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**TAX RATE EXTENSION ACT OF 1962**

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**HEARINGS**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

**H.R. 11879**

AN ACT TO PROVIDE A 1-YEAR EXTENSION OF THE EXISTING  
CORPORATE NORMAL-TAX RATE AND OF CERTAIN EXCISE-  
TAX RATES, AND FOR OTHER PURPOSES

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JUNE 13, 1962

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Printed for the use of the Committee on Finance



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# TAX RATE EXTENSION ACT OF 1962

WEDNESDAY, JUNE 10, 1962

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, D.C.

The committee met, pursuant to call at 10:40 a.m., in room 2221, New Senate Office Building, Senator Harry C. Byrd (chairman) presiding.

Present: Senators Byrd, Long, Smathers, Douglas, Gore, Talmadge, McCarthy, Hartke, Williams, Carlson, Bennett, Curtis, and Morton.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The hearing today is on the Rate Extension Act of 1962, H.R. 11879. I place in the record a table showing the tax rates affected by the bill as well as a copy of the bill, and the report of the Bureau of the Budget.

(The table, bill H.R. 11879, and report follow:)

*Tax rates affected by bill*

	Unit of tax	Present rates extended under the bill	States which under present law would be effective July 1, 1962
Corporations	Normal tax net income	30 percent	25 percent.
Excises:			
Liquor taxes:			
Distilled spirits	Per proof gallon	\$16.50	\$9.
Beer	Per barrel	\$9.	\$8.
Wine:			
Containing less than 14 percent alcohol.	Per wine gallon	17 cents	15 cents.
Containing 14 to 21 percent alcohol.	do	67 cents	66 cents.
Containing 21 to 24 percent alcohol.	do	\$2.25	\$2.
Containing more than 24 percent alcohol.	do	\$16.50	\$9.
Sparkling wines, liqueurs, etc.:			
Champagne or sparkling wine	do	\$5.50	\$3.
Liqueurs, cordials, etc.	do	\$1.50	\$1.65
Artificially carbonated wine	do	\$2.40	\$2.
Tobacco taxes: Cigarettes	Per 1,000	\$4	\$3.50.
Manufacturers excise taxes:			
Passenger cars	Manufacturers' sale price	10 percent	7 percent.
Auto parts and accessories	do	8 percent	5 percent.
Miscellaneous taxes:			
General telephone	Amount charged	10 percent	0
Transportation of persons:	Amount paid	do	5 percent.
By airline	do	do <sup>1</sup>	Do.
By other carriers	do	do <sup>1</sup>	Do.

<sup>1</sup> Rate of 10 percent extended through Dec. 31, 1962. Effective Jan. 1, 1963, tax on transportation by air to be 5 percent through June 30, 1963, and transportation by other carriers to be exempt.

[H. R. 11870, 87th Cong., 2d sess.]

AN ACT To provide a one-year extension of the existing corporate normal tax rate and of certain excise tax rates, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Tax Rate Extension Act of 1962".

**SEC. 1. ONE-YEAR EXTENSION OF CORPORATE NORMAL TAX RATE.**

Section 11(b) (relating to corporate normal tax), section 821(a) (1) (A) (relating to mutual insurance companies other than interinsurers), and section 821(b) (1) (relating to interinsurers) of the Internal Revenue Code of 1954 are amended as follows:

- (1) By striking out "JULY 1, 1962" each place it appears and inserting in lieu thereof "JULY 30, 1963".
- (2) By striking out "July 1, 1962" each place it appears and inserting in lieu thereof "July 1, 1963".
- (3) By striking out "JUNE 30, 1962" each place it appears and inserting in lieu thereof "JUNE 30, 1963"; and
- (4) By striking out "June 30, 1962" each place it appears and inserting in lieu thereof "June 30, 1963".

**SEC. 2. ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX RATES.**

(a) EXTENSION OF RATES. The following provisions of the Internal Revenue Code of 1954 are amended by striking out "July 1, 1962" each place it appears and inserting in lieu thereof "July 1, 1963":

- (1) section 4061 (relating to motor vehicles);
- (2) section 4251(b) (2) (relating to termination of tax on general telephone service);
- (3) section 5001(a) (1) (relating to distilled spirits);
- (4) section 5001(a) (3) (relating to imported perfumes containing distilled spirits);
- (5) section 5022 (relating to cordials and liqueurs containing wine);
- (6) section 5041(b) (relating to wines);
- (7) section 5051(a) (relating to beer); and
- (8) section 5701(c) (1) (relating to cigarettes).

(b) TECHNICAL AMENDMENTS. The following provisions of the Internal Revenue Code of 1954 are amended as follows:

- (1) Section 5063 (relating to floor stocks refunds on distilled spirits, wines, cordials, and beer) is amended by striking out "July 1, 1962" each place it appears and inserting in lieu thereof "July 1, 1963", and by striking out "October 1, 1962" and inserting in lieu thereof "October 1, 1963".
- (2) Subsections (a) and (b) of section 5707 (relating to floor stocks refunds on cigarettes) are amended by striking out July 1, 1962" each place it appears and inserting in lieu thereof "July 1, 1963", and by striking out "October 1, 1962" and inserting in lieu thereof "October 1, 1963".
- (3) Section 6412(a) (1) (relating to floor stocks refunds on automobiles) is amended by striking out "July 1, 1962" each place it appears and inserting in lieu thereof "July 1, 1963", by striking out "October 1, 1962" and inserting in lieu thereof "October 1, 1963", and by striking out "November 10, 1962" each place it appears and inserting in lieu thereof "November 10, 1962".

Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones), as amended, is amended by striking out "July 1, 1962" each place it appears and inserting in lieu thereof "July 1, 1963".

**SEC. 3. 6-MONTHS EXTENSION OF TAX ON TRANSPORTATION OF PERSONS, AND FURTHER EXTENSION OF TAX ON TRANSPORTATION OF PERSONS BY AIR AT 5-PERCENT RATE FOR PERIOD JANUARY 1, 1963, TO JULY 1, 1965.**

(a) TEMPORARY EXTENSION OF TAX.—Section 4261 of the Internal Revenue Code of 1954 (relating to the imposition of tax on the transportation of persons) is amended—

- (1) by striking out everything after "equal to" in subsections (a) and (b) and inserting in lieu thereof "10 percent of the amount so paid for transportation which begins before January 1, 1963."; and
- (2) by striking out everything after "equivalent to" in subsection (c) and inserting in lieu thereof "10 percent of the amount so paid in connection with transportation which begins before January 1, 1963."

(b) TAX APPLICABLE TO TRANSPORTATION OF PERSONS BY AIR FOR PERIOD JANUARY 1, 1963, TO JULY 1, 1963. Effective with respect to transportation beginning after December 31, 1962, subchapter C of chapter 33 of such Code (relating to the tax on the transportation of persons) is amended to read as follows:

### "Subchapter C—Transportation of Persons by Air

- "Sec. 4201. Imposition of tax.
- "Sec. 4202. Definition of taxable transportation.
- "Sec. 4203. Exemptions.
- "Sec. 4204. Special rules.

#### "SEC. 4201. IMPOSITION OF TAX.

"(a) AMOUNTS PAID WITHIN THE UNITED STATES. There is hereby imposed upon the amount paid within the United States for taxable transportation (as defined in section 4202) of any person by air a tax equal to 5 percent of the amount so paid for transportation which begins after December 31, 1962, and before July 1, 1963.

"(b) AMOUNTS PAID OUTSIDE THE UNITED STATES. There is hereby imposed upon the amount paid without the United States for taxable transportation (as defined in section 4202) of any person by air, but only if such transportation begins and ends in the United States, a tax equal to 5 percent of the amount so paid for transportation which begins after December 31, 1962, and before July 1, 1963.

"(c) SEATS, BERTHS, ETC. There is hereby imposed upon the amount paid for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) or (b) a tax equivalent to 5 percent of the amount so paid in connection with transportation which begins after December 31, 1962, and before July 1, 1963.

"(d) BY WHOM PAID. Except as provided in section 4204, the taxes imposed by this section shall be paid by the person making the payment subject to the tax.

#### "SEC. 4202. DEFINITION OF TAXABLE TRANSPORTATION.

"(a) TAXABLE TRANSPORTATION; IN GENERAL. For purposes of this subchapter, except as provided in subsection (b), the term 'taxable transportation' means:

"(1) transportation which begins in the United States or in the 225-mile zone and ends in the United States or in the 225-mile zone; and

"(2) in the case of transportation other than transportation described in paragraph (1), that portion of such transportation which is directly or indirectly from one port or station in the United States to another port or station in the United States.

"(b) EXCLUSION OF CERTAIN TRAVEL. For purposes of this subchapter, the term 'taxable transportation' does not include that portion of any transportation which meets all 4 of the following requirements:

"(1) such portion is outside the United States;

"(2) neither such portion nor any segment thereof is directly or indirectly—

"(A) between (i) a point where the route of the transportation leaves or enters the continental United States, or (ii) a port or station in the 225-mile zone, and

"(B) a port or station in the 225-mile zone;

"(3) such portion—

"(A) begins at either (i) the point where the route of the transportation leaves the United States, or (ii) a port or station in the 225-mile zone and

"(B) ends at either (i) the point where the route of the transportation enters the United States, or (ii) a port or station in the 225-mile zone; and

"(4) a direct line from the point (or the port or station) specified in paragraph (3) (A), to the point (or the port or station) specified in paragraph (3) (B), passes through or over a point which is not within 225 miles of the United States.

"(c) DEFINITIONS.—For purposes of this section—

"(1) CONTINENTAL UNITED STATES.—The 'continental United States' means the District of Columbia and the States other than Alaska and Hawaii.

"(2) 225-MILE ZONE. The term "225-mile zone" means that portion of Canada and Mexico which is not more than 225 miles from the nearest point in the continental United States.

**"SEC. 4263. EXEMPTIONS.**

"(a) COMMUTATION TRAVEL, ETC. The tax imposed by section 4261 shall not apply to amounts paid for transportation which do not exceed 60 cents, to amounts paid for commutation or season tickets for single trips of less than 30 miles, or to amounts paid for commutation tickets for one month or less.

"(b) CERTAIN ORGANIZATIONS. The tax imposed by section 4261 shall not apply to the payment for transportation or facilities furnished to an international organization, or any corporation created by Act of Congress to act in matters of relief under the treaty of Geneva of August 22, 1864.

"(c) MEMBERS OF THE ARMED FORCES. The tax imposed by section 4261 shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not more than 25 cents per mile applicable to round-trip tickets sold to personnel of the United States Army, Air Force, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate.

"(d) SMALL AIRCRAFT ON NONESTABLISHED LINES. The tax imposed by section 4261 shall not apply to transportation by aircraft having

"(1) a gross takeoff weight (as determined under regulations prescribed by the Secretary or his delegate) of less than 12,500 pounds, and

"(2) a passenger seating capacity of less than ten adult passengers, including the pilot,

except when such aircraft is operated on an established line.

**"SEC. 4264. SPECIAL RULES.**

"(a) PAYMENTS MADE OUTSIDE THE UNITED STATES FOR PREPAID ORDERS. If the payment upon which tax is imposed by section 4261 is made outside the United States for a prepaid order, exchange order, or similar order, the person furnishing the initial transportation pursuant to such order shall collect the amount of the tax.

"(b) TAX DEDUCTED UPON REFUNDS. Every person who refunds any amount with respect to a ticket or order which was purchased without payment of the tax imposed by section 4261 shall deduct from the amount refundable, to the extent available, any tax due under such section as a result of the use of a portion of the transportation purchased in connection with such ticket or order, and shall report to the Secretary or his delegate the amount of any such tax remaining uncollected.

"(c) PAYMENT OF TAX. Where any tax imposed by section 4261 is not paid at the time payment for transportation is made, then, under regulations prescribed by the Secretary or his delegate, to the extent that such tax is not collected under any other provision of this subchapter

"(1) such tax shall be paid by the person paying for the transportation or by the person using the transportation;

"(2) such tax shall be paid within such time as the Secretary or his delegate shall prescribe by regulations after whichever of the following first occurs:

"(A) the rights to the transportation expire; or

"(B) the time when the transportation becomes subject to tax; and

"(3) payment of such tax shall be made to the person to whom the payment for transportation was made or to the Secretary or his delegate.

"(d) APPLICATION OF TAX.—The tax imposed by section 4261 shall apply to any amount paid within the United States for transportation of any person by air unless the taxpayer establishes, pursuant to regulations prescribed by the Secretary or his delegate, at the time of payment for the transportation, that the transportation is not transportation in respect of which tax is imposed by section 4261.

"(e) ROUND TRIPS.—In applying this subchapter to a round trip, such round trip shall be considered to consist of transportation from the point of departure to the destination, and of separate transportation thereafter.

"(f) TRANSPORTATION OUTSIDE THE NORTHERN PORTION OF THE WESTERN HEMISPHERE.—In applying this subchapter to transportation any part of which is outside the northern portion of the Western Hemisphere, if the route of such transportation leaves and reenters the northern portion of the Western



Hemisphere, such transportation shall be considered to consist of transportation to a point outside such northern portion, and of separate transportation thereafter. For purposes of this subsection, the term 'northern portion of the Western Hemisphere' means the area lying west of the 30th meridian west of Greenwich, east of the International dateline, and north of the Equator, but not including any country of South America."

(c) CONFORMING AMENDMENTS.

(1) The table of subchapters for chapter 33 of such Code is amended by striking out

"SUBCHAPTER C. Transportation of persons."

and inserting in lieu thereof

"SUBCHAPTER C. Transportation of persons by air."

(2) Section 4121 of such Code (relating to gasoline used for certain nonhighway purposes or by local transit systems) is amended as follows:

(A) Subsection (b) (relating to use by local transit systems) is amended-

(1) by striking out "tax-exempt passenger fare revenue" and inserting in lieu thereof "commuter fare revenue" each place it appears therein; and

(II) by striking out "(not including the tax imposed by section 4201, relating to the tax on transportation of persons)" each place it appears therein.

(B) Subsection (d) (2) (defining tax exempt passenger fare revenue) is amended to read as follows:

"(2) COMMUTER FARE REVENUE. The term 'commuter fare revenue' means revenue attributable to fares derived from the transportation of persons and attributable to-

"(A) amounts paid for transportation which do not exceed 60 cents,

"(B) amounts paid for commutation or season tickets for single trips of less than 30 miles, or

"(C) amounts paid for commutation tickets for one month or less."

(3) Section 6410(b) (2) (II) of such Code (relating to special cases in which tax payments considered overpayments for credit or refund purposes) is amended-

(A) by striking out "tax-exempt passenger fare revenue" and inserting in lieu thereof "commuter fare revenue"; and

(B) by striking out "(not including the tax imposed by section 4201, relating to the tax on transportation of persons)".

(d) DEFECTIVE DATES. The amendment made by subsection (c) (1) shall apply only with respect to transportation beginning after December 31, 1962. The amendments made by subsection (c) (2) shall apply only in respect of claims filed with respect to gasoline used on or after January 1, 1963. The amendment made by subsection (c) (3) shall apply only in respect to the use or sale of special fuels made on or after January 1, 1963.

(e) SPECIAL CREDIT OR REFUND OF TRANSPORTATION TAX.--Notwithstanding any other provision of law, in any case in which tax has been collected--

(1) before January 1, 1963, for or in connection with the transportation of persons which begins on or after January 1, 1963, or

(2) after December 31, 1962, and before July 1, 1963, for or in connection with the transportation of persons by air which begins on or after July 1, 1963,

the person who collected the tax shall pay the same over to the United States; but credit or refund (without interest) of the tax collected in excess of that applicable (by reason of the amendments made by this section) shall be allowed to the person who collected the tax as if such credit or refund were a credit or refund under the applicable provision of the Internal Revenue Code of 1954, but only to the extent that, before the time such transportation has begun, he has repaid the amount of such excess to the person from whom he collected the tax, or has obtained the consent of such person to the allowance of the credit or refund. For the purpose of this subsection, transportation shall not be considered to have begun on or after January 1, 1963, or on or after July 1, 1963, as the case may be, if any part of the transportation paid for (or for which payment has been obligated) commenced before such date.

Passed the House of Representatives June 6, 1962.

Attest:

RALPH R. ROBERTS, *Clerk.*

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., June 13, 1962.

Hon. HARRY F. BYRD,  
*Chairman, Committee on Finance, U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your letter of June 8, 1962, requesting the views of the Bureau of the Budget on H.R. 11870, a bill to provide a 1-year extension of the existing corporate normal-tax rate and of certain excise-tax rates, and for other purposes.

The bill would continue at their current rates the corporation income tax, and excise taxes on alcoholic beverages, cigarettes, automobiles, automobile parts and accessories, and local telephone service. These taxes will otherwise revert to lower levels as of July 1, 1962. In addition, the bill provides that the current 10 percent tax on transportation of persons, now scheduled to revert to 5 percent on July 1, 1962, would continue at the 10 percent rate until December 31, 1962, at which time the tax would be dropped altogether for all transportation other than air, and for transportation by air the tax would then be reduced to 5 percent until July 1, 1963, at which time it would be eliminated.

In his budget message to the Congress, the President recommended the extension of the corporation income tax and the excise taxes covered by this bill in order to provide the revenue needed to carry out the administration's program.

In the area of transportation taxes, the President's recommendations in the budget differ somewhat from H.R. 11870. The President recommended that the tax on transportation not by air be repealed effective July 1, 1962, and that the tax on transportation by air be retained at 10 percent until December 31, 1962, after which it would be reduced to 5 percent. He also proposed a number of fuel taxes for users of the Federal airways and waterways that would constitute a user charge system.

The Ways and Means Committee of the House did not include the user charge provisions, on the grounds that the consideration of these provisions should be deferred until next year. Although we would prefer that the system of reasonable user charges for airways and waterways be included we are prepared to accept the bill as passed by the House, and postpone consideration of the user charge issue until next year.

Accordingly, H.R. 11870 is consistent with the administration's objectives and the Bureau of the Budget recommends enactment of this bill.

Sincerely yours,

PHILIP S. HUGHES,  
*Assistant Director for Legislative Reference.*

The CHAIRMAN. Our first witness is the Honorable Douglas Dillon, Secretary of the Treasury. Mr. Secretary, will you please take a seat, sir.

### STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. Mr. Chairman, in his budget message the President recommended extending for another year of all but one of the tax rates scheduled for reduction or termination on July 1, 1962. The exception is the tax on transportation of persons to which I will refer further in a moment.

Present law provides for the reduction of the corporation income tax from 52 percent to 47 percent as of July 1. More specifically, there would be a reduction of the normal tax from 30 percent to 25 percent. The other scheduled reductions all relate to excise taxes.

These include the taxes on alcoholic beverages, cigarettes, automobiles, automobile parts and accessories, local telephone service, and transportation of persons.

The law provides for reduction of the tax on distilled spirits from \$10.50 to \$9 a gallon. The cigarette tax would be reduced from \$4 to \$3.50 per thousand, or from 8 to 7 cents per pack.

The tax on automobiles is scheduled to be reduced from 10 percent to 7 percent of the manufacturers' price, and the tax on automobiles parts and accessories from 8 to 5 percent.

The 10 percent tax on local telephone service would be repealed, while the tax on transportation of persons would be reduced from 10 percent to 5 percent.

Details of the scheduled rate changes on the other items are shown in the attached table 1.

TABLE 1. Increase in revenue resulting from extension of present corporation income and excise tax rates by H.R. 11879 as passed by the House of Representatives

(In millions of dollars)

	Rate reduction scheduled as of July 1, 1962 under present law	Effect on net budget receipts, fiscal year 1963			Increase in revenue, full year
		Increase in receipts	Decrease in refunds	Total	
Corporation income tax	52 percent to 47 percent.	1,300		1,300	2,300
Excise taxes:					
Alcohol:					
Distilled spirits	\$10.50 to \$9 per gallon	177	138	315	180
Beer	\$9 to \$8 per barrel	77	9	68	78
Wines	Various <sup>1</sup>	9	5	14	9
Total alcohol taxes		263	152	415	267
Tobacco:					
Cigarettes (small)	\$1 to \$3.50 per thousand.	235	24	259	280
Manufacturers' excise taxes:					
Passenger automobiles	10 percent to 7 percent of manufacturers' price.	300	50	410	430
Parts and accessories for automobiles	8 percent to 5 percent of manufacturers' price.	60		60	73
Total manufacturers' excise taxes		420	50	470	503
Miscellaneous excise taxes:					
General telephone service	10 percent to 0	395		395	525
Transportation of persons:					
Air	10 percent to 5 percent.	52		52	
Other	do.	9		9	45
Total transportation of persons		61		61	45
Total miscellaneous excise taxes		456		456	470
Total excise taxes		1,374	228	1,600	1,480
Grand total		2,674	228	2,900	4,280

<sup>1</sup> Wine rate reductions:

Sparkling wines (champagne)	\$3.40 to \$3 per gallon.
Artificially carbonated wines	\$2.40 to \$2 per gallon.
Still wines:	
Not more than 14 percent alcohol	17 cents to 15 cents per gallon.
More than 14 percent, not over 21 percent alcohol	07 cents to 60 cents per gallon.
More than 21 percent, not over 24 percent alcohol	\$2.25 to \$2 per gallon.
More than 24 percent alcohol	\$10.50 to \$9 per gallon.
Wine liqueurs or cordials produced domestically containing over 2½ percent wine, which wine contains over 14 percent alcohol (in lieu of rectification tax).	\$1.92 to \$1.60 per gallon.

<sup>2</sup> Revenue loss would be the result of repeal of the tax on transportation, other than by air, after Dec. 31, 1962 rather than continuation at 5 percent as under present law.

NOTE.—All extensions are for 1 year except that the transportation of persons tax would be extended at 10 percent to Dec. 31, 1962. On Jan. 1, 1963 the tax would be repealed except for transportation by air. For transportation by air the tax would be repealed as of July 1, 1963 and the rate would be 5 percent for the period Jan. 1 through June 30, 1963.

Secretary DILLON. Changes scheduled under present law for all of the taxes mentioned, except local telephone service and transportation of persons, represent a reduction to the rates existing before the increases provided in 1961 at the time of the Korean hostilities.

Tax rates on local telephone service and transportation of persons were not increased in 1961, were reduced in 1964, and the repeal of the telephone tax and reduction of the transportation tax were scheduled under the Tax Rate Extension Act of 1960.

Under the terms of H.R. 11870, the current rates would be continued for another year, except with respect to the tax on transportation of persons.

The latter tax would be maintained at the 10 percent rate until December 31, 1962. A twofold change would then be made. The tax would be terminated in the case of amounts paid for transportation by any means other than by air.

For air transportation, the rate would be reduced to 5 percent until July 1, 1963, when it would be dropped entirely unless it had been further extended in the meantime.

The rate extensions provided by the bill would result in revenue for fiscal year 1963 of \$2.9 billion (table 1). Because only part of the corporate rate extension for a full year is reflected in fiscal 1963 collections and because payment of excise taxes lags behind accrual of liability, not all of the revenue gain would show up in fiscal 1963.

The full year effect of the bill's provisions is a revenue gain of about \$4.3 billion. About two-thirds of the total full-year revenue effect, or \$2.8 billion, would be derived from the corporate rate extension.

The next most important revenue item is the tax on local telephone service. Here, postponement of the scheduled repeal would increase revenues by \$525 million on a full-year basis. Further details are shown in table 1.

The changes proposed by the bill with respect to the tax on transportation of persons vary from the President's proposals in this area.

The President proposed that this tax be repealed on July 1, 1962, except for transportation by air. In the latter case, the tax would be retained at 10 percent until December 31, 1962, after which it would be reduced to 5 percent.

Beginning January 1, 1963, the President recommended that a new tax of 5 percent be imposed on amounts paid on transportation of freight by air, a new tax of 2 cents per gallon be imposed on jet fuel, and a small additional tax of 1 cent per gallon be imposed on fuel used in noncommercial aviation as contrasted with common and contract carrier aviation.

The President's recommendations with respect to charges for air transportation and fuel used by air transportation constitute a user charge system to be related to expenditures for the Federal airways system.

The President also made a related recommendation for a user charge system for the waterways. The revenue effects of these proposals are presented in table 2.

TABLE 2. *Transportation excise taxes—Estimated revenue under present law, H.R. 11879 (as passed by House of Representatives) and under recommendations of the President*

[In millions of dollars]

	Fiscal year		Full year
	1962	1963	
Present law: Transportation of persons: <sup>1</sup>			
Air	185	126	107
Other	50	54	46
Total	235	179	153
H.R. 11879 as passed by House of Representatives: Transportation of persons: <sup>1</sup>			
Air		177	107
Other		63	
Total		240	107
Recommendations of President:			
Transportation of persons: <sup>1</sup>			
Air		177	107
Other		16	
Total		193	107
Airway user charges:			
Tax transportation of property by air at 5 percent		3	7
Tax jet fuel at 2 cents per gallon		13	36
Increase tax on fuel used in general aviation 1 cent per gallon		1	3
Credit existing 2 cents per gallon tax on aviation gasoline to general fund		0	10
Waterway user charges:			
Tax on fuel not now taxed in boats with draft of 16 feet or less, 2 cents per gallon		3	10
Credit existing 2 cents per gallon tax on gasoline and special motor fuels used in boats to general fund		6	12
Total, recommendations of President		224	101

<sup>1</sup> Provisions with respect to transportation of persons:

Present law—Reduction in rate from 10 to 5 percent effective July 1, 1962.

H.R. 11879—Continue present rate of 10 percent to Dec. 31, 1962; effective Jan. 1, 1963, reduce rate from 10 to 5 percent on transportation by air and repeal tax on other transportation.

Recommendation of President—Repeal tax on transportation other than by air effective July 1, 1962. Continue present rate of 10 percent on transportation by air to Dec. 31, 1962; reduce rate to 5 percent effective Jan. 1, 1963, and treat as user charge.

\* Including revenue treated as user charge.

Secretary DILLON. The Ways and Means Committee of the House thought it best that consideration of these user charge proposals should be deferred until next year.

Although we would prefer the institution of reasonable user charges to cover air and water transportation on January 1, 1963, as originally recommended, we are prepared to accept the bill as passed by the House. This would have the effect of postponing the consideration of the user charge problem until next year.

I feel that H.R. 11879 constitutes a necessary revenue conserving measure at this time, and I recommend its approval by your committee.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Secretary, I have been requested by 10 Senators to read to you this letter:

U. S. SENATE,  
Washington, D. C., June 12, 1962.

Hon. HARRY F. BYRD,  
Chairman, Senate Finance Committee,  
U. S. Senate, Washington, D. C.

DEAR MR. CHAIRMAN: We should like to express our views to you and to your committee on the provision contained in the Tax Rate Extension Act of 1962 passed by the House as regards the repeal of the 10-percent excise tax on railroad passenger fares effective January 1, 1963.

We urge that your committee give every consideration to reinstating the July 1, 1962, repeal date as originally requested by the administration. The users of many railroads have waited patiently for a number of years for this temporary emergency excise tax to be repealed. Furthermore, certain railroads which are in serious financial straits have based their projections on the immediate incorporation of this tax into their respective fare structures.

Such fare increases would, in fact, represent a net gain for the consuming public in that they would permit these railroads to continue operations without increasing fares above the present total passenger rate, tax included.

For these reasons, we urge that the committee take affirmative action to repeal the 10-percent transportation excise tax as of July 1, 1962.

Very sincerely yours,

Hugh Scott, Prescott Bush, Winston L. Prouty, Jacob K. Javits,  
Thomas J. Dodd, Kenneth B. Keating, Harrison Williams,  
Leverett Saltonstall, John O. Pastore, Calborne Pell.

Is that correct? Was this the recommendation of the Treasury?

Secretary DILLON. That was the original recommendation by the President and the Treasury, that they be repealed at that date.

The House did not desire to go into the rather complex problem of user charges on airways which would have brought in some additional revenue beginning the 1st of January 1963. So as a compromise, they decided on their own, without any recommendation from us, to achieve the same revenue result by having no user charges next year, but have the debate in the next session, and extend for 6 months more the tax on transportation of persons by rail and bus, which has approximately the equivalent offsetting revenue effect of the user charges that had been suggested for 6 months on aircraft.

The CHAIRMAN. What is the revenue loss for the 6 months?

Secretary DILLON. On table 2, as recommended-----

The CHAIRMAN. I am speaking of this one item.

Secretary DILLON. Yes. Table 2 talks only about transportation taxes, and so we take it out.

Under H.R. 11879, the item "other transportation" is the item we are talking about, and it amounts to \$63 million which is included by the House. It was included for the purpose of offsetting these user charges, which amount to something similar.

The CHAIRMAN. Do I understand that you favor your original recommendation?

Senator DILLON. Well, from the point of view of transportation policy, I think the administration clearly feels that it would be proper transportation policy, because the railroads are in difficulty, to have that tax repealed on the 1st of July.

However, we also think that the other consideration, which is my particular consideration, is the revenue for next year. The budget is based on certain revenue coming in from continuing these things. We would hope that one way or another could be found to give us that same revenue.

The CHAIRMAN. Do you or do you not favor it now? I am just trying to find out what your position is.

You made the recommendation to the House to make it effective July 1, 1962?

Secretary DILLON. Yes, that is correct. That is our recommendation.

The CHAIRMAN. That is your recommendation now?

Secretary DILLON. That is our recommendation on transportation. We haven't changed that.

The CHAIRMAN. I just wanted to ask you a few general questions, not too many, at this time.

You were quoted in the papers as saying on June 5 that there was a tax reduction from top to bottom that would be recommended by the administration, and the Secretary of Commerce has said that he thinks there ought to be an immediate tax reduction.

Senator Humphrey says there ought to be an immediate tax reduction of 2 percent, down the line.

Could you give us some information as to the position of the Treasury?

Secretary DILLON. The position of the Treasury, I think, is very clear.

We have, for the past year, talked about a restructuring of the income tax in a bill that would be ready for presentation to the Congress next January. This is a major problem. The idea of the bill would be to reduce income tax rates from top to bottom, as I was quoted as saying there, and offset in whole or in part this revenue loss by closing various other loopholes or by broadening the base.

Since then, the President indicated in a statement that he made that it was unlikely that loophole closing amounts would come to the same amount as the reduction in income tax, and so there would be some net overall reduction. But this work has not proceeded far enough for us to have any information or any conclusions on the extent of that overall reduction.

The CHAIRMAN. As the Chair understands it you have no immediate intentions of recommending a tax reduction at this session.

Secretary DILLON. None whatsoever.

The CHAIRMAN. I was interested in a speech by Budget Director David E. Bell, in which he said the real danger of an attempt to reach a budget balance too soon is that it may itself contribute to bringing the recovery to a halt below the full employment level, and that, should the estimated surplus of \$563 million occur, it would have ill effects. Do you agree with that?

Secretary DILLON. Well, I haven't seen his speech in any detail.

My impression of what he was talking about was the possibility of revenues not living up to our original expectations because the economy is not moving as well as we had planned, and that, therefore, he would be opposed in that situation, to trying to achieve a balance by reducing expenditures that had already been planned and appropriated to achieve a balance.

I think that is my impression of what he was talking about. But I have not seen his speech.

The CHAIRMAN. I would suggest you read his speech because I think it is one of the most remarkable speeches I have ever known a Budget Director to make. He indicates he is not in favor of a bal-

need budget. And indifference over an estimated surplus of \$503 million. I don't see why he should have any fear of that because you are not going to have any surplus next fiscal year. You are going to have a big deficit, just as big as in this fiscal year, so that ought to bring about prosperity, by his reasoning.

In other words, if we get prosperity through the deficits, I don't know why the Director of the Budget is disturbed because we had a deficit last year; we have a big deficit this year and we are going to have another big deficit next year.

He has no responsibility to you.

Secretary DULON. No, sir.

The CHAIRMAN. He is under the President?

Secretary DULON. He works directly for the President.

The CHAIRMAN. I have been here a long time and I have never known a Budget Director to make a speech of this kind inviting the Congress to authorize deficit spending.

I have always assumed the Budget Director was one man whose job was to restrain spending because every proposal that involves spending is sent to the Budget Director for his approval or disapproval.

Now, as you perhaps are aware, up to April 30, the deficit for the first 10 months was \$9,700 million—that is over the first 10 months of this fiscal year, is that correct?

Secretary DULON. I haven't got that figure but I would assume that would be about right.

The CHAIRMAN. I have the figures. The expenditures are \$72,500 million, and the receipts up to April are \$62,800 million, showing a deficit for the first 10 months of \$9,700 million.

What is your deficit estimate for the fiscal year?

Secretary DULON. I think it is going to be remarkably close to the figure we estimated in January, which is \$7 billion. I stated to the House in the hearings on the debt ceiling, that past experience shows that it is very difficult to forecast yearend expenditures of all the various departments and agencies of the Government within maybe \$250 million, so I would say \$7 billion, with a leeway of \$250 million either way. In the estimates we submitted at that time, to be conservative, we used a \$7.25 billion figure, but it is somewhere around \$7 billion.

The CHAIRMAN. With a deficit of the first 10 months—leaving only May and June—of \$9.7 billion, do you think that it would be overcome to the extent of \$2.7 billion in these 2 months?

Secretary DULON. Oh, yes, Mr. Chairman.

As you know, our revenue receipts have strong seasonal characteristics.

We have much larger receipts in the second half of the year than we do in the first half of the year. The one month that is by far the largest revenue month is the month of June, and the payments that come in between June 15 and June 24 will have the effect of reducing the deficit very drastically, by several billion dollars from what it was at the end of 10 months.

The CHAIRMAN. You still believe that the estimate of \$7 billion was approximately correct.

What is your estimate of the surplus for the next fiscal year?

Secretary DULON. The estimate for the surplus of the next fiscal year as contained in a budget document was just under \$500 million.



Since then the President has sent up a number of additional requests, the largest one of which was the public works program for distressed areas, and those extra expenditures under those requests would just about balance out that small surplus.

The CHAIRMAN. You don't think the Budget Director has any reason to have anxiety about a surplus?

Secretary DILLON. I think that the budget, as submitted by the President, and as modified by the President since that time, is exactly, I would say, in balance.

There is no indication of a surplus and no indication of a deficit.

The CHAIRMAN. The President has already wiped out \$563 million.

Secretary DILLON. \$463 million.

The CHAIRMAN. And I think it is already wiped out more than that because the income is not going to be as great as anticipated.

One more question. What is your opinion as to the break of the stock market, your reasons for it?

Secretary DILLON. I think the basic reason behind this is that for one reason or another, stock prices reached heights that were extraordinary and unjustified in relation to earnings, and finally the investing public just decided that these prices were too high.

Now stocks at the end of last year, at the high point, were selling on an average at 23 times their earnings in the last year, and some so-called glamour stocks were as much as 40 or 50 times their earnings.

The CHAIRMAN. You don't include these in glamour stocks, do you?

Secretary DILLON. I wouldn't think.

The CHAIRMAN. I don't think Du Pont Co. is a glamour stock since the distribution of General Motors.

Secretary DILLON. I think 23 times is too high.

The CHAIRMAN. Do you think the stock market is too high now, after yesterday?

Secretary DILLON. I wouldn't like to give advice. I don't think you can find an appropriate price-earnings ratio. The market has to do that itself. But I can say this, that the general comment of investment advisers, or most of them, indicates a general feeling now that when stocks reach a price of 15 times current earnings they probably are on a pretty sound basis. The various estimates of what 15 times current earnings are will vary slightly, but a good many of them are around the present level.

None of them are above the present level, so they are just about reaching that area.

The CHAIRMAN. I doubt if anyone's opinion about the stock market is of much value.

Secretary DILLON. That is why I quoted the experts.

The CHAIRMAN. I just wondered if you might have some general ideas about what brought this catastrophic downfall, which has been very great.

We hear a lot of talk about recession emanating from the administration.

Senator GORE. About what?

The CHAIRMAN. About recession.

Do you think we are headed for a recession or have we got a recession now?

Secretary DILLON. No, we certainly have not, and the economy is still moving ahead and will continue, by all signs, to move ahead for quite some time yet.

Based on past history of our business cycles, generally our economic advances last some 25 months on the average, maybe a little more, and that would carry this present advance through next spring.

What will happen after that would depend on the additional things that will happen between now and that date. But certainly we see no signs of recession now.

The CHAIRMAN. In other words, the so-called antirecession measures of tax reduction and so forth will not be presented at this session so far as you are concerned?

Secretary DILLON. So far as I am aware, there is no question of tax reduction and I don't know of any ideas of extra expenditure at all for this session.

I think the concern is not with a recession, but there has been real concern, and it is shared in the business community, that the economic advance hasn't been as strong as anybody in business, Government or anywhere else would have liked it to be because it has not succeeded yet. And there is some doubt that it will carry business up to reasonably full capacity operations and also simultaneously reduce unemployment to a more reasonable level.

The CHAIRMAN. As of today we are not in a recession, in your opinion?

Secretary DILLON. No.

The CHAIRMAN. What do you regard as full employment?

Secretary DILLON. Ideally, full employment would mean a very low unemployment figure. But as a preliminary target, a 4-percent unemployment figure, based on Bureau of Labor Statistics figures, has been generally accepted as an interim goal to aim at. After we have gotten there and maintained it for a while, we will see if we can do better, and many people hope we can do a little better, maybe 3½ percent or something like that.

But certainly 4 percent is the first interim goal that we are aiming at.

The CHAIRMAN. I have always understood that the so-called full employment was based on 4 percent of unemployment.

Secretary DILLON. Four percent unemployment.

The CHAIRMAN. As of April, there were 3,963,000 unemployed which is 5½ percent.

Secretary DILLON. 5.4 percent.

The CHAIRMAN. 5.4. You don't regard that seriously?

Secretary DILLON. I do. I think it is very bad that nearly a million people are unemployed that would have jobs if we were operating at near capacity, which would be a 4-percent unemployment.

The CHAIRMAN. The actual facts are, of course, there are more people, considerably more, employed today than a year ago today.

Secretary DILLON. That is correct.

The CHAIRMAN. As we get new labor force.

Secretary DILLON. Well, business conditions today are much better than a year ago.

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

We will have some further questions in regard to the budget when the debt limit comes up and we would like to have you before the committee.

Senator SMATHERS?

Senator SMATHERS. Mr. Secretary, back to this matter immediately before us.

The House bill, as I understand it, recommended the removal of the 10-percent excise tax from the transportation of persons starting January 1, 1963, whereas in answer to Senator Byrd's question, as I gathered it, you would be in favor of moving that date for the repeal of the 10-percent tax on the transportation of persons from January 1, 1963, to July 1, 1962; is that correct?

Secretary DILON. Yes, the administration favors that as a matter of transportation policy. We would regret the loss of revenue if some other way couldn't be found to carry it out. But I do think that the situation of the railroads is very serious, and it is one of our big problems. They had been led to believe that this reduction would occur, and so it was a matter of administration transportation policy. We do favor that.

Senator SMATHERS. Now, on table 2 you referred to the amount of revenue which would be lost. You have there on the other section, you say, "Air and Other" \$63 million.

If we move that up as you have recommended, the loss would be, would it not, rather than the \$63 million, it would be just half of that?

Am I correct or incorrect?

Secretary DILON. No, it would be the \$63 million.

Senator SMATHERS. \$63 million.

In other words, that is the loss for the balance of the year. So there would be a loss of \$63 million in revenue to the Treasury if we did as you have suggested, move the repeal date nearer to us, to July 1, \$63 million.

Secretary DILON. Yes.

I think actually there is some slopover of other revenues from the railroads that we would collect in the fiscal year even if the tax were cut off because they pay their tax with a delay of about 2 months. I think we would collect about \$16 million, so I think the actual loss would be about \$50 million.

Senator SMATHERS. I would like to say there for the record that, and to the chairman—

Secretary DILON. The figure is \$47 million. I thought it was about \$50 million, but it is \$47 million.

Senator SMATHERS. The Interstate and Foreign Commerce Committee, of which Senator Morton was a member and who was here a minute ago, again unanimously adopted a resolution urging the Finance Committee to remove the 10-percent transportation tax of persons immediately, as they have previously done.

I just thought I would put it in the record.

May I ask you one other question about the tax of passengers who travel by air.

As I understand it the House has reduced that figure to 5 percent commencing this July.

Secretary DILON. No, commencing in January.

Senator SMATHERS. Commencing in January, all right.

From the table here, how much loss—if that is taken off, what is the total loss? Let's say it begins January, what will be the yearly loss?

Secretary DILLON. If that continued at a 10 percent rate, if I understand your question, through the year, we would pick up \$33 million. Or conversely reducing it from the 10 percent rate to 5 percent costs us \$33 million from the airlines in the last 6 months.

Senator SMATHERS. Your recommendation, as I understand it on that particular point, is that you will accept the House bill. You would prefer, however, your original position of going back into the so-called user charges where the tax is put on jet fuel?

Secretary DILLON. Well, it is very clear that the 5-percent tax on airline transportation is totally inadequate as a user charge. There has been argumentation as to what form a user charge should take, whether it should be a tax on transportation of persons or a tax on fuel.

The administration originally felt it should be solely on fuel.

The industry, I think, preferred a tax on transportation of persons, which would be called a user charge. As a compromise in the suggestion by the President this year, they divided it about 50-50, half a tax on persons, which was this 5-percent tax, and half a tax on fuel. Both of these are user charges. I would think if we are going to lose the revenue from the railroads and buses, it might be worthwhile considering continuing the airline tax at 10 percent for another year, which would have about the same revenue effects with respect to the airline industry as the user charge recommendations we made before, but it would be in a form more palatable to the airline industry because it would not involve the fuel tax which they are very much concerned with.

Senator SMATHERS. You think then, a continuation of the excise tax on transportation of passengers by air would—then plus your recommendation with the removal of it on railroads would—about bring you back fiscally where you started from.

Secretary DILLON. Yes, we would lose for the year as a whole only \$14 million, and in a bill this size I don't think that is really significant.

Senator SMATHERS. Why do you feel, if you do feel, that you can justify this?

Is it your belief that the airlines are doing better than the railroads?

Secretary DILLON. It isn't a question of doing better. It is a question of the whole philosophy of user charges. The U.S. Government is spending about \$500 million a year in one form or another on the airways, and it looks like that is increasing. These user charges would be only a small proportion of that. Whereas there are no such expenditures on the railroads.

The railroads are heavily taxed locally and otherwise, so we think there is quite a difference there, and I think the airline industry has recognized that and accepted it. It is just the question of the size of the user charge and the form of the user charge that any debate is over. But they fully accept it in principle and have said publicly there should be some user charge.

Senator SMATHERS. Are you familiar with the general financial condition of the airline industry as distinguished from the railroad industry with respect to passenger carriage.

Secretary DILLON. The airline industry is doing somewhat better this year. I know they were not doing well at all last year. I say so far as passenger operations are concerned, the airline industry is considerably better off than the railroad industry because the railroad industry loses substantial amounts of money every year on passengers, and whatever the airlines make the bulk of it is made out of the passenger traffic.

Senator SMATHER. All right, sir, those are all the questions I have, Senator Byrd.

Senator WILLIAMS. Mr. Secretary, the Wall Street Journal this morning has an article commenting on Mr. Bell's speech and also includes this statement:

President Kennedy has pledged he will recommend an across-the-board reduction of individual and corporate tax rates for congressional enactment next year. These changes, to be effective next January 1-

and so forth.

My question is if you are going to recommend a reduction in corporate taxes next year retroactive to January 1, why not just extend these to January 1 and be done with it?

Secretary DILLON. Well, because this would be part of an overall restructuring of the tax bill, and we have not yet decided what the reduction in corporate taxes would be. It is very likely that it might not be as much as the full 5 percent that they are talking about here.

So, therefore, we think it is much more important that we just extend these as we have in the past, for another year.

Senator WILLIAMS. Now, in your earlier statement you said, as I understood it, that one of the reasons for waiting for next year when you recommend this across-the-board tax cut you want to offset it by closing certain loopholes and broadening the base.

Would you enumerate some of the proposed fields where you are going to close loopholes?

Secretary DILLON. We haven't gotten that far in our consideration, Senator.

There are very many of them. I have not yet myself received any detailed recommendations or any recommendations from my staff on this at all.

So, I am not in a position to do that.

Senator WILLIAMS. Well, couldn't you think of just one or two that we may be going to close or can't you think of any loopholes?

Secretary DILLON. Well, there are plenty of loopholes but I don't want to dignify anyone of them by mentioning it ahead of others.

Senator WILLIAMS. Well, perhaps it won't be dignifying them unnecessarily, but if you are proposing to cut taxes by 7 to 8 billion I understand that they are, and to offset that by closing loopholes by \$3 to \$5 billion that is a sizable item and certainly you couldn't approve of \$3 to \$5 billion loopholes if you couldn't think of one to start with.

So, can't you just think of one or two?

Secretary DILLON. I will tell you one to start with that was not included by the House in the bill that is before you, but which has been a recommendation of the administration for inclusion in that bill, and that is the repeal of the dividend credit and exclusion.

Senator WILLIAMS. Well, that is about \$400 million.

Secretary DILLON. Well, it may be nearer \$500 million, but that is one which has already been recommended.

Senator WILLIAMS. 400 or 500.

Can you think of another one? And is that a loophole?

Secretary DILLON. It is not a question of whether I can think of them, Senator, but I just have not received any reports from my staff. I do not know how they made up the \$3 to \$5 billion, so I am not in a position to, and not prepared to, list any of these because I am not thinking of any and my mind is open until I have received the report from my staff.

Senator WILLIAMS. I have heard a rumor they are going to recommend a tax on foundations.

Is that being considered?

Secretary DILLON. A tax on foundations, you mean charitable foundations?

Senator WILLIAMS. Just foundations in general.

Is it just a rumor?

Secretary DILLON. I don't think I understand the question. Isn't a foundation a charitable institution?

Senator WILLIAMS. Yes, but I heard they are going to recommend a change in the tax structure, are you considering that?

I am just asking.

Secretary DILLON. So far as I know I haven't heard of this, but I haven't seen recommendations that will come up from my staff yet. They haven't gotten this far. This is a bill that is not supposed to be ready for 7 months or more.

Senator WILLIAMS. I can understand that, but there have been dollar figures put to the reduction now and I don't understand how you get to the dollar figures if you can't get to any basis?

Secretary DILLON. There has been no dollar figure put to it by anyone official in the Government. This is all newspaper gossip. The President, I don't think, gave any exact figure.

Senator WILLIAMS. Is an oil depletion change one of them?

Senator DOUGLAS. Will the Senator yield?

Senator WILLIAMS. Yes.

Senator DOUGLAS. I wonder when you raise this question of foundation, I wonder whether Rockefeller Foundation is going to be taxed.

Senator WILLIAMS. I just heard the rumor in general about closing this as a loophole, and I just wondered if this were true?

Secretary DILLON. I keep hearing lots of rumors, I keep reading them in newsletters, and I must say this is the first time I have heard the rumor, the one you just told me, that charitable foundations are going to be taxed.

Senator WILLIAMS. Is oil depletion going to be changed?

Secretary DILLON. As I said last year, that is one of the things being studied very thoroughly to see if it should be changed.

Senator WILLIAMS. I noticed and concur with your analysis of that, as a loophole. About how much revenue would that bring, if that were changed and to what extent would you recommend a change?

Secretary DILLON. Well, depending on what it is changed to—I don't have the figures in my head—but I understand overall depletion allowances for oil and everything else, all the depletion allowances we have, come all together to somewhere between a billion and a billion and a half dollars in a year.

Senator WILLIAMS. Is the Treasury considering the possibility of eliminating all of them?

Secretary DILLON. I am not saying we are considering anything, but you asked me how much would be involved, and I thought I would answer that.

Senator WILLIAMS. I just am trying to find out what the President meant.

You mentioned the fact you were going to broaden the base.

Secretary DILLON. That is right.

Senator WILLIAMS. What do you mean by "broadening the base"?

Secretary DILLON. Including revenue from sources which you haven't hitherto been getting.

Senator WILLIAMS. Could you give me a few examples of what that may embrace?

Secretary DILLON. Well, if we should decide to make a recommendation on changing depletion allowances, that would be an example.

Senator WILLIAMS. All right.

Secretary DILLON. Dividend credit would be an example.

Senator WILLIAMS. Could you think of another one?

There was a suggestion earlier from the administration, if I understand correctly, that you tax social security and that you tax----

Secretary DILLON. I read about that in the paper, too, but I haven't had any such recommendations from my staff. I don't know what they are going to recommend.

Senator WILLIAMS. Was that not recommended earlier for consideration over at the Ways and Means Committee?

Secretary DILLON. Oh, no, no.

Senator WILLIAMS. How about an allowance, investment allowance, for a man's home, is that to be one of the administration's proposals?

Secretary DILLON. I don't know of that. That is one I haven't heard of, and I won't put anything aside because I just-----

Senator WILLIAMS. I think it was suggested by one of the Treasury officials in comment over at the Ways and Means Committee last year and that is the reason I raised the question.

Mr. Surrey, I understand, raised that.

Secretary DILLON. I was not aware of that. I am not trying to avoid any of your questions, but even Mr. Surrey hasn't reached any conclusions on what he is going to recommend to higher officials in the Treasury. We haven't received them.

When we do we will have to study them and after that we will naturally have to check them out with other parts of the Government, including the President, before we know what the policy is going to be.

So, having not even seen these things, I cannot detail them or indicate the money amounts involved.

Senator WILLIAMS. I appreciate that fact, and I won't press it any further.

I realize my questions are based on newspaper comment, but the reason I press for an answer to the questions was to establish in the record that there has been no serious consideration made for a tax cut in the near future.

Secretary DILLON. Yes; that is correct.

Senator WILLIAMS. And that notwithstanding the newspaper comment to the effect that you, the President, and others were sug-

gesting there was a tax cut being seriously considered, it is mostly talk and in reality there is no tax cut being considered at this time, is that correct?

Secretary DILLON. At this time. There has been, I would say, more excitement about it than maybe, as news, was warranted, because the President first mentioned in his tax message of a year ago in April that he intended to have a comprehensive reform of the income tax that would be ready for action next year. That has been repeated on many occasions. We have said that it involved a restructuring of the income tax rate structure. All that has been said recently is that restructuring means downward adjustment. I think everyone should have understood that because certainly no one is suggesting that our income tax should be made higher. The only new thing that the President said in his press conference was about the effective dates and his feeling that loophole closings would not be as large as the gross revenue reductions, so there would be some net reduction.

We had always said we would try to offset any reductions. The phrase I used was "in whole or in part," because we won't know until we have made our study how far we can go and what will come out.

Senator WILLIAMS. Mr. Bell, the Director of the Budget is quoted here as stating or suggesting that the White House may call for a deeper budget deficit if the economy threatens to "top out" short of full employment.

This "call for a deficit," does that mean that the Budget Director or the White House is seriously considering a planned deficit; that is where you would call on Congress to appropriate an excessive amount in order to deliberately create a deficit?

Secretary DILLON. I wouldn't like to try to interpret exactly what the Budget Director means. As I said, I haven't seen his speech, and I haven't talked to him about it.

Senator WILLIAMS. I will direct it to you in the form of a question.

Would you agree that it would be sound economics to call for a deficit, that you have a deliberate deficit?

Secretary DILLON. Well, we had a deliberate deficit this fiscal year, 1962, that is closing, and I think that was sound economics.

Senator WILLIAMS. You mean you planned to have this deficit deliberately?

Secretary DILLON. No, it eventuated.

Senator WILLIAMS. Yes, but there is a difference.

Secretary DILLON. We didn't plan to have it because we hoped to have business conditions running at a high enough level so that revenues would make it unnecessary.

But if business conditions are low—I think this may be what he means—if we are running into a recession, and our profits are low, and Government receipts go down, then it does not seem wise at that sort of a time to try to follow those declining receipts down with further declining expenditures.

Senator WILLIAMS. Well, I understand that reasoning.

Of course, that is different from the interpretation that was placed on what he said.

Secretary DILLON. Yes, I don't know what he said.

Senator WILLIAMS. The interpretation placed on what he said is that there would be a deliberate call for deficits.

Now, I just have one further question, and it is perhaps not in connection with this particular bill, but I would like to clear it up.



I commented upon it Monday. It is based on an article that appeared in the New York Times and the Washington Post in connection with the savings and loan associations position on withholding of interest and dividends and I would like to quote from the article:

The powerful savings and loan lobby has called off its fight against President Kennedy's proposal to withhold taxes on interest and dividend incomes.

Continuing, the article said:

The savings and loan industry dropped its fight because of fears that the Kennedy administration would retaliate by slapping it with heavy new taxes.

Then they go on and point out that the present bill before the Senate committee, which was passed by the House, provides for an increase of \$200 million, whereas the original Treasury recommendations were \$500 million.

Secretary DILLON. The present Treasury recommendation which I gave before this committee, is, I think, for \$365 million. So that recommendation stands.

It is our position.

Senator WILLIAMS. Yes.

I recognize this is newspaper quotation, but nevertheless it did raise rather serious questions, and I thought it should be cleared up, be made very clear, and I would like to ask you this question.

Has there been in the discussions between the Treasury Department and any of the officials of the savings and loan associations or their representatives, any suggestion if they did not call off their opposition to the withholding provision that there may result a pressing for higher taxes?

Secretary DILLON. Not as far as the Treasury Department is concerned, because the Treasury Department's position is perfectly clear. We are for higher taxes on this industry; we are for the \$365 million total. The House didn't give us that. We hope this committee will give it to us.

Senator WILLIAMS. And you are still pressing for that?

Secretary DILLON. That is our position and we still maintain it.

Senator WILLIAMS. Yes, that is what I mean. I merely asked the question because I think you will agree with me that we shouldn't let go unchallenged and suggestion that any organization's support or opposition of any proposal that comes before the committee's or other Treasury Department proposals should in any way be related to their support or opposition of any other section of the bill.

And I was sure you agreed with that proposal but I thought that it should be rebutted, and in order to clear it up, I ask—to your knowledge, has there been no discussion of any arrangements of any description between the administration and this group?

Secretary DILLON. Not that I know of. Certainly none in the Treasury.

Senator WILLIAMS. Thank you.

The CHAIRMAN. Senator Long?

Senator LONG. I had just one question in mind, Mr. Secretary.

The Government has a number of lending programs which are regarded as sound lending programs. I have in mind the program of lending money to the REA for electric powerlines and various other facilities, loans to small business, export-import bank loans.

A great portion of that represents merely an expansion of the overall credit status of the Nation, or the overall money supply in effect.

Would you give us some idea as to what proportion of this deficit is actually represented by loan programs, which a bank, building and loan, insurance company, or any lending agency would set up as an asset on one side of the books and a liability on the other, being more or less a bookkeeping entry.

Secretary DILLON. In national income and product accounts which eliminate loans, I think that the amount that is eliminated is somewhere between \$3 and \$4 billion a year.

But I would like to supply a more specific figure for the record.

Senator LONG. Any successful business would set those items up, if I understand it correctly, as a dual entry system, as an asset against a liability. About the only thing that might be charged off would be a reserve for bad debts rather than the whole thing being down as a part of the deficit. So when you really get down to it, it has always seemed to me that to a considerable degree we keep the Government books the way no business on earth would think of keeping its books.

Every building and loan in America would look like it was head over heels in debt if they had to present their books the way the Government presents theirs. If you make those allowances the deficit would not be as startling as some people would think it to be even though there is a deficit no matter how you look at it.

Secretary DILLON. Our deficit is based on a strict measure of outgo versus income with no consideration as to what the outgo is for, and in that way, it is, of course, perfectly accurate.

But it does not provide bookkeeping in the way you mention, because these loans are buried in individual appropriations and they aren't lumped in any one place that I know of.

The CHAIRMAN. Senator Long, will you just yield for 1 second?

It is true, Mr. Secretary, of course, when those loans are repaid they come in as receipts.

Secretary DILLON. That is correct.

The CHAIRMAN. So then they reduce the deficits.

Secretary DILLON. That is correct.

Senator LONG. Yes. But the point I am thinking about here is that any growing nation has a growing money supply.

Secretary DILLON. That is right.

Senator LONG. I have learned this over a period of time, that money and credit from the viewpoint of economists are both the same thing, and it appears here that a considerable portion of the Nation's growing money supply is actually reflected as a debt, when in fact we simply are not taking credit for the fact that we are entitled to enter an asset on the other side of the books.

Secretary DILLON. I have the figures here now. They are on page 39 of the summary tables of the budget document, the big budget document, that was submitted, and it shows that civil loans and investments were \$1,692 million in 1961.

In 1962 they were estimated \$2,568 million; and for 1963, \$1,957 million. So roughly \$2 billion annually on an average would be civil loans for investments.

The CHAIRMAN. Mr. Secretary, would you mind furnishing the breakdown. We can understand the loans, but you have investments—and furnish that to the committee as a difference?

Secretary DILLON. We will be glad to furnish that.  
(The figures referred to are as follows:)

*Loans and investments included in budget expenditures*

(In millions of dollars)

Description	1961 actual	1962 estimate	1963 estimate
<b>ADDITIONS TO FEDERAL ASSETS</b>			
<b>Loans and investments:</b>			
<b>Civil loans:</b>			
<b>To domestic private borrowers:</b>			
Department of Agriculture:			
Commodity Credit Corporation: Price support and grain storage loans.....	-272	151	-113
Rural Electrification Administration.....	291	320	224
Farmers Home Administration.....	321	149	189
Department of Commerce.....	1	11	44
Department of Health, Education, and Welfare: Defense educational activities and other.....	58	70	100
Housing and Home Finance Agency:			
Federal National Mortgage Association.....	-2	28	208
College housing loans.....	100	125	168
Federal Housing Administration.....	72	77	2
Other.....	-4	8	19
Veterans' Administration:			
Readjustment benefits.....	95		
Housing loans:			
Veterans direct loans.....	174	180	177
Loan guarantee revolving fund.....		130	-163
Other.....	(1)	(1)	(1)
Small Business Administration.....	80	220	186
Other agencies.....	-0	21	1
<b>Total, to domestic private borrowers, civil.....</b>	<b>908</b>	<b>1,495</b>	<b>731</b>
<b>To State and local governments:</b>			
Housing and Home Finance Agency:			
College housing loans.....	100	125	188
Public facility loans.....	9	27	50
Other.....	14	18	19
District of Columbia.....	20	67	50
Other agencies.....	28	42	79
<b>Total, to State and local governments, civil.....</b>	<b>171</b>	<b>269</b>	<b>391</b>
<b>To foreign borrowers, other than to international institutions:</b>			
Funds appropriated to the President: Foreign assistance—economic.....			
	348	565	809
Export-Import Bank of Washington.....	182	10	-111
<b>Total, to foreign borrowers, civil.....</b>	<b>480</b>	<b>575</b>	<b>698</b>
<b>Total civil loans.....</b>	<b>1,558</b>	<b>2,339</b>	<b>1,823</b>
<b>National defense loans:</b>			
<b>To domestic private borrowers:</b>			
Funds appropriated to the President: Expansion of defense production.....			
	-42	7	-9
Department of Defense: Military.....	-1	5	-1
<b>Total, to domestic private borrowers, national defense.....</b>	<b>-43</b>	<b>12</b>	<b>-10</b>
<b>To foreign borrowers: Funds appropriated to the President.....</b>	<b>-9</b>	<b>-15</b>	<b></b>
<b>Total national defense loans.....</b>	<b>-62</b>	<b>-3</b>	<b>-10</b>
<b>Total loans.....</b>	<b>1,506</b>	<b>2,335</b>	<b>1,813</b>
<b>Other financial investments:</b>			
Investments in quasi-public institutions and trust funds: Department of Labor: Advances to unemployment trust fund.....			
	49	-55	-3
Housing and Home Finance Agency: Federal National Mortgage Association: Secondary market operations.....	16	17	18
Farm Credit Administration.....	-4	-4	-3
<b>Total investments in quasi-public institutions and trust funds.....</b>	<b>60</b>	<b>-42</b>	<b>12</b>

See footnotes at end of table.

*Loans and investments included in budget expenditures--Continued*

(In millions of dollars)

Description	1961 actual	1962 estimate	1963 estimate
ADDITIONS TO FEDERAL ASSETS- continued			
Loans and Investments -Continued			
Other financial investments--Contents			
Investments in international institutions:			
Funds appropriated to the President:			
International Development Association.....	74	62	62
Inter-American Development Bank.....		110	60
Department of State: Purchase of United Nations bonds.....		203	
Total investments in international institutions.....	74	272	122
Total, other financial investments.....	134	270	134
Total loans and investments.....	1,040	2,354	1,347

† Less than \$300,000.

Source: Budget of the U.S. Government for the fiscal year 1963, table D-2, p. 293.

Senator LONG. Would that include your export-import loans?

Secretary DILLON. I think it would; yes.

Senator CURRIS. Does that include the excess of the amount paid over the amount loaned?

Secretary DILLON. This is listed as additions to the Federal assets. This is the increase in the loan account, so I guess it would be the net figure of the increase in the loan account, additions to Federal assets.

Senator LONG. Thank you very much, Mr. Secretary.

Secretary DILLON. I will be glad to furnish you the answer.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Mr. Secretary, the Senator from Delaware, Mr. Williams, discussed briefly with you the proposed suggestion possibly that we have a planned deficit. Assuming that should take effect, what effect would you think that would have internationally or abroad on the American dollar?

Secretary DILLON. We have found very clearly in the last year or two abroad that there is very great interest there in what we do. What they follow more closely than anything else are actions that would affect in one way or another our cost levels—our prices—because if our prices get out of line this will affect our exports which also will affect us on imports, which together amount to over \$30 billion. A very small change there could be very bad for our balance of payments, and a small improvement could be very good percentagewise.

Because the European countries more recently, I think, have had experience with inflation, this is what they look to more than anything else. They do not look as directly as a lot of people in this country do to the Federal budget deficit or surplus. They do look, I think, even more at wage rates, because they generally have very substantial problems there, and in many of these countries they have guidelines of one sort or another that they try to enforce.

The facts are that our wholesale price level, which is the thing they look at rather than our consumer index because the wholesale index is what affects the price of exports, has been absolutely level since the middle of 1958. In fact, it is now at a somewhat lower level than its 1958 level, just fractionally lower, and so, therefore, there has been no inflation, even though there have been two very large deficits during

that period: in 1959, one of \$12.5 billion, and the current one of about \$7 billion.

So their feeling depends very largely on circumstances. But they would feel very concerned if they did not think that the Government, in all its branches, had control over expenditures and knew what it was going to do and would be in a position, if business got moving and demands got higher, to restrain them so that they would not put inflationary pressure on the economy.

It is inflation they are worried about, and anything which they think indicates a lack of control or lack of ability to handle that they would be concerned with, and it would be very serious for us. But they are used themselves to running budget deficits and being careful about them and limiting the size of them, so that they do not inflict inflation on their country.

So I don't think they have any hard and fast rules.

Senator CARLSON. In other words, Mr. Secretary, is it not true that there is some concern among other nations about the way we handle our budgetary policies and programs?

Secretary DILLON. There is concern about the way we handle our overall fiscal policy, which includes budgetary policy and our price and wage policy, all looking toward price stability, and the effect, the eventual effect on price levels. They follow these things very carefully.

Senator CARLSON. It is also not true that these other nations watch with some concern the economic growth on a percentage basis and the gross national production in this country?

Secretary DILLON. That is also very important to them, and that is one reason they haven't shown quite the same concern that they might in other circumstances over budget deficits because they have been concerned that the rate of growth has not been rapid enough and also that our economy is not operating at its capacity, and they don't feel that that is a very healthy situation.

Senator CARLSON. Is it not true that the President submitted his budget to Congress and the general program was for a gross national production of probably \$570 billion?

Secretary DILLON. That was the basis on which the budget estimates were made up when the budget was submitted.

Senator CARLSON. What is the present gross national production or product, roughly?

Secretary DILLON. It was \$548 billion in the first quarter, and it undoubtedly has increased further in this quarter. I saw some guesses in the press that this quarter, when the figures are in, which will be in about a month, will average somewhere between 555 and 560.

Senator CARLSON. In other words, we are back at less \$10 billion in gross national product below what the budget was based on at the present time?

Secretary DILLON. Well, I think that it may not be quite that much. As I remember statements made by the Chairman of the Council of Economic Advisers last year, he was aiming at something around maybe a little better than \$565 billion for the midyear figure and we might be as much as \$10 billion short of that. We might be \$7 billion short or something like that.

Senator CARLSON. In other words, if it were \$565 billion in the last quarter of this year?

Secretary DILLON. In the last quarter-----

Senator CARLSON. I mean the second quarter.

Secretary DILLON. Second quarter.

Senator CARLSON. That would mean, as I understand it, a reduction in Government revenue and probably not any increase in employment.

Secretary DILLON. I would think that with the rate at which we are moving now our Government revenue has certainly greatly increased over last year, and it probably is steadily increasing. Our growth, certainly--what has happened in the first 3 months of the year, where we have firm figures for it--was not as optimistic or did not do as well as we had hoped, and if that continues, unless there is a very marked increase, we would not achieve the \$570 billion goal. So our increase in revenues will not be as big as expected. It will still be a very spectacular increase in revenues compared to this fiscal year, but they would not be as big as we hoped.

Senator CARLSON. Mr. Secretary, I have noticed, and this is not a critical statement, but I think it is a factual statement, that the Secretary of the Treasury, and the President, and others have been making quite optimistic statements about the future of the economy, and I think probably it should be made.

But I am wondering if sometimes we should not look at some actual figures and see just what happens. I am old enough to remember 1929. Prosperity was just around the corner, and I placed in the record the other day an interesting table which was prepared by J. A. Livingston, and it is an interesting discussion, and these are his words, these are not mine.

So far this recovery has been less comonly than any previous postwar recovery, with the possible exception of 1954-55. Here is a comparison of the pluses in the present advance with those of the previous recoveries over the same time span--13 months--

and these are the periods, 1961-62, 1958-59, 1954-55, and 1949-50.

These four 13-month periods are rather interesting. The percent of gross national production increase this particular time was 9½ percent; in 1958-59 period it was 9.1 percent; in 1954-55 it was 9.5 percent, and in 1949-50 it was 7 percent. But then you get down to individual production and I don't want to take your time here but when you get to individual productions this year it is 13 percent.

In the period 1958-59 it was 25 percent. In 1954-55 it was 12, but 11 month less than the present but in 1950 it was 28, and this table shows that retail sales, car leasings, manufacturers orders, workweek, employment and housing, every one of them are down except the increase of gross national production over these periods generally.

So, I think I should say that based on this table, which I take to be accurate, because I have a very high regard for his reporting in the financial field, these figures are most interesting, and I ask that the table be placed in the record.

Secretary DILLON. I think there is one thing that is very clear in the figures and that is we have by this period, by the beginning of the sixties, filled up all unfilled demands that remained after World War II, and those--just for housing and automobiles, things like that--don't really exist any more. All that exists are current de-

mands. Certainly it is true that probably as a corollary of that in this recovery a greater percentage of the recovery has been in the service fields through increases there, rather than in industrial production and in manufacturing fields as those figures point out.

It has been a different type of recovery with a recovery coming faster in the service fields than in the manufacturing fields.

Senator CARLSON. I would assume, or am I correct in assuming, that the Secretary and the administration are concerned about the present status of the economy?

Secretary DILLON. Oh, very much so, and I don't want to get into extraneous subjects here but that is one of the reasons for our investment credit suggestion because we think that will help investment, which we think is very important.

(The article and table referred to follow:)

[Article by A. J. Livingston]

#### WHERE WENT THE COMPH

Businessmen are uncertain about the present administration. Is the President anti-business? This leads to hesitancy in decisionmaking. And they're uncertain about business, itself. It hasn't come up to first-of-the-year expectations and has fallen far below the projections of the President's Council of Economic Advisors.

So far, this recovery has been less comph than any previous postwar recovery, with the possible exception of 1954-55. Here is a comparison of the plusses in the present advance with those of previous recoveries over the same time span—13 months:

Indicator	1961-62	1954-55	1954-55	1949-50
	Percent	Percent	Percent	Percent
GNP.....	9.5	9.1	9.5	7
Individual production.....	13.0	25.0	12.0	28
Retail sales.....	8.0	12.0	9.0	21
Carloadings.....	12.0	23.0	15.0	40
Manufacturers orders.....	16.0	30.0	25.0	44
Workweek.....	3.0	5.0	3.0	4
Employment.....	4.0	10.0	5.0	15
Housing.....	20.0	62.0	20.0	80

Obviously, this hasn't been a stick-in-the-mud recovery. The rise in total output of goods and services—gross national product—is right at the top. But in housing starts, employment, retail sales, and industrial production it has lagged far behind the rest. And, though it's not shown in the table, unemployment has been especially stubborn.

#### PROSPERITY STILL AHEAD

This explains Wall Street's teeter-totter behavior. Even omitting the sharp declines of April and May, the stock market rise this time was only 21 percent versus 32, 55, and 27 percent in the other recoveries. This, of course, could be due entirely to downward adjustment in earnings expectations. But it could be more.

Some economists argue that slow recoveries lead to early recessions. Even now, some pessimists prophesy that we're rounding out a top and going into an economic valley.

I don't agree. For some people, if business doesn't boom, it's a bust. I agree with Walter W. Heller, Chairman of the Council of Economic Advisors, that there's still plenty of prosperity left in the recovery.

Senator CARLSON. I want to ask one question on the bill that is pending right before us, and that is on the communications tax.

I noticed that you are recommending a continuation of a present communications tax on telephones of 10 percent that would yield—

Secretary DILLON. \$525 million.

Senator CARLSON. \$525 million.

Here is a tax if we want to get money out to people that would probably reach more homes and more people than any other tax that we could repeal.

The \$525 million would have an effect on monthly telephone bills in most every home in this Nation. It just seems to me some thought should be given, at a time when I think we need to get some money into the national economy, back to the people to spend, here is one tax we should give some thought to repealing and I can appreciate the Secretary's problem.

Secretary DILLON. Yes. Thank you.

Senator CARLSON. That is all, Mr. Chairman.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Mr. Secretary, it is obvious that the questions asked thus far have been addressed not so much to the specific measure before us as to the fiscal background together with some reconnaissance as to what the plans of the administration may be in the future and possibly there has been some political skirmishing as well.

I will not engage in political skirmishing but I would like to probe the fiscal background a bit.

Is it not true that our annual budget includes not only the operating expenditures of the Federal Government but also the capital investments of the Federal Government?

Secretary DILLON. Yes, Senator.

That is another item separate from the loans.

Senator DOUGLAS. Not merely loans but capital investments.

Secretary DILLON. That is correct.

Senator DOUGLAS. Is this the practice of private corporations in this country?

Secretary DILLON. No.

Senator DOUGLAS. They separate capital investments from the current operating costs?

Secretary DILLON. That is correct.

Senator DOUGLAS. Is this the practice of the European countries in the budgets which they draw up?

Secretary DILLON. They draw them in various ways, but most of them, almost all of them find a way of differentiating more sharply than we do between capital expenditures and what they call current expenditures.

For example, in the United Kingdom, they have a rather complete differentiation, and you find a situation where they introduced a budget a couple of months ago with quite some fanfare as a balanced budget, whereas if you include the capital expenditures the way we do, it was a deficit budget.

Senator DOUGLAS. Isn't this substantially true of the budgets of France, Germany, and Italy?

Secretary DILLON. I think substantially; yes.

Senator DOUGLAS. Now, if—

Secretary DILLON. In some of these other countries, while they do that, they do add up the total and don't say they have a balanced budget.



For instance, in France they often talk more about the amount that has to be financed by the Government through the sale of securities, and they include that in their budget as a receipt, and then they get a balanced budget that way.

Senator DOUGLAS. If the European budgets were to be made comparable to the American budgets, what would be the record during the last 6 to 10 years?

Secretary DILLON. Well, there has been a study made under the auspices of the Brookings Institution on that which indicates that I haven't examined the study in detail myself, but I know the broad implications-- that France has had a deficit every year for the past 10 years. I think in Great Britain there were two surpluses based on our method. In Germany they only went back, I think, 6 years, which was the only time that the Federal Government was really fully functioning there, and they only had surpluses the first two of those years. As soon as they started in building up their defense forces they immediately moved into a deficit.

Senator DOUGLAS. And what has our record been?

Secretary DILLON. Our record is better. So far as I remember, it is 4 out of the 11.

Senator DOUGLAS. Don't you think that some of the concern which the European monetary authorities show about American financial conditions is extremely ill founded?

Secretary DILLON. Well, I think talking about the European monetary authorities as such, the central bankers or finance ministers, who are aware of this, as I pointed out to Senator Carlson, they haven't shown much concern about the fiscal policy of our Government. But there has been some concern in private banking circles.

Senator DOUGLAS. But the remarks of the European bankers will then be blown up on this side of the water and a statement will be made, "Europe is greatly concerned about the fiscal unsoundness of American governmental finances," isn't that true?

Secretary DILLON. That happened a year ago at the time of the meeting in Vienna, where there were some statements which were misinterpreted, and in effect meanings put into the mouths of some of these gentlemen they had no intention of saying. They were quite concerned about it and spoke to me afterward.

Senator DOUGLAS. I have here some figures on the national debt.

At the end of 1945 in round numbers the national debt was \$270 billion, gross national product was \$214 billion. The ratio of the national debt to gross national product was approximately 130 percent.

At the end of the first quarter of 1962 the national debt was \$297 billion, the gross national product \$544 billion. So that in relationship to the gross national product, the ratio had fallen from about 130 percent to approximately 60 percent or 0.60 ratio, isn't that true, so that in relationship of the gross national product to the national debt has been reduced by approximately one-half during this period of 17 years, 16 to 17 years?

Secretary DILLON. I think that last figure is even lower if we figure it out. I think the figure I had in mind was that we are at now about 54 percent.

Senator DOUGLAS. Well, I try to be conservative in my statements. In any event the ratio of the public debt to gross national product has diminished very markedly.

Secretary DILLON. That is correct.

And it has done that, I think, in every year, except one or two in the postwar period.

Senator DOUGLAS. Is it not true that so far as national expenditures are concerned, even on the capital budget basis, even with capital investment included there has been no increase since the end of World War II in the proportion of the gross national product spent by the Government in the budget.

Secretary DILLON. That is correct.

Senator DOUGLAS. It has remained at around 17 percent, slightly less.

Secretary DILLON. Stayed just about level.

Senator DOUGLAS. Is it not true that the House Committee on Governmental Operations has made a very thorough study of inventory of the real and personal property owned by the Federal Government?

Secretary DILLON. I understand there has been such a study. I am not fully familiar with it.

Senator DOUGLAS. I have a copy of it.

That showed a total at original cost of the value of capital assets owned by the Federal Government of \$283 billion, \$201 billion in personal property, such as investments, accounts, and notes receivable, cash trust funds, equipment, supplies, stock inventories of the Department of Defense, planes, tanks, guns, and so forth; and \$82 billion original cost on real property.

Now, with rising price levels this is an understatement of course, of what replacement costs or sale in the open market could be.

So can it not be confidently asserted that the fiscal assets of the National Government are in excess of the debt?

Secretary DILLON. I would like to check that figure but certainly there are very substantial fiscal assets of the Federal Government that would substantially offset or possibly even wholly offset, as you indicate, the debt.

I think some of these trust funds assets have liabilities, contingent liabilities, against them that are rather large, although it is probably a very remote chance that they will ever be called on, but nevertheless they are contingent liabilities.

Senator DOUGLAS. The recapitulation is from page 13 of Federal real and personal property inventory report issued as of June 30, 1961, Committee on Government Operations of the House of Representatives.

Now, if we were a private corporation, we would show the indebtedness of the Federal Government in one column and show the physical assets in another column.

Now, at times you get a complaint made that the Federal Government is bankrupt because of the huge debt. Doesn't this indicate that the physical assets even on the basis of original cost are approximately equal to the national debt?

Secretary DILLON. Well, that is what the table says, sure.

Senator DOUGLAS. Yes. And on the basis of replacement costs it would be in excess.

Secretary DILLON. I think it is probably correct that the buildings, the Government buildings would cost more to reproduce now than they did when they were first built.

Senator DOUGLAS. I have here a table from the Economic Report of the President, page 284, which shows the assets and liabilities of U.S. corporations, showing that at the end of 1945 the total liabilities were 45.8 billion.

Third quarter of 1961, 156.9 billion or an increase of almost 3½ times in the indebtedness of private corporations.

Secretary DILLON. Yes, I see this.

Senator DOUGLAS. It is page 284.

Secretary DILLON. Yes, I find the page. Those are the figures. Yes. It certainly is true that since the war corporations, individuals, and States and municipalities have increased their debts much more rapidly than the Federal Government has.

Senator DOUGLAS. If you take the consumer debt, that is private consumer debt, it has shown a great increase, hasn't it?

Secretary DILLON. It has shown a very large increase.

I don't have the figures right at hand but I know it is a very substantial increase. It has tripled or something like that.

Senator DOUGLAS. Even more than that since 1945, let us refer to page 265, I believe it is, of the President's Economic Report.

Secretary DILLON. Yes.

Senator DOUGLAS. It shows short and intermediate term consumer credit which was outstanding in 1945, \$5,700 million. At the end of December 1961, \$56,850 million, or a tenfold increase; isn't that true?

Secretary DILLON. I see that. That is correct.

Senator DOUGLAS. And then if you take the mortgage debt outstanding, which is shown on table B-50, page 267, at the end of 1945 the total on all properties was \$35.5 billion. That is in the first column. At the end of 1961, the figure is \$223 billion, or an increase of over six times.

Now, don't you think there is a lot of fallacious pointing with alarm to the size of the Government debt in view of all these?

Secretary DILLON. I think it is very true when you compare the increase in the public debt, the Federal public debt, since the war, with increases in other debt, either municipalities and States, or individuals, that the Federal increase has been very, very small compared to the others.

Senator DOUGLAS. And in relationship to the increase in gross national product, the increase has been very small.

Secretary DILLON. Very small.

There is an interesting comparison here, Senator, because the trend has been the other way in Europe. For the European countries the national debt trend as a percentage of their gross national product has been going up.

Senator DOUGLAS. Now, Mr. Secretary, when you meet with the ministers of finance and representatives of central banks do you stress these points?

Secretary DILLON. I think we do; yes, sir.

Senator DOUGLAS. Well, you have not received much publicity on them.

Secretary DILLON. Well, we will try to do better.

Senator DOUGLAS. Because the information which comes out is almost entirely that of Europeans pointing with alarm to the American situation, and these press reports are seized upon with great glee by certain groups in this country.

Secretary DILLON. There was very little of that at the meeting which we just had.

Senator DOUGLAS. I wish you would make a speech on this subject, Mr. Secretary, when the various international monetary authorities meet next fall.

Secretary DILLON. They meet here in September; yes.

Senator DOUGLAS. Do you want to make a speech?

Secretary DILLON. I would be glad to include those facts and figures in a talk.

Senator DOUGLAS. I think there would be a healthy shower of commonsense, and a healthy injection of good sense of proportion and optimism.

The CHAIRMAN. Will the Senator yield?

Senator DOUGLAS. Yes.

The CHAIRMAN. When you make that speech [laughter] I would like for you to give your judgment as to whether the interest we pay has advantages. It is \$9,400 million. It is 100 percent of the excise tax revenue, it is nearly half of the corporation tax revenue, and nearly 20 percent of the individual taxes.

Now, interest is a direct result of a debt. So when you make that speech analyze this interest which is approaching \$10 billion is advantageous to this country for all the generations to come. [Laughter.]

Thank you very much.

Senator DOUGLAS. I may say, when you make that speech, the private bankers who dominate these meetings will get a great deal of pleasure out of the large amounts that we pay in interest. They will exult in this.

I think it would be interesting to see the proportion which the interest forms of the gross national product now as compared with 1945, but I do want to say I think you could do something, you and Mr. Martin, could do something in this respect to lower the interest rates, specifically getting the Federal Reserve to expand the monetary supply in accordance with the growth of the Nation by buying long-term bonds and if I may again expound to you, introducing competition in your sale of long-term securities so as to get the underwriting houses to bid against each other so instead of rationing the issuance as between firms you would use the free market and let them bid against each other.

The CHAIRMAN. When you make that speech I would like you to notify the chairman so he can be present.

Senator DOUGLAS. I would like to be notified, too. [Laughter.]

Secretary DILLON. I will have a very distinguished audience there.

The CHAIRMAN. Senator Gore?

Senator GORE. Mr. Secretary, I will go my colleague one better, I will write the speech for you. [Laughter.]

Secretary DILLON. You are very kind.

The CHAIRMAN. He probably would not be willing to make it if you write it. [Laughter.]

Senator GORE. I would very generously incorporate any suggestions my colleagues might make. I would put them in proper context, I hope, but arrive at different conclusions, I fear, than those in the speech the Secretary may eventually make.

I was interested in your response to Senator Carlson. I understood you to say, and I will ask you if I understood correctly, that most of the demand in the private sector of our economy has been filled.

Secretary DILLON. What I was trying to say was that I don't think it has all been filled because there is a continuing growth-----

Senator GORE. I understood you to say most.

Secretary DILLON. What I was referring to was not the demand in our private sector but the unfulfilled, special, extra, leftover demand of the war. As our economy moves ahead, the demand is always there, and it keeps growing. As this country gets bigger and standards of living get higher, demand increases.

All I was referring to was that in the forties and still in the early fifties, there was still a large leftover unfulfilled gap from the war-time period and the prewar period that had to be caught up with, and that, therefore, was an extra stimulus to capital formation--new plant, new equipment, and I think housing to a large extent--and initially, at least, to automobile production.

That gap was probably pretty well filled by 1955, when we had that very big year. That doesn't mean that demand itself is all filled. That is quite different.

Senator GORE. As I understand you then, we do not now have the stimulus of the backlog of unfilled demand in the private sector.

Secretary DILLON. Of the kind similar to what we had after the war, I think that is correct.

Senator GORE. Do we not, in fact, however, have that situation pertaining in the public sector? With the increased number of children in schools--some have referred to these as war babies who are soon to hit our colleges--do we not have just such a backlog of demand in the public sector? Do we not have a pent-up, unfilled demand with respect to schools, with respect to hospitals, with respect to community facilities?

Secretary DILLON. I think so.

I think that is why the administration has recommended and the Congress has approved various programs in this area, and I think that is particularly true in the college construction area, because our college population is apparently going to grow very rapidly over the next 5, 6, 7 years and we certainly will notice very substantial amounts of additional construction.

Senator GORE. I wonder if you are aware of the difficulty that some boys and girls are facing now in finding colleges they can attend?

Secretary DILLON. Very well aware of it.

Senator GORE. No, in view of this situation which you have described with respect to demand in both the private sector and the public sector of our economy and society, how does the administration conclude that the best course to follow is to reduce taxes, particularly in the form of the investment credit and lowering the higher personal income brackets?

Secretary DILLON. I don't think the administration considers or has ever considered that these are alternatives. The administration, I think, has recommended and intends to recommend, programs for community facilities, for education adequate to meet the need.

Experts in the administration have considered that quite a bit, particularly in the Department of Health, Education, and Welfare. There has been, of course, as you know, difficulty in getting final action on some of these proposals. One of them has been in conference now for some months on higher education which is a very important program, and the basic aid-to-education bill doesn't seem to have progressed very far.

But I don't think we have ever felt we were cutting down or rationing back the needs for facilities to make room for any restructuring of the tax system.

Senator GORE. Well, whatever your motivation is, you have just described disappointment on the part of the administration, if I may so designate it, at the failure of Congress to respond to demand in the public sector.

I think there is some room for disappointment for the performance on the part of the administration also, if I may respectfully suggest that.

From the answers you have given and the statements you have made, it would appear that what the economy needs is not a spurring of demand in the public sector, that being already great and unsatisfied, but rather a spurring of demand in the private sector.

Now, we can have various views as to how that demand in the private sector could be spurred. My observations have been that businessmen expand their plant and facilities in contemplation of new or increased business in which they can engage profitably.

Would you agree with that?

Secretary DILLON. I would agree with that wholeheartedly, yes.

Senator GORE. Now, it seems to me, you still come back to the question of how to stimulate a demand which, in turn, would cause businessmen to expand and improve their plants.

Now, the administration has reached the conclusion that the investment credit is the way to do it.

Secretary DILLON. That is only part of the way.

We don't maintain that is the whole answer, because I think part of the answer would come from the basic income tax reform that we are talking about for next year. It would include reduction all the way up and down in the personal income tax rates which would provide greater personal income particularly to the lower income earners, where the big bulk of the reduction would go—dollarwise—and who would spend the most money.

Senator GORE. Suppose Congress passes a bill, with or without the recommendation of the Treasury, which would just, without any connotation, but just by way of illustration, give Mr. Roger Blough a hundred thousand dollars more of income after taxes.

In what ratio would you think that would stimulate demand in our economy and particularly how would demand be stimulated as compared to giving a thousand men a hundred dollars per year in tax reduction?

Secretary DILLON. Well, I think we have room to do both, and as you pointed out, and I agreed, businessmen make their decisions based on opportunities for investment that appear to them to be profitable. The reason the administration has particularly supported the investment credit as the type of incentive that is best designed to speed

modernization, an area in which our country has lagged seriously compared to other countries in the world, is that it does increase profitability more than any other device that we know of at least cost to the Federal Treasury.

So we think that is good in that area, but I don't want to try to compare apples and oranges. The type of demand that the consumer will have is very important but it is a totally different kind of demand. The companies that want to fill the demand in whatever form it may be, making a vacuum cleaner or something, will make it. As that demand comes, then there is more demand on the steel company for steel to make big machinery that makes the vacuum cleaners and so forth. It is all over the lot.

So, we feel the best thing, and this is, as you know, the strong view of the Council of Economic Advisers, is a combination that would increase profitability of investments through the investment credit. That had to come first because it was ready. I think they would have been just as glad to see the basic general reform sooner. But it has taken a certain amount of time to get it ready. When that time comes it will be certainly more important or probably larger in volume.

Senator GORE. Well, perhaps you and I could agree that an effective stimulation of demand in the private sector would be a stimulation of consumer desire plus ability to purchase.

Secretary DILLON. I think in the broader sense, consumers, of course, are consumers of capital goods, too, and so that helps.

Senator GORE. I understand, yes. But ability to purchase may not always exactly coincide with the desire to purchase.

Secretary DILLON. Sir, that is correct.

Senator GORE. In other words, an effective stimulation of demand in the consumer stream results in the actual purchase of commodities and supplies and services.

Now, that being the case, what the economy needs, if it needs stimulation, is money in the spending stream. Is that correct?

Secretary DILLON. I think if the economy needs stimulation and there are many who think it either does or will in the not too distant future, that is what it will need primarily, yes.

Senator GORE. All right.

That addition to the spending stream can either come by appropriation of funds, by a movement of public funds into the spending stream to satisfy the demand in the public sector, or by an acceleration of the movement of funds in the spending stream of the private sector, either by reducing taxes or providing jobs for people either in the public or private sector.

Secretary DILLON. That is correct.

Senator GORE. From the standpoint of stimulation of the spending stream in the private sector, a cut in personal income taxes, if that is the primary reason for a cut, should have the bulk of the tax reduction, not only dollarwise but percentagewise, in the segment of our economy where most of the reduction in taxes would be converted into consumer expenditures.

Secretary DILLON. By consumer expenditures, you exclude capital expenditures?

Senator GORE. No, I do not.

Secretary DILLON. Then I would agree if they are both included. I wanted to be sure, yes.

Senator GORE. You made an interesting comment a moment ago when I asked you about tax cuts in personal income brackets, and I took, by way of illustration, a \$100,000 increase in income after taxes for Mr. Blough, and a \$100 increase in income after taxes for a thousand men.

You stated that you thought we had room for both.

Will you describe that term "room"?

Secretary DILLON. Well, I mean in our program that I think we do have-----

Senator GORE. The program is not necessarily the room.

Secretary DILLON. That is what I meant.

Senator GORE. Yes.

Secretary DILLON. We do feel that you can have adequate reform of the personal income tax structure and at the same time this investment credit. What the effect of these two things are on the economy presumably would depend on how much expenditures would have increased. Higher profitability of new investment should lead the United States Steel Corp., to invest the whole hundred thousand dollars.

Senator GORE. I am not talking of United States Steel. I am talking about the chairman of the board.

Secretary DILLON. The individual man. I thought you were talking--I misunderstood you, I thought you were talking about the company. You are talking about the individual.

Senator GORE. I am speaking of personal income after taxes.

Secretary DILLON. I would say so far as consumer expenditures are concerned, it's obviously a much greater effect on consumer expenditures with the thousand people getting a hundred dollars.

Senator GORE. The stimulation of the economy, I concede, is possibly only one of the factors involved?

Secretary DILLON. That is right.

Senator GORE. In developing the position of the administration with respect to tax reduction?

Secretary DILLON. That is right.

Senator GORE. These questions will serve, I hope, to indicate to you that I feel the need for the economy next year will lie in stimulation of consumer demand, and in satisfaction of the unfilled demand in the public sector. If approached in those two ways, I think we would have a more efficacious program. I don't ask you to agree, but I would suggest, if you are going to take Senator Byrd's suggestion and Senator Douglas' suggestion, that you at least consider talking about this.

Secretary DILLON. I would be delighted to, Senator.

Senator GORE. All right.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. One advantage about sitting over here is that you get to listen to what everybody else says. Sometimes you have to sit an awfully long time.

Mr. Secretary, as I understand, following on what Senator Gore has said and what I understood you to say, you think this is a two-prong attack basically in the field of taxation, that is, there must be such an attack in order to have this economic growth that you feel is desirable



and that the President feels is desirable; that you must have something which encourages investment to increase in the United States, and which increases purchasing power. The two go together.

Secretary DILLON. That is correct, yes.

Senator HARTKE. You know I have been an advocate of this for a long time, maybe not in line with your approach, but I have a tax reduction bill which dates back to 1961, and reinvestment depreciation bill and, frankly, I don't seem to be able to convince anybody about the merits of my proposal. But maybe the theory will go through.

In line with this, however, there is one thing that has recently been brought to my attention which is a little bit disturbing with regard to the investment side.

Profits for business generally are up considerably after taxes, isn't that true?

Secretary DILLON. Compared to last year, they are up.

Senator HARTKE. Compared to last year?

Secretary DILLON. Compared to any full previous year, they are up considerably. They are not up compared to the total volume of business, total sales, and business as a whole feels they are not operating on a very profitable basis because of that.

But in absolute volume they certainly are up.

Senator HARTKE. And profits are up, and as the net result those profits can be handled basically in two ways, isn't this true, either as distribution to the stockholders or retained as undistributed profits.

Secretary DILLON. Right.

Senator HARTKE. Now, in this field, I have been informed, and I don't know whether I am right or not, but the dividends have also been increased substantially over any prior year?

Secretary DILLON. Dividends for the past few years have increased regularly every year, and I think that trend is still continuing.

Senator HARTKE. And the undistributed profits also have been increased. But the percentage of undistributed profits in relation to the percentage of dividends has been severely restricted.

Secretary DILLON. It has gone down, yes. They are distributing—I think it is quite true that today American business as a whole is distributing—in dividends to stockholders a substantially greater percentage of earnings than was the case 10 years ago, or 20 years ago, or 30 years ago.

Senator HARTKE. And basically the investment of a corporation comes from its undistributed profits?

Secretary DILLON. Undistributed profits and depreciation.

Senator HARTKE. Yes. That is right.

Secretary DILLON. Of course, this is one reason, I think, that this situation has occurred: because depreciation accruals have increased very greatly from what were clearly the inadequate levels immediately after the war. That gives a flow of funds for investment that has continued to grow and has been reasonably satisfactory.

Senator HARTKE. As I understand the theory of the administration and the Treasury Department in these recommendations on investment the idea is that there is a twofold advantage.

On the one thing, for example, in machinery and equipment, somebody has to produce those items, if the money is invested in them.

Secretary DILLON. Right.

Senator HARTKE. This creates jobs.

Secretary DILLON. That is right.

Senator HARTKE. This in turn creates purchasing power, isn't this the basic concept?

Secretary DILLON. You are absolutely right, yes.

Senator HARTKE. And this, in effect, does create an increase in the amount of this so-called—I have forgotten what Senator Gore called it—this kind of a stream.

Secretary DILLON. Spending stream.

Senator HARTKE. This increases the spending stream on one phase.

Secretary DILLON. That is right.

Senator HARTKE. Now, the indications are if there is a tax cut for individuals, this would increase the spending stream on the other.

Secretary DILLON. That is right.

Senator HARTKE. And in line with this, although this is a policy which is advocated, some of our friends, more particularly those on the other side of the line, indicate that this is because the administration is fearful of a recession at this time.

As I understand it the administration has been saying this, "We are not content to have America be stagnant. We want to move forward," and the way to move forward is to go ahead and find out what has kept us in the position of not moving as rapidly as other industrial nations in the world.

And in order to increase this, including the gross national product, we must go ahead and make these reforms in the fields of taxes as well as other items in the field of administration.

Secretary DILLON. That is absolutely right. It is not for any fear of imminent recession. It is rather because of a lack of satisfaction with the rate at which progress has been achieved.

Senator HARTKE. And there has been evidently in the field, in the minds of a lot of the consuming public the feeling that we are going to move forward because although you indicated 1955 was a big automobile year which was probably occasioned as the result of an unfilled demand during the war, every indication is that this is going to be either the second biggest automobile year or else the biggest one, isn't that true?

Secretary DILLON. Right close to 1955.

Senator HARTKE. It seems the confidence of the people is pretty well restored in the development of the American economy and I for one want to congratulate those people in the administration for creating the confidence in the future of America.

Secretary DILLON. Thank you, sir.

Senator HARTKE. I have one other question very technical in nature.

The airlines have presented to me a situation concerning—I am not sure whether it deals with this matter of taxes extension or not but this is a question of the so-called oversea flights and over the so-called polar routes. I suppose it has been presented to you. But this basically deals with a proposition of trying to be competitive and still have to pay transportation tax here on flights which originate in the United States, and end up overseas.

I know it is 12:30 and in view of the time I would like to submit this statement to you and ask the Treasury Department to give us their opinion as to whether or not this can be corrected.

Secretary DILLON. I would be glad to do that.

(The following was later received for the record:)

TAXATION OF TRANSPORTATION TO OR FROM FOREIGN COUNTRIES

Transportation beginning in the United States and ending in foreign countries, other than Canada or Mexico, may be either partially taxable or wholly exempt. Such trips are taxable on the portion of the fare allocable to the trip from the starting point to the last stop in the United States. If there is no stop in the United States after the departure, the trip is entirely tax free. Trips to Canada or Mexico are fully taxable if they terminate within 225 miles of the U.S. border. If the trip to Canada or Mexico terminates beyond the 225-mile zone, the transportation is taxable only from the point of departure in the United States to the last stop (if any) in the United States. These rules apply equally to return trips from foreign areas. However, the rules are applicable only if the transportation is paid for in the United States. If transportation is paid for outside the United States, it is taxable only if it begins and ends in the United States.

The CHAIRMAN. Have you concluded, Senator?

Senator HARTKE. That is all.

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

We will be seeing you again soon.

Secretary DILLON. All right.

The CHAIRMAN. At the request of Senator Wayne Morse I submit for the record a copy of a letter which he received from Portland Industrial Traffic Club.

(The letter referred to follows:)

PORTLAND INDUSTRIAL TRAFFIC CLUB,  
Portland, Oreg., March 9, 1962.

Subject: Repeal of the 10-percent Federal excise tax on amounts paid for transportation of persons.

Senator WAYNE L. MORSE,  
U.S. Senate, Washington, D.C.

MY DEAR SENATOR MORSE: The Portland Industrial Traffic Club, whose membership is composed of leading traffic managers in the Portland-Vancouver metropolitan area and representatives of Oregon firms who are large users of commercial passenger transportation, urges your support of legislation which would repeal the 10-percent Federal excise tax on the movement of people. Briefly, our statement of position follows:

1. We believe that the chapter of the Internal Revenue Code imposing the tax and other parts of the code which refer to the transportation tax should be repealed or amended in entirety such as proposed by S. 2755 (Smathers) and, no doubt, others which will be introduced at a later date. We do not believe that any compromises should be made with respect to repeal such as proposed by the President which would, in fact, retain a semblance of tax for airway user fees or for other purposes. Our members feel usage fees, if appropriate, should be treated separately and apart from transportation tax consideration.

2. Because of its natural geographic location, the Portland-Vancouver metropolitan area is predominantly dependent upon long-haul transportation. To that extent, the population and industry of the Portland-Vancouver metropolitan area and, in fact, the entire Pacific coast is paying a disproportionate share of taxes. The taxes presently imposed and the continuation as proposed by the President is and would be discriminatory as against the entire west coast.

3. Tourism is an important industry to Oregon and the Pacific Northwest. The 10-percent transportation tax, coupled with the long-haul transportation factors, are often an effective barrier to those considering vacations and conventions in the Pacific Northwest. Convention business is exceptionally competitive. The handicap of disproportionate transportation taxes should be removed.

4. It is a matter of public information that the Nation's common carriers of passengers via all modes of transportation have reflected unsatisfactory profit and revenue pictures during recent years. The Federal excise tax on the movement of people was installed as a wartime emergency measure in order to discourage passenger travel. It has accomplished its purpose. The national defense and welfare requires a strong national passenger transportation system. Every effort should be made to encourage usage and further expansion of present facilities. The repeal of the present tax which would, in fact, amount to a 10-percent reduction in passenger fares, should stimulate a considerable amount of additional revenue and profit, much of which would be returned to the Government in the form of additional income tax payments from the carriers.

5. Because a great portion of passenger travel today, particularly via the Nation's airlines and railroads, is business travel, the expenses are deductible for tax purposes as an ordinary business expense. A good portion of revenues which might be lost to the Government by repeal of the 10-percent Federal excise tax on passenger transportation would, therefore, be replaced in part by increased income tax payments from industry.

We earnestly solicit your serious consideration of the above points during your deliberations on measures involving modification or repeal of the Federal excise tax on amounts paid for transportation of persons.

Very truly yours,

BERT KELLEY, *President.*

(Whereupon, at 12:30 p.m., the committee stood in recess.)

