

[COMMITTEE PRINT]

**CORPORATE AND EXCISE TAX RATE
EXTENSIONS**

EXECUTIVE PROCEEDINGS

HELD BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

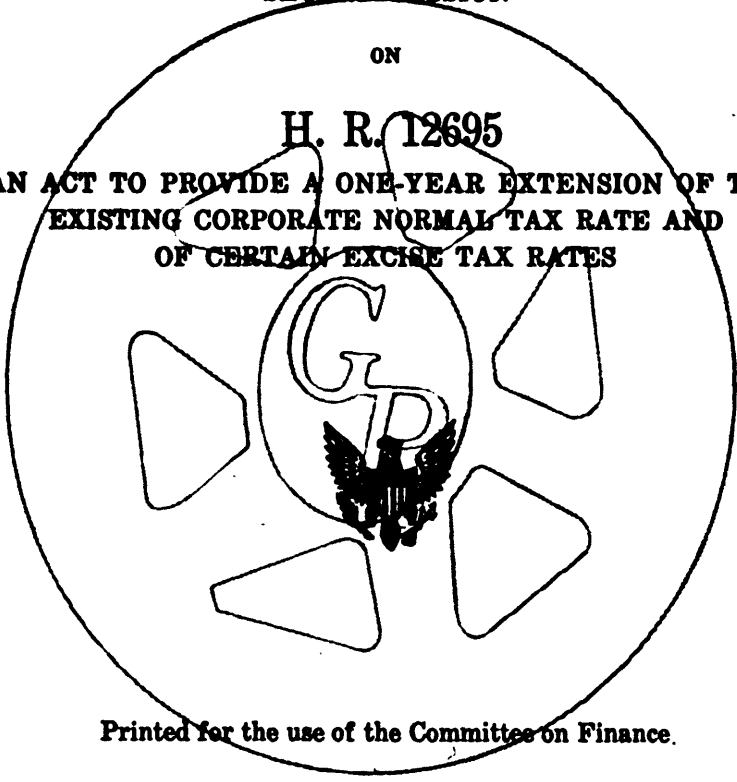
EIGHTY-FIFTH CONGRESS

SECOND SESSION

ON

H. R. 12695

**AN ACT TO PROVIDE A ONE-YEAR EXTENSION OF THE
EXISTING CORPORATE NORMAL TAX RATE AND
OF CERTAIN EXCISE TAX RATES**



Printed for the use of the Committee on Finance.

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CORPORATE AND EXCISE TAX RATE EXTENSIONS

THURSDAY, JUNE 12, 1958

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

The committee met, pursuant to call, at 10 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Long, Smathers, Anderson, Douglas, Gore, Martin, Williams, Flanders, Malone, and Jenner.

Also present: Elizabeth B. Springer, chief clerk; Harry B. Littell, legislative counsel, Senate; Grace T. Gunn, Joint Committee on Taxation; Dana Drake, Joint Committee on Taxation; Robert B. Anderson, Secretary of the Treasury; Maurice H. Stans, Director of the Bureau of the Budget; Dan T. Smith, Deputy to the Secretary of the Treasury; Nils Lennartson, Assistant to the Secretary of the Treasury; Thomas Leahy, tax analysis staff, Treasury Department; Robert P. Mayo, debt analysis staff, Treasury Department; William F. McCandless, Assistant Director for Budget Review, Bureau of the Budget; Robert Hubbell, Fiscal Economist, Bureau of the Budget.

The meeting was called to order by the chairman who brought up for consideration the bill H. R. 12695, to provide a 1-year extension of the existing corporate normal tax rate and of certain excise tax rates, the text of which follows:

[H. R. 12695, 85th Cong., 2d sess.]

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

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 1958".

SEC. 2. 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, 1958" each place it appears and inserting in lieu thereof "JULY 1, 1959";
- (2) By striking out "July 1, 1958" each place it appears and inserting in lieu thereof "July 1, 1959";
- (3) By striking out "JUNE 30, 1958" each place it appears and inserting in lieu thereof "JUNE 30, 1959";
- (4) By striking out "June 30, 1958" each place it appears and inserting in lieu thereof "June 30, 1959".

SEC. 3. 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, 1958" each place it appears and inserting in lieu thereof "July 1, 1959"—

- (1) section 4061 (relating to motor vehicles) ;
- (2) section 5001 (a) (1) (relating to distilled spirits) ;
- (3) section 5001 (a) (3) (relating to imported perfumes containing distilled spirits) ;
- (4) section 5022 (relating to cordials and liquors containing wine) ;
- (5) section 5041 (b) (relating to wines) ;
- (6) section 5051 (a) (relating to beer) ; and
- (7) 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, 1958" each place it appears and inserting in lieu thereof "July 1, 1959", and by striking out "August 1, 1958" and inserting in lieu thereof "August 1, 1959".

(2) Section 5134 (a) (3) (relating to drawback in the case of distilled spirits) is amended by striking out "June 30, 1958" and inserting in lieu thereof "June 30, 1959".

(3) Subsections (a) and (b) of section 5707 (relating to floor stocks refunds on cigarettes) are amended by striking out "July 1, 1958" each place it appears and inserting in lieu thereof "July 1, 1959", and by striking out "October 1, 1958" and inserting in lieu thereof "October 1, 1959".

(4) Section 6412 (a) (1) (relating to floor stocks refunds on automobiles) is amended by striking out "July 1, 1958" each place it appears and inserting in lieu thereof "July 1, 1959", by striking out "October 1, 1958" and inserting in lieu thereof "October 1, 1959", and by striking out "November 10, 1958" each place it appears and inserting in lieu thereof "November 10, 1959".

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, 1958" each place it appears and inserting in lieu thereof "July 1, 1959".

Passed the House of Representatives June 5, 1958.

Attest:

RALPH R. HOWERTS, *Clerk.*

The testimony and interrogation of the Secretary of the Treasury, Hon. Robert B. Anderson, and the Director of the Budget, Hon. Maurice H. Stans, follow:

STATEMENT BY TREASURY SECRETARY ROBERT B. ANDERSON

Secretary ANDERSON. As you know, the President on May 26 renewed the recommendation contained in the January budget message, which asked for a continuation of existing corporation income and certain excise tax rates which otherwise would be reduced on July 1 of this year. The House last week voted such continuation in H. R. 12695.

In January, when the President asked for the continuation of these rates, it was estimated that such reduction, if allowed to take place, would cause a revenue loss of \$2.9 billion. This figure, because of present conditions, we now estimate to be about \$2.6 billion.

The legislation now before the committee should be considered in the light of the present budgetary situation. For the fiscal year ending June 30, 1958, we now face a deficit in the magnitude of \$3 billion, due, in the main, to a decline in revenues.

For fiscal 1959, we now expect expenditures in an order of magnitude of \$78 billion to \$80 billion. This increases the earlier January estimate by \$4 billion to \$6 billion. Receipts during that same year are expected to be in the general range of those for 1958. Thus, we face in fiscal 1959 a budget deficit probably ranging from \$8 billion to \$10 billion.

Many proposals in recent months have been put forward suggesting certain tax reductions as a means of encouraging prompt resumption of economic improvement. We in the Treasury, as well as you, have given them most careful consideration and analysis. In the best interests of the Nation, we cannot at this time propose any general reduction in individual income taxes. To do so would further widen the gap between revenues and expenditures. Nor can the serious disadvantages of so increasing the deficits be offset by a reasonable certainty that any particular individual income-tax adjustment would predictably assure resumption of growth either in specific areas of the economy or the economy as a whole.

Holding the conviction, as we do, that there is lack of justification for reducing the rate of individual income taxes at this time, it follows that to reduce corporate rates now is not justified.

The suggestion has been made by some that it might be appropriate to select certain excise-tax rates for reduction without similar reduction in others.

Should any excise taxes be recommended for reduction, contentions would, undoubtedly, be made that others were entitled to like treatment. We believe that, in fairness and in the best interest of the country, current excise rates should be extended without change for another year.

This committee, I know, has as its continuing interest the assurance that we are utilizing our best efforts at all levels of Government to operate efficiently and economically. The burdens of taxation and debt are heavy. We must continue to be concerned with these restraints which weigh on our system of incentives in our competitive economy. It follows, then, that we must continue to work diligently toward a tax system as fair and as simple as possible, which will have the least repressive effects on business activities and individual initiative.

Increases in the public debt would add to the already heavy burden of interest on an already heavy debt and, also, further interfere with the normal flow of new security offerings in the financial market by private businesses, States, municipalities, and other political subdivisions.

In the absence of basic world changes, we face a level of Federal expenditures which offers little prospect of decreasing in the near future. Even with a resumption of a rate of sustainable growth and the consequent recovery of tax receipts which would result therefrom, the deficits will run into the recovery period.

Mr. Chairman, we in the Treasury appreciate sincerely the thoughtful and cooperative consideration which has been given by the leadership of both parties to this difficult problem.

The CHAIRMAN. Thank you, Mr. Secretary. We shall now hear from the Director of the Budget, following which each member of the committee who so desires may question either or both of you on this question.

STATEMENT OF MAURICE H. STANS, DIRECTOR, BUREAU OF THE BUDGET

Mr. STANS. Mr. Chairman and members of the committee, I would like to review with you, briefly, the prospective budgetary situation which, among other things, has influenced the President to reaffirm his recommendation that present excise taxes and corporation income-tax rates be extended for another year.

Last January, the budget estimates indicated a small surplus of \$500 million for fiscal 1959. These estimates were based on defense needs and economic conditions as they appeared when the budget was prepared. They also reflected the recommended extension of tax rates.

Today, the situation is considerably different. On the revenue side, as Secretary Anderson has indicated, 1959 tax collections under present rates will be considerably lower than had been anticipated.

On the expenditure side, four types of changes have taken place.

First, additional authorizations for defense programs have been requested of the Congress, to take advantage of new possibilities for improving and accelerating some of these activities. The 1959 budget included \$500 million for such defense contingencies. However, it now appears that this may be exceeded by several hundred million dollars or more.

Second, various steps designed to counter economic conditions have been taken by the administration and the Congress. These steps will increase expenditures. These include new legislation on housing, highways, and unemployment benefits. They also include acceleration of going public works projects, and of repair and modernization of Federal buildings. Such actions will increase expenditures for these items in fiscal 1959 by approximately \$2 billion over the January budget estimates.

Third, some other programs will require higher expenditures than had been estimated last January. For example, the cost of the pay raises for postal and classified employees exceeds the total amount included in the budget; and the expenditure impact of the retroactive provisions may come largely in July and therefore affect fiscal 1959. At the same time, the postage increases provided in the Postal Pay Act fall short of the President's recommendations. Expenditures for the farm price support program are now expected to be substantially higher in view of the exceptionally large wheat crop and other factors; and the cost of the acreage reserve program will be greater than budgeted. Increases are also expected for the Atomic Energy Commission and for the new civilian agency on outer space. Action on appropriation bills so far by the Congress has been toward increases rather than decreases. In total, the various increases in this third category may range from \$2 billion to \$3 billion.

Legislation and appropriations now pending in the Congress could add further to expenditures in 1959. For example, the House of Representatives has approved an additional contribution of \$589 million for the civil service retirement fund, but this has been disapproved by the Senate and therefore will be resolved in conference.

Fourth, lower interest rates will reduce interest expenditures by perhaps a half billion dollars below the budget estimate.

Altogether, it can now be estimated that these four types of changes will result in increasing fiscal 1959 expenditures by \$4 billion to \$6 billion. As you know, it is difficult to make firm estimates at this time because the Congress is still deliberating on substantive legislation and appropriations which could affect the final result.

Considering the decreases in revenues expected by the Secretary of the Treasury, the budget deficit for fiscal 1959 now appears to be in the range of \$8 billion to \$10 billion.

Although we will continue to exert every effort to obtain efficient and economical management throughout the Government, a substantial deficit is unavoidable under existing conditions. It should not be increased still more by reductions in tax rates. Taking into account all of the unfavorable results of such reductions—higher deficits, higher national debt, and higher interest costs—I strongly recommend that the Senate approve H. R. 12695 to extend present tax rates for another year.

The CHAIRMAN. Mr. Stans, have you read the report, the staff report of the Joint Committee on Internal Revenue taxation?

Mr. STANS. You are referring, Mr. Chairman, to which report?

The CHAIRMAN. To the Stam report.

Mr. STANS. The Stam report; that is the recent report indicating a budget deficit of \$11.1 billion?

The CHAIRMAN. Yes.

Mr. STANS. Yes; I have.

The CHAIRMAN. In what respect do you differ with that report?

Mr. STANS. Mr. Stam's estimate indicates somewhat lower receipts than I have used or that the Secretary of the Treasury has presently estimated.

On the expenditure side, the differences are not significant.

The CHAIRMAN. Do you think that, considering the Stam report and the whole situation, that yours is more accurate than his?

Mr. STANS. I would say that it depends entirely on further actions by the Congress and, of course, further developments in the economy.

It is entirely possible that he is right. I would be inclined to think that he might be a little bit high.

The CHAIRMAN. Would you say that it would be nearer to \$10 billion than \$8 billion?

Mr. STANS. I think the deficit is likely to be nearer \$10 billion than \$8 billion.

The CHAIRMAN. And it is possible for Mr. Stam to be correct?

Mr. STANS. It is possible for Mr. Stam to be entirely correct. It is very difficult, looking at it at this time, to be any more precise than we are here.

(The report previously referred to follows:)

ESTIMATES OF FEDERAL RECEIPTS FOR FISCAL YEARS 1958 AND 1959

(Prepared by the staff of the Joint Committee on Internal Revenue Taxation)

TABLE 1.—Receipts, expenditures, and surplus or deficit of the Federal Government, actual for fiscal 1957, estimates for fiscal years 1958 and 1959

(Billions of dollars)

	Actual 1957	Estimated, 1958		Estimated, 1959	
		January budget estimates	May staff estimates	January budget estimates	May staff estimates
Receipts	71.0	72.4	69.1	74.4	68.9
Expenditures.....	69.4	72.8	73.0	73.9	78.0
Surplus (+) or deficit (-).....	+1.6	-.4	-3.9	+0.5	-11.1

¹ Expenditure estimates are taken from a speech by Secretary Anderson, Apr. 18, 1958.

Source: Staff, Joint Committee on Internal Revenue Taxation.

The staff of the Joint Committee on Internal Revenue Taxation estimates that there will be a deficit of \$3.9 billion in the current fiscal year, 1958, and a deficit of \$11.1 billion in fiscal 1959. The staff estimates of budget receipts for the fiscal years 1958 and 1959 are estimated to be \$69.1 billion and \$66.9 billion, respectively. The expenditure estimates of \$73 billion for fiscal 1958 and \$78 billion for fiscal 1959 are the figures given by the Secretary of the Treasury in a speech on April 18, 1958.

Table 1, above, shows these current estimates and the estimates used in the budget in January 1958, as well as the actual receipts and expenditures for the fiscal year 1957.

1. Budget receipts

The most recent data available indicate that receipts for fiscal 1958 will show a decline from the preceding year of approximately \$2 billion, and a further decline of slightly more than \$2 billion is anticipated in fiscal 1959. The decline in receipts is due, of course, to the current business recession. In estimating the receipts for the fiscal year 1959, which begins on July 1, 1958, it was necessary to make assumptions concerning economic conditions in the coming year, and it was assumed that there would be a mild improvement in economic conditions in the fourth quarter of calendar 1958 and further improvement in the first half of calendar 1959.

Under present law, the rates of the income tax on corporations and of certain excises are scheduled to be reduced on July 1, 1958. The estimated receipts for fiscal 1959, both staff estimates and budget estimates, are based on the assumption that the reductions will be postponed for 1 year.

2. Budget expenditures

The current estimate of budget expenditures for fiscal 1958 shows little change from the January budget estimate, while the estimate for expenditures in fiscal 1959 represents an increase of about \$4 billion over the January figure. This estimate of \$78 billion of expenditures in fiscal 1959 may prove to be low; in fact, the Director

of the Bureau of the Budget, in testimony before the Committee on Ways and Means on May 28, 1958, stated:

The result of all this is that expenditures for fiscal 1959 will be increased, it can now be estimated, by an amount between \$4 billion and \$6 billion.

J. Assumptions as to income levels

As stated earlier, in preparing the estimates of receipts, the staff assumed that the economic picture would show a slight improvement in the late months of calendar 1958 and more pronounced improvement in the following 6 months. For calendar 1958, it was assumed that personal income would be \$343 billion and corporate profits before tax would be \$34 billion. The levels of business activity assumed by the staff were arrived at after consultation with a number of specialists in economic forecasting, both from private industry and the Federal Government.

Personal income has declined in recent months, but the decline has been moderate, from a level of \$345.5 billion for the last quarter of 1957 to \$342.5 billion for the first quarter of 1958. The mildness of the decline in personal income is due to the fact that the increase in transfer payments (largely nontaxable) has tended to offset the decrease in wages.

Corporate profits before tax in calendar 1957 were \$41.2 billion. However, the level for the last quarter of 1957 was \$37.5 billion. Information available at this time indicates that there was a further drop in the first quarter of 1958 from the last quarter of 1957. The staff estimate of \$34 billion of profits for 1958 reflects the overall assumption of economic conditions for this year.

K. Details of receipt estimates

Table 2, which follows, shows by major sources the actual 1957 and the estimated 1958 and 1959 fiscal-year receipts. This table indicates by major receipt sources the difference between the January budget estimates and the staff estimates. It also shows receipts before and after reduction for amounts earmarked for various trust funds and amounts payable as refunds. The estimates of excise and corporate income-tax collections for fiscal 1959 are based on the assumption that the scheduled reductions in rates will not take effect in that year. If these reductions are effective July 1, 1958, the receipts for fiscal 1959 will be about \$1.8 billion less than the estimate in table 2, or \$65.1 billion.

TABLE 2.—Receipts of the Federal Government, actual for fiscal 1937, estimates for the fiscal years 1938 and 1939

(Millions of dollars)

Source	Actual, 1937	Estimated, 1938			Estimated, 1939		
		January budget estimates	Staff estimate	Difference, budget of Director (—)	January budget estimates	Staff estimate	Difference, budget of Director (—)
Individual income taxes.....	20,020	20,000	20,000	-200	21,200	20,000	-1,200
Corporation income taxes.....	21,531	20,000	20,000	-200	20,525	21,750	1,000
Excises.....	10,420	11,100	10,745	-355	11,020	10,200	-1,120
Estate and gift taxes.....	1,375	1,200	1,020	-180	1,265	1,250	-15
Employment taxes.....	7,263	8,725	8,620	-105	8,200	8,600	400
Customs.....	754	765	765	10	800	800	35
Miscellaneous receipts.....	2,794	2,220	2,200	-20	2,225	2,200	-25
Total.....	67,656	67,132	66,266	-866	68,025	68,250	225
Deduct:							
Transfers to Federal old-age and survivors insurance and disability trust funds.....	6,431	7,700	7,325	-375	7,200	7,700	500
Transfer to railroad retirement account.....	616	620	565	-55	625	620	-5
Transfer to highway trust fund.....	1,475	2,120	2,016	-104	2,164	2,175	10
Refund of receipts.....	2,917	2,220	2,200	-20	2,045	2,000	-45
Net budget receipts.....	57,027	57,002	56,080	-922	57,005	56,000	-1,005

1 Assuming continuation of present rates of all taxes.

2 Includes loans not elsewhere classified.

NOTE.—Detail may not add to totals because of rounding.

The CHAIRMAN. I think we might as well finish with the Director of the Budget, and then go back to the Secretary of the Treasury.

Are there any questions?

Senator LOUG. Yes, Mr. Chairman, thank you.

You are not recommending any further reduction in expenditures, I take it, and you estimate, perhaps, a \$10 billion deficit?

Mr. STANS. We are not now recommending any specific program for expenditure reductions other than those that are in the budget document for 1939.

Senator LOUG. We have had testimony substantially to the effect that the expenditure policy that the administration is following at this time is likely to keep us in the recession. We have slowed down to the point that we are not expanding our national production. We are just standing still and, if we kept it up, we are going to go even deeper into the recession. Do you have any policy or any program, other than reducing expenditures, to try to get us out of the depression?

Mr. STANS. We have no proposals for further reductions in national expenditures other than those recommended in the budget document last year, most of which have not yet been accepted by the Congress. The actual fact is that expenditures are increasing, and some of the administration's recommendations, as well as the congressional enactments, are going to increase expenditures substantially.

Senator LOUG. It seems to me that, at a time when you have got 8 million people out of work, you should have a very vigorous policy to try to stop this downturn and get back to full production just as rapidly as you can. Do you think it is possible to have a balanced budget during a recession?

Mr. STANS. I do not see any possibility of balancing the budget for several years.

Senator LOAN. Do you believe that Government policy should contribute to shortening the recession and returning to full productivity at some later time?

Mr. STANS. I think so, yes.

Senator LOAN. Can you point out anything of a substantial nature that is being done at the present time? We have had this recession for a considerable period of time already.

Mr. STANS. There have been quite a number of things that have been done by the administration in the last number of months to improve economic conditions, in the housing field, through liberalization of downpayments.

Senator LOAN. Do you mean raising the interest rate on veterans' housing, for example, raising it one quarter of 1 percent. Is that one of those things that you think is going to help get us out of the recession?

Mr. STANS. I was not referring to that, Senator. I was referring to the liberalization of downpayments on FHA mortgages and the release of reserves for housing purposes. Also, increasing expenditures for defense, although not made for the purpose of improving the economy, would have that effect.

Senator LOAN. Well, it would look to me as though you are making a lot of reductions in expenditures. We have the Army and the Navy, and even the Air Force, testifying that reductions are being made in the defense budgets which were not recommended by them, but were imposed upon them by higher authority.

Mr. STANS. I have not read the record of what they testified to, Senator, but the fact is that the overall defense expenditures are going up substantially.

Senator LOAN. Did not Secretary Hoover make such a statement? He, certainly, would have some knowledge, and I presume he expressed himself at the Cabinet meetings. He expressed himself before the committee that he was misled by the administration policy but that the funds, in his judgment, were not at all sufficient.

Furthermore, here is the Navy, canceling ship-construction contracts. I just got through talking with Admiral Mummery about that, and he said that they were losing about 40 percent by canceling contracts they have already made. These policies are not calculated either to strengthen the national defense or shorten the duration of this recession, are they?

Mr. STANS. I think I should make it clear that the Secretary of the Army does not attend the Cabinet meetings and, to the best of my knowledge, there has been no discussion of that subject by him in Cabinet meetings. The reduction in the shipbuilding program by the Navy was one determined by the Department of Defense on the basis of changing programs of a higher priority.

Senator LOAN. Well, was that not in substantial measure determined in the Bureau of the Budget, at that level by imposing a certain budget ceiling?

Mr. STANS. No, sir.

Senator LOAN. Or at least imposing certain ceilings?

Mr. STANS. No, there has been no fixed ceiling imposed on the Department of Defense by the Bureau of the Budget, or as far as I know by anyone else.

Senator LONG. And you believe this is a desirable time to postpone needed defense expenditures?

Mr. STANS. I think this is a very desirable time to be extremely selective in the choice of defense expenditures and I think that is what the Secretary of Defense has done, choosing those things that in his opinion are the most essential or subordinating or deferring those things that he considers to be not so vital.

Senator LONG. Now, we have had an amendment, one trying to do something for the needy. The cost of living has gone up for them, certainly, by more than the amount of the last increase in welfare payments over the last year. Do you think this is a good time to do something about the needy?

Mr. STANS. I am not informed about the Senator's amendment, I do not recall that in particular—

Senator LONG. Well, you certainly have the budget before you. It has to do with Federal contributions to State programs; that concerns you, does it not?

Mr. STANS. Certainly.

Senator LONG. Well, is this a good time to take the attitude that we cannot consider the needy or those who are disabled and the aged and the blind?

Mr. STANS. I think that we need always to consider the needy, those who are in need; but I think there is always the question, too, of how much is really necessary for the purpose and how much the Nation can afford and how much the States should share.

Senator LONG. Is it not likely that measures like taking better care of the needy and the disabled and the blind and the aged might contribute to shorten the recession that we are in?

Mr. STANS. I do not know how you can evaluate that, as far as the effect on the economy is concerned, in the sense of preference over any other type of spending. I think that is a matter that probably ought to be judged in direct relation to the needs of the people concerned.

Senator LONG. Do you have any more proposals to make that will shorten the recession we are in.

Mr. STANS. I have none to make today that have not already been made at one time or another by the administration.

Senator LONG. What do you believe are the most pressing things that need to be done at the present time and not already done to shorten the duration of this recession?

Mr. STANS. I think the most pressing things that need to be done are those that can be done by the people themselves, particularly a resumption of a feeling of confidence in our economy by the business world.

Senator LONG. You mean by acting individually, each person acting individually, do you think that is possibly the best way to end the recession?

Mr. STANS. I think people acting individually but in concert, yes, can do a great deal.

Senator LONG. Acting in concert implies acting with the assistance of their Government in order to get into concert.

Mr. STANS. Not necessarily, Senator. I think that what is necessary and what is developing is a spirit of increasing confidence in the American economy without undue efforts on the part of the Government to stimulate it.

The economy has demonstrated a great deal of strength in recent months. It seems to have found the bottom and it seems to have found that bottom without a tremendous expenditure program on the part of the Federal Government. The national economy has its own inherent strength, and I think that if we have confidence in this inherent strength in time the economy will demonstrate that it will come back.

Senator LONG. It appears to me as though the present program with the exception of a very few minor things such as the increased interest rates for veterans' loans on the one hand and liberalized payments on the other hand, one of which may make housing somewhat more dear and the other may make it more obtainable; and other than this unemployment compensation bill which may or may not be much good, with the exception of those minor things, your program seems to be to wait and see what happens.

My thought would be that it would be somewhat analogous to taking medicine; it might be that without taking the medicine you might get well anyway; but when you have got 8 million people out of work it seems to me that it may be better to act rather than just sit and wait.

Mr. STANS. Senator, I have a list of some 40 or 50 actions by the Government which have been taken in order to be helpful in countering the temporary economic contraction and I should be very glad to go over them now or put the list in the record.

Senator LONG. I would be very glad to have a copy of the list and you may put it in the record.

(List referred to is as follows:)

**CHRONOLOGY OF GOVERNMENTAL STEPS WHICH ARE BEING HELPFUL IN
COUNTERING THE CURRENT ECONOMIC CONTRACTION**

August 5, 1957. *Liberalization of FHA downpayments.*—Federal Housing Administration changed its regulations so that lower downpayments would be required for FHA-insured loans. For example, downpayment on \$12,000 house reduced from \$1,200 to \$600.

October. *Federal Reserve open-market operations.*—Chairman Martin reported on February 6 to the Joint Economic Committee that open-market operations had been modified in October to lessen restraint on bank credit. This action and other developments changed the position of member banks from about \$500 million net borrowing in mid-October to about \$500 million net free reserves by March.

November 14. *Discount rate lowered.*—One or more of the Federal Reserve banks announced its rediscount rate was to be reduced from 3½ to 3 percent, starting a pattern which was generally adopted.

December 23. *Housing reserves released.*—President announced release of reserves for housing, as follows:

- (a) \$107 million for purchase of military (Capehart) housing mortgages.
- (b) \$20 million for purchase of cooperative housing mortgages.
- (c) \$50 million for urban-renewal capital grants.

January 7, 1958. *Additional funds requested for defense.*—President transmitted 1958 supplemental appropriation request of \$1,200 million for defense. (While not requested for reasons of economic stimulus, this appropriation will obviously have an economic impact.)

January 9. *Closing costs on FHA mortgages.*—Federal Housing Administration changed its regulations to remove the requirement of cash payment of closing costs, allowing funding of such costs in the mortgage.

January 13. *Budget.*—President transmitted his budget. Among the grounds which he cited for confidence that the expansion of our economy would soon be resumed were the acceleration of defense efforts already underway, the increasing pace of activity in a number of programs involving State and local, as well as Federal, expenditures, and Government policies designed to facilitate the resumption of growth.

The budget recommendations anticipated a number of supplemental appropriations for fiscal 1958 which are cited below under the dates on which they were transmitted to the Congress. They also included the following recommendations for fiscal 1959, which have since been cited by the President or by Senator Knowland and Representative Martin as helpful in countering the current economic contraction:

(a) Urban-renewal program to be increased to 100 new projects in fiscal 1958 and 120 additional in fiscal 1959, compared to 50 started in fiscal 1957.

(b) Extend the urban-renewal program for 5 years, with \$200 million for fiscal 1959.

(c) Increase the amount of FHA-insured mortgages which can be outstanding by \$3 billion annually for the next 5 years.

(d) Revise ceilings on interest rates and remove discount controls which discourage private financing on FHA-insured loans for rental projects, cooperative housing, and Capehart military housing.

(e) Increase the permissible size of loans insured by Federal Housing Administration to \$30,000.

(f) Revise ceilings on interest rates and remove discount controls which prevent many veterans from using their VA home-loan-guaranty benefits.

(g) Extend the life of Small Business Administration.

(h) Provide \$53 million in new lending authority for Small Business Administration, which, together with repayments, would allow \$161 million for new loans and other aids.

(i) Enact tax revisions to aid small business.

(j) Increase the lending authority of Export-Import Bank by \$2 billion.

(k) Enact authority for assisting communities in solution of problems of persistent unemployment.

(l) Extend Agricultural Trade Development and Assistance Act (Public Law 480).

(m) Spending for civil public works to be increased \$440 million from fiscal 1957 to 1958 and another \$240 million from fiscal 1958 to 1959.

(n) Extend the authority of the General Services Administration and the Post Office Department to enter into lease-purchase contracts for new Federal buildings.

(o) Spending for highways (from highway trust fund) to be increased about \$800 million from fiscal 1957 to 1958 and another \$600 million from 1958 to 1959.

January 20. *Economic Report.*—President transmitted his Economic Report, emphasizing housing, small business, and area assistance recommendations mentioned above.

January 21. *Discount rate lowered.*—One or more of the Federal Reserve banks announced its rediscount rate was to be reduced from 3 to 2½ percent, starting a pattern which was generally adopted.

January 22. *Additional funds requested for various agencies.*—President transmitted 1958 supplemental requests totaling \$2,897 million for various civilian agencies. (While a number of these requests had been anticipated in the midyear review of the budget released October 1, 1957, and estimates for most of them had been included in the budget in January 1958, some of the items would help economic activity, and have been so characterized by Senator Knowland.) The ones cited by the Senator and others which are similar follow:

[In millions]

To speed processing of applications for construction or loans:	
Federal Power Commission.....	\$0.2
Federal Housing Administration.....	2.0
Construction:	
HEW: Assistance for school construction.....	57.0
Interior: Upper Colorado River Basin.....	10.0
Income maintenance:	
VA:	
Compensation and pensions.....	256.0
Readjustment benefits.....	80.0
HEW: Grants to States for public assistance.....	170.6
Labor:	
Grants to States for unemployment-compensation administration..	38.0
Unemployment compensation for veterans.....	25.0
Unemployment compensation for Federal employees.....	18.4

February 2. *Additional funds requested for reclamation.*—President transmitted 1958 supplemental appropriation request of \$10 million for Trinity River project to enable construction rates to be maintained.

February 11. *Post-office modernization.*—President directed the Postmaster General to present to Congress a 3- to 5-year program to rehabilitate, enlarge, or replace 2,500 post offices and provide modern equipment. Estimated \$175 million annual Government spending to be financed from fifth cent on out-of-town letters and approximately \$1.5 billion private spending over full period for construction of buildings to be leased to Government.

February 12. *President issues fact sheet on actions and proposals.*—President expressed confidence in recovery, promised further Government actions, if needed, and reviewed actions and proposals to date. This review added details on budget recommendations as follows:

(a) Defense contracts to be accelerated to \$18.4 billion in first half of calendar 1958 as compared to \$7.9 billion in last half of 1957. Calendar-year totals: 1958, \$23.6 billion; 1957, \$17.8 billion. These totals include increase in construction contracts to \$1.6 billion in first half of calendar 1958 as compared to \$0.3 billion in last half of 1957.

(b) In calendar 1958, 58 lease-purchase projects involving \$105 million of financing to be initiated. In calendar 1959 financing is estimated to expand to \$300 million for remaining 34 projects.

(c) Export-Import Bank credits estimated to finance \$625 million of shipments abroad in first half of calendar 1958 and will rise further in second half.

This statement also contained the first announcement of administration endorsement of a proposal for the District of Columbia to borrow \$100 million from the Treasury over 5 years for construction.

February 16. *FHA steps up review of applications.*—President released report that FHA added 100 underwriters to its staff in the previous 2 weeks to process the increased volume of loan applications more expeditiously.

February 19. *Bank reserve requirements lowered.*—Board of Governors of the Federal Reserve System lowered required bank reserves one-half of 1 percent, making potential credit availability of around \$3 billion.

February 24. *Push Federal projects for which appropriations have been made.*—In his speech to the National Food Conference, the President advocated pushing worthy approved Federal projects.

March 6. *Discount rate lowered.*—One or more of the Federal Reserve banks announced its rediscount rate was to be reduced from 2½ to 2¼ percent, starting a pattern which was generally adopted.

March 8. *Letter to Knowland and Martin.*—President announced 4 actions to accelerate programs and made 3 proposals for congressional action.

March 8. *Actions to accelerate.*—

(a) *Civil public works.*—Budget Director has told agencies to accelerate construction for which funds are available (carrying out policy announced in February 24 speech). Estimated speedup by several months of \$200 million expenditures for such programs as those of Corps of Engineers, National Park Service, and Bureau of Indian Affairs.

(b) *FNMA mortgage purchases.*—To stimulate construction, an additional \$200 million from President's discretionary fund was released for purchases of mortgages up to \$10,000 and for other authorized special-assistance programs.

(c) *Defense contracts in labor-surplus areas.*—On the instructions of the President, military services have acted to award more contracts in labor-surplus areas, with priority to small business. New clause in contracts urges prime contractors to give preference to subcontractors in such areas. (In February, \$102 million in contracts set aside for small business, twice the amount in February 1957.)

(d) *Private funds for housing mortgages.*—Veterans' Administration has acted to make more private funds readily available for guaranteed home mortgages. (Discount allowance increased by one point in each region.)

Federal Home Loan Bank Board increased availability of funds for investment in home mortgages. (Regional home-loan banks can advance credits to savings and loan associations on a 5-year basis to expand lending potential.)

March 8. *Proposals for congressional action.*—

(a) *Budget amendment on water-resource projects.*—To permit accelerated construction rate to continue in 1959, affected departments are to submit budget amendments for increased appropriation requests of \$40 million for Bureau of Reclamation, \$125 million for Corps of Engineers, and \$15 million for Department of Agriculture watershed protection projects. (Transmitted March 12 and 14.)

(b) *Suspend spending limitations for highways.*—Department of Commerce will request Congress to amend the Highway Act to suspend requirement that apportionments be related to anticipated revenues so that annual expenditures will be less than revenue. Estimated that \$2.2 billion additional apportionments in calendar years 1958-61 will result. (Transmitted March 11.)

(c) *Extend unemployment compensation.*—President requested Secretary of Labor to prepare a proposal. Department of Labor subsequently requested Congress to extend present State and railroad benefits 50 percent longer. (Transmitted March 25.)

March 12. *Small reclamation projects.*—1959 budget amendment transmitted to provide \$25 million increase to be immediately available in fiscal 1958 to permit prompt initiation of loan program for small reclamation projects.

March 13. *Report on Defense contracting.*—President released letter from Secretary of Defense reporting on fiscal 1958 procurement and construction contracts through January and promising a monthly obligation about 70 percent higher during the last 5 months than in the first 7 months. (This was a detailed backup of data given February 12. Details were for gross obligations and thus added to a larger total than the net given February 12.)

March 14. *Additional funds for hospital construction grants requested.*—President amended the 1959 budget to request an additional \$48 million for hospital construction funds to be distributed to the States, bringing the 1959 appropriations up to the 1958 level.

March 18. *Accelerate repairs and equipment purchases.*—In his speech to the Republican Women's National Conference, President reviewed actions and announced for the first time that:

General Services Administration was accelerating repairs and modernization of Federal buildings. (Budget reserves of \$8 million had been released February 10.)

Authorized procurement of needed equipment and supplies is being accelerated.

March 18. *Bank reserve requirements lowered.*—Board of Governors of the Federal Reserve System lowered required bank reserves another one-half percent, making another \$3 billion of potential credit availability.

March 19. *Military vehicle contracts placed.*—Secretary of the Army announced that the Army would place about \$100 million of contracts for trucks and other vehicles within 30 days.

March 19. *Housing and rural electrification acceleration.*—President sent letters to Housing and Home Finance Agency and to Department of Agriculture directing:

(a) *Public facility loans.*—Budget Director will release reserve balances of the \$100 million authorization for this program for use as needed. HEFA to liberalize program by broadening categories of communities and of type of projects eligible. All feasible steps to secure commencement of projects, including Federal financing during construction, to be taken.

(b) *College housing.*—HIFA to expedite starting construction on planned projects, including Federal financing during construction. Could affect some \$300 million worth of projects.

(c) *Urban renewal.*—HIFA to expedite starting construction on planned projects, including authorizing local communities to provide public facilities and site improvements with their own funds for later incorporation in shared Federal financing. Estimated value of potentially affected projects is \$1 billion.

(d) *Public housing.*—HIFA to expedite starting construction on planned projects. Could affect some \$140 million worth of projects.

(e) *Rural electrification.*—REA to expedite starting construction under approved loans. Could affect some \$740 million worth of projects. REA to encourage loans to REA consumers for purchase of electrical equipment. (Budget reserves of \$12.6 million had been released March 6.)

March 20. *Farmers' Home Administration and CCC loans.*—Secretary Benson announced that he was directing two credit agencies in the Department of Agriculture to broaden their programs and encourage borrowing.

(a) *Farmers' Home Administration.*—Loan eligibility for farm home and buildings changed from borrowers who earn most of income from farming to those who earn at least \$400 annually from farming.

(b) *Commodity Credit Corporation* to promote loans for on-farm grain storage facilities.

March 20. *Airport allocations.*—Secretary Weeks announced fiscal 1959 allocations to States for construction of airports. This spelled out details of budget. This was the earliest announcement date ever and involved the biggest annual allocation of funds under the Federal-aid airport program since its inception in 1946.

March 20. *Additional appraisers.*—Federal Housing Administration issued instructions to set up panels of local fee appraisers to supplement its salaried staff of appraisers.

March 25. *Small Business Administration charges reduced.*—Small Business Administration cut in half its charge to banks on deferred participation loans it underwrites.

March 26. *Further action to accelerate procurement of supplies and equipment.*—President recommended to Congress an appropriation provision which would make immediately available to civilian agencies one-half of the amounts estimated in the 1959 budget for supplies and equipment. This will allow a speedup of purchases which will be chargeable to the 1959 appropriations when enacted. Estimated amount to be made available is \$840 million. Also, Budget Bureau issued instructions to agencies concerning immediate placement of as many planned orders as possible under available authorizations (a followup of March 18 announcement) and General Services Administration is amending its limits on stock levels. As far as possible, orders are to go to firms in areas of substantial labor surplus.

April 1. *President signs housing bill.*—President approved S. 3418, an act "to stimulate residential construction." The law (Public Law 364) includes provisions to:

(a) Decrease minimum downpayment of FHA insured loans to 3 percent of first \$18,500 and 15 percent of the next \$2,500 rather than the previous 3 percent of first \$10,000 and 15 percent of next \$6,000. (This will reduce downpayment about \$400 on homes in middle-price ranges.)

(b) Provide additional funds for purchases of mortgages by Federal National

Mortgage Association:	Million
Special assistance programs.....	\$500
Military housing.....	50
Housing at research centers.....	25
GI mortgage loans on new homes costing \$13,500 or less.....	1,000

(c) Raise interest ceilings on military housing mortgages to 4½ percent and on VA direct and guaranteed loans to 4¼ percent, provided that the VA rates must be one-half percent below FHA rates.

(d) Extend VA direct and guaranteed loan programs 2 years.

(e) Increase maximum VA direct loan from \$10,000 to \$13,500.

(f) Provide additional funds for VA direct loans of \$50 million for fiscal 1958 and \$150 million for each of fiscal years 1959 and 1960.

(g) Repeal discount controls to encourage private lending.

April 1. Post Office truck purchase.—Post Office Department announced plans to buy \$50 million worth of trucks and other vehicles by the end of this year, if advance use of fiscal 1959 funds proposed March 26 is approved by Congress. This will be 2 to 3 months earlier than originally scheduled.

April 1. Reduction in home modernization loan insurance rates.—Federal Housing Administration reduced its insurance premium charge to lenders on home-modernization loans from fifty-five one-hundredths of 1 percent to fifty one-hundredths of 1 percent.

FHA also extended the period during which it will pay interest on loans in default from 6 to 9 months.

April 2. Additional funds requested for defense.—President transmitted 1959 budget amendments of \$1,450 million for defense. (While not requested for reasons of economic stimulus, this appropriation will obviously have an economic impact.)

April 2. Acceleration of medical and sanitary contracts.—Health, Education, and Welfare announced that total contracts to be let by State, local, and private institutions for medical-research facilities, hospitals, and municipal waste-treatment plants will be about \$130 million more in the next few months than had been estimated in January. This speedup is largely due to giving priority, in the allocation of the Federal share of funds, to projects which can be started quickly.

April 4. Removal of downpayment on VA loans and other housing actions.—President announced the following actions to stimulate home building:

(a) Administrator of Veterans' Affairs has removed the 20-percent downpayment requirement on VA-guaranteed home loans.

(b) Commissioner of Federal Housing Administration has raised maximum permissible interest rate on insured military housing mortgages to 4½ percent as permitted by Public Law 364, signed April 1. Department of Defense estimates it will be able to close contracts totaling about \$250 million in next 3 months. Same rate of contracting is expected to continue through last half of calendar 1958. If 4½-percent rate does not draw adequate private funds, law permits increase to 4½ percent.

(c) President released funds (part of which were provided under Public Law 364) to Federal National Mortgage Association for mortgage purchases as follows:

\$250 million for urban renewal.

\$50 million for housing for elderly persons.

\$25 million for military housing.

(d) Other actions to put Public Law 364 into effect:

Downpayment requirements reduced on FHA-insured loans.

Maximum interest rates on VA-guaranteed loans raised to 4½ percent.

(Same rate also applies to VA direct loans.)

Discount controls eliminated on FHA and VA loans.

Regulations issued for FNMA purchase of mortgages of \$13,500 or less.

April 5. GSA purchases in labor surplus areas.—Administrator of General Services announced special contract procedures to channel a substantial part of orders placed by Federal Supply Service in labor surplus areas without any increase in prices paid. An estimated \$300 million in orders can be so channeled by June 30 (if advance use of fiscal 1959 funds proposed March 26 is approved by Congress).

April 8. Post office construction.—Post Office Department announced speedup in planned construction of 905 post offices costing \$40 million which will be privately financed and leased to Government. Construction has either been started within past 30 days or will be started by fall. This is a substantial increase from rate of about \$530 a year over the past 4½ years. (This speedup of planned construction is separate from the program of additional construction announced February 11 which will be undertaken if 5-cent postal rate is enacted.)

April 10. President signs highway bill.—President approved H. R. 9821 which authorizes increased Federal assistance to the States for highway construction. The law (Public Law 381) includes provisions to—

(a) Authorize additional \$400 million for primary, secondary, and urban (ABC) projects which must be placed under contract before December 1, 1958, and scheduled for completion before December 1, 1960. For these additional projects, Federal grants are increased from 50 percent to 60½ percent and up to two-thirds of the State share may be advanced by the Federal Government.

(b) Authorize additional \$200 million to be available immediately for fiscal 1959 and \$300 million each for 1960 and 1961 for Interstate System.

(c) Suspend pay-as-you-go provisions for 1959 and 1960 so that all authorized funds may be apportioned. Estimated that without this suspension, \$1.7 billion would be withheld from apportionment.

(d) Authorize additional \$10 million for 1959 for forest highways, roads, and trails and \$1 million for public lands highways.

(e) Extend authorizations beyond 1959 for ABC systems and various Federal domain roads, encourage billboard regulation, and amend law on payments for stockpiled material, etc.

April 17. *Allocation of additional highway funds.*—Secretary of Commerce allotted to the States the additional \$400 million for ABC roads and \$200 million for Interstate Highways made available by Public Law 381.

April 17. *Discount rate lowered.*—One or more of the Federal Reserve banks announced its rediscount rate was to be reduced from 2½ percent to 1½ percent, starting a pattern which was generally adopted.

April 17. *Bank reserve requirements lowered.*—Board of Governors of Federal Reserve System lowered reserve requirements for central Reserve city banks in New York and Chicago by one-half of 1 percent and with an additional one-half of 1 percent to be effective April 24. Board also reduced Reserve city bank requirements one-half of 1 percent effective April 24.

April 21. *Long-term loans to small business.*—Administration proposed that the Small Business Administration be authorized to provide long-term financing and equity capital for small business by means of loans to State development corporations and private investment associations. The bill introduced by Senator Thyne would increase the lending authority of SBA \$220 million.

April 22. *Aid to railroads.*—President endorsed recommendations of the Secretary of Commerce that legislation be enacted to assist the railroad industry as follows:

(a) Enlarge Interstate Commerce Commission jurisdiction over discontinuation of unprofitable services.

(b) Redefine which private truckers are exempt from ICC regulation.

(c) Clarify agricultural exemption.

(d) Revise Federal ratemaking policies.

(e) Provide Federal guaranties during the next 3 years for up to \$500 million of short-term (5 years or less) private loans for facilities and equipment other than rolling stock and guaranties for up to \$200 million of equipment obligations for rolling stock.

April 22. *Additional funds requested for unemployment compensation.*—President transmitted 1958 supplemental request which included \$26 million for unemployment compensation for veterans and former Federal employees.

April 24. *President signs accelerated procurement bill.*—President approved House Joint Resolution 588 to authorize accelerated procurement of nonmilitary equipment and supplies. The law (Public Law 386) carries out his recommendation of March 26. Budget Bureau issued instructions on the procedures to be used.

April 28. *Subsidies proposed for 5 metals.*—Secretary of the Interior proposed subsidy payments be authorized as needed for the next 5 years on domestically mined copper, lead, zinc, fluorspar, and tungsten. These subsidies could cover the difference between the market price and a fixed "stabilization" price for each metal and would be paid on a designated maximum number of tons for each metal which is considered "normal" output.

May 1. *Speeding up tax refunds.*—Treasury Department announced that from January 1 to April 24, \$2,452 million has been refunded to taxpayers who overpaid their 1957 income taxes. This dollar amount is 35 percent more than in the same period last year and represents a 24 percent increase in the number of checks issued. This speedup has been due to extraordinary efforts by the Internal Revenue Service and the Bureau of Accounts to speed up refunds by reassigning personnel and employing temporary help.

May 12. *Additional mortgage insurance authority requested.*—Housing and Home Finance Administrator requested Congress for an increase of \$4 billion in FIA mortgage insurance authority to be effective on becoming law. This would increase the permissible amount of outstanding insured mortgages but would not affect Government expenditures. The request is \$1 billion more than in the budget due to the large recent increase in applications for insurance.

May 27. *Housing reserves released.*—President released another \$300 million of the \$1 billion provided under Public Law 364 for purchase of mortgages (up to \$13,500 in face value) by Federal National Mortgage Association. Of the \$300 million released originally in April, \$220 million had already been com-

mitted. FNMA Administrator said that \$300 million would provide for 18,549 units of new housing.

June 4. *President signs unemployment compensation extension bill.*—President approved H. R. 12065, to extend unemployment compensation 50 percent longer. The law (Public Law 441) carries out his recommendation of March 8 except that State participation is voluntary and railroad workers are not included.

June 4. *President signs additional mortgage insurance authority bill.*—President approved Senate Joint Resolution 171 to increase FHA mortgage insurance authority by \$4 billion. The law (Public Law 442) carries out his recommendation of May 12.

Senator LONG. I see by the press today that there is some slight improvement in the employment situation.

Do you believe that with the high school and college graduates beginning to come out in June and seeking employment, do you believe that "slight improvement" in unemployment is going to continue?

Mr. STANS. I think that there will be the usual seasonal increase in unemployment in the summer months as the result of the students coming into the labor market.

Senator LONG. Thank you.

The CHAIRMAN. Any further questions?

Senator ANDERSON. Mr. Stans, I notice in your statement you say:

Expenditures for the farm price-support program are now expected to be substantially higher in view of the exceptionally large wheat crop and other factors; and the cost of the acreage reserve program will be greater than budgeted.

We have had a very substantial upturn in agricultural prices, have we not?

Mr. STANS. I so understand.

Senator ANDERSON. And should not that relieve the support program?

Mr. STANS. We are committed to acquire commodities and increased production is going to require increasing acquisitions by the Commodity Credit Corporation.

Senator ANDERSON. Do you think that the loan price is such that they will move?

Mr. STANS. I think they will move under loan.

Senator ANDERSON. In your statement also, you say:

Increases are also expected for the Atomic Energy Commission and for the new civilian agency on outer space.

I am very interested in that. I am a little worried about this outer space agency, and particularly from the standpoint of the salary levels.

I notice that there seems to be a constantly increasing tendency to get into pretty high levels. For instance, there is the doctor who was getting \$25,000 for running the Livermore Laboratory, and now gets \$33,000 with the space agency, and there are other instances.

Are you not a little worried that that is not going to start a whole new trend for salary levels, higher than we have ever known before in Government? You understand, I am not against this man getting this salary, he is a very fine man, but again, I am conscious of the fact that there are a great many scientists in the United States, and this pay scale that is being established in the outer space agency is a new concept, and if we are going to start to raise these up to the level of what industry pays, then I think perhaps we are on dangerous ground.

Such people in the Government have taken for granted that the pay in the Government is less than what it is in industry. For example we have in the city of Chicago the Northern Research Laboratory of the Department of Agriculture and a man named Dr. May was paid—I am not sure, but I thought that he only got \$8,000, he may have gotten more than that.

A private firm wanted him and they offered him what he thought was a good salary. He asked me and I told him that I would not accept his resignation unless he got a few thousand dollars more than they offered, which they quickly paid.

I am just worrying about this space agency. I feel it is going to be very expensive. You are asking for 200 positions at \$10,000 and all the rest of the Government agencies, other than Defense—are there 200 positions at \$10,000?

Mr. STANS. I do not know offhand, Senator, I would assume that in Defense—

Senator ANDERSON. Outside of that.

Mr. STANS. Probably not, outside of that.

Senator ANDERSON. And yet we have this new agency that has not got its feet in the water, they will get more high paid positions than the Department of Agriculture and the Department of the Treasury and the others all put together. I am not trying to say that it is wrong, but I am simply pointing out that for a long time the Government has been able to attract good people and those people have recognized that they will get in the Government less than they could obtain in private industry. You find men like that in every Government agency; there are dozens and hundreds of them who could get far more outside.

The CHAIRMAN. Senator, was this legislation passed by Congress; what is the authorization for these 200 positions you mention?

Senator ANDERSON. This is in the House space bill—a provision for 260 positions at \$10,000 for new space agency, and they haven't an idea yet whether they will have 100 or 1,000 employees.

The CHAIRMAN. Has that been passed yet?

Senator ANDERSON. It was passed by the House and the Senate bill was reported out last night. The House bill carries a further number of positions at \$21,000. And, of course, if you are going to do it for a new space agency whose functions are still out in outer space, what are you going to do in the other agencies?

I think, gentlemen, that some time somebody will have to take a look at this question as to what we are going to do. People say it does not matter if you pay them the salary, because they can get them under contract. I think that is a dangerous procedure, because I can just give you a personal example.

I brought Luther Hodges, then vice president of Marshall Field, from New York to help me get an inventory for the Commodity Credit Corporation. I had \$1.4 billion worth of agricultural commodities. And Mr. Hodges, from Marshall Field, spent several months down here. When he got through, he recommended that we hire an inventory expert.

He said, "We will have to pay him between \$45,000 and \$40,000 a year."

And I said, "That is just fine. What committee of Congress will approve that?"

He pointed out that Marshall Field had an inventory of one-seventieth of the size of the inventory of the Department of Agriculture and paid its inventoryman \$20,000 a year. Why shouldn't the Department of Agriculture pay its man \$45,000 to \$60,000 a year?

We couldn't, but we got a satisfactory man. It happened to be a retired Army officer.

I am very much worried, Mr. Chairman, at this tendency of creating new agencies and saying "This is a hurry-up job, therefore, all bets are off—pay any price necessary to hire them."

Senator FLANDERS. Will you yield?

Senator ANDERSON. Yes.

Senator FLANDERS. I do not see that we get out of this discussion any encouragement.

Senator ANDERSON. I do not, either, Senator Flanders. I am going to vote for this tax continuance. I do not intend to burden the record, but I do feel that the only way we will ever get this budget in balance is a little different attitude toward some of the expenditures.

But I do not think that this asking to increase taxes is the complete answer to the problem. We will have someday to do what the able Chairman has been suggesting for many years, get 1 big appropriation bill and 1 big tax bill and see that they balance.

Mr. STANS. I would like to say to the Senator that we are, as he is, concerned about these increasing expenditures and increasing salary costs. And on the other hand, while there has always been a disparity between Government salaries and salaries in private industry, when you get into a situation with programs like the scientific programs which are expanding as rapidly as they are, it seems to be a reasonable conclusion that we are not going to get competent people unless we pay them more money.

Senator ANDERSON. We could not get a more competent man than the director of the Los Alamos Laboratory of AEC. He gets \$25,000.

A very large American industrial concern came to me one day and said, "Please hire him for us. We want him." And after great argument I carried to him the offer of this company, for \$50,000 a year to start, and some possibilities of making more than that. He looked at me and said, "Well, that is funny, I have already had half a dozen at that level. Why did you bring me that?"

He was not interested.

I don't believe that the amount of salary is the answer to it.

I will give you one more item on this.

Down in my State it is the fact that the military went ahead and finished all of the necessary requirements for testing pads which would cost \$4 million. They spent \$16 million or more to get it ready, laying the track, buying the materials. And then because the contractors wanted these test stands in their own backyard, the Pentagon changed the program.

What could have been built for \$4 million at Holloman Missile Center is being built for \$55 million in the contractor's backyard, and the end is not yet.

Naturally, we cannot get the budget in balance when we do things like that.

I am going to vote to continue all of the present taxes, because I know waste will not stop. Someday I hope to get what the chairman

has been advocating in the way of balancing this budget by force, if no other way.

The CHAIRMAN. Mr. Martin.

Senator MARTIN. I have no questions.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Stans, are you responsible for the estimates of budget receipts or is that a function of the Treasury?

Mr. STANS. That is basically the function of the Treasury, although we also do make computations.

Senator DOUGLAS. You accept their figures?

Mr. STANS. We check against their figures.

Senator DOUGLAS. And you approve their figures in this instance that has been presented?

Mr. STANS. Yes; as being within a range of likelihood.

Senator DOUGLAS. Mr. Chairman, would I be privileged to ask a question of the Secretary on the question of the Federal receipts?

The CHAIRMAN. Yes.

I think it would be all right except that when the Senator finishes with the Director of the Budget, which I imagine will be very shortly, then Secretary Anderson will be open for questions. But if you want to ask him now, I think it would be all right.

It would be more orderly if you would wait.

Senator DOUGLAS. If it would be more in order not to ask the Secretary at this time, Mr. Stans may be willing to reply.

Am I correct that the estimates of the Federal receipts in January that you made for fiscal 1958, amounted to \$72.4 million?

Mr. STANS. That is correct. That was the revised estimate.

Senator DOUGLAS. As I understand it in hearings before the Joint Economic Committee held in February, Secretary Anderson gave that estimate on page 433; is that correct?

Secretary ANDERSON. That is correct.

Senator DOUGLAS. What is your present estimate of receipts for the current fiscal year ending the 30th of this month?

The CHAIRMAN. You can check these if you wish.

Secretary ANDERSON. About \$70 billion, in that order.

Senator DOUGLAS. Isn't that a decrease?

Secretary ANDERSON. Of \$2.4 billion.

Senator DOUGLAS. Mr. Stam's estimate as of May was \$69.1 billion.

Mr. STANS. May I correct that? Was it \$70 billion? Or you are speaking as to Mr. Stam's estimate—are you not, S-t-a-m?

Senator DOUGLAS. Yes.

Senator KERR. It arises by reason of the name of the Director of the Budget being "Stans" and the name of the staff director of the Joint Committee on Internal Revenue Taxation being "Stam."

Mr. STANS. May I have your question?

Senator DOUGLAS. Is your figure \$70 billion presently?

Mr. STANS. No; it is not precisely \$70 billion, but at present estimate it will be in a reasonable range of that.

Senator DOUGLAS. Would it be as low as \$69 billion?

Mr. STANS. It could be.

Senator DOUGLAS. It could be?

Mr. STANS. It would be.

Senator DOUGLAS. Why has this decrease in receipts occurred, below the estimate?

Mr. STANS. Because of the change in the economic conditions.

Senator DOUGLAS. Because of the recession?

Mr. STANS. Because of the recession; yes.

Senator DOUGLAS. That decrease is in personal income taxes?

Mr. STANS. Personal and corporate and---

Senator DOUGLAS. And corporate. What about excise?

Mr. STANS. Some decreases.

Senator DOUGLAS. Do I understand that your estimate for fiscal 1959 is that there will be no further decrease in receipts beyond that for fiscal 1958?

Mr. STANS. Yes; 1959 will be in the same general range.

Senator DOUGLAS. Your name is S-t-a-n-s. Mr. Stans has an estimate of \$66.9 billion. You are therefore \$3 billion over him?

Mr. STANS. We are in a range that could be anywhere from \$2 billion to \$3 billion over him; yes.

Senator DOUGLAS. It is apparent that you underestimated both in January and in February the gravity of the recession. It is possible that you are still underestimating in June the gravity of the recession.

Mr. STANS. It is entirely possible that we are either underestimating or overestimating.

Senator DOUGLAS. You were proved wrong twice, both in January and in February, and you underestimated the gravity of the recession and overestimated the receipts; isn't that true?

Mr. STANS. Yes; that is correct.

Senator DOUGLAS. So that there are two strikes on you. But now you think you are going to hit a home run on the third ball; is that correct?

Mr. STANS. I think it is entirely possible that we may have underestimated this time. As you know, personal incomes are increasing and other factors in the economy indicate that things are getting better. I think one would have to have a real crystal ball to know whether the receipts---

Senator DOUGLAS. What I am trying to get at--and I am not making this as any personal criticism of you--the records show that you have been wrong twice, both in January and in February. This is important for it affects our decisions about public policy. There were some of us who were cautioning you at the time and saying that we thought you were overoptimistic but we were labeled prophets of gloom and doom. But now you say you think that fiscal 1959 will be no worse than fiscal 1958, that is, that the receipts will be approximately the same for both years.

Mr. STANS. We expect that they will, yes, that there will be an upward trend in fiscal 1959 that will offset the downward trend.

Senator DOUGLAS. So the average will be about the same.

When do you expect recovery to set in?

Mr. STANS. When do I personally?

Senator DOUGLAS. No; officially.

Mr. STANS. We expect recovery to set in rather soon.

Senator DOUGLAS. In the summer?

Mr. STANS. Yes; in the late summer---

Senator DOUGLAS. So you expect the upturn in the summer?

Mr. STANS. Immediately after the summer is over.

Senator DOUGLAS. Oh, that is fall, then?

Mr. STANS. Approximately, yes.

Senator DODD. Do you expect an upturn in the summer or in the fall?

Mr. STANS. We can expect a general leveling out of conditions in the summer, in my personal opinion, and improvement in the fall.

Senator DODD. If it seems to level out and then does not turn upward later, you are at a much lower point than the average for fiscal 1959, because the economy started on a high level in August 1957 and didn't really begin to turn down until September.

Mr. STANS. Senator, I am fairly optimistic that the economy will begin to turn up beginning in September or before and will turn up consistently.

Senator DODD. So that fiscal year 1959 will be about the same as fiscal 1958?

Mr. STANS. That is our present estimate.

Senator DODD. But the recession today will already have cut the Government in taxes from \$2 1/2 billion to \$3 billion.

Mr. STANS. It could be in that range, yes.

Senator DODD. What has been the decrease in total gross national product?

Mr. STANS. I do not know offhand.

Senator DODD. About \$20 billion, isn't it?

Mr. STANS. It is down about \$10 billion.

Senator DODD. I mean that the current annual rate is about \$20 billion below the rate for the third quarter, isn't it?

Mr. STANS. From about 44?

Senator DODD. The 44 figure is the approximate figure for the third quarter, isn't it?

Mr. STANS. Here it is - the third quarter of calendar 1957 was at the annual rate of 44. The fourth quarter at 42 and the first quarter of 1958 at 42.

Senator DODD. It is down by \$18 billion. What about the current rate because we are now in the second quarter?

Mr. STANS. I would not expect that it would be any lower, and it might be higher in this quarter.

Senator DODD. It is down by about \$20 billion.

Mr. STANS. It is off a little less than that, yes.

Senator DODD. Evidently you expect the average for the fiscal year 1959 to be about the same as the average for fiscal year 1958, which would be somewhere between 420 and 430 billions. You expect a loss of around another \$15 billion during the coming fiscal year in the gross national product?

Mr. STANS. A loss?

Senator DODD. A loss from the third quarter peak.

Mr. STANS. From the peak level? I would not think that the average would be quite that much.

Senator DODD. About that much--you decreased from \$440 billion.

Mr. STANS. Excuse me, Senator. I didn't hear your question.

Senator DODD. As a matter of fact, the peak was at \$440 billion. In order to get up to even the average of fiscal 1958, you would have to get back to a national product of \$440 billion next year.

Mr. STANS. Senator, this estimate of approximately equal Federal revenue in 1959 as in 1958 is a judgment. It has not been determined mathematically.

Senator DOUGLAS. I understand, but I want to point out that your judgment was wrong twice and now you come and say, "It is our judgment." We expect you to have an honest judgment but sometimes we know it is well to check up on forecasts in the light of experience.

Forecasters make a living by forecasting and by never having their forecasts examined.

Mr. STANS. I think hindsight is always helpful.

Senator DOUGLAS. What I am trying to get at is this: Hasn't this recession already cost the country a tremendous amount of money? Has it not cost the country already \$20 billion and does it not give promise of costing the country \$15 billion or \$20 billion more? Isn't that true?

Mr. STANS. In terms of gross national product?

Senator DOUGLAS. Yes.

Mr. STANS. The change is in that level of annual rates. But it does not mean that the accumulated loss is that amount. That change is in the annual level.

Senator DOUGLAS. Below what it was, isn't that correct?

Mr. STANS. Yes.

Senator DOUGLAS. From—

Mr. STANS. At the beginning of the year, it was 422 and, if it was that, 440 in the third quarter of the previous year, it does not mean that is a loss of \$18 billion to the country because we are talking about levels.

Senator DOUGLAS. Let us take the average for the year. It will be \$15 billion this year and \$15 billion next year, or \$30 billion in the 2 years—I think it will be more than that—but let us take the figure of \$30 billion.

Now I come to the point that I think is an occupational disease in the Budget Office. They do not look at the country. They look at the budget which they have to administer. It is said, the deficits are so much: therefore we can't increase them. Should you not look at the deficit in production and in employment in the country as a whole?

Mr. STANS. I am perfectly willing to yield to the Senator in economic theory, but while we are talking about figures that seem large standing alone, we are also talking about figures which are relatively small and in the magnitude of a few percentage points. I do not think any of us would believe that you could continue to maintain the economy on an even level or always upward—there are bound to be some waves in it.

I believe that over a period of time this is a comparatively small wave.

Senator DOUGLAS. I, furthermore, point out I have not allowed for any growth factor. You should be getting a growth factor of 3 to 4 percent. We did not have that for 1957. We had an actual decrease for 1958. You say that 1959 will be no better than 1958.

If you take into account the growth factor, you ought to have an annual rate of gross national product of \$435 billion this summer,

and around a \$470 billion gross national product for next year. But your forecast is around 425. That includes the growth factor.

Personally, I am not able to disregard the 5 million presently unemployed, the several hundreds of thousands who will be added to the unemployed this month, the some 3 million who are on involuntary part time, and who, if we take in the aggregate, would amount to about the equivalent of 1,300,000 full-time unemployed.

So that I think these factors should be taken into consideration. And, perhaps, this question should be more properly addressed to the Secretary, but, since we have you here, it seems to me in making your decision you have almost totally disregarded the possibility, which I regard as more than a possibility, in fact, I regard it as a probability, that a tax cut, by releasing purchasing power, would result in increased purchases which, in turn, would result in increased production which, in turn, would result in increased employment, which in turn, would result in increased purchasing and production, and so on. And that, while there is some leakage in this process, it would start in operation cumulative forces of recovery. A tax cut would do that. So that it is my own very firm belief that an appreciable tax cut would more than reflect itself in an increase in gross national product and national income.

Incidentally, this increase in gross national product and gross national income, by increasing the tax base, would, in large part, I do not say wholly, but in large part, make good the initial loss of revenues because of the tax cuts.

Have you taken those things into consideration?

Mr. STANS. We have taken all of those factors into consideration; at least, I have, personally, in my judgment. As Secretary Anderson said in the statement, it is pretty difficult to prove that the figures of the Senator are correct. It will probably never be proved. How much of the deduction will be effective in spending is a very difficult thing to determine, particularly in view of the present tendency of the people to increase their savings. Most of it could end up in savings. I am sure that none of us have any certainty of opinion as to where it would go.

Senator DOUGLAS. May I say that, with savings promptly reinvested, there is no reason for concern. Where the savings are accumulated and not invested, then there is that factor. But I think that you have made a very eloquent argument for the position which I will make; namely, proposing the kind of a tax cut which will go to those who spend their incomes, rather than to those higher income groups who tend to save.

I thank you.

The CHAIRMAN. Are there any further questions?

Thank you very much, Mr. Stans.

Next, questions of the Secretary of the Treasury. Are there any questions of the Secretary?

Senator KERR. No questions.

Senator SMATHERS. Questions of Mr. Stans?

The CHAIRMAN. Of the Secretary of the Treasury—do you have any questions of him?

Both witnesses read their statements, and we finished with the Director of the Budget. Now, the Secretary of the Treasury comes back on the stand.

Senator SMATHERS. For questioning?

The CHAIRMAN. Yes.

Senator SMATHERS. I would like to ask a question, if I may, Mr. Chairman. In a great spirit of friendship, admiration, and so on.

Mr. Secretary, I am on another committee that is greatly interested in transportation. And I am sure that you are aware, are you not, that all transportation, railroads, motortrucks, airlines, and all of the rest, are this year suffering, and they have been for a number of years, a decrease in their business and, thereby, paying, undoubtedly, less into the Treasury.

Secretary ANDERSON. Yes.

Senator SMATHERS. You are, also, aware, are you not, of the fact that this 3-percent tax which was put on freight charges, as well as the 10-percent tax put on passenger charges, in its origin was put on for 2 reasons.

First, of course, I presume, to get some revenue. But, secondly, and possibly just as important, to stop people from using those facilities during the time of the war when we wanted to save those facilities to be used completely in connection with the war effort. That is your understanding, is it not?

Secretary ANDERSON. Yes; I think so.

Senator SMATHERS. Now, would it not be reasonable to assume that if a tax were put onto a particular industry for the purposes of stopping people from using that industry, we will say, the transportation industry, and for the purpose, in effect, of slowing it down, would it not be reasonable to assume that, if we wanted to help that industry and revive it probably the best thing we could do would be to take that tax off that industry?

Secretary ANDERSON. That would, certainly, be one way; yes.

Senator SMATHERS. Do you have figures there, or can someone supply you with the figures, as to how much it would cost the Treasury if the 3-percent tax charges were removed?

Secretary ANDERSON. About \$487 million.

Senator SMATHERS. \$487 million?

Secretary ANDERSON. Yes.

Senator SMATHERS. It seems to have gone up since we got the last figure. How much would it amount to, in loss of revenue, if the 10-percent tax on passenger traffic was taken off?

Secretary ANDERSON. \$230 million.

Senator SMATHERS. That is about 1,700—a little over 700 more. Is it not a fact that most all of this tax that is paid by people, shippers, particularly—is it not a fact that it is listed by them as a business expense?

Secretary ANDERSON. I would judge, particularly on the freight, that it would be listed as an element of cost.

Senator SMATHERS. So that, in fact, what happens is that, while you collect it in one hand, you lose it on the other facet of it, because people deduct it as a form of business expense?

Secretary ANDERSON. It would be one of the factors, I am sure, that would go into the making up of costs.

Senator SMATHERS. And then would it not be logical to follow that the fact what happens is that you collect the 3-percent tax on the one hand, but you are losing revenue with respect to your corporate income tax, we will say, because people are deducting that tax as a business cost, and, thereby, reducing the amount of tax which they pay?

Secretary ANDERSON. Well, I would not think that it would follow that you would lose the same amount, because the amount of the cost would go into the price.

Senator SMATHERS. Right. So, in addition, this other thing, then, has a little inflationary effect?

Secretary ANDERSON. It would increase the price.

Senator SMATHERS. And thereby result in what would be a higher price on the article?

Secretary ANDERSON. Yes; that is right.

Senator SMATHERS. But you would expect, would you not, that, while it would not come out exactly even, nevertheless, the very fact that a businessman would deduct this tax, as a business expense, that results in some loss to the Treasury, does it not?

Secretary ANDERSON. Yes; it would be regarded, from the cost standpoint, as an element of cost, and it would, also, be regarded as an element in fixing the price.

Senator SMATHERS. Right.

Secretary ANDERSON. Now, the amount of the price would be affected by a number of other aspects. So that what we would tax in the corporate tax would be the profit. It would be very difficult to relate specifically the influence of the tax on the profits, because one would have to relate the weight that would be given the price factor.

Senator SMATHERS. If we took off the 3 percent excise tax, it would not, in fact, be a total loss of \$478 million which you state, because in fact, it would stop business people no longer being able to deduct that as a business cost and thereby reducing their corporate tax, this figure would not in fact be the actual sum lost which would result to the Treasury?

Secretary ANDERSON. You are talking about the net of a whole series of transactions?

Senator SMATHERS. Yes.

Secretary ANDERSON. And while one would not argue that any decrease in any tax would not influence volume and, perhaps, therefore, influence profit, it would be very difficult to measure it.

Senator SMATHERS. I will not pursue that with you, I know what your position is. I respect you in your position. I do not happen to agree with you in that particular point, of course.

Let me ask you this to shift to another question. You are aware of course, that this 3-percent excise tax is causing many, many businesses to buy their own trucks so that they can avoid the tax—are you aware of that fact?

Secretary ANDERSON. I am so informed by shippers.

Senator SMATHERS. Now the result of that is that, of course, a small-business man who does not have sufficient money to buy his own fleet of trucks, he still has to use the common carriers and pay the 3 percent—you are aware of that?

Secretary ANDERSON. Well, business people who do not own their own trucks would pay that.

Senator SMATHERS. It would be usually the case, would it not, that the man who had plenty of money could get his trucks, buy his own trucks, and the man who has very little would have more difficulty in getting the trucks?

Secretary ANDERSON. I think that is a logical statement.

Senator SMATHERS. Therefore, what this tax does is to penalize the man who has the small business; is that not a fact?

Senator KERR. Would you yield right there?

Senator SMATHERS. Yes.

Senator KERR. I am entirely in sympathy with the objective. I want to say to you that from the standpoint of many years of experience, in operating trucks, using common carriers, there are very, very few substantial businesses needing large transportation in their operations who find that differential sufficient to cause them to go into that phase of the business rather than use those who are in that business.

Senator SMATHERS. Of course, I greatly appreciate what the Senator from Oklahoma has to say. And I know that his business experience has been wide. And I have the highest respect for him, but I would respectfully say to him that statistics incontrovertibly reveal the enormous movement into the private carrying field, that common carrier, motortrucks, and railroads are losing business. And when questioned about it, in most instances, people are moving into the common-carrier field on the basis of the fact that they not only control the trucks and have complete flexibility, but it helps them and gives them a 3 percent advantage to start with. That being the case, of course, it is obviously a penalty on the man who cannot afford to go out and buy his own trucks.

Mr. Secretary, I won't debate this with you, but you are aware, however, I presume, that the 3 percent tax does result in some penalty to the man who does not have his own fleet of trucks?

Secretary ANDERSON. It is a disadvantage in the computation of his costs to those people who do not own their own methods of transportation, yes.

Senator SMATHERS. Thank you, Mr. Secretary.

Senator WILLIAMS. Mr. Secretary, I didn't catch the figures that you gave the Senator from Florida as to the amount involved in the transportation tax.

Secretary ANDERSON. For the 3 percent tax on transportation of property, Senator, it is \$487 million.

Senator WILLIAMS. How much was it?

Secretary ANDERSON. On the 10 percent transportation of persons, \$230 million.

Senator WILLIAMS. I noticed that in the transportation of persons, in 1952 it was \$275 million, in 1953 it was \$287 million, and in 1954 it dropped to \$247 million. And in 1955 it was down to \$200 million. And it was \$214 million in the most recent report of 1956 which was tabulated. And this \$230 million is an increase, then.

I was under the impression that transportation was declining even in 1957 and 1958, and I am wondering how you account for the estimated increase of about 12 to 15 percent increase in the tax revenue

from that source in this fiscal year over 1956, when I thought we were in the trend the other way.

Secretary ANDERSON. Personally, I do not have a basis for the analysis which the Senator desires. I would be glad to examine it. These are the latest figures which are made—

Senator ANDERSON. The railroad figures might be going down and the others might be building up.

Senator WILLIAMS. It could be.

Senator KERR. That applies to other transportation than railroads?

Secretary ANDERSON. I notice even then the trend had—

Senator WILLIAMS. It had been declining pretty much each year. Only 1 year in which the decline was reversed, but the overall net is that it is down now, from \$275 million in 1952 and \$287 million in 1954 which was the last figure that was in this report of Mr. Stam. And I notice the trend is reversed. And I wondered just in what field that reverse was taking place, because it was different from what I had expected.

Secretary ANDERSON. Part of it is explained by the fact that in this 1954 there was a reduction in rates, generally, on passengers. That would make a difference in the application.

Senator SMATHERS. Reduction in what?

Secretary ANDERSON. In passenger rates in 1954.

Senator SMATHERS. Reduction in passenger rates by what?

Senator KERR. There was, also, a reduction in the excise tax on passenger transportation in 1954.

Secretary ANDERSON. That is the thing I was referring to, not the rate.

Senator KERR. So there would be a reduction in the total tax?

Senator SMATHERS. There was no reduction—

Secretary ANDERSON. In the tax rate—it was what I meant to say.

Senator WILLIAMS. Could you furnish us a breakdown on the different categories of that tax, so that we can see where the increase is expected to come from and where the decrease is taking place?

Secretary ANDERSON. Yes, we could.

(The following was subsequently received for the record:)

The decline in receipts in the fiscal year 1955 reflects the reduction in the tax rate from 15 percent to 10 percent effective April 1, 1954. Receipts rose \$14 million in 1956 and \$7 million in 1957. The increase in 1957 would have been larger except that certain travel outside the continental United States was exempted on October 1, 1956, and the exemption for commutation was raised from 35 cents to 60 cents effective September 1, 1956. In the January 1958 budget estimate, a decrease in receipts was estimated for the fiscal year 1958 because of the full year effect of these exemptions in the fiscal year 1958 as compared to the part year effect in the fiscal year 1957. The estimate for 1959 assumed a continuation of the increase in the total volume of taxable transportation which has occurred in the last several years but which has been obscured in tax receipts because of changes in legislation.

Although the total volume of transportation is expected to increase, it is estimated that the revenues of railroads will decline somewhat. The increased revenues of other carriers, especially airlines, will result in an overall increase in total revenues.

It may be noted that although the budget estimate for 1958 showed a decline in receipts in 1958, actual receipts for the first 9 months of 1958 show a slight increase.

Senator WILLIAMS. And I noticed that in the transportation on property you are estimating \$37 million increase next year in that,

over and above the most recent figure we have available which is for 1956—we don't have 1957 in—and in 1956 it was \$450 million, and in 1955 it was \$398 million. And I notice that this is \$487 million. Is that due to the growth of the economy, the expansion?

Secretary ANDERSON. What we estimate it to be; yes, sir.

Senator WILLIAMS. Thank you.

Secretary ANDERSON. The Senator might be interested in the breakdown of this \$487 million as to the 2 major items in percentage: 49.3 percent comes from the railways, 47.2 percent for motor carriers for hire. Those are the two major items.

Senator SMATHERS. That is an estimate?

Secretary ANDERSON. Yes, and the—

The CHAIRMAN. Does that mean for the railroad only one-half of it stayed on the railroads?

Secretary ANDERSON. Yes, about that; yes.

The CHAIRMAN. I thought it was different from that.

Senator SMATHERS. I do not think that is too good an estimate, frankly, from our figures, because as a matter of fact, the railroads at the moment are carrying less than entire-city ton freight, I mean freight on the motor carriers at the moment.

Secretary ANDERSON. These were calculations.

Senator SMATHERS. It is decreasing?

Secretary ANDERSON. We made them in January. They do not include the recent trend.

The CHAIRMAN. You think that is approximately correct, that one-half of it is on the railroads?

Secretary ANDERSON. I would think it is approximately correct. Recent trends would make some fluctuations as Senator Smathers indicates.

Senator MALONE. Mr. Secretary, I have the utmost sympathy for you because you are the ultimate fall guy. Anything sent up by the administration or proposed by Congress, to be signed by the President, all you have to do is to find the money. The fact that some of us do not vote for this does not alter the end result. But it does put some of us kind of behind the eight ball. Because from the time I arrived in the Senate I have been for the repeal of wartime excise taxes on the theory, I think it is more than a theory, that when they are imposed there is very little reason or study on the distribution of such taxes. They just need the money and they put it on whatever seems to be handy, and nobody cares very much because it is an emergency and supposed to be for a short period. But we have a habit when we put a tax on that way, we just never do anything about it unless we add to it.

It has always been my thought that if we need the money we ought to reexamine the excise taxes, and if we need the money brought in by those taxes, redistribute it in a fair manner. There has been no effort to do that, so far as I know. There has not been any proposal to do it so far as I know, except I have had bills in continually to repeal all excise taxes and once in a while we slip through with one, like taking the tax off the 90-cent tickets on motion-picture theaters, so they could continue to operate. And when a business is just about to pass out of the picture sometimes we take it up, like the Senator was telling us he held recent hearings on the railroad situation.

I served on the public service commission of my State for a considerable time, and we could all see it coming. It is here with us now.

It just seemed in adding those things together, isn't it \$750 million that we are about to make available to railroads?

Secretary ANDERSON. I think that was \$700 million, was it not, in the bill passed yesterday?

Senator SMATHERS. \$700 million.

Senator MALONE. \$700 million?

Senator SMATHERS. Yes.

Senator MALONE. It just seems that about equals the excise taxes—\$478 million and \$236 million, that just about comes out even that we give to them and then collect it back.

I just wondered if we should examine some of these things. We never have any time, but we give to them, on the one hand and take it away from them, on the other hand. Isn't that about what it amounts to?

Secretary ANDERSON. I would respond to both portions of your question. I do believe that we should continuously examine the applicability of our taxes in order to achieve the best balance from the standpoint of fairness and from the standpoint of the country. So far as the respective proposals that were made, the bill as I understand yesterday provided for loan guaranties which presumably would be repaid by the transportation facilities that are paying the loans.

Senator KERR. Do the railroads pay these excise taxes out of their revenue, or would they collect this?

Secretary ANDERSON. They would collect it from the users. This would be a part of their rate base. And, of course, as has been indicated earlier, only a portion of the transportation tax either on persons or property is applicable to railroads. It is also applicable to other forms of transportation. So that ultimately it is a tax that is paid by the people who utilize the facilities.

Senator MALONE. That is the excise tax?

Secretary ANDERSON. Yes.

Senator MALONE. But it is on one particular sector of the public?

Secretary ANDERSON. Yes. Of course, some of the excise taxes existed prior to the Korean war and were increased at that time.

Senator MALONE. Wartime taxes were more?

Secretary ANDERSON. I do not remember as to the specific origin.

Senator MALONE. But most taxes were wartime taxes?

Secretary ANDERSON. I think most of them occurred at the time higher revenues were required.

The CHAIRMAN. I understand you to say that this 3-percent tax becomes a part of the rates of railroads.

Secretary ANDERSON. It is added to the rate.

The CHAIRMAN. It is not a part of the base?

Secretary ANDERSON. It is part of what the passenger pays.

Senator SMATHERS. It is not a part of the rate approved by the Interstate Commerce Commission, but it is a penalty that goes on at 3 percent and that charge is added every time the rate is set.

The CHAIRMAN. It does not affect the base rate.

Secretary ANDERSON. That is correct.

Senator SMATHERS. It does not.

Secretary ANDERSON. It is just added to the rate.

The CHAIRMAN. It is just added to the rate, they pay the railroads as the collecting agency.

Secretary ANDERSON. That is correct.

Senator MALONE. What is really means is, as you have just said, it makes a collecting agency out of the railroads, but perhaps decreases their rate in the long run, as has been explained by Senator Smathers.

In any case, a fellow pays this \$700 million and nobody ever has caught anybody repaying anything recently to the Government. This \$700 million is to be loaned. It will be a long time coming back, if it ever does, and I doubt if it ever will, it will be written off sometime, and this \$717 million that is collected in excise taxes, somebody said one time that whether you stand up in the stirrups or sit down in the saddle, the weight is still on the horse. And it still comes out of Mr. Taxpayer.

Now, I am not complaining, and I just want to say a few things here, because if I did vote for the continuation of them, it would be a complete reversal of what I have been advocating.

Secretary ANDERSON. May I interrupt one moment to say, Senator, I am sure the Senator understands that the present recommendation for the continuation of corporate and excise taxes which would otherwise decline on July 1 would have no effect, so far as the tax on transportation of either persons or property.

This is not a tax which would automatically decline on July 1, and it is therefore not a part of the extension recommendations.

Senator MALONE. Well, what I am about to say applies to the saddle on the horse. We generally do keep whatever taxes are put on. I have never seen a Congress yet repeal any tax. Theoretically, it is only going to go a little while. Theoretically, many of these things were passed for a certain period as an emergency. One of them will come to this committee pretty soon on this foreign trade. But it has been extended 10 times, and has something to do with this recession or depression and may make it worse rather than better, and I think it will.

So, we know that it has been the habit of Congress, the habit of the administration regardless of what administration, the habit has been to continue all taxes and all trick stuff that they can get through Congress at one time.

Now, we have just passed more than \$3 billion to send to Europe and Asia to buy goods in the United States. And we have made a great case in all the newspapers that 4.5 million people are employed in such a thing. We have managed to load that on the taxpayers. There is about \$2 billion added to the Import-Export Bank to give to foreign nations to build plants in competition, to compete under this trade thing with American producers and workingmen.

Then we have about \$10 billion in soldiers all over the world annually.

Adding it all up, it is a nice theory that if you disturb such a thing that you begin to get rid of some of this stuff that is going to automatically fall on you anyway before long. I think it will be a very short time, maybe a year, maybe 2 years, until all of Europe will notify you that you are about to leave there, because their security is threatened with your presence.

Then perhaps this \$10 billion will be available to you for other purposes. I doubt if we repeal any taxes even if that happens.

Now, yesterday we passed a bill for the railroads. There was no objection to it. There were some amendments. We all realize, after the very competent hearings conducted by the distinguished Senator from Florida, that something had to be done. Now, I have been attending another session where the Secretary of the Interior has recommended in order to save a completely devastated industry that there would be another several hundred million dollars appropriated. So we are just picking these industries up as they fall on their face, and they will fall with a greater frequency in the future, I think, under the policy that we are pursuing. So I do not see any end to it.

We have just finally come around, we are just taking it out of one pocket and putting it into another one. And, finally, we have just about played the string out. And I did have my mind made up to vote to take the taxes off the railroads—like the motion picture theaters, we are closing them down.

But I have a great regard for you and a sympathy for you. And the Budget Director is about the same, too; he is behind the eight ball, he is not his own boss, he just has to find the money somehow.

And that is about all I have to say, Mr. Chairman. It just seems that we are just like the dog chasing its tail. Nothing ever leaves the circulatory system, but it is getting bigger all the time.

The CHAIRMAN. Any further discussions?

Senator ANDERSON. Mr. Secretary, at one time last fall we had the interest on 91-day bills get up to the rate of 3.66. That would give us a reason why the interest costs to the Government were steadily going higher. The rate now is down below three-quarters of 1 percent.

Secretary ANDERSON. Yes; it is in that neighborhood.

Senator ANDERSON. It is even less than that.

Secretary ANDERSON. It has been as low as 0.58 percent, and it is now about 0.78.

Senator ANDERSON. Has that eased the sale of long-term Government bonds any?

Secretary ANDERSON. The interest rates on the long-term bonds in the market in the fall of 1957 were up to about 3.78; they are down to yield about 3.16 now.

Senator ANDERSON. Now, everyone, I think, recognizes the desirability of trying to get this debt spread out as far as possible on a permanent basis. Are we taking much advantage of the present advantage to place long-term offerings?

Secretary ANDERSON. The Senator probably knows that in the last week we offered for cash \$1 billion of 3¼ percent, long-term bonds due in 1985, for which subscriptions were received of something over \$2.5 billion.

Then we offered the holders of \$9.5 billion of maturing securities a choice between an 11-month certificate at 1.25 percent and a 6-year and 8-month bond at 2.625 percent. And there was about \$1,785 million that went into the 11 months' certificate and about \$7,250 million the elected to take the 6-year and 8-month bond.

So that the total result was an extension of about 5 months on the average maturity of the total marketable debt structure.

Senator ANDERSON. This is a fairly favorable time for the same. I notice that the Riggs Bank advertised the other day it was cutting its interest rate from 3 percent back to 2 percent. That makes 2½ percent bonds attractive.

Secretary ANDERSON. Yes.

Senator ANDERSON. Is that not one of the hopes that we can hold out for the taxpayer; that if he cannot get any other costs down, he is going to get his interest cost down?

The CHAIRMAN. Is the committee finished with the two witnesses?

Senator ANDERSON. Senator Douglas has some questions.

Senator DOUGLAS. I certainly do not want the Secretary to come back again, with all his duties, to respond to my questions. I would not think of doing it. I will merely say, if I may, that I think the difference between us is that the Secretary is thinking of the budget of the Government, and regards that as his primary concern, and apparently does not believe that the budget should be used to help stabilize the economy in a period of recession or depression, or that if an effort is made to use the budget for such a purpose, that it will be relatively unsuccessful.

I am sure the Secretary is a very honest and honorable man. I am not criticizing his character at all. I think we should center our attention on the recovery, and I am one that believes that the release of purchasing power in a period of recession or depression generates a cumulative process of recovery.

Now, we can argue for hours and I do not know that we could get any further. But I did want to have the record show what I think the fundamental disagreement is. And I hope the Secretary is proved right, if I may say so. I hope we may be able to learn from experience, and not have a repetition of 1929, 1930, and 1931.

Secretary ANDERSON. May I only say, Mr. Chairman, one thing. I have the greatest respect for the Senator from Illinois and for his distinguished career in the field of economics. I would only want to say that to the very best of my ability I tried to take into consideration, Senator Douglas, what is truly in the best national interest.

Senator DOUGLAS. I do not doubt that for a minute.

Secretary ANDERSON. My concern as Secretary of the Treasury includes consideration of things which will help generate increased gross national product, make more and better jobs, provide more goods and services at levels people can pay and generally improve the strength of our economy for the good of people on a basis which is sustainable. To the very best of my ability I keep all these things in mind when I am helping formulate programs or making decisions in my role as Secretary of the Treasury.

(The following letter from Senator Charles E. Potter was subsequently inserted in the record at the direction of the chairman:)

UNITED STATES SENATE,
Washington, D. C., June 13, 1958.

HON. HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate.

MY DEAR MR. CHAIRMAN: I appreciate this opportunity to include in the record my views on H. R. 12606, providing a 1-year extension of the existing corporate normal-tax rate and of certain excise-tax rates.

I wish to comment solely on one portion of the bill, that which concerns the Federal excise tax on automobiles, now standing at 10 percent. This tax was levied in wartime as a deliberate depressant on the automobile industry and in fact on the entire economy. By making cars more expensive, sales were noticeably curtailed. Since the automobile industry is the bellwether of the national economy, the excise tax had a deflationary effect felt in every State of the Union.

However, what is desirable and useful in a wartime situation may be precisely the opposite a few years later. Today the excise tax on automobiles is nothing short of economic poison, for it is slowing the wheels of recovery at the very time they should be sped up.

On every \$3,000 automobile, the consumer pays a Federal tax of \$300. In other words, the price is bloated by 10 percent. If we are to buy our way out of this recession, as has been suggested, surely jacked-up prices are no inducement.

As you recall, wartime excises were levied on certain so-called luxuries. To call an automobile a luxury is inaccurate. The automobile is a necessity. Therefore, the tax is unfair on the face of it. The average man uses his car almost entirely for traveling to and from his work, for buying food for his family, visiting doctors and other necessary movement.

Today almost half a million people are unemployed in Michigan. Across the Nation 5 million men and women are without jobs. A great variety of tax cuts and tax adjustments have been advocated as antislump measures, but it is my firm belief that the one which would provide an almost immediate stimulus to the entire economy is the automobile excise tax.

It is true that the heart of the automobile industry is in Michigan. But its vast operations touch every part of the national economic structure. One out of every six jobs in the country depends directly or indirectly on the automobile industry. Cutting 10 percent from the price of the automobiles would send up car demand at once. Sales would be stimulated. Production lines would move. People would go back to work and payrolls would rise. Then, like a giant wheel, the beneficial effects would spoke out to the steel, rubber, glass, cotton, and leather industries, major commodities in the vast complex serving the motor centers of the Nation. Such an upswing unquestionably would bring more corporate and personal income tax revenue into the coffers of the United States Treasury than the \$350 million lost if the excise tax is permitted to decline to 7 percent as scheduled.

In summary, I repeat that the excise tax on automobiles was levied in an intentional effort to slow business activity. To continue it today when the need is for stimulated activity is certainly unwise, and can only have harmful effects throughout the Nation.

Sincerely yours,

CHARLES E. POTTER.

(Whereupon, at 12 noon, the committee adjourned to 10 o'clock, Friday, June 13, 1958.)

