is our general policy to hire civilians to do civilian jobs.

We believe we must treat our total defense need as a package and make the fullest use of all our personnel in whatever manner contributes most to our national safety. But we must be sure that the jobs they are doing are necessary.

For example, we have recently completed a preliminary manpower utilization survey of service training centers. These surveys are the joint effort of the Office of the Secretary of Defense and the military departments. They have served an immediate and valuable purpose, not only in stimulating both service headquarters and service commands to a reevaluation of their own manpower utilization effort, but, even more important, they have developed a new technique for conducting these joint surveys.

Our recent report to the President on the Department of Defense manpower and personnel controls set forth the prime responsibility of the military departments in carrying out improved manpower management programs. We in the Department of Defense at the Secretary's level assume the responsibility for coordinating, guiding, and auditing departmental accomplishments. Our program already initiated is based upon developing answers to the following questions, both on the departmental level, which I like to call the wholesale level

for easy identification, and on the specific installation level, which we call retail:

1. And above all, Is the job really necessary?

2. By whom can the necessary job be best done? By a man who could take his place in combat? By limited-service personnel? By female military personnel? By civilian personnel? Or can the job best be done outside by contract personnel?

3. And above all, Are the persons performing in the necessary jobs to the full of their utilization?

These questions cannot be answered by any short cuts. Across-the-board percentage budget cuts are not the lasting or constructive road to sound manpower utilization. The situation is different. It is different in every service and establishment. The answer is neither the arbitrary substitution of civilian personnel for military personnel nor the use of military personnel in order to reduce civilian personnel payrolls.

The techniques of sound and lasting manpower utilization are pedestrian and painstaking. They take time; they take extensive and skillful effort. The answer lies in the establishment of a sound manpower program and a frank recognition that the manpower problems presented by 3,500,000 men under arms are very different from those with 12 million men under arms, just as the problem of maintaining a military posture for an extended period of time is very different from the all-out intensive effort of World War II.

Our entire defense manpower planning has been made with full awareness of the serious impact on the country's economy. This impact is particularly serious because our program must be a continuing one. There can be no justification whatever for slackening of our effort at this time, cease fire in Korea or not.

Every dollar, we feel, that we invest in our defense effort today might save American lives, and the greater expenditure of American dollars tomorrow.

I can assure you, gentlemen, that the money allocated for the defense personnel will be expended with care and with a view toward securing the maximum benefits for the individual taxpayer. Our determination in this respect is concretely expressed in the directives on manpower controls recently issued by the Department of Defense. And I would like to submit the following exhibits for the record:

1. Manpower and Personnel Controls in the Department of Defense, report to the President, dated May 22, 1951;

2. Department of Defense Manpower and Personnel Controls, dated May 28, 1951;

3. Interim Plan for the Improvement of Manpower Within the Navy, dated June 18, 1951. This is the actual implementation by the Navy of the two orders which we submitted before.

4. F. J. Lawton, Director of the Bureau of the Budget, to Anna M. Rosenberg, dated June 18, 1951, on manpower controls instituted by the Department of Defense.

\* I would also like to submit, if I may, Senate Report No. 438 of the Small Business Manpower Problems: A Report of the Select Committee on Small Business of the United States Senate on Industrial Manpower, dated June 18, 1951.

And the last, the Assistant Secretary of Defense, Manpower Personnel, memorandum to the Secretaries of the Army, Navy, and Air Force, on Manpower Utilization, dated June 20, 1951.

I would like to submit these.

The CHAIRMAN. We will put them into the record.

(The documents referred to are as follows:)

**EXHIBITS FOR THE RECORD, SUBMITTED TO THE SENATE FINANCE COMMITTEE, BY MRS. ANNA M. ROSENBERG, ASSISTANT SECRETARY OF DEFENSE (MANPOWER AND PERSONNEL)**

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- A. Manpower and Personnel Controls in the Department of Defense: A Report to the President, dated May 22, 1951.
- B. Memorandum: Department of Defense Manpower and Personnel Controls, dated May 28, 1951.
- C. Interim Plan for Improvement of Manpower Within the Navy, dated June 8, 1951.
- D. Letter: F. J. Lawton, Director, Bureau of Budget to Mrs. Anna M. Rosenberg, dated June 18, 1951.
- E. Senate Report No. 488: Small Business Manpower Problems--Report of the Select Committee on Small Business, United States Senate, on Industrial Manpower, dated June 18, 1951.
- F. Memorandum: Assistant Secretary of Defense (Manpower and Personnel) to Secretaries of the Army, Navy, and Air Force: Manpower Utilization Surveys, dated June 20, 1951.

#### MANPOWER AND PERSONNEL CONTROLS IN THE DEPARTMENT OF DEFENSE

Submitted in response to the President's Directive April 27, 1951

Prepared by Assistant Secretary of Defense (Manpower and Personnel)

#### CHAPTER I. DEPARTMENT OF DEFENSE MANPOWER SITUATION BEFORE AND SINCE THE KOREAN EMERGENCY

##### 1. Department of Defense manpower situation before the Korean emergency

The period from the end of World War II to the outbreak of the Korean emergency was characterized with the exception of a brief build-up phase in 1948 by a series of successive reductions in military and civilian personnel ceilings within the Department of Defense. During part or all of this period, the following controls on military and civilian personnel ceilings existed. These controls were designed for a period when the services were being reduced in size and were adequate for the purpose.

##### *Military*

(a) Review of budget estimates by the military departments, the Joint Budget Advisory Committee, the Assistant Secretary of Defense (Comptroller), the Bureau of the Budget, and the Congress.

(b) Fiscal control by Bureau of the Budget quarterly apportionment of appropriations.

(c) Military personnel year-average and year-end ceilings approved by the Joint Chiefs of Staff and commencing in fiscal year 1949, by the Secretary of Defense. These "ceilings" were the basis for initial budget estimates.

##### *Civilian*

(a) Review of budget estimates in the same manner as for military personnel.

(b) Fiscal control by Bureau of Budget quarterly apportionment of appropriations.

(c) Commencing in 1946, the quarterly allocation of civilian personnel ceilings by the Bureau of the Budget. This personnel ceiling allocation was in addition to the customary dollar control exercised by the Bureau of the Budget.

(d) The limitation on the number of graded positions imposed by Public Law 390, Seventy-ninth Congress. (This limitation was modified by the Selective Service Act of 1948 with respect to the Department of Defense civilian employees.)

(e) Civilian personnel ceilings for each of the services imposed by the Secretary of Defense for fiscal year 1950. These ceilings were a reduction below the civilian personnel ceilings provided in the fiscal year 1950 appropriations.

In addition to the normal budget reviews, a continuing review of military and civilian personnel requirements, allocation and utilization was provided by the management committee of the Department of Defense.

## 2. Department of Defense manpower situation since the Korean emergency

(a) *Change in Pre-Korean controls.*—Shortly after the outbreak of hostilities in Korea, the Budget and Accounting Procedures Act of 1950 (Public Law 784, 81st Cong.) repealed the Bureau of the Budget's authority for quarterly allocation of civilian personnel ceilings. In addition, the requirements for quarterly apportionments of funds were suspended during fiscal year 1951 for the Department of Defense. Also, the civilian personnel ceilings imposed by the Secretary of Defense for fiscal year 1950 were terminated.

In the initial stages of the expansion, supplemental budget estimates were submitted as rapidly as changes in program were approved and detailed computations could be made. At this time, there was little opportunity to exercise additional military or civilian manpower controls beyond those provided in the review and justification of the supplemental budgets. At the Departmental level, these reviews were conducted by the Departmental Comptroller and the Service personnel agencies. At the OSD level, these reviews were conducted by Assistant Secretary of Defense (Comptroller) with the Chairman of the Department of Defense Management Committee and representatives of the Bureau of the Budget attending. In these reviews, military and civilian personnel programs were examined in great detail, in addition to the normal fiscal reviews. Intensive justification of personnel plans and the assumptions used in their preparation was required, particularly during review of the fiscal year 1952 budget.

(b) *Deficiencies of fiscal control system.*—The controls remaining after the Korean hostilities began were primarily fiscal in nature. These controls incident to budget preparation and review did not provide the degree of close and continuing type of manpower management necessary in a rapidly expanding and often changing program. It was apparent that improvement was necessary in the existing machinery for review of manpower ceilings within the budget maximum, whenever events subsequent to submission of budget estimates required adjustment in ceilings. Further, responsibility for manpower management was vested in a number of agencies within the Department of Defense, as well as within the services. As a result controls over allocation, distribution, and utilization of both military and civilian manpower were inadequate.

(c) *Reinstitution of civilian personnel ceilings and creation of the Office of the Assistant Secretary of Defense (Manpower and Personnel).*—By October 23, 1950, programs had stabilized to the extent that the Secretary of Defense considered it appropriate to establish a manpower ceiling for each Service within and below the number of positions for which funds were provided.

In November 1950, the Office of the Assistant Secretary of Defense (Manpower and Personnel) was established in order to integrate the manpower functions of the Secretary of Defense.

(d) *Focus of responsibility for manpower management within the services.*—The initial experience of the Assistant Secretary of Defense (Manpower and Personnel) clearly indicated the need for a single focus of responsibility for manpower control, both military and civilian, in each of the Services. The Office of the Assistant Secretary (Manpower and Personnel) whereupon requested each Service to designate the individual who had responsibility for approving military and civilian manpower requirements, and the individual who had responsibility for operating the services' program for manpower utilization, both military and civilian. At the same time, request was made upon the services for statement of procedure and standards used for approving requests for additional military and civilian manpower. They were also asked to state their programs to assure the effective utilization of military and civilian manpower.

This was the first step in getting more detailed justification of service manpower requirements, allocation and utilization and placed more specific responsibility in the services for their part in computing and justifying their requirements.

(e) *Review and adjustment of civilian manpower ceilings.*—In April 1951, because the workload had not developed according to plan, new civilian manpower ceilings were imposed on the services by the Assistant Secretary of Defense (Manpower and Personnel).

(f) *Qualitative distribution of military manpower.*—As a result of the Army protest that it was not receiving an equitable apportionment of the several mental

and physical groups, the Assistant Secretary of Defense (Manpower and Personnel) in April 1951, prepared a Department of Defense directive on qualitative distribution of military manpower. This directive makes equitable apportionment of the several mental and physical groups among the four services and eliminates the basis for one service acquiring a disproportionate share of the higher mental or physical groups.

## CHAPTER II. DEPARTMENT OF DEFENSE PRESENT SITUATION

### 1. Responsibilities of the Office of Assistant Secretary of Defense (Manpower and Personnel)

(a) The Office of Assistant Secretary of Defense (Manpower and Personnel) is organized to deal with manpower requirements, utilization and supply; industrial relations; and military and civilian personnel policies. The action program is now being spelled out and priorities indicated.

(b) To bring in at this point the present status of manpower management in the services, discussion of the following items will be deferred to chapter V, Actions for 30th of June 1951 to avoid repetition.

- (1) Responsibilities of Office of Assistant Secretary of Defense (Manpower and Personnel).
- (2) Coordination within the Office of the Secretary of Defense.
- (3) Requirements for military and direct-hire civilian employees of the Department of Defense.
- (4) Allocation and distribution of military and direct-hire civilian employees.
- (5) Manpower utilization.
- (6) DOD over-all manpower management controls.

### 2. Army--The present situation

The Assistant Secretary of the Army is responsible for the approval of military and civilian manpower requirements.

The Assistant Chief of Staff G-1 is responsible for control of military manpower including requirements, allocation, and distribution in coordination with the Assistant Chief of Staff G-3. Civilian personnel are allocated by the Budget Division, Office of Comptroller of the Army, to the Army area commanders and chiefs of technical and administrative services within funds available.

Standards, based upon experience and kept up-to-date, are used in determining personnel requirements based upon guidance as to the Army Forces required for the accomplishment of assigned missions. Similarly, the allocation and distribution of personnel is kept in balance with any changes in program through continuing review.

The Management Division, Office of the Army Comptroller, exercises over-all supervision and review of manpower utilization survey activities throughout the Army. It also surveys activities not covered by the Army area commanders and the chiefs of the technical and administrative services. The control of manpower utilization in major commands is exercised through the Army area commanders and chiefs of technical and administrative services who have manpower survey teams scheduled to review each installation at least once annually. The results of such surveys are transmitted to Assistant Chief of Staff G-1 and Budget Division, Office of Army Comptroller, where necessary action is taken to adjust allotments of military and civilian personnel.

### 3. Navy--The present situation

On May 18, 1951, the Acting Secretary of the Navy issued a directive allocating to the Under Secretary of the Navy all duties and responsibilities relating to naval and civilian manpower. This designation of duties and responsibilities is subject to those provisions of law which prescribe the duties of the Chief of Naval Operations, the Commandant of the Marine Corps, and the Chief of Naval Personnel relative to personnel of the Navy and Marine Corps.

Prior to the May 18 directive, the Under Secretary of the Navy was responsible for the general administration of civilian personnel. The Assistant Secretary of the Navy for Air was responsible for the administration of civilian personnel ceilings assigned to the Navy by the Secretary of Defense.

Responsibility for determining military personnel requirements and utilization rests with the Deputy Chief of Naval Operations (Personnel).

Civilian personnel plans are drawn up by the Chiefs of Bureaus and the Commandant of the Marine Corps. They are responsible for procurement, training, administration, and assignment of civilian personnel employed in activities under their control.



Within these areas of responsibility, standards based upon experience and kept up to date are used in determining personnel requirements based on guidance as to the naval operating forces required for the accomplishment of assigned missions. Workload factors and work measurement standards are applied to the workload of shore establishments, with considerable emphasis placed upon practical experience. At the shore establishment level, military and civilian personnel are considered in the total manpower requirement. In the course of their development, requirements are reviewed and measured by cognizant bureaus and finally approved as to the personnel allocation plan.

Control of utilization is exercised through the Naval Inspector General and through the bureaus which operate survey teams for shore establishments and the need for continuing action is recognized.

#### 4. *Marine Corps—The present situation*

The May 18 directive of the Secretary of the Navy assigning over-all manpower management responsibilities to the Under Secretary is applicable to the Marine Corps.

Prior to this directive, the Comptroller of the Navy approved the Marine Corps' military personnel plan after consolidation with that of the Navy by the Deputy Chief of Naval Operations (Personnel).

The Division of Plans and Policies is responsible for the determination of manpower requirements and utilization of ground military personnel. It also has approval authority for aviation military personnel requirements determined by the Division of Aviation.

The Supply Department has the responsibility for determining civilian personnel requirements other than for Headquarters United States Marine Corps.

The allocation of military manpower is controlled by manning tables known as tables of organization and by quotas, prepared in Headquarters United States Marine Corps. The allocation of civilian manpower is a function of the Supply Department and of the Division of Plans and Policies. This allocation is based upon workload experience.

Utilization of manpower is appraised by the Inspector General who visits each installation annually and by Navy Shore Establishment Survey Boards, one member of which is always a marine. Methods Analysis Section teams also make analyses of headquarters and field activities directed toward improved procedures and methods. The continuing nature of this problem is recognized.

#### 5. *Air force—The present situation*

The Office of the Assistant Secretary (Management) has responsibility for finance, personnel, and program which assures integration within the Office of the Secretary.

The responsibility for the control of manpower requirements, allocation, distribution, and utilization for both military and civilian manpower is centralized in one staff agency under the Deputy Chief of Staff, Operations, the Directorate of Manpower and Organization.

Criteria and standards, based upon experience and kept up to date, are used in determining personnel requirements based upon guidance for the air forces needed to accomplish assigned missions. Similarly, the allocation and distribution of personnel is kept in balance with any changes in program, through continuing review.

The control of manpower utilization is exercised by the Deputy Chief of Staff, Operations, through the major Air Force commanders who have survey teams scheduled to review each installation at least once annually. The Director of Manpower and Organization exercises over-all supervision and review of manpower utilization survey activities throughout the Air Force and operates the management improvement program designed to improve methods and procedures at all echelons. The Inspector General also checks on manpower utilization during his visits to Air Force activities. The need for a continuing program for manpower management is recognized.

### CHAPTER III. POLICIES AND OBJECTIVES FOR IMPROVED MANPOWER MANAGEMENT CONTROLS

1. The experience of recent months in the Department of Defense has been crystallized in the following policies and objectives. They are designed to insure that the manpower needs of the Department of Defense are no more than are required to do the job and to see that the abilities and skills of individuals are fully used. They also consider using women, the physically handicapped, and

minority groups in accord with the National Manpower Mobilization Policy announced by the President on January 17, 1951.

2. Each service will be responsible for effective manpower management within its own sphere. The Assistant Secretary of Defense (Manpower and Personnel) is responsible for the over-all management of manpower within the Department of Defense. Basic policies, objectives, and guidance will be provided the services, after securing the service viewpoint, to guide them in carrying out Department of Defense objectives.

3. The basic policies are:

(a) The size of the Armed Forces will be adjusted to the minimum required to meet the strategic plans and state of readiness approved by the Joint Chiefs of Staff.

(b) The services will implement the manpower policies of the Department of Defense and will be responsible for results.

(c) The greatest care will be exercised to assure that the supply of persons possessing critical skills will be distributed among the services in a manner which will contribute most to the military program of the Nation.

(d) Military personnel requirements will be met by using women, limited-service personnel, and minority groups to the extent that they can be used effectively and in consideration of the size of force and other factors related to required state of readiness.

(e) Department of Defense needs for civilian personnel will be met in accord with the President's national manpower mobilization policy.

4. The operating plan of the Department of Defense for improved manpower control has the following objectives:

(a) To provide the services improved guidance on which manpower requirements, both for quality and quantity, can be stated.

(b) To integrate the manpower aspects of programs initiated in the Joint Chiefs of Staff, the Assistant Secretary (Comptroller, OSD) and the Munitions Board.

(c) To insure that each service has a systematic and effective procedure for making estimates of minimum manpower required to execute strategic plans, for keeping manpower in balance as programs change, and for using each person in the capacity in which he can contribute most. Service programs must provide:

(1) Centralized responsibility for manpower control, both military and civilian.

(2) Standards for determining the minimum number of people, military and civilian, needed for the forces to fight under strategic plans.

(3) A continuing procedure for keeping the use of manpower in balance with changes in plan.

(4) A procedure for stimulating progressive improvement in the placement and use of individual skills.

(d) To review the manpower requirements of the Department of Defense to assure that they are no greater than necessary, to keep them in balance with changes in plan, and to see that they are in accord with the policies and guidance of the Department of Defense.

(e) To allocate manpower to the services according to approved plans and policies.

(f) To review the use of manpower allocated to the services to see that it is in accord with approved plans and conforms to policies of the Department of Defense.

(g) To encourage improvements in manpower management within the Department of Defense by identifying outstanding improvements within any service and bringing them to the attention of others within the Department.

(h) To initiate such corrective action as may be necessary to improve the use of manpower within the Department of Defense.

#### CHAPTER IV. ACTIONS BY JUNE 30, 1951

##### 1. Responsibilities of Office of Assistant Secretary of Defense (manpower and personnel)

By June 30, 1951, the coordination of the manpower functions of the Secretary of Defense by the Assistant Secretary (manpower and personnel) will be complete. Methods will be established to see that the services carry out their manpower responsibilities by evaluating the results and by working with the services when corrective action is necessary.

##### 2. Coordination within the Office of Secretary of Defense

Working interrelationships will be established between the Assistant Secretary (manpower and personnel) and the Joint Chiefs of Staff, Office of Assistant Secretary

of Defense (Comptroller) and the Munitions Board. These relationships will be designed to provide better guidance for the services and a well integrated manpower program. The needs of the Bureau of the Budget and the Office of Defense Mobilization for developing manpower data essential to the President's decisions affecting the national economy will be recognized.

### 3. Requirements for military and direct-hire civilian employees of the Department of Defense

(a) The services will be responsible for improved computation of manpower requirements. OASD (M. & P.) in coordination with the services will—

- (1) Review present policies and standards.
- (2) Promulgate policy guidance.
- (3) Assist the services in the establishment of self-audit techniques.

(b) We will develop procedures for presentation and justification by the services for manpower requirements by—

- (1) Use of standardized forms to present detailed personnel plans and requests for ceiling changes.
- (2) Prescribing schedules and agenda for justifications.

(c) The services will be responsible for review and evaluation of manpower requirements, both in the formulation of budget estimates, and in the execution of the budget during the year, as well as for program modifications. OASD (M. and P.), in coordination with the services, will—

- (1) Study personnel plans submitted.
- (2) Apply utilization standards and reviews by establishment of self-audit techniques, spot checks, and task force review methods.

(d) We will, in coordination with the OSD (comptroller), approve such requirements as a basis for formulation of budget estimates, budget execution, or as approved manpower ceilings within a budget, or, if such requirements are not adequately justified, we will require reevaluation and resubmission.

### 4. Allocation and distribution of military and direct-hire civilian employees of the Department of Defense

(a) The services will be responsible for improved procedures for allocation and distribution of military and civilian personnel. OASD (M. and P.), in coordination with the services, will—

- (1) Review the services' present standards for allocation and distribution of civilian and military personnel.
- (2) Set up self-audit techniques and task force review methods for improved allocation and distribution in the services and establish priorities for their accomplishment.

### 5. Manpower utilization

(a) The services will be responsible for completion of their organization for the conduct of the service manpower utilization program. OASD (M. and P.), in coordination with the services, will—

- (1) Review service manpower utilization programs as presently established and determine their adequacy as to—
  - Organizational structure
  - Policies
  - Development of staffing standards
  - Development of individual standards
  - Methods of control (including an adequate reporting system)

(2) Set up self-audit techniques and task force review methods for improved manpower utilization and establish priorities for their accomplishment.

6. The services will in coordination with OASD (M. and P.), be responsible for examination of the status of manpower management between the program, fiscal, personnel, and material agencies in each service to insure full coordination. OASD (M. and P.), will be responsible for parallel examination and coordination at the DOD level.

## CHAPTER V. ACTIONS FOR FISCAL YEAR 1952

1. We recognize the complexities in attaining the objectives set forth in the operating plan. It is apparent that we can best attack this problem by—

(a) First, establishing acceptable manpower management controls before the beginning of fiscal year 1952.

(b) Then extend those controls in accord with day-by-day experience through an evolutionary process with priority on problems of the greatest magnitude.

8. Under this concept the major projects are:

(a) Continue, in coordination with the services, to perfect techniques of service self-audit, task force review methods, and spot checks in evaluating accomplishment.

(b) Improvement in the guidance on which manpower requirements are based by the services in obtaining more complete and detailed information from agencies of O&A.

(c) Develop summaries of DOD requirements for military and civilian personnel in source and critical skills, validate such requirements, and allocate in coordination with the Joint Chiefs of Staff among the services as required.

(d) Continue, in coordination with the services, to refine procedures for the computation of requirements, allocation, distribution, and utilization of manpower.

(e) Establish over-all policies and criteria to provide for the most efficient utilization of the various classes of personnel which make up our total manpower. Specifically:

(1) The use of military personnel versus civilians.

(2) Women, military, or civilian.

(3) Military limited service.

(4) Direct hire civilian versus outside contracted manpower.

(f) Point out, and take action upon, any inadequacies within the services in their over-all manpower management programs.

8. Plans for improvement of military and civilian manpower management in the services include:

(a) *Army.* Recently, the Secretary of the Army approved an organizational change which centralized responsibility for the determination of requirements, allocations, and the supervision of effective utilization of both civilian and military personnel in the Assistant Chief of Staff, G-1. The details of the transfer of functions from the Comptroller of the Army are now being worked out and the new organization will be in effect by July 1, 1951. This centralization of responsibility will permit integrating civilian and military manpower requirements into a composite whole.

(b) *Navy.* The May 18 directive of the Secretary of the Navy will require further implementation to accomplish the Navy's plans for forms of responsibility in over-all manpower management.

A plan is under way to integrate into an over-all Navy program, as soon as appropriate, the several work-measurement programs being carried out in the bureaus.

(c) *Marine Corps.* The May 18 directive of the Secretary of the Navy similarly will require implementation with respect to the Marine Corps.

The Marine Corps will establish a work-measurement system in headquarters, Marine Corps for its field activities. This section will insure that an effective work-measurement program is implemented and will furnish guidance and coordination to the field where such programs are being conducted locally.

(d) *Air Force.* Since the Korean situation, the Air Force has evaluated, revitalized and reoriented its entire manpower program toward its new future problems. This program is now at the threshold of implementation. The main task ahead is to alert all personnel in command or supervisory positions to the gravity and importance of the manpower problem and to use fully the tools that have been designed. One specific step directed toward this end is a course of instruction in manpower management which will be under way before July 1, 1951.

MAY 28, 1951.

Memorandum for The Secretary of the Army  
The Secretary of the Navy  
The Secretary of the Air Force  
The Chairman, Joint Chiefs of Staff  
The Assistant Secretary of Defense (comptroller)  
The Chairman, Munitions Board

Subject: DOD manpower and personnel controls

References: (1) President's directive, April 27, 1951

(2) Acting Secretary of Defense directive, May 5, 1951

(3) Assistant Secretary of Defense (M. & P.) memo, May 8, 1951

(4) Your reply to reference (3)

(5) DOD manpower and personnel controls, May 22, 1951 (attached)

The attached memorandum covers the first stage of fulfillment of the President's directive of April 27 relating to manpower requirements and utilization and the establishment of manpower controls, both military and civilian.

Addressees are requested to report by June 20, 1950 the execution of their programs in line with the specific points outlined in this attachment (a) by June 1951, and (b) continuing during fiscal year 1952.

Request a specific report section on the extent of implementation of the four points listed under chapter III, paragraph 4c.

Your recommendations are invited concerning the most effective means of accomplishing the points listed under chapter III, paragraph 4; chapter IV, paragraphs 3, 4, 5, and 6.

Organization and work flow charts will be important with this restatement. It is not desired that the June 20 restatement duplicate or repeat the material in reference (4) above. Rather, it is intended that this report will present the status of implementation of the service responsibilities outlined in the attachment.

ANNA M. HORNBERG.

Attachment.

INTERIM PLAN FOR IMPROVEMENT OF MANPOWER MANAGEMENT WITHIN THE NAVY, JUNE 8, 1951

1. The responsibilities of the Under Secretary of the Navy relating to military and civilian manpower matters are set forth in the directive of the Secretary of the Navy, dated May 18, 1951. Manpower matters include the following areas:

(a) Manpower management, military and civilian:

(1) Requirements: The determination, justification, and continuous evaluation of necessary manpower.

(2) Allocation: The apportionment of necessary manpower according to currently determined requirements of the Navy Department, operating forces, and shore establishment.

(3) Distribution: The specific division of allocated manpower within units of the Navy Department, operating forces, and shore establishment.

(4) Utilization: The effective and efficient use of personnel throughout the Navy Department, operating forces, and shore establishment.

(b) Personnel administration, military and civilian:

(1) This area includes the needs resulting from manpower management actions and the formulation and execution of policies on such matters as recruitment, training and development, classification, promotion, morale, and industrial relations.

(c) External manpower considerations, such as:

(1) Problems of Navy contractors:

(a) Availability of manpower.

(b) Labor relations.

(2) Over-all supply and availability by skills.

2. While the long-range Navy plan will seek improvements in each of the above areas, the initial effort will be directed toward improving manpower management. To this end, civilian and military manpower management policies and controls will extend from the Under Secretary of the Navy to the bureaus and offices of the Navy Department and through them to the operating forces and shore establishment. Such policies and controls as already exist will be improved and strengthened. Where they do not exist, such policies and control will be established.

3. The immediate objective set forth in paragraph 2 above will be attained through an evolutionary process subject to change based upon improved criteria and operating standards. The initial steps shall be as follows:

(a) A Navy-wide inventory and appraisal will be made of available criteria, standards, and other tools appropriate for manpower management purposes.

(b) Selected criteria, standards, and other tools shall be put to use, as appropriate, at each level of management.

(c) Applicable management criteria, standards, and other tools will be improved as necessary.

(d) New criteria, standards, and other tools will be developed as appropriate and put to use at each level of management.

4. Specific programs to carry out this plan will be promulgated by the Under Secretary of the Navy, and their execution throughout the Naval Establishment will be a responsibility of the bureaus and offices of the Navy Department under his direction and supervision.

Approved:

DAN A. KIMBALL.

Authenticated:

G. W. RAPPELT, LCDR, USN.

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington 25, D. C., June 18, 1951.

HON. ANNA M. ROSENBERG,  
Assistant Secretary of Defense  
(Manpower and Personnel),  
Department of Defense, Washington 25, D. C.

MY DEAR MRS. ROSENBERG: In accordance with the President's instructions of April 27, I have reviewed your report entitled "Manpower and Personnel Controls in the Department of Defense," and have reported to the President my view that the report sets forth briefly and clearly the background and present status of manpower controls, and establishes certain policies and objectives to be met by the end of this fiscal year and others to be achieved during the forthcoming fiscal year.

The President has asked to say that he is encouraged by the vigorous manner in which you have approached the problem of strengthening manpower and personnel controls. He has also indicated that he would like to be kept informed from time to time concerning the progress of this program, and has asked that the Bureau of the Budget advise him of its development.

Consequently, it would be helpful if you could develop a further report which could be transmitted to me on or about August 1. It would be my hope that this report, in addition to indicating whether the actions scheduled to be taken by June 30 have actually been placed in effect, would contain a more specific discussion of the major elements of the systems of control which each of the three services has placed in effect, or intends to place in effect.

To put the matter a little differently, I was impressed by the soundness of the determinations to require the services to implement the manpower policies of the Department of Defense and to be responsible for results. I believe that this is the best method of proceeding, and I am generally in accord with the suggested duties and activities of your own office in furthering the whole objective of good personnel control and utilization. It would be very helpful if you could indicate by August 1 the principal policies and methods of operation which are being used by each of the services, under the general supervision and direction of your office, to achieve the best possible utilization of personnel and the prevention of hoarding of manpower.

In providing such information, I hope you can tell me what the services themselves have reported concerning their own programs. In addition, I should like to have your own evaluation, based upon the first-hand observations of your staff both here and in the field, of the strengths and weaknesses of those programs.

You may expect the continued cooperation of my staff in any way which will be helpful to you in the further development of this program.

Sincerely yours,

F. J. LAWTON, Director.

[S. Rept. No. 432, 80d Cong., 1st sess.]

## SMALL BUSINESS MANPOWER PROBLEMS

REPORT OF THE SELECT COMMITTEE ON SMALL BUSINESS, UNITED STATES SENATE  
ON INDUSTRIAL MANPOWER

On January 17, 1951, the President of the United States issued a national manpower mobilization policy. That policy stated the following:

### "NATIONAL MANPOWER MOBILIZATION POLICY

#### "AIMS OF MANPOWER MOBILIZATION

"1. The primary aim of manpower mobilization is to safeguard our national security through the maximum development and use of our human resources. In particular, this involves—

"(a) Providing manpower for the Armed Forces in sufficient numbers and with the mental, physical, and occupational qualifications necessary for national defense.

"(b) Providing manpower for producing the materials and services necessary to the Armed Forces, to meet commitments of aid to other nations and to support the civilian economy.

"(c) Constantly increasing our mobilization potential through training and educational programs to expand our supply of persons with highly developed skills essential to civilian and military activities. Providing manpower for protection of the civilian health and welfare.

"2. The most efficient use of the Nation's manpower will be of vital importance in any prolonged effort to keep the strength of the United States at a high level and will be of the utmost importance in the event of full mobilization. Consequently, it is important that manpower measures taken now be consistent with and contribute to the most advantageous use of our manpower should full mobilization become necessary.

"3. We must rely heavily on science and technology. The most effective use must be made of our supply of individuals having the special skills required to develop and produce the necessary equipment and to use and maintain it in the Armed Forces. Malutilization of such individuals represents a direct and unnecessary reduction of our defense potential.

"4. While recognizing the very high priority of the Armed Forces' requirements for certain numbers and classes of manpower, the needs of mobilization also require a vigorous civilian economy. The manpower necessary to defense production, to civil defense, to agriculture, and to the production of essential civilian goods and services and to sustain our commitments of aid to other nations, must be considered as integral parts of a balanced mobilization program.

"5. To assure the most effective use of our manpower to meet these needs, it is essential that we establish principles and adopt a series of policies which will lead to the most effective use of our manpower resources. Wherever statutory authorization is necessary to put these into effect, it will be sought from the Congress.

#### "PRINCIPLES OF MANPOWER MOBILIZATION

"6. In achieving these objectives, the national manpower mobilization program will be based upon the following principles:

"(a) Each individual will be expected to serve in the capacity in which he can contribute most to the total mobilization program.

"(b) Employers, both private and governmental, will assure full utilization of those abilities and skills of each individual which will contribute most to the total mobilization program through such measures as minimum manning, training, and assignment of duties in accordance with needs, skills, and potentialities.

"(c) The Government will develop and administer manpower programs designed to enlist to the fullest possible extent the support and resourcefulness of individuals in the achievement of the mobilization program.

#### "BASIC MANPOWER MOBILIZATION POLICIES

"7. The following basic manpower mobilization policies are necessary to give effect to the principles stated above, but do not prejudice or limit extension of manpower policies as further needs of mobilization evolve.

"(a) The size of the Armed Forces will be determined by the President. He will be provided with the Department of Defense requirements to meet strategic plans; with full information on the prospective supplies of manpower, and on the manpower requirements for defense production, agriculture, civil defense, and other essential purposes.

"(b) The greatest care must be exercised to assure that the supply of persons possessing critical skills will be distributed among military and civilian activities in a manner which will contribute most to the mobilization program. When the total need for workers with critical skills for civilian and military assignments is expected to exceed the supply that can be made available, the requirements for persons with such skills will be reviewed and distribution of the supply will be measured by the relative urgency of the need for critical skills as between the Armed Forces and the civilian economy.

"(c) Policies in respect to recruitment of individuals from civilian life and call-up of members of the unorganized Reserves will have as their objectives the use of persons possessing irreplaceable skills where they can make their maximum contribution to the total mobilization program.

"(d) Policies governing occupational deferment of persons subject to induction under the Selective Service Act will provide for: (1) the occupational deferment of persons possessing critical skills if they are currently using such skills in essential activities, except to the extent the military services require persons with those skills; (2) deferment of a sufficient number of individuals in educational and training institutions to provide an adequate continuing supply of professional and highly skilled manpower.

"(e) Recruitment, placement, distribution, training, and utilization of the civilian labor force (including Government employees) will be based primarily

upon voluntary measures for manpower mobilization. This policy will be carried out through such measures as (1) providing appropriate employment information to guide workers to jobs in which they can make their maximum contribution; (2) developing recruitment and rehabilitation activities needed to expand the labor force; (3) training persons to meet civilian manpower requirements and providing appropriate placement services; (4) providing assistance to employers in promoting maximum utilization of the labor force, including women, physically handicapped, older workers, and minority groups; (5) providing adequate housing and community services; and (6) assisting workers to arrange for their transfer to essential jobs in other areas.

"(f) Governmental manpower controls will be used when and to the extent needed to assure successful execution of the mobilization program. Such controls will apply to employers, to workers, or to both. They will include (1) restricting indiscriminate labor turn-over through control of separations; (2) giving effect to manpower allocations by placing employment ceilings on employers with respect to the total number of workers, the number of men or the number in particular skills; (3) controlling of employer hiring; and (4) enforcing adherence to utilization standards, including full use of women, handicapped workers, and minority groups.

"(g) All manpower programs will be geared to the needs and problems of specific geographical areas.

"(h) As mutually desirable to the United States and friendly nations, workers will be brought into the United States for, or their services utilized within the borders of their own country on, work of value to the mobilization program. Full use of domestic manpower resources will be made before bringing in foreign workers.

"(i) Production will be scheduled, materials allocated, and procurement distributed with careful consideration of available manpower. Whenever feasible from an economic and security standpoint, production facilities, contracts, and significant subcontracts will be located at the sources of labor supply in preference to moving the labor supply.

"(j) The full understanding and assistance of labor organizations, employer associations, professional societies, civic and community groups, and State and local governments will be sought in carrying out these functions.

"(k) Each department will, itself, implement the policy and be responsible for its supervision."

Despite the enunciation of this policy, Senators have been receiving letters from small manufacturers complaining that their technical, trained manpower was being drafted, called to active service as reservists, or leaving for larger plants which already had defense contracts.

Complaints from small manufacturers concerning their manpower problems were so numerous that the Senate Small Business Committee established a Manpower Subcommittee, with Senator William Benton, chairman, and Senators Russell B. Long and Andrew F. Schoepel, members, to explore the effects of the present manpower policies upon small manufacturing plants.

The Manpower Subcommittee held hearings on March 6, 7, and 22, 1951, to hear the testimony of Defense Department officials concerning the military manpower needs, Government officials concerned with the formation of national manpower policies in line with the President's directive, and small-business men on their manpower troubles.

Since the majority of complaints received from small-business men was concerned with the losses of manpower from their plants to active military service—through the Selective Service and the calling up of Reserves—the Manpower Subcommittee heard testimony from the following Selective Service and Defense Department officials: Selective Service Director, Maj. Gen. Lewis B. Hershey; Deputy Director of Selective Service, Gen. Louis N. Rowfrow; Assistant Secretary of Defense for Manpower, Mrs. Anna M. Rosenberg.

Government officials connected with the civilian problems of manpower who testified were: Robert C. Goodwin, Executive Director of the Office of Defense Manpower, Department of Labor; Edwin T. Gibson, then Deputy Administrator to Defense Production Administrator Harrison; Dr. Arthur S. Flemming, Assistant in Charge of Manpower Problems, Office of Defense Mobilization.

Small-business representatives who came before the Manpower Subcommittee were: S. Abbot Smith, president of the Thomas Strahan Co., Chelsea, Mass.; Franklin S. Harris, vice president of production, Kerite Co., Seymour, Conn.; B. J. Green, manager, Plumbium Corp., Bristol, Tenn.; and Phillip R. Marsilius, secretary, the Producto Machine Co., Bridgeport, Conn.



The testimony of these witnesses brought sharply into focus that part of the difficulty of small manufacturers in keeping their skilled manpower for civilian production grows from the lack of coordinated, over-all national policy for the effective utilization of manpower. Time and time again throughout the hearings, this was stated. Small-business man Mr. S. Abbot Smith finished his testimony before the committee by saying: "To sum up, we need a clear national policy on manpower needs and the plans for filling those needs so that the individuals concerned both of draft age and in the Reserves and business know what to expect and can make definite plans accordingly."

This apparent lack of a clearly implemented over-all manpower policy since Korea has hit hardest on smaller business. The departure of one or two workers can virtually strip a small business of its lifeblood and know-how. Mr. S. Abbot Smith aptly stated in his testimony why the manpower problems are more magnified in small business than in larger ones: "One of the major differences between large and small business is that large business has many men in each department and overlapping in their functions, while in small business there is usually only one man performing each function, if, indeed, the one man does not perform several functions. Take one or several men from the large business, there are others ready to cover up, but if one of these keymen is taken from small business it leaves a hole which cannot be filled and frequently means the disintegration of the business."

The sudden call on our manpower resources after Korea disrupted our manpower picture. The military needed men in a hurry and defense industries needed workers. Both were stripping the smaller segments of civilian industry for manpower. Edwin F. Gibson, head of the Defense Production Administration, stated this problem before the Manpower Subcommittee when he said:

"We must avoid creating a situation where both the military forces and the productive economy are dependent upon the same individuals. If the military forces, defense industries, and essential activities are to operate effectively within the limits of the available manpower pool, we must build a system which recognizes the relative manpower needs of each element group."

After Korea, when the military became the front line of emergency, it had first call on manpower. With our Armed Forces smaller last June 25 than at the time of Pearl Harbor, the military hurriedly called men to active service who may have been more essential to the Nation as trained workers in defense production. Because of the immediate need for trained soldiers, the military relied largely on reservists and National Guard units rather than upon green, untrained draftees. One out of every three reservists are over draft age, served during World War II and find themselves faced again with having to give up their civilian lives for the service of their country. These men in many instances have established themselves in business and their departure into the armed services is forcing their businesses to close, is wiping out their life savings invested in the business, and weakening the competitive economy of the country.

One such witness testifying at the hearings was a 32-year-old first lieutenant in the Signal Corps Reserve, United States Army, who had served during World War II. He is now the active operating head of a very small manufacturing company which he and his cousin started in 1949. He was recalled to active duty November 1950, received a 60-day delay until January 1951, applied again in January for another delay and was turned down. By appeal to the next higher military headquarters he was granted another 90-day delay and was expected to report in April for active duty. His manufacturing company would have had to shut down because there was no possible replacement for him; he virtually ran the business, did everything from designing the tools to sweeping the floor, was the overseer of his seven employees. Nobody else could have taken the job for as small a salary as he would be able to pay or with the experience he has had in developing the company from the ground up. If his company closed its doors, his life savings, his cousin's life savings, and borrowed capital would be lost and irretrievable. This company manager again applied, finally went to Army headquarters, presented his case before an appeals board, and was granted a cancellation of orders. If the Army appeals board finally decided on such a cancellation, the question would seem to arise, Should he be in the Reserves at all?

He commented upon this at the hearings:

"The only recommendation that I can make is that the Army or the services review their Reserve rolls and determine what has happened to these reservists in that period of time. Then probably there would be only one of two choices, or both of two choices that would be available; one that the reservist resign, because none of these benefits that do belong to reservists should accrue to them if

they are not available for active duty. If their position in the civilian economy and to the defense economy is so important that they are more important where they are rather than in the Army, they have no right to obtain the benefits of reservists and should be permitted to resign. On the other hand, they could possibly be allowed to stay where they are only so long as they were able to demonstrate their necessity to the defense program. It might not, let us say, as a club over the heads of some of these smaller businessmen to take on defense work that they might not take on otherwise."

The uncertainties faced by reservists have often prevented them from getting civilian jobs because they might soon be called to active service. At the manpower hearings, Mr. H. Abbot Smith expressed this to the committee:

"Any number of young men have come to our plant looking for a job. In spite of the need for men, no one will hire them for they are either of draft age or in the Reserves. Consequently, no one wants to hire them, spend time and money breaking them in, and then lose them just when they are becoming worth something in the job."

Mrs. Anna Rosenberg, Assistant Secretary of Defense for Manpower, commented that the calling up of Reserves may not have always been in the best interests of effective utilization of manpower:

"I will not pretend, however, that we have always been successful in avoiding the call-up of men who possessed essential civilian skills. In the anxious weeks that followed the Communist attack in Korea, it became necessary to call large numbers of reservists because of our desperate shortage of trained troops and our inability to train more men quickly enough to answer General MacArthur's urgent call. It is unquestionably true that some of those who were rushed back into uniform in that hectic period were persons making an important contribution to the defense effort at home and who might have been entitled to deferment had the military need been less great."

Since the committee hearings, the Defense Department has made steps to modernize the Reserve lists by dividing the Reserves into three categories: Active, Volunteer, and Inactive. The Active are those who are with a unit, receive a certain amount of training, are paid for the time they spend at this training, and are available for immediate call. The Volunteer Reserves are those who are with a "paper unit," receive retirement benefits but no pay. The Inactive are with no unit, receive no retirement pay. With these new categories established, the Defense Department is beginning to screen more thoroughly and adequately the calling up of Reserves. Unless the international situation changes, few Army and Air Corps Inactive Reserves will be called and many reservists called hurriedly during the first stages of the Korean emergency will be transferred back to civilian status. As of October 31, 1950, the armed services were, because of the emergency, largely made up of reservists and National Guard men. There were approximately four times as many reservists and National Guard men as inductees and professional soldiers. By July 1951 plans are that this ratio will be almost reversed. As the broad base of military personnel is built up, the Nation will need to rely less and less on the older Reserve group who have already served in World War II. These "phasing" programs and further recall policies will make it easier for a reservist to know whether or not he is apt to be called, so that he can take a job with some assurance to himself and the company that he will be able to stay with it for a reasonable length of time.

Although the small manufacturing companies have been crippled by the military demands on reservists, small companies have not yet noticeably felt the effect of the younger draft-age group going into active service. Over a long period, however, there will be a noticeable loss of skilled workers. The statement of Mr. Philip Marsilius, concerning the training needed for the machine tool and die industry, an industry consisting largely of small, independent businesses, emphasizes the need for some system of occupational deferments:

"The idea is entirely fallacious that men under 20 can hardly be highly skilled. With a 4-year apprenticeship training normally starting at 17 or 18, the apprentice becomes a journeyman tool and die maker at 21 to 22, long before he reaches the age of 26. Even after only a year or so in the shop, the apprentice has an important start on his training. But in World War II practically all of them were drafted, and the process has already started over again. \* \* \*

"The many allowable reasons for deferment besides occupation have resulted in no great drain yet except in the case of apprentices. But the situation is critical because the dependency and other present grounds for deferment may be cut away at any time. And the pressure on Selective Service to get all the men possible out of the present age range of 19 to 25, inclusive, before going either to

the 18- or 20-year-olds is causing some of the local boards to close their eyes to the need for occupational deferments to keep industry strong for production. \* \* \*

"Selective Service should be that in fact as well as name."

The autonomy of the local draft boards throughout the country makes it particularly difficult to inaugurate a national policy on industrial deferments. There are far fewer industrial deferments today than during World War II. Maj. Gen. Lewis B. Hershey, Director of Selective Service, posed the problem of deferments at the manpower hearings:

"You can't have your cake and eat it, too. That is a blunt way of saying that if we aren't allowed to take very substantial quantities of men between the ages of 18 or 19 and 20, if great numbers are to be deferred because of occupation along with the others now exempt by law or deferred by regulations, then there is only one way left to meet the demand for military manpower which must be met if we have intonation of survival. That is by yielding to the pressure and raising the age limit. \* \* \* I have many times advised employers to search both fact and conscience before requesting deferments. If fact and conscience agree that the request should be made for deferments, then deferments should be requested. If there is no such agreement between fact and conscience, there should be no attempt to cheat the Armed Forces of men sorely needed. Those may be harsh words, but they are very true."

The very nature of many smaller businesses can make each employee essential. It is the smaller plants that can sorely feel the gap caused by the departure of even one draftee.

Another avenue of the manpower problem as it affects small business is the dilemma faced by small plants while they are curtailing civilian production because of the scarcity of materials but have not yet been able to obtain defense contracts or subcontracts. During this vacuum of no work, their labor forces leave and head for the larger businesses with defense work. Mr. Franklin S. Harris, of the Kerite Co., manufacturers of cable, in Seymour, Conn., told that when his company was cut off from rubber supplies it had to cut down 25 percent of its working force:

"After a period of 3 to 4 months \* \* \* when the CMP gets going, we will have supplies, but we will not have the manpower. We stand a good chance of losing 50 percent of our force. There is probably a large percentage of that that we will never get back again. Unfortunately, most of our force are local people that we would like to employ. It means disruption of their lives and extremely disrupts the picture as far as we are concerned."

These hearings on manpower problems as they affect small business did not appear to indicate any present need for legislative recommendations or action. They did, however, underscore the necessity for a closer following of the President's January directive. It is encouraging to note, since the conclusion of these hearings, the bulletin issued by the Assistant Secretary of Defense for Manpower and Personnel, Manpower and Personnel Controls in the Department of Defense. Chapter III of that bulletin is entitled "Policies and Objectives for Improved Manpower Management Controls." It is reprinted here because it shows that now a real effort is being made to utilize effectively the available manpower.

#### "POLICIES AND OBJECTIVES FOR IMPROVED MANPOWER MANAGEMENT CONTROLS

"1. The experience of recent months in the Department of Defense has been crystallized in the following policies and objectives. They are designed to insure that the manpower needs of the Department of Defense are no more than are required to do the job and to see that the abilities and skills of individuals are fully used. They also consider using women, the physically handicapped, and minority groups in accord with the national manpower mobilization policy announced by the President on January 17, 1951.

"2. Each service will be responsible for effective manpower management within its own sphere. The Assistant Secretary of Defense (Manpower and Personnel) is responsible for over-all management of manpower within the Department of Defense. Basic policies, objectives, and guidance will be provided the services, after securing the service viewpoint, to guide them in carrying out Department of Defense objectives.

"3. The basic policies are—

"(a) The size of the Armed Forces will be adjusted to the minimum required to meet the strategic plans and state of readiness approved by the Joint Chiefs of Staff.

"(b) The services will implement the manpower policies of the Department of Defense and will be responsible for results.

"(c) The greatest care will be exercised to assure that the supply of persons possessing critical skills will be distributed among the services in a manner which will contribute most to the military program of the Nation.

"(d) Military personnel requirements will be met by using women, limited-service personnel, and minority groups to the extent that they can be used effectively and in consideration of the size of force and other factors related to required state of readiness.

"(e) Department of Defense needs for civilian personnel will be met in accord with the President's national manpower mobilization policy.

"4. The operating plan of the Department of Defense for improved manpower control has the following objectives:

"(a) To provide the services improved guidance on which manpower requirements, both for quality and quantity, can be stated.

"(b) To integrate the manpower aspects of programs initiated in the Joint Chiefs of Staff, the Assistant Secretary (Comptroller, OSD), and the Munitions Board.

"(c) To insure that each service has a systematic and effective procedure for making estimates of minimum manpower required to execute strategic plans, for keeping manpower in balance as programs change, and for using each person in the capacity in which he can contribute most. Service programs must provide--

"(1) Centralized responsibility for manpower control, both military and civilian.

"(2) Standards for determining the minimum number of people, military and civilian, needed for the forces to fight under strategic plans.

"(3) A continuing procedure for keeping the use of manpower in balance with changes in plan.

"(4) A procedure for stimulating progressive improvement in the placement and use of individual skills.

"(d) To review the manpower requirements of the Department of Defense to assure that they are no greater than necessary, to keep them in balance with changes in plan, and to see that they are in accord with the policies and guidance of the Department of Defense.

"(e) To allocate manpower to the services according to approved plans and policies.

"(f) To review the use of manpower allocated to the services to see that it is in accord with approved plans and conforms to policies of the Department of Defense.

"(g) To encourage improvements in manpower management within the Department of Defense by identifying outstanding improvements within any service and bringing them to the attention of others within the Department.

"(h) To initiate such corrective action as may be necessary to improve the use of manpower within the Department of Defense."

#### CONCLUSIONS AND RECOMMENDATIONS

The Senate Small Business Manpower Subcommittee recognizes on the strength of the testimony it has taken the great complexities of the questions involved. It reaffirms the fact that the primary goal of any form of Federal control of manpower is to utilize manpower so that it will best serve the purposes of all our people in the building of the defense effort and at the same time spread the burdens of sacrifice for defense equally throughout the Nation.

However, it is the judgment of the subcommittee that within this framework much more consideration should be given by the Federal departments concerned with manpower to the legitimate needs of smaller individual productive businesses. It is the judgment of the subcommittee that the Government agencies fundamentally do not appreciate the great productivity of the hundreds of thousands of such small businesses and the contribution that this productivity can make in keeping America strong and free. It is these smaller businesses which contribute the high percentage of inventiveness and imagination to the economy as well as fostering competition upon which the free-enterprise system develops.

It is impossible at this time or at any time to freeze into a fixed pattern the Government manpower policies in relation to small independent businesses when the current rapid expansion of the armed services still has the first call on man-

power. Policies can be justifiable now which a year later are no longer suitable. As we move forward in the face of the world crisis, grow stronger, and come into a more satisfactory balance in our war effort, we can, and must, become increasingly alert to those many manpower problems such as the need for maintaining the small productive enterprises.

The Senate Small Business Manpower Subcommittee, rather than sponsoring any specific legislation or at this time recommending any specific course of action to each and every Government department concerned with manpower, now asks the Government agencies to outline briefly their manpower proposals, objectives, and plans as they affect the smaller independent businesses. Further the subcommittee suggests that such a report be requested every 6 months during the period of this crisis from the administrators of the Department of Defense, the Department of Labor, the Department of Commerce, and from the Manpower Coordinating Committee in the Office of Defense Mobilization.

JUNE 20, 1951.

Memorandum to Secretary of the Army,  
Secretary of the Navy,  
Secretary of the Air Force.

Subject: Manpower Utilization Surveys

1. This memorandum will confirm arrangements already informally made concerning manpower utilization surveys to be undertaken by joint teams representing the services and OSD. With the full participation and cooperation of the services, the joint teams will visit indoctrination and training activities at the following Army, Navy and Air Force installations:

Fort Knox, Ky.  
Naval Training Center, Great Lakes, Ill.  
Sheppard Air Force Base, Tex.

2. Certain basic steps have already been taken, including the formulation of basic manpower concepts and the development of a staff organization for their implementation. It is now possible to proceed with an active and practical program commensurate with the urgency of the national situation. As a first step, and in response to direction of the President, these surveys are being conducted of manpower utilization practices at the centers named. The teams being sent to these stations have as their basic mission the determination and definition of those urgent utilization problems on which action can first be taken, and the evaluation of present utilization practices at operating levels. In addition to the specific recommendations intended to provide for better utilization of manpower at these centers and other installations with comparable missions and organizations, these reviews should provide experience of value in the continuing program recommended in this area.

These surveys are intended to make a positive contribution, on an action basis, to the urgent manpower situation which faces us today. Increasing demands for manpower to support the expansion of the Armed Forces and the national industrial potential have already led to a limited reduction of standards for the procurement of military manpower and measures intended to increase the manpower pool available for military services. The consequent disruptions of individual pursuits and the increasing national financial burden make it mandatory that we establish and rigidly maintain manpower policies which will yield maximum strength, flexibility and efficiency at minimum personal and financial cost.

3. Each center designated for immediate review will have assigned to it a survey team made up of a consultant experienced in manpower operations, a member of the staff of the Office of the Secretary of Defense, and officers of the services under which the center is operated. The consultant member will act as chairman of the group.

4. Survey teams will first obtain all available pertinent information at service headquarters on the centers under review and in the Office of the Secretary of Defense. These data will be verified, expanded, and supplemented during the group's field visit to the installation concerned. Commanding officers of the centers will be instructed to give full and positive cooperation to the survey teams, and to make available to them any and all information considered by the groups to be relevant to their assignment.

5. In order to insure maximum comparability of the results of the several concurrent reviews, certain basic information will be assembled concerning each

center and answers to a prescribed schedule of questions essential to the solution of the major problem will be sought. The attached schedules outline the information referred to. In addition, each survey team will have responsibility for supplementing this required information with all relevant facts which it may develop during its operation. Survey teams will also report on their conclusions concerning the effectiveness of the methods used in the current surveys and will suggest changes and improvements which would be applicable to further operations of this kind.

6. The gist of survey findings will be discussed with the commanding officer of the installations and copy of the report forwarded to him upon its completion.

7. Each survey team will incorporate in a report to the Assistant Secretary of Defense (M. and P.) its findings and recommendations on the basic question of utilization of military personnel at the centers reviewed, along with the statistical data and other comments called for by 5. above. These reports will be delivered to this office by 1300, Friday, June 20, 1951.

ANNA M. ROSENBERG.

Senator BYRD. Mr. Chairman, may I ask a question, please?

The CHAIRMAN. Yes, Senator Byrd.

Senator BYRD. Mrs. Rosenberg, did I understand you correctly to say that you expect to increase the total of civilian employees to 1,500,000?

Mrs. ROSENBERG. That is the total amount of places asked for in the budget, sir, for 1952.

As I said before, I do not consider that a goal. I consider that a ceiling, and we will do our utmost to keep within that or use less if humanly possible.

Senator BYRD. And that is 300,000 more than you had in May?

Mrs. ROSENBERG. That is right, sir.

Senator KERR. That is what?

Senator BYRD. Three hundred thousand more than you have now.

Mrs. ROSENBERG. Yes, sir.

Senator BYRD. And that would cost something over \$1 billion, would it not, in salaries?

Mrs. ROSENBERG. That is right, sir; \$3,400 a man.

Senator BYRD. Since March 1950, a little over a year, you have added 450,000. That is at the ratio of 1,500 a day, or somewhere approximating that. Would that be about right?

Mrs. ROSENBERG. What date did you give, Senator?

Senator BYRD. In March 1950, there were 742,000 civilian employees, and in May the number was 1,207,000.

Mrs. ROSENBERG. That is right, Senator. That is May 1951.

Senator BYRD. There have been more than 450,000 added?

Mrs. ROSENBERG. 454,000 added.

Senator BYRD. In a year. Now, you have authorization to add 300,000 more?

Mrs. ROSENBERG. Yes.

Senator BYRD. What is the total payroll today of these 1,207,000 civilians?

Mrs. ROSENBERG. Mr. McNeil, who is here, is going to furnish all the figures, sir.

Senator BYRD. It averages about \$3,600, I believe?

Mrs. ROSENBERG. About \$3,400, I think, a person, including all benefits.

Senator KERR. Including what?

Mrs. ROSENBERG. Including all benefits.

Senator BYRD. It seems to me, Mrs. Rosenberg, there is quite a disparity in the employment in the District of Columbia area. Now,

when we reached the war peak of 1945 for civilian employees it was 2,000,000, and we had 98,000 in Washington. Now we have 1,200,000 and we have 88,000 in Washington, in the Washington area, in the metropolitan area. In other words, you are now 10,000 employees under the war peak of 1945 in the District.

While you are answering that question, I would like you to tell the committee what percentage of these 87,931 in the District area are in the Pentagon Building.

Mrs. ROSENBERG. Senator Byrd, I would like to give you a detailed breakdown, and I have it. But I do not think that you can go simply by dates. I think you also have to see which operations had been moved into the District of Columbia. As you recall, right after the war, there was a concerted effort made by the services to give up space; they had occupied too much space at too high rentals all over the country. A lot of that space was given up and consolidated operations brought into the so-called Washington area.

So I think the number of employees has to be compared with the amount of additional duties they assume.

You asked how many are at the present time in the Pentagon?

Senator BYRD. Yes.

Mrs. ROSENBERG. At the present time, I think in the Pentagon proper there are 21,000, if I am correct, employees. I would like to make a correction if I am incorrect on that, sir. That is including civilian and military.

Senator BYRD. That 21,000 includes both civilian employees and—

Mrs. ROSENBERG. No; 21,280 for civilians, sir.

Senator BYRD. And what is the total number?

Mrs. ROSENBERG. I think there are about—I would say about another 9,000 military personnel.

Senator BYRD. And what percentage of those 9,000 are doing clerical work, that is, the military personnel in the Pentagon Building?

Mrs. ROSENBERG. I cannot give you the exact percentage, sir, but we are checking the job of every single enlisted man in the Pentagon, and we are trying to get them out as fast as possible. We have a lot of people engaged in communication. I would be glad to give you in executive session how many we have, for instance, in that particular function. We have no military personnel except on such jobs for which they feel military security requires them to do clerical work.

Senator BYRD. What percentage in addition to the 1,270,000 straight out civil-service civilian employees? How many in uniform are doing comparable work? I mean by that doing clerical work, in the whole establishment. Have you got any figures on that?

Mrs. ROSENBERG. Senator, we are taking each Defense Establishment and looking at these utilization studies, and I would be glad to show you some of them when we complete them. We take every single job, for instance, clerical jobs and other jobs, to see whether a military man is performing it, and to see whether a civilian could perform it.

First of all, the question is, is the job essential or necessary? Second, could a civilian perform it? And third, if a civilian could perform it, why is a military man in there?

Often there are good reasons, some of which I enumerated to you; others because we work all around the clock in a reception center, for instance, and we cannot have civilian employees; others, because the cost would be enormous. When you are working a lot of overtime and all around the clock, you are better off, in a reception center, working with military employees.

I have no doubt, Senator, that there are jobs being performed by military that do not answer any of the criteria that I mentioned to you, but are there because, well, they have always had a military person there, and we are digging into that just as fast as we can.

Senator BYRD. That is true generally throughout the Military Establishment, is it not? What I am getting at is this. I think the committee is very much interested in it. Certainly I am. In addition to the 1,207,000 who are classified as civilian employees, how many more in uniform are doing the same character of work that these 1,200,000 are now doing?

Mrs. ROSENBERG. A very small percentage, sir.

Senator BYRD. A small percentage of what?

Mrs. ROSENBERG. A small percentage of the total military and a small percentage compared to the 1,200,000.

Senator BYRD. With the 3,600,000, which will be the military strength shortly, that would be a good many, would it not? How many hundreds of thousands do you think are doing clerical work that are in uniform?

Mrs. ROSENBERG. Senator, I would be generalizing, and I fear that my generalizations have made headlines too often. You do not mind if I stick to figures? If you want figures of approximately how many, I would be glad to furnish them to you.

Senator KERR. Senator, did I understand you to refer to the 1,200,000 civilian employees as civilian employees or as civil-service employees?

Senator BYRD. I called them civilians. But you can do it either way. They are not in uniform. That is the distinction.

Senator KERR. That is what I wanted to be sure of. As I understand the evidence, they are not all in civil service.

Mrs. ROSENBERG. No, sir. When we talk of civilian employees, the services have large production plants, arsenals, shipyards, construction work—

Senator KERR. That 1,270,000 includes all the civilian employees, whether civil service or otherwise?

Mrs. ROSENBERG. That is right, sir.

Senator BYRD. I used the words "civilian employee." I think that is the better way to express it.

Mrs. ROSENBERG. That is correct, sir.

Senator BYRD. As I understand it, you would prefer to give these figures on the number in uniform who do clerical work in executive session? Is that what you said?

Mrs. ROSENBERG. No. I would be glad to give it to you, sir. Any time we work these things up, I shall be glad to give it to you.

Senator BYRD. You have not gotten it yet?

Mrs. ROSENBERG. No, I have not gotten any percentage figures on that particular subject.

Senator BYRD. To what extent do you think, Mrs. Rosenberg, that unification reduced civilian personnel, or did it reduce it at all? By



these compilations here, apparently after the Unification Act, it was reduced slightly, but very little. Some of them increased.

Mrs. ROSENBERG. Senator, I really could not answer the relationship of unification in the past because my whole experience with the Department of Defense is about 7 months now. But I do know that under unification, we perform in the Department of Defense a lot of functions that heretofore were separately performed by each service, and great economies, to say nothing of efficiency, have been effected by that process.

Senator BYRD. But it has not actually effected a reduction in personnel. We were told in the Armed Services Committee that when that act was passed, there would be very great economies by reason of being unified. But the figures with respect to personnel do not carry that out.

Mrs. ROSENBERG. Senator, if one man could——

Senator BYRD. I just wanted your opinion as to whether or not unification reduced civilian employment. I can realize the military advantage of it, and I am strongly for it and was at the time, but did it actually reduce the civilian employment at all?

Mrs. ROSENBERG. I would say that it does reduce the civilian employment, but if anybody before said that one man could do the job that three did before, then the three were loafing one-third of the time.

Senator BYRD. They never said that. They said in certain cases that by joining these offices together, there could be some economies.

Mrs. ROSENBERG. That is true, sir.

Senator BYRD. It seems to me that there should be.

Mrs. ROSENBERG. That is true, sir. We have joint purchasing now. We have special services jointly.

Senator BYRD. What effect did that have on reducing the personnel?

Mrs. ROSENBERG. I would have to show you, Senator, what additional functions had been taken on. There is a great deal of additional production, reconditioning, and servicing of ships and planes, and modifying them, going on at the present time. We have laid up so much of our equipment that a great deal of this civilian personnel today is spending its time taking ships out of moth balls, reconditioning them, and reconditioning planes, and we have long pipelines, also, which means that we need our depots fully manned by a far larger force than we would otherwise have.

Senator BYRD. But so far as you know, there was no reduction in personnel by reason of that?

Mrs. ROSENBERG. So far as I can see, there are many functions being done jointly that I know in the last war were done separately. I am sure that economies have been effected.

Senator BYRD. Has it effected reductions in personnel?

Mrs. ROSENBERG. I am sure it has. Those were the ones that I had special knowledge of in the last war.

Senator BYRD. How many uniformed men are acting as chauffeurs and servants for officers?

Mrs. ROSENBERG. Senator, we have checked that now over and over again. To the best of my belief—and I have been given this answer categorically—there are none acting as so-called servants to officers. There are some, I am sure, performing duties on posts at times which may be maintenance duties.

Senator BYRD. They act as chauffeurs, do they not? I see them around Washington constantly.

Mrs. ROSENBERG. Yes, sir; we have been asked to furnish a full list of who have uniformed chauffeurs, and I think that Mr. McNeil is preparing that, and may have it now, or has it for you.

Senator BYRD. You do not know how many there are?

Mrs. ROSENBERG. They way you kept after us, there cannot be many more left.

Senator BYRD. We do not want any more left. We want to get them all.

Mrs. ROSENBERG. I do want to say one thing, sir. When you see a man in uniform, you cannot always be sure that he should not be there. I happen to know a man who is a purple heart veteran, and the only thing we could use him for while he was here on rotation was as a chauffeur. Sometimes there is an excuse for it, but not always.

Senator BYRD. I am going to leave that subject for the moment.

Is it not true that there are men in uniform that are doing clerical work, a considerable number?

Mrs. ROSENBERG. Yes.

Senator BYRD. I am just asking that for information.

Mrs. ROSENBERG. That is right. There are, sir.

Senator BYRD. That should be charged to the civilian cost, and not to the military costs. You have two items here that are really together in a sense. We ought to know how much we are paying for the so-called white-collar work.

Mrs. ROSENBERG. Senator, if you make that arbitrary separation—and I tried to bring it out in my prepared statement—we are going to make it more expensive instead of less expensive. If I may speak freely, I have found that the tendency was to a great extent in many places in the Department of Defense to govern your manpower policy by which committee investigated you at the moment. And if it was a committee that did not want a lot of civilian people, they then put a lot of military people on the job, and if it was a committee that objected to military, many of those jobs were filled by civilians.

Now, if it was somebody who was interested in women, we had Wacs and Waves.

That is not manpower policy. That is expediency.

Senator BYRD. I am only asking for information. I am not trying to set the policy.

Mrs. ROSENBERG. Yes, sir. And I am going to give you the information, and I hope you look at it from this point of view. It is one package, 3,500,000 men, and the number of civilians which must be engaged in an effort which is an out-and-out military effort, and nothing else. At times we will use civilians because that is most economical; at times we will use military men because they need the training, or because they are there on rotation awaiting assignment. At times we will use Waves instead of civilian girls because it is most economical. But I think we will work according to a forthright policy and see that within that we do the best job we can.

Senator CONNALLY. May I interrupt, Senator?

Senator BYRD. Certainly.

Senator CONNALLY. Senator Byrd wanted to know how many men in uniform were doing clerical work. Is it not true that in the

Army organization, and I suppose the Navy, too, there are lots of positions that are filled by soldiers that are doing clerical work, but it is a part of their military duties?

For instance, every regiment has an adjutant, and he has a clerk, and every company has a clerk, and so you go on up in the division headquarters you have an adjutant and four or five assistants and a bunch of other clerks. The duties they are performing are military duties.

Mrs. ROSENBERG. That is correct, Senator.

Senator CONNALLY. It is true that they are somewhat clerical in nature, but it is necessary to have those for the administration of the Army.

Mrs. ROSENBERG. That is right, sir.

Senator BYRD. I was simply asking for information. I do not question what the Senator from Texas said. But we are entitled to that information. We have never been able to get it. I have been here 18 years, and as a member of the Armed Services Committee, and never has that information been up to date. Mrs. Rosenberg has a great capacity, and I have a great respect and admiration for her, as she knows. I expect her to furnish the information for the first time in the history of this country, as to how many are doing that kind of work.

The committee has a right to know, and certainly Congress, which appropriates the money, ought to know. I think when the report is made, there are going to be a good many more than many of us realize.

Especially I would like to have a report, Mrs. Rosenberg, about the Pentagon Building. Let us make that a guinea pig, so to speak. See how many clerical workers out there there are in uniform. See how many chauffeurs are out there, how many people that wait around on the officers are out there. And then, another thing, see how many civilians are out there. Give us a report on that, because we are getting letters, as Senator Millikin says, all of us, about what they regard as a great waste of manpower in the Pentagon Building and generally in the armed services, certainly so far as the civilian workers are concerned, an opinion, incidentally, that I thoroughly agree with.

I think there is a great waste of manpower in the armed services, where it should be most conserved.

Senator CONNALLY. I think we have overdone it, but the law provides that every brigadier general has to have a car and a chauffeur at Government expense, and every time you jump them up another grade, they have—

The CHAIRMAN. Another car? I thought it was another star.

Senator CONNALLY. Well—

The CHAIRMAN. At least, a new one.

Mrs. ROSENBERG. I thought it was another star, and not another car that they get, Senator. I will have to look into that.

Senator CONNALLY. What I mean is that those things are provided by law. I think it is an outrage.

Senator BYRD. It might be necessary to make the military be more economical. We have a long-range proposition. The military spends \$50 billion or \$60 billion a year here, and they are going to be under scrutiny, and must be under scrutiny much more than they have ever been in the past.

Senator CONNALLY. I want to agree with you. And I want to say that the Army, from my experience with it, is very little concerned with economy. If they see something that they want, they just get it, whether it is costly or whether it is cheap. And I assume the Navy is the same way.

They are sent to West Point free by the Government, and they get out in the Army and get a good rank and get promoted and jumped up, and they just do not have any desire for economy. They have more lieutenant generals in the Army now than they had lieutenants some years ago. You have four or five lieutenant generals, and maybe more, in the Air Force - lieutenant generals. And in the other services, you have just great flocks of lieutenant generals. I do not think we had but one during the whole Civil War, did we?

Job Stuart was a lieutenant general, and old General Grant was a lieutenant general. He did not get to be a full general until after the war was over, as I recall it now.

Mrs. ROSENBERG. Senator, I can do a job in this manpower field, but the one thing I will never be is a lieutenant general.

Senator CONNALLY. I do not know. You have plenty of Wacs and Wayes.

Mrs. ROSENBERG. Not at my age, Senator.

Senator CONNALLY. I do not ever discuss a woman's age with her.

Now, I do think that the Army and the Navy, too, are extravagant. They get their rake-offs, and every few years they have another bill to grant them some more allowances, and ration returns, and all that sort of stuff. I think that the Army and the Navy are both extravagant, terribly extravagant, and I blame the Armed Services Committee somewhat for doing that, because they permitted it. They have passed laws to do the things that I am talking about.

Mrs. ROSENBERG. Senator, I think they revoked that law, if it ever existed, of cars for brigadier generals, because I understand they do not have that any more. And I may say to you very seriously, the armed services in their budgets are under the strictest scrutiny I have ever seen, and I have seen the budgets of large corporations. We have a comptroller who has to be there by law because I think otherwise he could not exist, and we have a Deputy Secretary who really spends a great deal of time on that. And I think that they are doing a creditable job.

Senator CONNALLY. I am not criticizing them as a whole. But are you sure that brigadier generals do not get a car by law?

Mrs. ROSENBERG. When I came down here, I was sure of everything. Now I always leave a reservation. But I am reasonably sure that they do not have one.

Senator CONNALLY. Every time you have a committee meeting up here, here comes a big Government car with a lot of lieutenants and captains and others piled in it.

Mrs. ROSENBERG. That is a pool car, sir, that they use to come up here.

The CHAIRMAN. Are there any other questions?

Senator BYRD. I want to ask this, Mrs. Rosenberg. Now, as to controls that you have established about the civilian personnel, would you explain those to the committee? Are they monthly controls? You have absolute power, together with Secretary McNeil, as I understand, to control the civilian employment in the armed

services; have you not? You can establish quotas and allotments and hold them within that. You need no further power from Congress to do that.

Mrs. ROSENBERG. No, sir. I have not found that I need any further power.

Senator BYRD. What I am trying to get at is this: I hope that you are not going to employ these 300,000 additional employees, because when they once get on the rolls, they do not get off.

Mrs. ROSENBERG. Senator, I submitted here a rather lengthy document of how they have to ask for every single person, whether civilian or military, now. Up to now, if I may say, you had mostly dollar controls on civilian personnel. You had so much money allocated, and within that, they hired.

Now once those dollars are given, they cannot hire unless they meet the requirements schedule first. Why do they need it? What do they need it for? And there are spot checks to see whether the people are being used.

Senator KEEN. You say now that you have imposed additional restrictions over and above the dollar limitations?

Mrs. ROSENBERG. That is right, sir.

Senator BYRD. I offered an amendment, as you perhaps know, to make that possible. That was the recommendation of the Hoover Commission, was it not?

Mrs. ROSENBERG. That is right, sir.

Senator BYRD. So you have the power, you and Secretary McNeil have absolute power to fix the manpower employment of civilians in the armed services; is that correct?

Mrs. ROSENBERG. I say we have, sir, because the Secretary of Defense has it.

Senator BYRD. What I mean is that the armed services can within themselves clear this situation up if they choose to do it, and not employ more people than are necessary.

Mrs. ROSENBERG. They can and they will, Senator.

Senator BYRD. How many new people are going on a day right now?

Mrs. ROSENBERG. I could not give you the figure per day now. But they cannot put on anybody-----

Senator BYRD. I am not speaking about what they can do or cannot do. How many are going on? They are putting on a thousand every day now?

Mrs. ROSENBERG. Senator, I can tell you that they are not putting on many now, because we have cut the ceiling of the Air Force, for instance, on what they are allowed, so that they cannot hire anybody at the present.

Senator BYRD. The military has been putting on close to 1,000, I think, now ones every day. When they once get them on, they cannot get them off. You know that as well as I do. We ought not to put them on if it can be avoided.

You have here 300,000 others. That is over \$1,000,000,000 a year that would be added to the payroll if they are put on. So I plead with you not to put them on, because when they once get on, there does not seem to be any way to get them off.

Mrs. ROSENBERG. They will not be put on unless they can show us they need them. In the last budget, Senator, if I may say, a few

months ago, we cut ceilings and put in some controls, but we did not have the proper budgetary controls or the proper justification.

Senator BYRD. But you have it now?

Mrs. ROSENBERG. Yes, sir.

Senator BYRD. There is no alibi that anybody can advance? From Secretary Marshall up and down, you have the power to do it, and if you do not do it, the Congress should hold the armed services strictly accountable for it. We cannot go into these appropriations and figure out exactly how many men you need in each department.

Mrs. ROSENBERG. We have the methods, sir. We do not have any more controls than we had before. We are putting in the methods to exercise those controls.

I would like to say this to you, Senator, when you say that you cannot lay them off. I have permitted many civilian employees, seasonal employees, to be hired, and they have a date of termination, and that day they go.

Senator BYRD. The employment rolls, Mrs. Rosenberg, never show any reduction. They always show an increase. Probably some individuals have been laid off. But the total goes up and up and up.

Mrs. ROSENBERG. Senator, the mission has gone up, in all fairness, and I am not justifying it, and I will give you my word that these 300,000 will be employed only if they are absolutely needed.

Senator BYRD. What about these 1,000 or more people that are engaged in public relations work? Why are they needed in the armed services?

Mrs. ROSENBERG. Each of the services has some people in public relations work, and I think Mr. Fritchey, who has charge of public relations, can answer that better than I can.

Senator BYRD. It is unified. You have unification here. All you have to do is hand out to the public what you want to hand out. It seems to me that there is an opportunity for economy.

Mrs. ROSENBERG. I agree with you.

Senator BYRD. You certainly do not need a thousand more people doing that kind of work.

Mrs. ROSENBERG. I agree with you.

Senator BYRD. You are asking for 1,000 more, I am told, next year.

Mrs. ROSENBERG. They will not get it. That I can tell you.

Senator BYRD. Now, I am continuing on this so that we will have a clear understanding. When are you going to start to put these controls on, or have you already started?

Mrs. ROSENBERG. We have already put them in, sir. The fiscal 1952 requirements all have to come in under those controls.

Senator BYRD. Doesn't that include, though, a 300,000 increase?

Mrs. ROSENBERG. It certainly does. None of that 300,000 will be given unless they can justify every one of them.

Senator BYRD. How far ahead have you placed a limitation on each individual agency? Do you do it by the month, or quarter, or how do you do it?

Mrs. ROSENBERG. They have their ceilings frozen right now, Senator, and if they want anybody, some of the services like the Navy try to plan 3 months ahead, and they will come up with their 3 months' requirements, and we will go over and give them part of it if we feel that it is an immediate necessity and scrutinize the rest, or not give them any part of it now.

Senator BYRD. Mrs. Rosenberg, on the basis of 1,207,000, wasn't the proposal on the basis of the same amount that you have now?

Mrs. ROSENBERG. Yes, sir.

Senator BYRD. When was the proposal?

Mrs. ROSENBERG. For some time, Senator, they have not been permitted to hire.

Senator BYRD. They have a thousand new employees every day.

Mrs. ROSENBERG. A lot of these are in production, and we permitted it. And a lot of those are temporary. The Army, for instance, got a lot of temporary people who are to be laid off in the fall.

Senator BYRD. Then they are frozen and they have to get a quarterly allotment, or a monthly allotment?

Mrs. ROSENBERG. That is right.

Senator BYRD. Is it monthly or quarterly?

Mrs. ROSENBERG. It all depends on their program. They cannot hire until they come in with their requirements and we approve those requirements.

Senator BYRD. How far in advance do you approve it? How do they get these 1,000 a day?

Mrs. ROSENBERG. For fiscal 1952, we have not approved it. They are still in fiscal 1951, except for an allotment for the Navy for an immediate need that they have.

Senator BYRD. When were they frozen?

Mrs. ROSENBERG. Senator, some of those ceilings were given way before we put in controls. They now have a ceiling on 1,207,000, and they are hiring within that ceiling. They cannot go above that. So they still have a leeway to hire in some of the services, but not all of them.

Senator BYRD. That is what I am getting at. You have a 50,000 or more leeway.

Mrs. ROSENBERG. They still have, sir.

Senator BYRD. Then when they reach the 1,270,000, which means 50,000 more from this date, then you fix another ceiling? Or what do you do then?

Mrs. ROSENBERG. Then they come up with their requirements. Let us say that the Navy will say, "We need for the first 3 months of fiscal 1952, 50,000 men."

They have to give the place they need it, the job they need it for, and the workload they are to carry before we approve it, and they cannot hire until we approve it.

Senator BYRD. Would it be possible for you to furnish the Armed Services Committee a statement the first of each month as to how many additional employees you have authorized for that month?

Mrs. ROSENBERG. Yes, sir.

Senator BYRD. I think that the committee would be very much interested in that; and also information in regard to the uniformed personnel doing civilian work.

Mrs. ROSENBERG. You see, some of these men, Senator, that they are hiring now are committed as far ahead as money is committed. For instance, on the building of a carrier or the recommissioning of a ship, they have a schedule of men they must take on each month, and they are still hiring within those ceilings.

Senator BYRD. But your rolls have shown an enormous increase as well.

I have no further questions.

Senator MILLIKIN. Mrs. Rosenberg, how much do you estimate to be the actual expenditure for the cost of the military program in fiscal 1952?

Mrs. ROSENBERG. I would rather have Mr. McNeil answer all expenditures, Senator, if you do not mind.

Senator BYRD. He is here. He will follow Mrs. Rosenberg.

If there are no further questions, thank you very much, Mrs. Rosenberg.

Mrs. ROSENBERG. Thank you very much, Senator.

The CHAIRMAN. We thank you for your appearance.

Mr. McNeil, you may be seated.

You are the Assistant Secretary of Defense?

Mr. McNEIL. Yes, sir.

The CHAIRMAN. In charge of what?

Mr. McNEIL. Money.

The CHAIRMAN. Very well, Mr. McNeil. We shall be glad to hear from you. Have you a prepared statement?

Mr. McNEIL. I have a short prepared statement, probably of 5 minutes duration.

The CHAIRMAN. Yes, sir. You may proceed with your statement.

#### STATEMENT OF W. J. McNEIL, ASSISTANT SECRETARY OF DEFENSE

Mr. McNEIL. The Department of Defense, during the fiscal year that closed last Saturday, spent from military appropriations, that is, withdrew funds from the Treasury, in the amount of \$19,209,000,000. The actual June 30 Treasury figure compares with the Department of Defense January estimate of expenditures of \$19.0 to \$19.4 billion. Of this total approximately \$9 billion was spent for hard goods and construction, with the balance going for military pay, food, clothing, transportation, petroleum products and other soft goods.

Assuming a world situation which would permit the continuance, for fiscal year 1952, of the currently approved 3.5-million-man force, and a reasonably level price structure, it is estimated that such a force, together with the procurement of military equipment and supplies, will result in expenditures in fiscal year 1952, from military appropriations to the Department of Defense, of approximately \$40 billion.

Senator MILLIKIN. That does not include the foreign aid?

Mr. McNEIL. No, sir. I will touch on that later in the statement, sir.

The rate of expenditure at the beginning of the current fiscal year is \$2.4 billion per month, of which about \$1.2 billion is for hard goods items and construction. I might add that this figure for hard goods items and construction compares with \$400 million for such purposes in July, a year ago.

The monthly expenditure rate is expected to rise throughout the year as indicated by the chart submitted to the committee. In June 1952—the end of the fiscal year which is just beginning—the monthly expenditure rate is estimated at \$4.3 billion of which over \$3.0 billion is expected to go for hard goods items and public works construction. This monthly rate of \$4.3 billion would be equivalent to an annual rate of \$52 billion.

Under present schedules the last part of fiscal year 1952 and the first part of fiscal year 1953 would represent generally the period of



highest expenditures—aircraft production being the only major program in which a subsequent increased rate of deliveries is anticipated. By that time we will have begun to achieve a matériel position, except for aircraft, which would permit lower rates of delivery for many items during the latter part of fiscal year 1953. As a result, expenditures from military appropriations for the fiscal year 1953 may well be in the \$48 to \$50 billion range.

Beyond 1953 it is probable that expenditures could drop toward a \$35 billion annual rate with actual expenditures during the fiscal year 1954 being in the neighborhood of \$40 billion.

Senator BYRD. It includes all expenditures except for the atomic expenditures?

Mr. McNEIL. And military assistance.

Senator BYRD. Except for the atomic energy and foreign assistance?

Mr. McNEIL. Yes, sir, the stockpiling of critical materials is also separate under the General Services Administration.

Such estimates must assume, of course, continuation of the same factors into fiscal years 1953 and 1954 that earlier were stated as applying to the estimates for fiscal year 1952.

It should be emphasized that the figures which have, so far, been used apply to the military appropriations for the Department of Defense. In addition to the expenditures from military appropriations there was expended, by the Department of Defense, for military assistance programs during fiscal year 1951 the sum of \$900 million. Expenditures of approximately \$4 billion are anticipated for military assistance during fiscal year 1952.

Of these total expenditures for military assistance, \$600 million was spent for hard goods in fiscal year 1951 and it is estimated that \$3½ billion will go for this purpose in fiscal year 1952. The difference between hard goods expenditures and the total for military assistance, in each of these two years, is primarily for packing, crating, and shipping charges on material and the costs of training personnel of Allied Nations in the maintenance and use of American equipment.

The military budget, now before the Congress, provides funds for consumption of equipment and supplies at peacetime rates. It does not include the extra funds which would be needed to provide for consumption at combat rates in Korea during fiscal year 1952. It will, therefore, be necessary to divert equipment, supplies and other matériel provided for in the budget, now before the Congress, to the support of combat activities for whatever portion of the year hostilities may continue, and this would result in lower than required stock levels.

Senator MILLIKIN. May I ask, what is the war in Korea costing us?

Mr. McNEIL. We have never computed a figure that I would want to use, because specific ground rules have never been established. For example a number of B-26 light bombers were used in Korea. They would be replaced during the current modernization program because they were obsolescent. At what cost should they be charged, present depreciated value, original cost, or the cost new of the improved type which replaces it?

Next, the fleet has used an additional amount of fuel. The Seventh Fleet, however, would have been steaming, anyway. Should we charge the whole cost of the fuel that was used in Korea, or only the difference between what they would have used in normal peacetime training and what they have consumed in combat operation? It is the same with gasoline for aircraft of the Air Force and naval aviation.

Senator MILLIKIN. Those estimates work on several different contingencies. For one thing, you have to consider whether the material was bought new and where you used it. Then there is the assumption that the fleet would have been used anyhow in other ways. We would like it arranged so that we could use our own judgment.

Mr. McNEIL. Sir, probably any figure might be supported—I do not mean to be facetious in this answer—from \$2 billion to \$10 billion, depending on whether the whole cost of the B-26 aircraft, F-51's, or the Navy F8F aircraft, which are going to be replaced in the modernization program, is charged. If you charge the whole cost, we will get a substantial total. If we consider that they had only limited value and that the fleet was going to steam in any case and that aircraft were going to fly a certain number of hours each month, the lower figure would be closer.

Senator MILLIKIN. Does the lower figure include all manpower costs, and aid and assistance?

Mr. McNEIL. No, sir. That is one point I would like to touch upon, also. One reason that it is difficult to arrive at a figure which might be considered as chargeable to Korea is the question whether the increase in personnel up toward the 3,500,000 force, should be charged to Korea? Should the four National Guard divisions which have been called to duty be charged to Korea, even though one is still at Camp Pickett, Va.? It is true that Korea gave the country an appreciation of the danger and resulted in some of the rapidity of the build-up.

Senator MILLIKIN. Let us make our own discounts. What is the cost of maintaining the servicemen in Korea? Then we can use our judgment as to whether we might have had similar costs if you kept them in camp. What is the cost of the Korean operation, and let us make our own discounts.

Mr. McNEIL. May I try to get that for you during the course of these hearings and furnish it to the committee?

Senator MILLIKIN. I wish you would.

Mr. McNEIL. I shall be glad to give you the best information that I can.

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

ASSISTANT SECRETARY OF DEFENSE,  
Washington, D. C., July 28, 1951.

HON. WALTER F. GEORGE,  
United States Senate.

MY DEAR MR. CHAIRMAN: During the hearings before the Senate Finance Committee on July 3 the question was raised as to the United States portion of the cost of the military operation of the United Nations in Korea.

At that time it was stated that a reliable estimate of such cost was not available because of a number of factors—several of which were stated during the hearings—but that an effort was being made to arrive at some usable estimate at the earliest practical date.

The question has been taken up with the Department of the Army, the Department of the Navy, and the Department of the Air Force and is under study. Between the time of the hearings and the date scheduled for printing of the record of the hearings, however, no figure has been developed which would provide a reliable approximation as to the United States portion of the cost of the military operation of the United Nations in Korea.

Efforts in this direction will continue and your committee as well as other committees of the Congress which have raised the same question, will be furnished such information as we may be able to develop on a reliable basis.

Sincerely,

W. J. McNEIL.

Senator TAFT. Let me ask this another way. If the Korean War ends tomorrow, how much less is the Military Establishment going to cost us in the next 12 months than the estimates, which must have been based on the continuation of the Korean War?

Mr. McNEIL. Senator, the 1952 budget that is before the Congress at this time does not include funds for consumption at combat rates, because the matériel that would be consumed in Korea during the next 12 months, if the hostilities continue during that period, is largely on hand or on the way. Therefore, much of such matériel has been recorded as an expenditure.

The result instead would be lesser stock levels. For example, in 105-millimeter ammunition, much of the ammunition of that caliber that will be used in Korea is on hand or en route, but stocks would be depleted and its use in Korea would be replaced by procurement, either in 1952 or in 1953.

Senator TAFT. There still is a difference somewhere. You put your lower estimate here on the other thing, of \$2 billion. Would you say it is \$2 billion less expensive, even though we go ahead and keep the same total of dollars and everything else, and go right ahead with every other plan? It would still be \$2 or \$3 billion less expensive if there is no war in Korea?

Mr. McNEIL. I would say that if the war continues in Korea, we would have to make provision for at least \$2 to \$3 billion additional over what we have requested in the 1952 budget. We specifically excluded combat rates from our budget request this year, because consumption could not be accurately forecasted, and we tried to make the 1952 request a living budget and not something that we based on conjecture. We thought that we could estimate with a high degree of accuracy consumption at peacetime rates, and knowing that little material we would order in 1952, in the way of hard goods, would get to Korea, it was decided to wait several months in order to make more realistic estimates of consumption.

Senator MILLIKIN. I think it would be interesting to have the figures on several different theories, because we want to avoid the absurdity that the Korean War is not costing us anything.

Mr. McNEIL. It is, sir. It is costing us. The important effect, in hard goods items is that it decreases the military assets that we otherwise would have and need and which should be replaced.

Senator MILLIKIN. And it costs a lot of manpower, too?

Mr. McNEIL. Yes, sir. But I do not know whether to attribute all or only a portion of the manpower increase to Korea.

Senator MILLIKIN. Just tell us how it is working in Korea and what it costs.

Mr. McNEIL. I shall be glad to provide any information we have that might be of value, sir.

Senator TAFT. Probably the pensions and the insurance for the next 20 years from the casualties are a bigger item than all the current costs of the war, are they not, from the casualties?

Mr. McNEIL. That is right, sir.

The CHAIRMAN. Very well, sir.

Mr. McNEIL. I was just in the middle of a paragraph, Senator Taft, on the effect of Korean consumption at the time an attempt was made to answer that question. Following is the paragraph included in the statement on that subject.

Actual expenditures for the replacement of such equipment, supplies and matériel as may be consumed in combat would largely take place in succeeding years, because the amount of the matériel we will actually use there is largely coming from stocks on hand.

Therefore, the actual status of hostilities in Korea will have comparatively little effect on the cash expenditure rate during fiscal year 1952.

In summary, for the fiscal year 1952 expenditures by the Department of Defense for its military functions and for military aid are estimated to total approximately \$44 billion.

This morning I read the statement made by Mr. Staats, Assistant Director of the Bureau of the Budget, before this committee, and I noticed that he had provided you with a figure for the Department of Defense and military assistance in the amount of about \$42 billion. The difference, I think, is probably due to the different estimates of when certain matériels might be delivered during this coming year.

The result of our more optimistic delivery picture is that our expenditure forecast for the coming year is about \$2 billion higher for fiscal year 1952 and is a little less for fiscal year 1953 than the figure which he used. Over the 2-year period, both estimates are substantially the same.

Senator MILLIKIN. You have \$4 billion for foreign aid?

Mr. McNEIL. The actual appropriation for the military portion, sir, was \$6½ billion, but the actual withdrawals from the Treasury are expected to be \$4 billion. The United States military portion is \$40 billion for the Department of Defense and \$4 billion for military assistance, or a total of \$44 billion.

Senator MILLIKIN. And with \$20 billion additional for civilians, that would be about \$64 or \$65 billion?

Mr. McNEIL. The Department of Defense and military assistance run \$44 billion, and using the figures for other departments as stated by Mr. Staats, the total would be about \$70 billion, sir.

Senator MILLIKIN. And does your military assistance include general foreign aid?

Mr. McNEIL. It does not include the economic portion of foreign aid; no, sir.

Senator BYRD. Your peak year is 1953, fiscal year 1953?

Mr. McNEIL. Yes, sir.

Senator BYRD. You figure that your military costs may run \$50 billion that year, exclusive of the atomic costs and the military aid to Europe?

Mr. McNEIL. Yes, sir; \$48 to \$50 billion.

Senator BYRD. Now, we got a combined figure for fiscal year 1953 of \$85 billion.

Senator KERR. Between \$80 and \$90 billion.

Senator BYRD. I think that that is a realistic situation, in that in fiscal year 1953, starting on the basis of 1 year from now, we will be spending on the basis of \$85 billion.

Mr. McNEIL. I do not know, Senator, that I am competent to speak as to the validity of the estimates of other agencies, but assuming that they are as close to what will probably happen as the military estimates that were furnished you, I would say it runs into the eighty-odd billion dollar bracket.

Senator BYRD. Now, what about the military aid to Europe? That seems to be rather confused with the economic aid. Could you give a clear statement of that?

Senator CONNALLY. Let me interrupt right there. Is that not because of the fact that we are switching ECA over into the armed aid?

Senator BYRD. That is what we want to know. We want to know what that switching is. There is so much switching around here that we do not know where we are going.

Senator CONNALLY. You are cutting down on one and adding to the other.

Senator BYRD. I want to know what it is, though. I want a clear statement of it.

Senator CONNALLY. I do not object.

Mr. McNEIL. The military assistance portion of the proposed legislative authorization that is before the Congress at the moment is \$6,300,000,000. The balance, a little over \$2 billion for economic assistance, is similar in scope to the economic assistance program that was authorized last year. I do not believe I recall the amount for last year, but it was about \$3,500,000,000, I believe, sir.

Senator BYRD. The military is six--what?

Mr. McNEIL. \$6,300,000,000.

Senator BYRD. And economic is about \$2 billion?

Mr. McNEIL. About \$2,200,000,000.

Senator TAFT. You say you are only going to spend \$4 billion of that \$6,300,000,000? Is that what that \$4 billion figure is?

Mr. McNEIL. Yes, sir. Much of that total, together with funds carried over, is for material having a rather long lead time for manufacture and delivery. There are funds for tanks included in that total. Tanks ordered out of 1952 funds in August or September, will just begin to be delivered toward the end of this fiscal year, with many of the deliveries falling into 1953.

Senator MILLIKIN. Is atomic energy excluded from your figure?

Mr. McNEIL. Yes, sir.

Senator MILLIKIN. Why do you exclude atomic energy?

Mr. McNEIL. Atomic energy is a separate agency and I am speaking only to those matters actually handled by the Department of Defense.

Senator TAFT. Do you go along with Mr. Staats' estimate, or "guestimate," or whatever we might call it, that after you are over the hump in this procurement program, and assuming you still have a total of 3,500,000 men under arms, it will cost us \$40 billion a year for the defense program? I think he included in that whatever foreign-aid funds might be left. I know it is going on still.

Mr. McNEIL. \$40 billion would be our present estimate of expenditures in 1954. Actually, we would expect it to be at a \$35 billion rate at the end of that year.

Senator TAFT. You figure roughly on an over-all thing, without including these estimates of equipment, that it runs \$10,000 a man? That is the rule of thumb that you follow?

Mr. McNEIL. \$10,000 per man is the best rule of thumb that we could suggest, after such forces once were provided with modern equipment.

Senator TAFT. My impression is that to get the \$40 billion, he added the atomic energy and some foreign aid and other things, and then he

added \$25 billion on top of that, which made it about \$65 billion. He stated that indefinitely the total budget would be \$65 billion as long as we kept up this military program, as I remember it.

Mr. McNEIL. I have his statement here, sir. I will see if I can find anything on that point.

Senator TAFT. I think perhaps it was brought out on questioning a little more than in his statement.

Mr. McNEIL. That is close, I think, sir.

Senator MILLIKIN. What is your estimate for fiscal 1954?

Mr. McNEIL. \$40 billion, sir, based on the assumptions used in the early part of my statement, for 1952.

Senator KERR. They estimate 1954 at the same figure.

Senator MILLIKIN. And that includes the same exclusions that we have been talking about?

Mr. McNEIL. That is right, sir.

Senator BYRD. Mr. Secretary, this military aid of \$6 billion, is any of that for military matériel that will be manufactured in these countries, so far as you know?

Mr. McNEIL. That is being worked out now. There will be some.

Senator BYRD. Would that not take the place of economic aid? It gives employment to the people of those countries.

Mr. McNEIL. To the extent that that is done, it unquestionably provides dollars, employment, and so forth, and I am informed that such factors were taken into consideration in the reduction of economic assistance from the \$2,800,000,000 down to the level of \$2,200,000,000.

Senator BYRD. Will you be able to furnish us a statement any time soon as to how much of this \$6,300,000,000 is to be spent outside of this country?

Mr. McNEIL. Yes, sir, I think I can provide a good estimate during the course of these hearings.

Senator MILLIKIN. Have you a rough notion in your mind at the present time?

Mr. McNEIL. Subject to correction, sir, it is not more than \$500,000,000. That runs through my mind as being the figure. But the Defense Production Board in London is working up that program now to see what might be manufactured in the other countries.

Senator BYRD. In addition to this \$6,300,000,000 are China, Korea, Greece, and Turkey included.?

Mr. McNEIL. They are included in the \$6,300,000,000, sir.

Senator BYRD. The \$6,300,000,000. And it does not include the Export-Import Bank, does it?

Mr. McNEIL. No, sir.

Senator MILLIKIN. We should anticipate, should we not, a rehabilitation item for Korea?

Mr. McNEIL. No doubt something will have to be done, and we will present it later, sir.

Senator BYRD. You have it in the budget, have you not, for Korea?

Mr. McNEIL. I might speak to one other point. I am sorry that I did not mention it before Senator Taft left. He mentioned during Mr. Wilson's appearance before this committee that the House was making certain reductions in appropriations for public works. I believe that there must be a slight misunderstanding, because the authorization bill is only now being heard by Chairman Vinson's

Armed Services Committee of the House of Representatives. They are making no substantial changes in items to be undertaken in 1952. The proposed report reduction from \$6,700,000,000 requested to \$4,600,000,000, which I noticed in the press, is a reduction in authorizations which were not to be financed in the regular 1952 budget with the idea that next spring we would present to his committee the additional authorizations upon which subsequent or 1953 appropriation requests for funds would be based.

Senator MILLIKIN. What allowance are you making for continuing inflation in your estimates?

Mr. McNEIL. None, sir. As a matter of fact on our food purchases, the 1952 budget is about 5 cents below the current daily ration cost.

Senator BYRD. Mr. Secretary, in the budget there is an item of \$9,500,000,000, financial assistance, military and economic. Does that stand now, or has that been changed?

Mr. McNEIL. The actual submission was for a total of \$8,500,000,000.

Senator BYRD. That is at page 56 of your budget.

Mr. McNEIL. That, I think, sir, is the January budget estimate. The detailed estimates submitted were less than the amount forecast in January.

Senator BYRD. Then you revised that?

Mr. McNEIL. Yes, sir.

Senator BYRD. And reduced it by how much?

Mr. McNEIL. It is reduced to \$8,500,000,000, of which \$6,300,000,000 is for military assistance. I know that the military assistance portion was reduced something over \$400,000,000 below the January level.

Senator BYRD. And what other sources does that include, outside of those two items? Does that include the military occupation of these countries, or is that in the military budget?

Mr. McNEIL. "Government Aid and Relief in Occupied Areas" is practically out of the picture. Generally speaking, we will be on a limited pay-as-you-go basis by the end of this year, so that our military appropriation and expenditures costs do provide for practically all such expenditure except that which is covered in the economic aid program.

Senator BYRD. Then this figure that you have given me would cover all the money that you expect to spend abroad in every category?

Mr. McNEIL. Depending upon the action of the Congress on the authorization and appropriation requests still to come for public works, it is included in the total of \$60 billion, but still to be considered by the Congress. There are certain expenditures there for overseas construction.

Senator BYRD. Is that for our defense?

Mr. McNEIL. Ours. Certainly the military effort would contribute to the mutual defense, but the construction for our forces, and not the forces of other countries.

Senator BYRD. Does it include anything for the rehabilitation of Korea?

Mr. McNEIL. No, sir.

Senator BYRD. That includes Greece and Turkey and everything else except the Export-Import Bank?

Mr. McNEIL. That is the only thing that I can think of that is not included, sir.

Senator BYRD (presiding). Are there further questions?

(No response.)

Senator BYRD. Thank you very much, sir.

John D. Small, Chairman of the Munitions Board.

Have you a prepared statement, sir?

Mr. SMALL. No; I have not.

Senator BYRD. I understand that you are to discuss stockpiling.

Mr. SMALL. Very frankly, sir, no word came down to me exactly what was wanted. That is why I did not prepare a statement. I have a few comments here that I might start off with.

Senator BYRD. Very well.

**STATEMENT OF JOHN D. SMALL, CHAIRMAN, MUNITIONS BOARD,  
DEPARTMENT OF DEFENSE, ACCOMPANIED BY R. C. UNKRICH,  
CHIEF STATISTICIAN, MUNITIONS BOARD**

Mr. SMALL. Mr. McNeill's statement has been made in terms of expenditures which are of more direct concern to the committee than deliveries of end products. But, of course, the rate of military deliveries is one of the main factors underlying the expenditures to which he referred.

Based on the latest reports from the military departments on schedules of June 25, based on the fiscal 1952 budget request, we expect deliveries of hard goods and construction in fiscal 1952 of a little under \$30 billion, including mutual assistance. Such deliveries are now at the approximate rate of \$1,200,000,000 per month. This will increase to a rate of something over \$3 billion monthly by the end of the fiscal year.

I am still talking in terms of deliveries.

Senator MILLIKIN. That is hard goods and construction?

Mr. SMALL. Hard goods and construction.

Senator BYRD. Give us a definition of hard goods. What does that include?

Mr. SMALL. Hard goods includes aircraft, guided missiles, ships, tanks, automotive, weapons, ammunition, electronics, transportation equipment, building supplies and equipment, and production equipment. It does not include subsistence, clothing, and equipage; it does not include fuel.

Senator KERR. Neither does it include transportation or gasoline supplies, does it?

Mr. SMALL. No, sir. It includes transportation equipment, but not transportation costs.

Senator MILLIKIN. And not fuel?

Mr. SMALL. No; it does not include fuel.

Senator MILLIKIN. That is referred to as soft goods?

Mr. SMALL. Those things that I mentioned last are referred to as soft goods.

The delivery of hard goods and construction, such deliveries are now at the approximate rate of \$1,200,000,000 a month. They will



increase to the rate of something over \$3 monthly by the end of the fiscal year. That is the end of fiscal year 1952.

And as I said before, these delivery schedules include mutual defense assistance goods.

The hard-goods deliveries expected in fiscal 1952 include about one-fourth aircraft, one-fourth tank and automotive equipment, about one-eighth ammunition, about one-eighth electronics, and the rest is an assortment of ships, weapons, missiles, and so forth.

The peak of deliveries will not occur until fiscal 1953. That is in the late calendar 1952 and early calendar 1953. As Mr. McNeil pointed out, in connection with expenditures, the aircraft program will then still be on the increase, although some of the shorter-lead-time programs will pass their peaks earlier. Possibly "crest" is a better word than "peak," because we are doing our utmost to minimize the extent of peaking, and make it a rounded curve until we get over the hump.

During this period of tension that we are in now, and which may continue, the longer we can keep on the upgrade, a rising of these deliveries, even moderately, the better position we shall be in to increase production rapidly in the event that they hit us and we have to go all out; in other words, the faster we can take off from an industrial production standpoint in the event of all-out mobilization.

Those are just a few thoughts on the delivery picture. I did not know exactly what the committee wanted, but I have the production picture fairly well in mind, and I shall be glad to answer any questions.

Senator BYRD. Have you projected it beyond fiscal 1952?

Mr. SMALL. Yes, sir; we have. We have projected beyond fiscal 1952, but not in terms of fiscal 1953 money, the budget for 1953. One of the things that I think must be kept always in mind is that each year on the long-lead-time items, deliveries are being made on material authorized a year or 2 years before. For example, in fiscal 1952, we anticipate some \$2,500,000,000 of deliveries coming out of the fiscal 1950 appropriations. We expect some \$17 billion of deliveries during fiscal 1952 to come out of appropriations made in 1951, and out of fiscal 1951 funds in fiscal 1953 we expect deliveries of some \$15 billion. That is the result of delivery lead time as you go into the thing.

We do have a chart on this, which is classified, but I can show it to the committee. I would rather not have it in the open record.

Senator BYRD. Are there any questions?

Senator MILLIKIN. I do not know how much further I can go with this questioning. You stop me if I go too far, of course.

What is your stockpile projection?

Mr. SMALL. The stockpile, Senator, as you know, is the national stockpile. It is not a military stockpile. A great many items on the stockpile list are items which the military directly have very minor interest in. Indirectly we have a very great interest.

The progress on the stockpile has been one that is heartening during this past year. We have had money with which to buy and with which to make contracts and to open up new sources, to create new sources, if you like, of these things that we were in such bad shape on.

Senator MILLIKIN. I am not thinking primarily in terms of future progress.

I do not know whether I should ask you this question or not. But so far as the needed military items of the stockpile are concerned, have we met our goals up to the present?

Mr. SMALL. You put me on a spot.

Senator MILLIKIN. I do not want you to answer it if you feel that you should not.

Mr. SMALL. I can answer it in this way. As the spokesman of the stockpile, if you want to put it that way, the stockpile to me is as great an element in the national security as planes and tanks in terms of an all-out war. Therefore, we should have had the stockpile all in months ago. We have not. We are not anywhere near it. We are, I would say looking at the chart, up possibly to 35 percent of the total stockpile.

Senator MILLIKIN. Would you say you expect substantial increases in expenditures for stockpile purposes in fiscal 1952 as compared to 1951?

Mr. SMALL. Yes, sir; very substantial.

Senator MILLIKIN. Are those increases in the estimates that we have heard from various Government officials?

Mr. SMALL. No, sir. It is a different appropriation entirely.

Senator MILLIKIN. It would not be reflected in the military?

Mr. SMALL. Not in the military, sir.

Senator MILLIKIN. Would they be reflected in the estimates made by the budget?

Mr. SMALL. They were in Mr. Staats' testimony last Friday before this committee.

Mr. UNKRICH. The expenditure projections for the stockpile are included in a table submitted by Mr. Staats last Friday.

Senator MILLIKIN. Do they include the fiscal year 1953, also?

Mr. UNKRICH. I do not know, sir.

Mr. SMALL. I have not seen Mr. Staats' testimony; so I do not know.

Senator MILLIKIN. Would you say the fiscal year 1953 involved more stockpile expenditures than fiscal year 1952?

Mr. SMALL. No; less. Considerably less, if all goes well in 1952.

Senator MILLIKIN. May I ask whether you will meet your anticipated proper levels in fiscal year 1952?

Mr. SMALL. I am afraid that we will not reach all objectives, because of the growing scarcity all over the world of some of these things. If we put it away and took it and sterilized it in the stockpile, we would be causing undue harm elsewhere in the world's economy and in our own economy.

Senator MILLIKIN. I want to make sure that your increased expenditures contemplated for 1952 for stockpiling purposes have been included in the budget estimates.

Mr. SMALL. It has been included in the budget estimates.

Senator MILLIKIN. There are no if's, but's, or maybe's about that?

Mr. SMALL. There is no question about that. It is in the budget estimates.

Senator BYRD. Are the deliveries, when you have to pay for it, and the budget estimates correct?

Mr. SMALL. We base these figures on the contracts that are in being, which have the contracts, and on estimated future contracts, on the best information available to us.

Senator BYRD. I say, have you gone over the budget estimates of expenditures? Do you think that the deliveries of these materials are in harmony with the budget estimates that have been presented?

Mr. SMALL. I think that the expenditures that are in the budget—we are going to do our best to approximate spending that much money and getting that much delivery.

Senator BYRD. Do you think those estimates are correct, then?

Mr. SMALL. I think so, but there are things beyond my control or anybody else's control which may make that impossible.

Senator MILLIKIN. May I ask, do you have any say in the policy that governs your actions, or are you handed the policy and then you proceed to carry it out, so far as your job is concerned?

Mr. SMALL. We make policy on stockpile objectives. The stockpile figure is the difference between estimated supply and estimated demand during the period of all-out war. Those figures are accumulated by all of the interested agencies of Government. They are not unilateral. They are a combination of everybody's best information, including commodity committees from industry, who give us their advice. They come up with a figure which is the deficit, the difference between the two—estimated demand and probable supply. That deficit is the stockpile objective, subjected to certain judgment factors in that, how many ships might be lost, what nations might be overrun, and various things.

Senator MILLIKIN. But you do not decide out of your own authority how much copper, for example, should be stockpiled?

Mr. SMALL. Yes, sir; we do. This Interagency Stockpile Committee is again supported by these commodity committees, such as the Copper Committee, and they come up with their best judgment as to what the stockpile objective figure should be their recommendation—

Senator MILLIKIN. Do they meet as both a military and civilian committee?

Mr. SMALL. Oh, yes; it is heavily weighted on the civilian side. That recommendation of the Interagency Stockpile Committee is submitted to the Munitions Board and to the Secretary of the Interior, and the two of us together, the two groups together, decide that we will accept, or reject, or return for review, the recommendation submitted by the committee. That is the objective. That is the total objective. We, then, knowing the world situation on supply and demand and the availability of these materials, give General Services Administration a short-term requirement, or purchase objective, if you want to put it that way, and they proceed to go out and try to buy it, with due regard to price and to the other factors in the economy.

We can be overruled and frequently are overruled in that short-term purchase objective by the civilian agencies, by Mr. Wilson's organization, again utilizing an interagency committee, and they may say that the harm to our country of taking too much cobalt, or too much of one of these things or another during the coming quarter would be too great, and we have to come down a little. We sit in on these deliberations and agree or disagree, also pointing out that the stockpile is for national security, and we ought to get it in as fast as we can, but not at the expense of unduly jeopardizing our own economy.

Senator MILLIKIN. Are you at liberty to say what are the commodities as to which you pay more for securing them abroad than you do

for securing a similar product here at home? I believe we have had testimony that copper is an example.

Mr. SMALL. Yes. Copper is an example. Most of these short items come from abroad, and we have very little of them here at home. But take the alloying materials, for example—

Senator MILLIKIN. Tungsten, for example?

Mr. SMALL. Tungsten, for example. The bulk of that commodity used to come from China and Korea.

Copper is a good example, where the world price is higher than our price ceiling here, because they are not under price ceilings abroad. So many of these critical materials do come from abroad. Their prices are higher than the limited production that we have of them here.

Senator MILLIKIN. Would it not stimulate our domestic production if we offered the world price at home?

Mr. SMALL. It is a question of judgment in each individual case. I think you have to take it on a case-by-case basis. In the case of tungsten, the Defense Minerals Administration are told by industry, by the mining industry, that the price which is set here is adequate to bring out substantially all of the tungsten that would be brought out. Raising the price would not bring out significantly more tungsten. As it is, it is quite a windfall for certain of the large producers, but it is enough to bring in most of the small ones which we need.

Senator MILLIKIN. I believe there is some question about that.

Mr. SMALL. There is question about that; yes, sir. It is a question of judgment.

Senator MILLIKIN. I come from a tungsten-producing State, and am quite familiar with the tungsten-producing county of that State. I think that your statement would be seriously challenged in that county.

Mr. SMALL. As I say, it is a question of judgment, and I am not an expert on it. We are not the experts. We turn to the Defense Minerals and to industry for advice.

Senator MILLIKIN. I appreciate that. Now, I go back to my original question, where copper was an example. If the price is higher abroad than at home, and you have to get the stuff, do you not think that we would encourage the production of copper at home if we paid the world price here? Would not part of your answer be that we would be paying excessive prices to a part of the copper industry if we did that?

Mr. SMALL. That is my belief, that we would be.

Senator MILLIKIN. Could you not work out a middle ground, and give the world price to encourage exploration and development to the high-cost producers?

Mr. SMALL. That would be something like the premium-price plan that we had in the last war.

Senator MILLIKIN. Something like that.

Mr. SMALL. Such a mechanism, I think, has considerably more advantages than an across-the-board approach that you mentioned before.

Senator MILLIKIN. What are you doing along that line? Are there any plans in the making?

Mr. SMALL. There is a great deal of work being done on exploration at the present ceiling, which is not frugal, let me say. It is not as

high as the world price, but it is still a pretty good figure. And the copper situation—

Senator MILLIKIN. There is a lot of planning being done, but so far as contracts and money filtering down to small producers, the result, I am sorry to say, up to the present time, is practically nil. I am always told that it will start to go within the next 10 days. But they started telling me that 6 months ago. And within the last 10 days, they told me it would go within another 10 days, but it does not seem to get going. I am not blaming you for that.

Mr. SMALL. Yes; that is not in my field of activity.

Senator MILLIKIN. If things are happening, they may be happening in some thinking process, or they may be happening on some blueprint, but they are not happening in the field.

We will pass that.

Senator BYRD. Have you any further questions?

Senator MILLIKIN. No.

Senator BYRD. Thank you very much.

Senator MILLIKIN. I would like to ask this one general question. Have you heard the testimony that has been going on here, or have you read it?

Mr. SMALL. This morning?

Senator MILLIKIN. This morning.

Mr. SMALL. I have heard all the testimony this morning.

Senator MILLIKIN. And have you heard any estimates of expenditures that conflict with your own thoughts on the subject?

Mr. SMALL. No, sir. These figures, so far as I know, were not correlated ahead of time, but they are close to the figures that we have in our estimates. There is the general knowledge through Government, in Mr. Wilson's shop and our shop, as to our end of it. Of course, all we have is the military and the NDAP end of it. I think that the figures are good to give you the broad picture of what can be anticipated.

As Mr. Wilson said, in this long trial of endurance which may be ahead of us and which may last for many years, the military share will be handleable by our country without wrecking the economy of our country. In 1954 and 1955, particularly, it will be doable.

One thing that I would like to reemphasize is that it would be just inconceivable to me if we should permit ourselves to be led down the alley of the Russian scheme, that here we are on the way up to strength, and it would be tragic to be led down the alley of stopping before we gain this minimum strength or of maintaining this minimum strength.

Senator MILLIKIN. A lot of that, Mr. Chairman, is going to depend on the official interpretations of the best possible outcome of Korea. Now, if that is going to be represented officially as a great victory that will make anyone the great peacemaker, you will find yourself being led into that very trap you were talking about.

Mr. SMALL. I am afraid we could.

I think you are probably familiar with the creed of these people, and I will try to quote it from memory. Stalin said:

"We have a higher morality than the bourgeois (or the capitalistic nations). Our morality does not spring from the revelations of a nonexistent god. Anything that helps the revolution is good; any-

thing that hinders the revolution is wrong." "Anything that helps the revolution"—translating it literally, lies, deceit, treachery, all of these things are good. Anything that we believe in, morals and ethics, is wrong if it hurts the revolution.

Now, that is their creed. They believe in it fanatically, and they have told us over and over again that communism is going to dominate the world. How can we believe much that they say to us when they talk of peace?

Senator BYRD. The committee will stand adjourned until Thursday morning at 10 o'clock.

Mr. SMALL. Thank you.

(The following chart has been excerpted from the study by the Treasury on the Federal Income Tax Treatment of Capital Gains and Losses, which is being printed as a separate committee document. See p. 119 of this volume of hearings for further reference to this study.)

Estimated revenue yield from capital gains and income taxation, 1926-51

(Dollar amounts in millions)

Year of liability	Individuals				Corporations				Individuals and corporations			
	Total individual income taxes <sup>1</sup>	Estimated tax on capital gains and losses		Total corporation income and excess profits taxes <sup>1</sup>	Estimated tax on capital gains and losses		Total income and excess profits taxes <sup>1</sup>	Estimated tax on capital gains and losses				
		Amount <sup>2</sup>	Percent of total tax		Amount <sup>2</sup>	Percent of total tax		Amount <sup>2</sup>	Percent of total tax			
1926.....	\$732	\$225	30.7									
1927.....	831	297	35.7									
1928.....	1,164	576	49.5									
1929.....	1,002	421	42.0									
1930.....	477	-15	-3.1	\$712	-85	-9.7	\$1,189	-820	-1.7			
1931.....	246	-89	-36.2	399	-77	-19.3	648	-166	-25.7			
1932.....	330	-80	-24.2	286	-63	-22.0	616	-173	-28.1			
1933.....	374	16	4.3	423	-87	-20.6	797	-71	-8.9			
1934.....	511	17	3.4	595	2	.3	1,107	19	1.7			
1935.....	657	72	11.0	735	31	4.2	1,392	103	7.4			
1936.....	1,214	-171	-14.1	1,191	67	5.6	2,405	238	9.9			
1937.....	1,142	41	3.6	1,276	25	2.0	2,418	66	2.7			
1938.....	766	12	1.6	860	22	2.6	1,626	35	2.2			
1939.....	929	-4	-.4	1,232	25	2.0	2,161	29	1.3			
1940.....	1,496	-7	-.5	2,549	-25	-1.0	4,045	-56	-1.4			
1941.....	3,008	-66	-2.2	7,168	-164	-2.3	11,076	-260	-2.3			
1942.....	8,377	68	.8	12,256	42	.3	21,183	110	.5			
1943.....	8,600	266	3.1	15,926	60	.4	30,516	325	1.1			
1944.....	16,347	354	2.2	14,884	100	.7	31,231	454	1.5			
1945.....	17,226	721	4.2	15,774	214	1.4	28,021	935	3.3			
1946.....	16,281	893	5.5	9,873	270	3.0	25,156	1,163	4.6			
1947.....	18,249	644	3.5	9,961	210	2.1	28,230	854	3.0			
1948.....	13,618	628	4.6	9,920	70	.7	23,538	718	3.0			
1949.....	15,430	475	3.1	1,800	70	.4	25,330	665	2.6			
1950.....	18,700	780	4.2	11,000	270	2.4	29,700	1,050	3.5			
1951.....	24,100	880	3.7	22,000	330	1.5	46,100	1,220	2.6			

<sup>1</sup> As reported in Statistics of Income and the estimated tax on capital gains and losses is not intended to show the difference in tax revenue resulting from taxing capital gains and losses as compared with not levying such a tax in the specified year. The estimated tax on capital gains and losses for each of the specified years is the difference between (1) the total individual and corporation (income) taxes reported in Statistics of Income and (2) the total of such taxes which would have been reported in Statistics of Income had been entirely excluded from the tax computation.

<sup>2</sup> Excludes additions to liability under the current Tax Payment Act of 1943 amounting to \$2,555,804,000.

<sup>3</sup> Preliminary.

<sup>4</sup> Estimated.

Note.—It should be borne in mind, when interpreting this table, that the estimates of revenue yield from capital gains taxation of individuals during the period 1926-51 are not strictly comparable with those for 1926 and later years. In preparation of the estimates for the earlier period, no account was taken of deficit returns, averages of capital gains by income size classes were used to approximate the effective rates at which gains were presumed to have been taxed, and for the period since 1935 deficit returns have been included and better account has been taken of the dispersion of capital gains and losses within income size classes. Therefore, it is believed that the estimates since 1935 are much more nearly accurate than those for the preceding period. Lack of proper information makes it inadvisable to attempt to put the estimates before 1935 on the same basis as those subsequent. In general, the effect of including deficit returns is consistently to diminish gains and increase losses. The 1926-34 estimates of capital gains tax revenue from individuals are therefore overstated in comparison with later years.

Source: Office of the Technical Staff, Treasury Department, July 1951.

(Whereupon, at 1:30 p.m., the committee adjourned to reconvene on Thursday, July 5, 1951, at 10 a. m.)

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