The Economic Club of New York
98th Meeting

The Honorable Ogden L. Mills
Under-Secretary of the Treasury

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General Samuel McRoberts, Presiding Officer: Mr. Mills, guests, gentlemen of the Economic Club: Our program this evening is somewhat unusual because we have planned to have only one principal speaker who will address you on the subject of the federal budget which is proposed by the Administration and is now being considered by Congress. I need not stress to you the very great importance of the subject and as Mr. Mills will speak in his executive capacity it is desirable that he be given every opportunity to present the subject without the usual time limitations. He has very kindly consented to answer any questions that may be proposed to him pertinent to the subject at the close of his address. You will find paper and pencil on each of the tables and to secure an orderly procedure we ask that you write out such questions as may occur to you and send them up to Mr. Ely, the secretary, who will read them.

Before proceeding with the real business of the evening, I think you would enjoy my identifying to you some of the distinguished gentlemen at this table who have graciously honored us with their presence here. Many of them you will recognize as old friends. We have four ex-presidents at the table. Most of them have appeared before and have entertained you and interested you on many occasions. These I will not introduce to you. But I particularly want to introduce to you individually several gentlemen at this table because they occupy positions, key positions of great importance in national and international affairs and yet owing to the character of their employment and possibly to their very great personal modesty, they are men that you hear a great deal about and you almost never see. One of them is the Governor of the Federal Reserve Bank of New York. To the ordinary person, to most persons, because most of us are ordinary, a

Governor of the Federal Reserve Bank is quite a mythical person. To the friendly public he is a gentleman who sits in the impenetrable privacy of his palace on Liberty Street and shrewdly and deliberately manipulates the financial destiny of the world. To the critical minded he is a sinister person who manages by the use of his magic power to deflate and regulate and destroy most worthy people and directs the flow of capital to those who already have more than they are entitled to. (Laughter) To those that really know this governor, he is a very genial human person who is doing all he can with high integrity and understanding and within the close limitations of the law to keep running smoothly the important elements in our economic machinery. He is a native of California and a graduate of Yale and Harvard and he entered the practice of law in the District of Columbia. For some time he was legal secretary to Justice Holmes in the Supreme Court. He was later made assistant general counsel of the Federal Reserve Board at Washington. Later he became Deputy Governor of the Federal Reserve Bank of New York and continued in that capacity for eight years before being promoted to his present position. Gentlemen, I want to introduce to you the Honorable George L. Harrison. (Applause)

When we first saved the world after the cataclysm of the war it was by means of the Dawes Plan and the nations interested in that transaction selected a young American to act as official executive of that plan in Germany. He conducted that mission with such efficiency and tact and, moreover, with a personal dignity that commanded the respect of Europe and reflected credit upon his own country. The intimate knowledge that he attained of the German situation has enabled him to make a real contribution to the solution of the difficult problems that are confronting us today. He unfortunately was born in New Jersey. (Laughter) He was a graduate of Rutgers and of Harvard, but all of his active career has been in New York where he practiced law and at the time of the war was on the War Loan Staff. Subsequently he was under-secretary of the Treasury, which position he occupied when he was appointed to his position in Germany. Today he is a partner in our premier banking institution and I want to introduce to you Honorable S. Parker Gilbert. (Applause)

There is another gentleman at the table who in addition to being a hard-working banker is Chairman of the Clearing House Association which association has again become a very vital institution to New York banking. He was also head of the committee as chairman that formed the National Credit Corporation following the suggestion of the President, and the President subsequently appointed him as president. He is one of the younger bankers that is making a real contribution to banking leadership of this country and there are some people who had the temerity to say that a good deal of addition along that line was much needed. I want to introduce to you Mr. Mortimer N. Buckner. (Applause)

They aren't all bankers at this table, and one who has not appeared before The Economic Club before is not so much concerned with national balances and gold reserves and banking credits as he is with manufacturing costs, prices of raw materials, market operations, and whatnots that interest the American manufacturer, and I want to introduce to you Mr. Edgerton, president of the America Manufacturers Association. (Applause)

The other gentlemen at the table you recognize as old friends and they do not need an introduction from me.

One of the difficulties under a government as Democratic as ours is that we do not always get into public office the man best qualified to administer it. It is so true that it is almost a legend in this country that no very successful financier could become a Secretary of the Treasury. But at this, probably in some ways the most difficult time that this country has ever experienced in its history we are wonderfully fortunate – I do not pretend to explain how it happened – maybe after all we can just thank God for it – that we have got at this time at the head of our Treasury a man of the proven worth and the long experience of Andrew W. Mellon (Applause), and we are likewise fortunate that he has as his assistant one who has had every opportunity for education and early training, who through extensive travel and contact with foreign institutions has firsthand knowledge of our international relations; who has been himself a man of affairs. He has been trained in politics and is willing to devote his splendid abilities and his experience to the public service. He is a New York product. He was born in Rhode Island, I believe at Newport – probably during the summer (Laughter) – but his whole life has been connected with New York City.

When he graduated from Harvard he started to practice law here. He became very extensively engaged in business here. He became a State Senator and for three terms represented the State of New York in Congress and in fact he resigned from Congress to accept his present position as

Under-Secretary of the Treasury. So, gentlemen, it is a great pleasure for me to introduce to you the Honorable Ogden L. Mills, Under-Secretary of the Treasury. (Applause)

The Honorable Ogden L. Mills

Under-Secretary of the Treasury

Mr. President, fellow guests of The Economic Club of New York and gentlemen of The Economic Club: You have invited me to discuss this evening the financial position of the United States Government and the many fiscal problems which confront our government in these difficult times. I was very pleased indeed to accept, for I know of no subject in which all of our people, irrespective of whether they contribute directly to the federal government or not, are more vitally interested, or one which it is more important that they should understand. Adequate comprehension and support on the part of the nation is essential to the government in the performance of its fiscal functions.

We closed the last fiscal year with a deficit of $903,000,000. We are confronted this year with a prospective deficit of $2,123,000,000, and it is estimated that expenditures will exceed receipts by no less than $1,417,000,000 in the fiscal year 1933. If we contrast these figures with a surplus of $184,000,000 in 1930, one of $185,000,000, in 1929, and of $399,000,000, in 1928, we are shocked at the violence and suddenness of the change. For, while I am sorry to say that a falling off in income is an all too common experience these days, yet our federal government is so strong, and our national resources are so great, that somehow or other we feel that our government should be superior to the ills to which individual citizens are subject. Indeed, there is so much truth in this conception, that, as we shall see, the government has but to make a further call upon available resources to put its financial house in order.

To grasp not only what has happened in the immediate past, but what should be done in the immediate future, it is necessary to understand our revenue system, and to note the essential fact that it rests on a very narrow base. Take the fiscal year 1930 as an example: We find that in that year, out of total receipts from taxation of $3,626,000,000, no less than $2,411,000,000, or two-thirds was contributed by income taxpayers, corporate and individual, $587,000,000, or 16 percent, from customs duties, and $628,000,000, or 17 percent, from miscellaneous internal revenue taxes, of which the tax on tobacco contributed $450,000,000, and the stamp taxes chiefly on the issue and transfer of securities about $69,000,000.

These taxes are comparatively few in number, and all, with the exception of the tobacco taxes, which have steadily grown in years of prosperity and remained comparatively stable even under adverse conditions, are susceptible to very wide variations, in accordance with changing business conditions. This is obviously true in the case of customs receipts, which, with imports reduced both in quantity and value, fell from $587,000,000, in the fiscal year 1930, to $378,000,000 in 1931. The direct relationship between business prosperity and the net income of corporations, upon which the income tax is based, needs to elaboration, and the sharp drop from

$1,118,000,000, collected in 1930, to the $550,000,000 which it is estimated we will collect in 1932 is but another indication of the extent of the depression, while a falling off in activity in the security markets must be accompanied by a sharp reduction in receipts from stamp taxes.

But it is when we come to the income tax on individuals that the dangers incident to too narrow a tax base are most strikingly exemplified. The number of individual returns for the calendar year 1928 aggregated 4,071,000. Of this number, 382,000 taxpayers contributed $1,128,000,000 and the other 3,689,000 individuals who made returns contributed but $36,000,000. Clearly, under our system, large and moderately large incomes, bear practically the full burden of the individual income tax. Now, these incomes, as we shall see, are the very ones subject to the widest fluctuations, since they include business profits, and more particularly because in recent years the element of gain and loss resulting from the purchase and sale of capital assets has had on them a preponderating influence. In so far as tax receipts are concerned, these fluctuations are magnified by our progressive rates which necessarily result in taxes rising at a more rapid rate than incomes as the latter move forward into higher, and on the other hand, falling with greater abruptness as they recede into lower brackets.

Taxes returned on individual incomes fell from $1,164,000,000 for the calendar year 1928 to $474,000,000 according to available information for the calendar year 1930. The number of returns of those with incomes of from $5,000 to $10,000 fell from 561,000 to 506,000, while the tax paid fell from $21,000,000 to $17,000,000, or 22 percent. Of those with incomes from

$10,000 to $100,000, the number fell from 360,000 to 252,000, and the tax from $409,000,000 to $208,000,000, or 49 percent; while of those with incomes of $100,000 and over, the number fell from 15,780 to 6,152, and the tax from $700,000,000 to $238,000,000, or 66 percent in the course of two years.

While income from our sources declined, the one chiefly responsible for this almost perpendicular drop was gains from the sale of capital assets.

If we take the returns of individuals with net incomes of $5,000 and over, we find that the aggregate net income returned fell from $16,299,000,000, in 1928, to $10,119,000,000 in 1930, or a decrease of $6,180,000,000, and of this amount no less than $4,230,000,000, or about 68 percent, is accounted for by the reduction in net profits in excess of losses, resulting from the sale of capital assets.

The question of taking into consideration, in the determination of taxable income, gains and losses from the purchase and sale of capital assets, has been subject of much discussion. Many people believe that this feature of our income tax law should be eliminated, on the ground that it tends to promote, rather than to discourage, speculation in periods of expansion, and that it has a depressing effect in terms of recession. I am inclined to think that this criticism is too sweeping, and that the supporting data is inadequate to justify a final conclusion. Does anyone really believe that events would have been very different if we had no income tax? If so, how are we to account for similar experiences in the past? And if it be urged that the magnitude of this folly was greater than ever before, my answer is that we made bigger fools of ourselves this time because our resources and the opportunities afforded us were infinitely greater. Certain it is that over a ten-year period this particular provision of our income tax has been extremely fruitful. Moreover, we must not forget that our conception of capital gain as income is an integral part of our income tax law, woven into its structure, and that it cannot be eliminated without a complete re-writing of the law, and undoing the results of many years of trial and uncertainty, during which the interpretation of the law became clarified through administrative and court decision and Congressional amendment, and its administration reached a point where certainty began to take the place of arbitrariness and blind groping. Do we want to travel back over that long hard trail for so doubtful a benefit? For who can contend, as a matter of principle, that the handsome gain yielded without effort by a quick turn in the market is a less legitimate object of taxation than a hard-earned salary or the remuneration of doctors, lawyers, engineers and other professional men, whose earning capacity is developed only through years of constant application and unremitting effort?

In passing, while we are on the subject of income tax statistics, there is a fallacy which I would like to correct. When the figures for the calendar year 1929 were published, a number of gentlemen who think that all is for the worst in the worst of worlds claimed that here at last was the final decisive proof of the concentration of wealth in the United States in a few hands. They eagerly seized on the fact that 504 individuals reported incomes of a million and over, and that no less than 967 individuals had reported incomes of between $500,000 and a million; but when the returns for 1930 came in where were the snows of yesterday? We found that the former group had shrunk to 149, and the latter to 311, as compared with 206 and 376, respectively, in 1916. On the other hand, the number of individuals returning incomes of from $5,000 to $10,000 had grown from 150,000, in 1916, to 505,000 in 1930. The truth is that income tax returns in any given year are unreliable guides in estimating the concentration or distribution of national incomes or wealth.

To summarize, our federal government relies on a very limited number of taxes, subject, generally speaking, to extreme fluctuations. It places its chief reliance on an income tax which, because of the character of its structure and the narrowness of its base, is susceptible to sharp increases and precipitous drops. As a result, our budget lacks stability, and is particularly vulnerable to a depression as sweeping as the one which has overtaken us. In consequence, our total receipts from taxation have shrunk from $3,626,000,000, in the fiscal year 1930, to an estimated $2,094,000,000 in the current fiscal year. Of this loss of $1,530,000,000, no less than $1,271,000,000 is accounted for by a falling off of income tax collections.

In the meanwhile, expenditures are estimated at $4,482,000,000 for 1932 compared with an actual total of $3,994,000,000 for 1930, an increase of about $490,000,000. Of this increase approximately $350,000,000 is attributable to the estimated increase in expenditures for construction activities, including additional work on roads, public buildings and a variety of emergency construction activities. It is estimated that the Veteran's Administration will require $231,000,000 more in 1932 than in 1930 reflecting an increase of $88,000,000 in funds required to meet loans to veterans on adjusted service certificates and an increase of $143,000,000 for military and naval compensations and other services for veterans. Expenditures for the postal deficiency will be $103,000,000 larger than in 1930. The more important decreases include $54,000,000 for interest paid on the public debt, largely as a result of lower interest rates; $145,000,000 for public retirements principally due to the proposed postponement of payments by foreign governments for 1932, and $68,000,000 for refunds of receipts. It should be observed that total expenditures for 1932, aggregating almost $4,500,000,000, include about $1,000,000,000 for interest on the public debt and sinking fund retirements and a similar amount, $1,000,000,000, to cover expenditures for veterans of all wars. Neither of these major outlays is subject to reduction at will so that the opportunity for reducing expenditures is limited to the balance of some $2,500,000,000. Present estimates indicate a reduction in expenditures between 1932 and 1933 of about $370,000,000.

It is estimated that we will close the fiscal year 1932 with a deficit of $2,123,000,000. The outlook for 1933 is, however, a little more cheerful. Revenue from taxation rises from $2,094,000,000 to $2,168,000,000, and total receipts from $2,349,000,000 to $2,696,000,000, while, as I have pointed out, expenditures are out by about $370,000,000, still leaving, however, an estimated deficit of $1,417,000,000. But the fact remains the combined deficits for the three years aggregate approximately $4,400,000,000, and after deducting debt retirements effected through the sinking fund and by virtue of other statutory requirements, indicate an increase in the public debt of approximately $3,250,000,000.

There is the situation. Before discussing, however, why something must be done about it, and what that something should be, let us glance briefly at our public debt figures. These have a direct bearing on the national credit. The problem of inadequate revenue and excessive expenditures cannot be considered solely from the standpoint of providing for our immediate needs. The effect which these two diverging factors, unless remedied, will have on the public credit is of infinitely greater concern. Its maintenance is of supreme importance to us all.

Our gross public debt, which had fallen steadily from $25,485,000,000, on June 30, 1919, to $16,185,000,000, on June 30, 1930, increased to $17,310,000,000 on November 30, 1931. In addition, during the past 17 months, government securities in the hands of the public were increased by $850,000,000 through the liquidation of Treasury notes held in the adjusted service certificate fund in connection with the financing of additional loans to veterans, chiefly as a result of the legislation enacted at the last session of Congress. Of the total interest-bearing debt, aggregating $17,040,000,000, $14,310,000,000 consists of long-term bonds, some of which are callable in 1932, others in 1933; after the December financing, about $2,200,000,000 of open market issues of certificates and notes having maturities of a year or less; and some $576,000,000 of 90-day issues of Treasury bills. These last may be rolled over, and offer, therefore, no particular problem. Thanks to three bond issues, made in March, June and

September, and the reduction effected in our short-term debt since January 1, 1931, the difficulties of financing the deficit in the current year have been lessened. The $2,200,000,000 of certificates and notes can readily be handled in quarterly tax-payment months, particularly as all of the quarter-days, beginning January 1, 1933 are open. But if we are called upon to finance, through borrowing, another huge deficit in 1933, and all manner of unwise and uneconomic expenditures in the meanwhile, leaving aside for the moment the general effect on the credit of the government, our difficulties become very serious indeed. In November, 1933, $6,268,000,000 of Fourth Liberty Loan 4 1/4 percent bonds become callable. They mature as early as 1938, and this immense issue must be retired or refunded over the comparatively short period of five years.

If, on the other hand, the increase in the public debt can be arrested during the fiscal year 1933, the Treasury's general debt retirement and refunding program, somewhat modified, of course, by the events of the last two years, is definitely possible of attainment.

I do not mean to suggest that the addition of $3,000,000,000, or even $4,000,000,000 to our national debt could conceivably impair the national credit. That debt stood at $25,000,000,000 a decade ago, and the national credit was unimpaired, but I do say, with all the force at my command, that any temporizing with this situation, any failure to take the steps necessary to bring our budget into balance within a reasonable time, any misuse of the public credit, would furnish such evidence of lack of sound financial principles, as might well result in shaken confidence and in apprehension lest these conditions prevail long enough to result in real damage. Our long-term bonds are selling today at a discount, even those bearing as high an interest rate as 3 3/4 percent. Allowing for tightened money conditions, and for all the unusual circumstances which surround us, there is no doubt but that some of the weakness manifested reflects the response of the investing public to the possibility that we may be confronted with a rapid increase in the public debt, and in the volume of government securities outstanding. There is fear of further huge grants to veterans, there is fear of major drains on the Treasury through uneconomic expenditures, there is fear of growing and un-remedied deficits. All of this fear can be swept away only by adherence to sound financial principles and the development of a program of restricted expenditures and of increased revenues, which, if they do call for temporary sacrifices on the part of our people, will, in the long run, bring them infinite benefit.

In this period of deep uncertainty, the unimpaired credit of the federal government is the most priceless possession of the people of the United States. We assume its existence as we assume the continuance of unlimited supplies of air and sunlight. It has been established through the pursuance of sound fiscal policy in the past and so must it now be preserved. The immediate cost in increased taxes is small in comparison with the immediate and lasting benefit to the nation.

Let me at this point take the liberty of quoting briefly from the speech of a very great man, the late Senator Dwight Morrow, who, in describing how individuals take their own money with its present command over goods and services, and surrender it not only to their own government, but to the governments of nations on the other side of the earth, and receive in exchange for it a promise, went on to say:

"The question may be asked: Nothing more than a promise? To which answer may be made: nothing less than a promise." "I remember reading some years ago a letter of Thomas Bailey Aldrich written to William Dean Howells. Aldrich is writing of a friend who has just died, and whose body is resting 'in a 'dismal London burying ground.' He says to Howells that it is not worth three pins to be a great novelist, or a great general or a great anything else. Then he winds up his letter with this whimsical expression: "Yet with a sort of hopeful vivacity I have just bought two 5 percent railway bonds that expire in 1967. Who will be cutting off the coupons long before that? Not I" There was Aldrich, despondent because of the transitoriness of life, taking his savings and putting them in railway bonds that matured long after his life would end. Every day investors are buying bonds, domestic and foreign, although they have every reason to wonder who will collect the coupons. Human lives stop. Promises go on. The civilized world today is run on the basis of a belief in promises. Whatever our doubts about the meaning of modern civilization, we may at least take some comfort in the trust which men show in each other's promises."

Now, this belief in promises, this credit structure of ours, depends to a very great extent upon the confident belief that the government will meet its financial obligations promptly and punctiliously, on every occasion and in every emergency. Our currency rests predominantly upon the credit of the United States. Impair that credit and every dollar you handle will be tainted with suspicion. The foundation of our commercial credit system, the Federal Reserve Banks, and all other banks which depend upon them, are inextricably tied into and dependent upon the credit of the United States government. Impair that credit today, and the day after, thousands of development projects – they are still going on – will stop; thousands of businessmen dependent upon credit renewals will get refusals from their bankers; thousands of mortgages that would otherwise be renewed or extended, will be foreclosed. Merchants who would buy on credit, will cancel orders; factories that would manufacture on part capacity at least will close down.

It is true that a distressingly large minority of the wage earners of this country are now out of work. But we must not forget that a majority still have enough work to make a living. We have lost much; but we have infinitely more to lose.

What we still have, what we hope for in the future, are dependent in a larger degree upon the preservation, unimpaired, of the credit of the United States. It will cost something to preserve it. The cost is additional taxation. The wealthy, the captains of industry, the bankers, most contribute to meet this cost; but the small businessman, the white collar man, the farmer, and the wage earner, have an equally vital stake in the preservation of this nation’s credit. The new taxes will cut into the incomes of the rich, and they will affect by some small amount the contributions made to the government by those in moderate circumstances. But the result – the preservation of the nation’s credit – is worth this cost, and for that matter, an even much greater one, to all who are called upon to make some temporary sacrifice.

It is sometimes urged that, since in the course of eleven years prior to the fiscal year 1931, we had retired some $3,460,000,000 of debt from surplus receipts, we are justified in incurring deficits up to that amount. There is some force to the argument but there are very definite limitations to the extent to which it can be carried out. We have created something in the nature of a reserve which we are warranted in drawing on, certainly to some extent. But there are definite limitations. In the first place, in the early years of the decade, a large part of the current surpluses were due to the sale or other disposal of capital assets, the returns from which could most properly be applied to debt reduction, and other receipts of a non-recurring character. In the second place, when the sinking fund was created, it was assumed that loans to foreign governments would be repaid in full, and would be applicable to the retirement of a very large part of our public debt, whereas the amounts due us from abroad have since then been whittled down by the debt funding agreements. And, finally, even if we assume that we are justified in borrowing up to the full amount of $3,460,000,000, that sum will be almost absorbed by last year’s and this year’s deficits.

As the Secretary of the Treasury pointed out in his Annual Report, there are certain basic principles in the conduct of public finances which cannot be disregarded by any nation. First, the sinking fund, designed for gradual retirement of the public debt, must be maintained, and when of necessity the public debt is increasing, the regular sinking fund appropriations must be accepted in the accounts of the government as fixed charges against revenues. Second, over a period of years, revenues must be equal to expenditures. Deficiency for a time may be inevitable, but the principle of a balanced budget must never be abandoned, and when emergency conditions upset the balance, every effort must be made to restore it at the earliest possible opportunity.

Bearing constantly in mind that additional taxes should not be so great as to retard the business recovery, upon which the restoration of the normal flow of revenue depends, the Treasury program submitted to the Congress last Wednesday has three definite objectives: First: a reduction in the prospective deficit this fiscal year; second, no further increases in the public debt in the fiscal year 1933; third, a balanced budget in 1934. We do not feel justified in asking for more; we would have failed in our duty had we recommended less.

The attainment of our goals necessitates additional revenue in excess of $900,000,000 in the year 1933. In the development of a program, we considered many forms of taxation. We weighed, for instance, the merits of the general sales or turn-over tax, but rejected it, not only because it bears no relation to ability to pay, and is regressive in character, but because of the enormous administrative difficulties and the almost inevitable pyramiding of the tax in the course of successive sales.

We studied the limited manufacturers' or producers' sales tax, which is being administered with a fair degree of success in Canada. In Canada a tax is imposed at the rate of 4 percent on the manufacturers' sale price, or the import value of all goods not exempt, which are produced or manufactured in Canada or imported into Canada. Retailers are exempt. It is distinctly not a turn-over tax. Practically all raw materials of farms, mines, fisheries, etc., are exempt, as are most small manufacturers and producers, such as customs tailors, shoemakers, plumbers, opticians, et al. The extent of the exemptions is very great. They fill ten closely printed pages, and cover thousands of specific items and classes of items. Pyramiding is avoided by a mechanism of licenses and certificates. Every manufacturer and wholesaler is required to take out a license. If one licensed manufacturer buys from another licensed manufacturer, or licensed wholesaler, he notes his certificate number on the order; this is noted on the sales invoice, and the sale is exempt. When the last licensed manufacturer or wholesaler sells to an unlicensed purchaser, the tax is collected. Administrative discretion is granted to an extent unheard of in this country, and which I doubt whether our Congress would ever be willing to grant. Not only has the Minister of Finance final power to fix the wholesale price or value to which the tax rate is applied in uncertain cases; not only are deductions and refunds discretionary, but from 1922 until 1931 the Governor-in-Council had power to exempt articles from the sales tax. The success of the tax appears to be due not only to good administration, but to this very wide administrative discretion. The tax is unquestionably passed on, and adds, therefore, to the cost of living.

With some 200,000 manufacturing establishment in the United States, our much more extensive and complicated industrial mechanism, our tendency to set out administrative procedure with almost meticulous accuracy in our statutes, and our reluctance to grant administrative discretion, or the authority to administrative officers to make final decisions, it is more than doubtful whether the Canadian sales tax would meet with the success in our country that it has across the border. Certain it is that many months would elapse before the necessary administrative machinery could be set up, and a number of years before such a new form of taxation could be firmly established in this country. And we are in need of additional revenue now.

In any event, we concluded that, on the whole, it is wiser for us to resort to those forms of taxation with which we have had the experience and are thoroughly familiar, rather than to embark on new and untried ventures. If this conception is sound, we have but to take a step backward and to relinquish temporarily the benefits of the tax reduction effected in the period of expanding revenues. It isn’t necessary to retrace many steps and to return either to the Revenue Act of 1918 or of 1921, but what we desire can be accomplished by returning in principle to the general plan of taxation existing under the Revenue Act of 1924, with such changes as are appropriate in the light of existing conditions. The advantages of such a program are manifest. From an administrative standpoint, we have not only had the necessary experience, but we are so organized as to take on this new burden without difficulty. From the standpoint of the taxpayer and of the nation, there is no occasion for alarm for we are simply reimposing upon ourselves, for the time being, taxes which we didn’t find too burdensome, and the existence of which proved no impediment to business expansion and growing prosperity.

It is unnecessary to describe the program in detail, for I doubt not all of you have read it with interest, and I trust without concern. Generally speaking, it provides for the retention, and in some instances, an increase in existing excise taxes, a restoration of the manufacturers' sales tax on automobiles, trucks and accessories, of the stamp tax on conveyances of realty, and of the tax on telephone, telegraph, radio and cable messages, and the imposition of new taxes on manufacturers' sales of radio and phonograph equipment, and on checks and drafts. The rate of tax on corporate income is increased but slightly from 12 - 12 ½ percent. We have refrained from recommending the restoration of the capital stock tax, which was in the 1924 law, not only because it was an unfair and unequal tax, involving most difficult administrative problems, but with a view to placing not too great a burden on business at the present time. A return to the 1924 Act necessarily involves a sharp increase in the rates applicable to individual incomes and the taxing of many taxpayers, who since 1924, owing to very high exemptions, have been relieved from the obligation of contributing to the support of their government, though enjoying a very genuine ability to contribute certainly the very moderate amounts demanded by the 1924 Act.

When the 1924 Act was before the House of Representatives, no one fought harder than I did to reduce the rates to the point later established by the 1926 Act. I believed then, and I believe now, that under normal conditions a 20 percent rate is infinitely preferable to a 40 percent rate, not only from the standpoint of our general economy, but, in the long run, from the standpoint of productivity. But these are not normal times. There is an emergency, and we are proposing emergency measures to meet it. Men who still have very large incomes cannot object, under the circumstances, to contributing largely. Men with comparatively large incomes should be willing to do their share, and those in more moderate, but comfortable, circumstances will surely feel that they can spare something for the support of their government. I am confident that, if only there be a proper understanding of the necessities of the case, the temporary sacrifices demanded will be met, if not joyfully at least wholeheartedly, and with philosophy and good humor. After all, even in these days which appear so dark, we are still fortunate as contrasted with other nations. After a hard-boiled Treasury has done its worst, and when you gloomily view the approach of the Ides of March, I suggest that you place these figures on your desk as you make out your income tax return: A married man with one dependent, and with an income of $5,000, will pay, under our Treasury's proposal, $31.50 in taxes; a man similarly situated in Great Britain pays, under Mr. Snowden's latest budget proposals, $650. A man with an income of $10,000 pays $153 in the United States and $1,800 in Great Britain. One with $100,000 pays $22,030 in the United States and $46,000 in Great Britain. We would grant an exemption of $1,000 for a single man, $2,500 for a married couple and $400 for each dependent. Great Britain's exemptions are as follows: for a single man, $485, for a married man, $730, for the first dependent child, $245, and for each other child, $195.

If our program is adopted, it is estimated that we shall obtain during the full fiscal year 1933 an additional $60,000,000 from corporations, $185,000,000 from individual income taxpayers, $11,000,000 additional from estates, and $514,000,000 additional from miscellaneous internal revenue taxes. In addition, we have recommended that postal rates be so adjusted that the Post Office Department's revenues will cover, by a reasonable margin, its expenditures, exclusive of such special services as the cost of free postal services performed for government departments and agencies, the excess of the cost of air mail services over revenues, and the cost of special rates paid to ocean mail carriers under American registry. There is no reason why the public should not pay the cost of the service it receives from the Post Office Department, or why the latter, as an essentially business institution, should not be self-supporting.

I have no illusions as to the feelings with which a program of drastic tax increases is likely to be received, and I can assure you that it is anything but a pleasant task to participate in the preparation and submission of such a program, but no man, whether he be a Treasury official or a taxpayer, can open-mindedly examine the existing situation and not reach the conclusion that the alternative for increased taxation is infinitely worse for the nation. I find some consolation in the thought that the contribution to be made by people with moderate incomes is still fairly light, and that those whose incomes remain in the upper brackets in times like these are in such a preferred class as to occasion little concern for them, (Laughter), though if circumstances permitted I should much prefer to see them buy bonds rather than pay additional income taxes. When we come to the miscellaneous group, the rates are not so high as to interfere with the flow of goods or services, or to constitute a real burden on those who buy and enjoy them. Can we seriously complain if cigarettes and radios and admissions to places of amusement – yes, even semi-necessities such as automobiles – are to cost a trifle more, or if we are to pay 2 cents for the privilege of using checks and an additional cent on transfer of securities? These are not intolerable burdens, particularly when we are asked to assume them to meet the necessities of as great an emergency as confronted this nation outside of times of war.

But, let me add that if the people of the United States make this sacrifice and furnish almost a billion dollars of additional funds to their government, they have the right to insist, and I hope that they will, that not one penny is expended extravagantly, politically or unwisely, but that just as enforced rigid economy prevails throughout the country, so will it be observed by the public servants in Washington. (Applause)

Let me close with a general observation or two. The problems at home and abroad which appear so great are not insoluble. They will yield readily enough to a resolute, courageous and intelligent attack. The real difficulties in the present situation are those inherent in human nature, in the element of fear which seems to possess the souls of men in the face of an uncertain future and in fixed conceptions and attitudes. From my point of view there is more to fear from frozen minds than frozen assets. (Laughter and applause) We cannot look to governments or to a few leaders. The necessary measures must be taken and the recuperative forces must be set in motion by the great masses of the people themselves.

But if the nations and the individuals who compose them, laying aside preconceived notions, prejudices, and above all, fear, will face the realities of the situation and will look to the future rather than to the past, then we can fairly hope to emerge from this deep valley at a comparatively early period. There must, of course, be guidance and leadership, but the real responsibility rests on each and every one of us, and our failure to meet our daily problems with determination and courage is not only a betrayal of others, but of our own cause.

Would that every man and woman these days could ever keep in mind the inspiring and comforting words of the great poet:

“One who never turned his back but marched breast forward;
“Never doubted clouds would break;
“Never dreamed though right were worsted wrong would triumph;
“Held we fall to rise; are baffled to fight better;
“Sleep to wake.” (Applause)

General McRoberts: If anything at all Mr. Mills has said has tickled your brains into a question or if there is any point in his address that you wish elucidated, if you will write out clearly your question and send it to our ubiquitous and much beloved secretary, Mr. Ely, he will see that it has attention.

While these questions are being collected we have a number of distinguished economists at this table and I think we would all be delighted if some of them would respond with some comments upon this subject for our guidance and for the supplementing of the splendid speech that Mr. Mills has given us. First I am going to ask Mr. Vanderlip, well known to all of you, if he will say something on the subject. (Applause)

Honorable Frank A. Vanderlip: First I want to thank you for making me an honored guest at this 25th anniversary of the founding of this club. I have spoken to you so many times that when I was asked if I would speak again I felt as if it were just speaking to friends, and I feel glad to do it because I have something that I would like to say. But, my goodness, I feel a stranger with this facile handling of billions and billions and billions. I have been in the banking business and I know what a million is. (Laughter) I have even gone so far as to engage in one hundred million transactions. But this array of billions confuses me. I feel almost a stranger.

These billions are the result of the depression, of the greatest depression there ever was as far as I know. Old men search their memories to find a parallel. I certainly can find none in my memory. I can find none in economic history to compare with this depression. But I have found a parallel in history, not to the depression, but to what I believe is the opportunity that faces us as we get out of this depression, and I go back four centuries for that parallel. That takes us back to 1531. I do not choose that as a particular date, but it is 400 years ago. What was the situation of the world then? Columbus had discovered America and his fellow explorers had penetrated a little here and there. The world knew that the world was round, and that there had been added half a world geographically to what was then the known world.

Well, something almost as important as that has happened just within the last few years. We have doubled the capacity of the human hand to produce. That is one of the great facts of human history. It parallels Columbus' discovery of half a new world. What did they have facing them in that new world? They had, first of all, to subdue the savages. We have got a parallel. (Laughter) We have got to face savage greed of individuals, of corporations, of employers, of employees, and of nations, and particularly of nations and unless we can fight that greed as successfully as the early settlers fought the savages of America we are going to be lost as they would have been lost had they not been successful.

Now, those settlers had to evolve a government, several governments, and some of them were evolved on somewhat novel lines, and we think that the lines on which our own government was evolved was by all odds the best. In many ways it was. I have come to believe that the very basis of government is today at the bar, not the bar of public opinion but the bar of economic consequences. The judge at the bar of economic consequences cannot be tampered with. You cannot bribe that judge. His decisions are final. No legal intricacies will change his mind and he has been rendering some decisions, and they are the sort of decisions by which nations rise and fall and by which the material welfare of the whole peoples are controlled.

In this wilderness, in this new world, and it is a new world that science and industry has created, a new economic world and a pretty wild one, I want to say that I believe we know as little, for instance, about the distribution of these goods that are made with half human labor that they were made a short time ago, we know as little about the rightful distribution of those goods as

Columbus and his fellows knew of these two continents. We have got to investigate and explore the wilderness, and it is going to take some intrepid explorers. But one of the greatest needs of exploration in this new world, one of the most important things that we have got to explore, is the attitude of mind. It is the hypocrisy of the average mind toward democracy.

Democracy is a creed, and it is a faith, and a faith is sacrosanct. You cannot argue much about a faith. It is a pretty dangerous thing to talk about. But if we will realistically look at democracy we will see that it is making some egregious errors, some frightfully costly errors.

Woodrow Wilson was a man of great vision and a very apt maker of phrases, and he caught the attention of the whole world when he declared that the Great War was waged to make the world safe for democracy. But I think there is a deeper vision that we must now have and that is to make democracy safe for the world.

We have got a great complacency towards our political life, a complacency right here in this city notably towards dishonesty in political life. We have got complacency about politicians. We know that they will talk one way and vote another. We know that a democracy does not really produce leaders; it produces followers. A successful politician should not use his brains but his ears; keep an ear to the ground and see what policy will get the most votes and if he does not under our system he is soon an ex-politician. (Laughter) To the politician the voice of the group of organized voters is clarion clear, but the voice of economic principle is a still, small voice.

We have had an elucidation of the budget, and a brilliant one. If I had not been so confused with the billions I would have regarded it as one of the most brilliant financial expositions I had ever heard. But we are told that in spite of the higher taxes, and I think that they are not quite as light as has been indicated, that we need not bother very much about them; in spite of those higher taxes we have got to borrow billions again to run the current expenses of our government. You know and I know that when a government, individual, family, corporation, or government of the United States persistently spends more than its income the end is the same in every case. It is economic disaster. I know that as an individual. I know it as the head of a family. I know it as a corporation director, and I know it as a citizen. That practice will lead in but one direction, economic disaster.

Then we have two extreme schools of political thought, one that says we should meet our current expenses by taxation and if the taxation is unbearably heavy we will see to it that our expenses are reduced. There is another school at the other end of the line that would like to see us issue now five billions of bonds, increase our declaration of funds to the soldiers, have a dole, spend millions – I will say billions – I am talking in the billions now – on government works, and I judge Mr. Mills and the administration is rather midway between those two courses, that they would not tax us, and it would be a fearful thing to tax us enough to immediately meet this deficit; they will meet it partly by taxes and partly by the sale of bonds, and although I rather belong to the first school I suspect their wisdom points to the proper course.

During the first McKinley administration I sat in the same chair that Mr. Mills now occupies. We did not talk billions then. We did not even have a budget. It has been later administrations that have brought in the budget, most properly. But I want to give you just two or three figures. In the year I went into the Treasury the total expenses of government, aside from the redemption of bonds, was $365,000,000. Compare that with nearly four billions. The railroad taxes that year, I believe the taxes on all roads, was $43,000,000. Last year it was $384,000,000. The cost of government, municipal, state, and federal, was then under a billion dollars. Today it is twelve and three-quarter billions. Is there any one of you who does not believe that government is costing too much? Not that it is too good; not that we are getting more than we ought to have (Laughter); but that it is costing too much. Do you know that one day in six of your time is spent in service to the government? One-sixth of our income, coming now to the federal government and to all government in this country now goes for that purpose, and at the humblest table there is always an invisible but greedy guest, the tax collector. That man that pays the grocery bill does not know it, but the guest never misses a meal (Laughter), and his appetite grows.

As I said this judge of the court of economic consequences has been rendering some decisions, and we don't like them. We think they are cruel and a more or less indirect result of some of these decisions is that we find bonds that we thought were a fine conservative grade, and that sold at par and above are now selling at 50 percent, if a buyer can be found. (Laughter)

We have seen the stocks of some of our great banks go down in the market price to one-tenth of what they sold at. This judge has admonished every municipality that they have been spending too much, and his decision is reflected in the market for municipal bonds. He has even hinted that there is a menace to our gold standard. Those are the sort of decisions that this judge in this court of economic consequences is rendering and as I have said he is going to render more. Whose fault is it? It is not the fault of that harassed man in the White House. I have got the greatest faith in his integrity of purpose and in his ability. (Applause) It is not the fault of Mr. Mills or Mr. Mellon. It is not the fault of the politicians, but the blame lies on your shoulders and on mine. We are hypocrites. There is the basis of it. We know that democracy as we are running democracy is inefficient, and what do we do? Why, we just let matters go in the main. We contribute to government our taxes and some grumbling, and that is about all that most of us do. The system under which we live is a faith, and we shut our eyes to its faults.

I am going to make a prediction. It is not an economic prediction; economists are not in as good feather as they used to be (Laughter); economists once called astrologers (Laughter) is a quip that has a good deal of sting to it. There have always been a few citizens with perhaps too active a conscience that have attacked one thing and another about the government and they are always unpopular. I have enjoyed some of that unpopularity, and they are told not to rock the boat. They are told to take care of their own business and let the politicians run politics. But there is a nerve that we have all got that can give more excruciating pain than any pangs of conscience, and it is the pocketbook nerve, and we are all suffering agony because of the exposure of that nerve. It stabs us acutely, and I believe it is going to lead us to do some fundamental thinking about this thing of democracy and our form of government.

These decisions by my judge of the court of economic consequences are going to receive some attention. That attention is forced on us and it is going to wake us to an inquiry as to whether we have got in every way and in the manner in which we administer it the best of governments. A four billion dollar budget hurts, and we are going to understand something about that. Our attention is not all going to be attracted to the matter of additional taxes. We are going to think something about less expenditures and how it can be accomplished.

But it is not a four billion dollar budget alone. It is eight billions more. You see I am using billions facilely myself. It is eight billions more as the cost of municipal and state governments. So I think we are going to search our souls somewhat after the manner of the founders of the government at the time when they were debating the rights of man. We are going to think of what can be done to improve this democracy so that so far as government is concerned at least we will bring it within the range of economic principles. That is the exploration in this new world that I believe we should undertake first of all. (Applause)

General McRoberts: Thank you, Mr. Vanderlip. In spite of the discouraging definition of economists and their position now I am going to call on another economist, Professor Seligman. We would like very much to hear from you on the subject. (Applause)

Professor Edwin R.A. Seligman: Mr. President, fellow members of the Economic Club: It affords me also the very greatest pleasure to appear before you again; although I am afraid I have done so so frequently in the past as to almost wear out my welcome. I shall, however, detain you a very few minutes only and primarily to express to our chief guest of the evening what I am sure is at the bottom of your hearts and your heads, to congratulate him upon one of the most remarkable addresses that it has ever been my pleasure to listen to on so dry a topic as the budget of the United States. (Applause)

I have long been associated with the honorable Under-Secretary and I think back with pleasure to those early days several decades ago when he was endeavoring within this Empire State to extricate us also from some of the difficulties of the day, and I have followed ever since with growing admiration and with growing appreciation his very remarkable career both in the Legislature and in the administration. In the main I think that the program that he had set before you is sound and defensible and above all he has expressed in no uncertain words the fundamental of the subject which is the preservation of the credit, unimpaired, of our federal government.

I think I have only a very few words of comment or even of criticism to utter and they must be taken as representing the minor points and not of the fundamental question at issue.

Coming then directly to those minor points I should say that perhaps in this laudable endeavor to balance the budget the administration is leaning a bit backwards. I should far rather have them lean backwards in the direction of ultimate erectness and in the direction of conservatism than I would have them move forward with danger of going over the abyss. But the point I wish to urge is that perhaps they do not quite adequately appreciate the intensity of our present emergency. Of course, we must all insist upon the balancing of the budget within a reasonable period and the preservation of credit. But what is our fundamental difficulty at the present moment? Our fundamental difficulty is the continuance of the deflationary period, an inevitable development to a certain extent but a development which is, as we see to our cost, going on to perhaps exaggerated limits.

What is the difference between a tax policy and a loan policy? Under ordinary circumstances loans lead to inflation and an exaggerated policy of loan will of course bring about with us as it did in every other country of the world under similar circumstances trouble and disaster. At the present time, however, we need if not inflation, we need as far as possible a stoppage of further deflation and it is for that reason, in order to abrogate the continuance of our present troubles that I should modestly urge a little more reliance upon loans and a little less reliance upon taxes during the period of our storm and stress. Ultimately, indeed, loans have got to be paid by taxes and ultimately the budget must be balanced. But at this particular moment it seems to me that to attempt to raise so large an amount, running as we have learned into the billions, by adding to the burdens of business, by increasing the deflationary process which we all hope in one way or another to arrest, is perhaps to go a little too far in our leaning backwards.

I may be mistaken and there is ample ground I think for a difference of opinion, but I should prefer to put a part of this burden, a part of this sacrifice which we are called upon to make at the present unpropitious moment, I should prefer to put part of that sacrifice upon the next few years when we shall have emerged out of the chaos and out of the darkness. Why not depend upon these coming years, surely the coming years when we shall again have prosperity and a bulging treasury, for a part at least of the deficiency which now confronts us? But entirely apart from that question of a little more reliance upon debts in the present emergency I should take exception, in a minor way again, to another feature of the program so admirably set forth by Secretary Mills.

Mr. Mellon and Mr. Mills have taken a different attitude from that which another great man a few years ago, Mr. Carnegie, took. Our Secretary of the Treasury and our Under-Secretary are perhaps not quite so much in harmony with the underlying public opinion in this country in relying to a larger extent upon income taxes and to a smaller extent upon inheritance or death taxes. From the economic point of view much may be said for both, but in the main I think that England and France and Germany and virtually every other great democracy of the world today is wise, both economically and politically, in relying to a far greater extent upon revenue from death taxes than we do.

I shall not detain you with any attempt at a settled economic analysis of the difference in influence of both upon savings, upon capital formation, upon public prosperity. But I should like to point out that the attempt to solve the problem of our deficit today of raising $500,000,000 or $600,000,000 additional from taxes on business and raising only $22,000,000 additional from death taxes is not quite in conformity with public opinion. As to the wisdom and as to the justice of subtracting from those that leave twenty, fifty, one hundred or five hundred million dollars a considerably larger share than we have been accustomed to do, even counting our federal and state taxes together. So that there you see, even granting that more ought to be raised from taxes and less from loans, which I should be disposed to question at the present moment, even though there would be a chance to suggest that the relative weight that is being put in the administration's proposal upon actual business today, upon actual capacity to pay, compared with the outlook that confronts every other nation of accomplishing through an increase of death taxes two objects, not only a very great increase of revenue but also a mitigation of that disparity of fortunes which without any doubt is one of the contributing causes of our present trouble. But, gentlemen, I should like to close with calling your attention to the brighter side of the picture. We have heard a good deal tonight from Mr. Vanderlip, as well as from the chief speaker, about our troubles, about our sacrifices, about the crisis. There will come, there is bound to come, there must come sooner or later, and I shall not attempt now to appraise the exact length of time which it will take, but there is bound to come in the very sequence of events a way out of the jungle and a way out of the chaos, and when we begin to see that we shall realize that there are three points which differentiate this trouble from any of the preceding troubles that have beset us, and those three points I should like to sum up, although there will be no time to develop them more than a word, under the heads of what I call the democratization, the socialization and the internationalization of our economic conditions, and in just a word let me say what I mean by that.

By the democratization of our development I do not refer as much as did Mr. Vanderlip in his excellent talk to political aspects of the problem, but to the economic side of democracy. Our manufacturers, our great industrialists have long been accustomed to look after their investment of capital and machinery. It is only now, within the last two years, that we are beginning to consider the demands of the human machinery and that men are busy at work all over this country today in considering what can be done through the various forms, one form or another, of preventing in the future those causes which give rise as they have given rise today to our vast unemployment. It is the democratization of American industry which surely, sooner or later, will do away with that phase of our trouble.

In the second place, far more important than that, I speak of the socialization of industry. When in our history before have we seen our leaders of industry, the men to whom we all look up as the embodiment of integrity, as the embodiment of progress and of incentive – when before this crisis have we seen men realize that business is far more than the mere fact of making money, that business is an opportunity for social and economic service for the whole country, and that therefore it is up to our great business executives to form some idea of a method, call it political or what you will, which will in the future prevent so great a dislocation between the forces of production and the powers of consumption. That is the second of the three things that I see at present, and finally and thirdly, the internationalization of economics and of industry. We are sometimes prone to criticize our friends in Washington, from the President down. We are often unjust as well as cynical. We do not remember, we do not think that they go as far as they dare to go in the face of an uninstructed and an unintelligent and an undeveloped public opinion. I am quite sure that our leaders at Washington agree with the leaders of public opinion throughout the length and breadth of the land that we can no longer suffice to ourselves alone, that we are part of a greater economic community and that just as every individual and every businessman must look upon business as an opportunity for social service so the head of every great nation must regard his position as an opportunity to show what his nation can contribute towards the welfare of the world, and that we must look on it not simply from a greedy, avaricious and selfish point of view but from the enlightened point of view that our participation in world government is going also to be good business for ourselves and that no businessman can prosper unless his customers first prosper and that the United States will never get out of its present depression unless it helps the other countries of the world first or at the same time to get out of their depression.

Therefore, gentlemen and members of The Economic Club, I would say that the growing recognition of these facts which we find at our Capitol today, which we find gradually, but only very slowly, permeating the country at large, because it is difficult to win a people from the traditional and selfish points of view, because it is almost impossible to get the citizen of Podunk to remember that he is just as much interested in what goes on in the uttermost parts of Europe or Asia or Africa as he is interested in his own affairs, therefore I say that these three points of view which are new points of view in the United States, these three points of view of the democratization and the socialization and the internationalization of industry are going to be the fingermarks of an era which is soon to come and which, when we realize all the implications of that great development will do much to prevent those exaggerated upswings which inevitably lead to the conditions like those in which we find ourselves today. (Applause)

General McRoberts: We must get to these questions but I cannot close this symposium, I cannot refrain from calling upon Professor Richard T. Ely, one of the best known authorities on this question.

Professor Richard T. Ely: Mr. President and gentlemen: The hour is late and I know you are eager to hear the secretary reply to questions. I have written out a brief address and I have deposited that with the secretary, Mr. Ely, and I am going to ask leave to print. I may say just a word, however. I want to congratulate the Secretary upon his splendid address and I would like to, if there were more time, select out certain portions of his address for special commendation, plus the balance of criticism that you have heard of the other parts of his address from my colleague and friend, Professor Seligman. I will then once more congratulate you upon the opportunity that you have had of hearing from Mr. Mills and to congratulate Mr. Mills upon his informative, spirited and sound address that he has given us. (Applause)

Montesquieu, the great French philosopher, from whom the founders of this Republic learned so much said this some two hundred years ago: “Liberty increases taxation. This is a universal law and there is no exception to it.” I want to add something of my own: “Not immediately, but in the long run good government with good public administration increases taxation. This is a universal law and there is no exception to it.”

These two statements seem paradoxical. History confirms both. Going back to things as they were before the World War, one might begin with Russia and come westward and find increased taxation as one came to increased liberty. The Czar would not have dared to tax his subjects as the free people of Switzerland did.

Let us consider for a moment this second universal rule. Good government showing itself in a good administration increases taxation. And, furthermore, this is a universal law and knows no exception. Bear in mind, I am not talking about what happens immediately, but what happens in the long run, say after a generation. There are three reasons for the increase in taxation. First, is technological discoveries and improvements. The second is growing humanitarianism. The third reason is the increased complexity of our economic life. In other words, we are more and more inter-dependent.

I will give you one illustration of the significance of technological discoveries and improvements. This is the automobile and what that signifies is increased public expenditures. When I was a boy in my teens, I walked daily up Fifth Avenue from 34th Street to 49th Street on my way to Columbia College. As I recall it, there was not a traffic cop on this whole stretch. I walked along leisurely and when I came to 42nd Street and Fifth Avenue if my attention was diverted by a pretty girl – and perhaps it was sometimes – I did not run the risk of loss of life or limb. Thus, the automobile has inevitably increased public expenditures during this period of time. If you will go through one by one the different improvements in transport, you can scarcely think of any one that does not involved directly and indirectly increased public expenditures.

The second reason for the great increase in public expenditures is the humanitarianism of the age. Think of labor legislation and all that is done for the working people and of what is demanded now with tremendous pressure. We have great labor departments in all our states and the federal government is active in a good many directions to improve the lot of labor. Education on account of the humanitarianism of the age has undergone constant extensions and is undergoing expensive expansion at the present time. It would have been regarded as wildly Utopian for a state university forty years ago to ask for a budget of $1,000,000. Now a budget of more than $5,000,000 is not unknown. Think of Workmen's Compensation, Mothers' Pension and so on, ad infinitum.

The third reason is the growing complexity of our lives. To bring about orderly movement in our relations requires a good deal of money. If you reflect upon it, you could give a thousand and one illustrations. To maintain law and order becomes on this account constantly more expensive.

In 1828 the French Minister of Public Finance held up before the Assembly a budget calling for a thousand million francs, using words somewhat like these: “Gentlemen, behold! One thousand million francs! You will never see the like again.” He meant never again would they see so large a budget. I believe never since that date has France seen so small a budget and now it seems a very small matter indeed.

As far back as I can remember one party after another has gone into power with a pledge of “retrenchment and reform,” to use the old slogan both of the Democratic and Republican parties. Public expenditures have steadily increased and pledges have not been kept. Governor after governor of our various states has been elected with a pledge to reduce public expenditures, and then immediately they have increased. Let me give one concrete illustration. Governor Emmanuel Philip was elected in Wisconsin some fifteen years ago with a pledge to reduce public expenditures. He was thoroughly honest and a very competent man. He had scarcely taken his seat before a delegation of women appeared demanding the passage of some laws of humanitarian kind involving, of course, increased expenses. He had to yield to pressure and public expenditures increased. The vote for women is just one of the causes of pressure involving increased public expenditures.

What I have said thus far sounds pessimistic. It is pessimistic if we stop at this point. Let me turn to something more optimistic. Another reason why good government increases taxation is that it brings strength to the reasons for doing a great many different things demanded by the spirit of the age. On the other hand, it is unquestionably true that we do not get or begin to get for our tax dollar what we should receive in services. Good administration would increase enormously the services rendered to us by the various governments, national, state and local. Our public administration is shamefully inefficient in many places. There is an immense opportunity to improve things in this direction. At the present time by various improvements in administration and closer scrutiny of public expenditures it is possible to reduce these expenses in many places and lessen the crushing burden of taxation. The greatest single contributing cause of increased public expenditures in normal times is war. If we could get rid of war and all that goes with it, we would reduce enormously national expenditures. There is nothing that promises more than the elimination of war. Just in proportion as we progress towards this end, we are traveling a hopeful road. If we did not have our expenditures on account of the World War, the social expenditures demanded on account of the three reasons that I have given could go on increasing for a generation before it would be as high as now and before taxation would be as burdensome.

The third optimistic note is this. Although our public expenditures have increased enormously, our income has also increased enormously. Let us say that all our taxes together amount to 15 percent of our national income, or even 20 percent, the burden is not intolerable if it is spread equitably over all classes in the community. Taxation is now ruinous to a great many, especially to owners of real estate because of unfair, inequitable distribution. I commend the present budget because it does spread out the burden, reaching down to the lower income groups.

In the fourth place, in my opinion the spreading out the burden of taxation more widely should not be temporary, but permanent. It is through the agency of government that our wants are satisfied more and more. We educate all; we furnish amusements to all; we do a thousand and one things for ourselves through public agencies which formerly were done through private agencies and for which we paid out of our own pocket to those who rendered the services. Every working man, every white-collar man receives services. If the working man is not asked to pay his share, it is treating him like a pauper. He ought to pay his share of what he receives through public agencies just as much as he ought to pay for his food and clothing.

QUESTION AND ANSWER PERIOD

GENERAL MCROBERTS: Mr. Ely, will you read the questions.

MR. ELY: Mr. Chairman and Mr. Secretary, such a large number of questions have been handed in that we cannot expect anything else than very brief treatment of the individual questions from Mr. Mills. I tried to keep together the questions that belong together but I have not been able to do so in a very orderly way in this short time. Where the questions are signed I shall perhaps read the name of the questioner:

"Is it not true that the cancellation of reparations in part or in full by all the creditor nations would actually revive confidence and stimulate industrial activity everywhere thus bringing about a quicker return of individual prosperity, even though the citizens of the creditor nations would face increased taxes to the degree of the cancellation?" E.C. Sams, President of J.C. Penney Company.

THE HONORABLE OGDEN L. MILLS: My first answer to that question is it is an academic one. My second answer is that I do not believe in the cancellation of these debts. They represent money loaned through government channels. But, as a matter of fact, they represent money actually loaned by investors on the good faith and credit of governments, and if there is anything in theory which I sought to expound and which was so clearly set forth in that brief quotation from Senator Morrow's address, this must hold good: Governments must keep their promises to the extent of their capacity to do so. (Applause)

Before you read the next question I just want to say one word because while my good friend, Professor Seligman, did not put it in the form of a question he nevertheless put two big question marks opposite the program. In the first place we have not gone to the extreme of raising all the funds necessary through taxation; quite the contrary. The idea, of course, of anyone charged with the duty of handling the public finances is a balanced budget. But we closed last year with a deficit of over $900,000,000, and an increase in the public debt of $600,000,000, and if you include the $850,000,000 of securities sold to the public in order to loan funds to the soldiers, the debt in the hands of the public increased last year by approximately $1,500,000,000.

With the best of good fortune we will have to borrow $1,500,000,000 this year if our entire program is adopted promptly, and you can imagine what a chance there is of that happening. So that, Professor Seligman, in 24 months the government will be compelled to offer, to force on the market not less than $3,000,000,000 of additional securities. If that is not taking a middle ground I don't know what is, and any man who faces all of the realities of this situation, who notes government bonds falling 10 points in three months and realizes that that is the first security in the world held by banks savings banks, insurance companies, investors, and that they have had to register a 10-point loss in the course of ten months, surely the Treasury has had pretty definite notice served on it that even the borrowing capacity of the United States government is not unlimited. (Applause)

As to the estate tax, I don't know that Professor Seligman and I are very much different on the principles of inheritance taxation. I think that as long as there is a public debt to be retired even from an economic standpoint the taking of capital rather than income, even though it may in some cases entail a very great sacrifice to the estate and a demoralization of the markets, may be justified as long as you have got a public debt. But from the standpoint of tradition, legal theory and the necessities of the situation, we in this country have looked upon the inheritance and estate taxes as belonging to the states rather than to the federal government. That is an established policy today in this country because successive acts of Congress have recognized that the states shall be allowed today up to 80 percent of the amounts collected through the form of credits for taxes paid to the states and practically every state in the union has taken advantage of that 80 percent provision, and the states in these days I think need the funds more than the federal government because the real burden today, say what you will, is the grinding effect of local and state taxes.

Mr. Vanderlip told you $4,000,000,000 for federal government and $8,000,000,000 for the local and state taxes and they rise steadily year by year. While we were retiring $9,000,000,000 of public debt the states and municipalities were borrowing $9,000,000,000 of additional debts so that when the decade had rolled by the public debt of the United States was exactly where it was at the end of the war period.

And thirdly, when Professor Seligman says that we are only raising $11,000,000 or $22,000,000 through increased taxation in estate taxation and that is out of all proportion to $500,000,000 that we are raising through miscellaneous revenue, my answer is that it is necessarily small because 80 percent goes to the states and secondly and more important still an increased estate tax is absolutely useless in this emergency because you cannot collect it in time. They could not in any instance apply to the estate of anyone who died prior to the to the passage of the act. That means if Congress rushed it through by January 1st it would only apply to estates of people who died during the year 1932. With the profound depression of values that we have had; with one year in which to make their returns, and they would have three years afterwards to pay their taxes, it is absolutely unsuitable if you are budgeting on the assumption that you can bring these increased taxes to an end within a comparatively early period. Of course, the emergency would have passed long before any increased estate taxes could become effective. (Applause)

MR. ELY: "With a drastic decrease in the value of real estate, securities and commodities amounting to at least 50 percent and with a radical reduction in the nation's income and savings, how can the Treasury justify or expect the American people to pay more taxes for the fiscal year ended June 30th, 1932, and 1933, than they did for the years 1929, 1930, and 1931?" That is a question from Mr. Walter S. Case of Case, Pomeroy & Company.

THE HONORABLE OGDEN L. MILLS: Well, they won't. That is the answer. There is no hope even with this increased tax of getting up to the 1929 or 1928 level in the immediate future and, after all, when it comes to income taxes remember we don't collect the money unless the incomes are there. (Laughter and Applause) We have very materially reduced our base. For instance, we have assumed, we know from statistics of the incomes from returns already made that approximately $473,000,000 will be collected during this calendar year 1931 on 1930 income. We are only estimating $300,000,000 in the calendar year 1932 on 1931 income. So what while we estimate an increase of $183,000,000 it will be applied to a much lower base figure so that the best we can hope is to restore the amount we are collecting today and not actually increase it. Do I make myself clear?

MR. ELY: "In view of the fact that our present economic conditions require us to extend our export trade would it not greatly strengthen our national financial position to make a reasonable and appropriate reduction in our tariff duties, and especially make reciprocal arrangements as to such duties with the different countries of the world with which we do business? George Gordon Battle," a good Democrat. (Applause)

THE HONORABLE OGDEN L. MILLS: Well, I really think my watch is an answer to that question. If we are going to begin to discuss the merits of protection as against a tariff for revenue we would be here all night. The truth of the matter is that certainly in so far as some countries are concerned owing to the course events that have taken place in the last few months our tariffs as a practical matter, have become very much reduced and I for one doubt very much whether this is the time, with unemployment that exists in this country, to open wide our doors to a flood of foreign goods and apply the reduced purchasing power of our people to increase employment abroad rather than at home. (Applause)

MR. ELY: "In view of the fact that the aeroplane is of such supreme importance for national defense is it not a mistake to reduce or curtail appropriations for the construction of aircraft?"

THE HONORABLE OGDEN L. MILLS: Frankly, I don't know the figures of the amount appropriated either for Army or for the Navy. My impression is that the program laid out some two or three years ago for both services has been practically completed. But what is even more important the development of transportation by air has taken place much more rapidly than it would by building planes for either the Army or the Navy, by the very large subsidies that we are paying to commercial companies through the form of mail subsidies. In any event travel by air is developing at an amazing rate in this country and the mileage traveled by aeroplanes is increasing at an enormous rate just at the present, although I haven't got the actual figures now.

MR. ELY: This question may be understood to include a kind of – well, shall I say – personal slant. "If the salary or wage of everyone on the federal payroll were reduced 10 percent how far would such saving go towards balancing the budget and would it not have a good psychological effect upon the country as a whole?" (Applause)

THE HONORABLE OGDEN L. MILLS: I haven't got the figures. As a matter of fact, I don't think it would go a long way towards balancing the budget under any circumstances. As to whether it is wise to reduce the salaries of federal employees I don't know that I care to express my opinion. I know this, that the men in the departments who hold the key positions – I am not talking about outsiders like myself that come and go and hold positions as Under-Secretaries or assistant secretaries or even Cabinet officers – I am talking of the men who make it their life's work to stay with the government, who rise from comparatively humble positions through their abilities and devotion to be men who really make the government function, and I think Mr. Gilbert will bear me out on that. I say that those men who receive no recognition, are never mentioned in the press, are the men to whom the country owes a great debt of gratitude and they are under paid. There are men in the Treasury Department without whom the Treasury could not function. You never hear of them. Their services would command infinitely greater salaries from the commercial world, very much greater salaries in some cases. They get their satisfaction out of the work performed. They go on year in and year out working ten and twelve hours a day in order to get the job well done. I for one would never want to see those salaries cut. I don't know whether you would want to cut the salaries of Congressmen, Senators and under-secretaries and assistant secretaries. That is a matter of complete indifference to me. (Applause)

MR. ELY: Mr. Secretary, there are more questions relating to the 18th Amendment than any other one subject. I won't read them all but here are some of them:

"Why in the search for additional revenue does the administration avoid the obviously great revenue which would accrue from a government control of the liquor traffic?" (Applause)

"You said that the most dependable tax is that on tobacco. Would not a tax on beer be equally dependable and give an income as great as the tobacco tax?"

"The press recently announced that prohibition in all of its phases has cost the country $24,000,000,000 over the last twelve years. How does the Treasury pass by such waste in its consideration of further taxation? If prohibition were to be repealed how much would the country save in giving up the enforcement organization and its great cost?"

There are other questions but I think practically these few cover the subject.

THE HONORABLE OGDEN L. MILLS: Well, if you ask a question, would not beer bring in a great deal of revenue, of course it would if you can get it. (Laughter) The Treasury cannot by edict repeal the 18th Amendment. The Treasury cannot by edict repeal the Volstead Act. The 18th Amendment is part of the Constitution of the United States, adopted by the Congress of the United States and approved by three-fourths of the states. The Volstead Act can only be changed by a majority in both Houses. It is a matter of common knowledge that the wets in both Houses are in a small minority. That is one of the realities that I was talking about that you have got to face. This is a representative government and until people of the United States elect a majority in both Houses that favor either a repeal and submission to the states for modification of the Volstead Act nothing can be done about it. It is in the hands of the people of the United States. But for the Treasury, with full knowledge of the fact that there are probably 140 and not more wet votes in the House, and I don't know how many in the Senate, but comparatively few, to begin talking about balancing the budget through a tax on beer would be as futile a performance as I can imagine any responsible man could indulge in. (Laughter and Applause)

MR. ELY: There are two or three questions relating to the gold standard. Here is a question from a French gentleman who to our pleasure is one of our guests here tonight: "Can the United States stay on the gold standard if most of the nations go off? If so, by what means and for how long?"

The other question is: “Ought the United States in her own best interest stay on the gold standard with the present gold value of the dollar? Had it not better reduce that value systemically in her own chosen way before it may be compelled to do so by troublous events?”

THE HONORABLE OGDEN L. MILLS: I am going to answer that question if the gentlemen of the press, if there be any such present, will treat it in exactly in the way in which the answer is given. I do not want to read in the morning papers that the Under-Secretary of the Treasury announces that the United States government proposes to stay on the gold standard, because the Under-Secretary of the Treasury does not propose to make any such statement if it implies that there has ever been any thought of the possibility of the United States going off the gold standard. (Applause)

And while I am on that subject and without giving any offense, I trust, to the gentleman who asked the question, I just want to tell you my experience in my own city, my home City of New York today. I arrived here late last night. I went downtown and I spent the day downtown. In the course of that day I was confidentially informed that it was highly probably that the entire credit structure of the world would collapse inside of thirty days; that one of our large institutions whose soundness by my own certain knowledge is beyond any conceivable doubt would probably close its doors within a week, and that Secretary Mellon would announce within 48 hours that the United States would go off the gold standard. That is funny. I had a good laugh on each occasion and then it suddenly dawned on me that these rumor mongers were doing real harm, were spreading fear, spreading apprehension throughout this community. When you are at war, and this is the war against depression and deflation and fear, and a soldier deserts the front line trenches and runs to the rear shouting "All is lost," you put a bullet through him. We cannot quite do that, but we can, each one of us individually give a mighty cold reception to a man who comes to us spreading an idle rumor. (Applause)

And I am not so sure that one of the wholesomest things we can do right now in downtown New York is to set up those nice, little, old-fashioned pillories on the steps of the Sub-Treasury Building with a nice, little sign on each one of them, "For the welcome reception of all the scandal and rumor mongers." (Applause)

MR. ELY: "What effect will the two-cent tax on checks have on the volume of currency outstanding?"

THE HONORABLE OGDEN L. MILLS: Well, the Treasury gave very serious consideration to that theoretical objection. Theoretically if the tax is burdensome enough it would discourage the use of checks and increase the use of currency, which is undesirable. But we concluded, after giving the matter a great deal of thought, that the objection was rather more theoretical than real and that in any event our needs were such that we could not pass up $90,000,000 for the sake of a theory. (Applause)

MR. ELY: "Why should there not be a special federal tax on trucks engaged in interstate commerce?"

THE HONORABLE OGDEN L. MILLS: There again that matter was very seriously studied and I may say is still the subject of serious study in the department. We are not limited, of course, to trucks engaged in interstate commerce. We could if we wanted to impose a license tax on every truck. There is no doubt as to our constitutional right to do that. But the administrative difficulties would be very great. Certainly certain classes of trucks would unquestionably have to be excluded. I do not have to tell you that all farmers' trucks would, (Laughter) and while there is some merit in the idea, there is unquestionably merit in the idea in view of the fact that an enormous amount of freight is being diverted from railroads that are enormous contributors to state and local and federal treasuries, to the trucks that use our highways that are paid for by the taxpayers and that the railroads are suffering from this unregulated competition which is comparatively free from taxation, although of course they do pay a state license tax and a gasoline tax – but we have not as yet seen our way clear to overcome the administrative difficulties, and we have not quite seen our way clear to overcome the fact that this is a form of taxation which has hitherto been looked upon as belonging to the states, and I think as a matter of comity the federal government should not trespass on the revenues which up to the present time at least have been earmarked for state purposes and on which the states to a very great extent, have relied.

MR. ELY: "What does the United States government pay now to a veteran who first was drafted, second, never left the country, third, became sick and who is now disabled? What does his widow get?" (Laughter)

THE HONORABLE OGDEN L. MILLS: I don't know, Mr. Ely.

MR. ELY: Here is another question that seems to call for and makes a still further draft to the point of unreasonableness upon the knowledge of the Under-Secretary. "What does France pay in a similar case?" (Laughter)

Mr. Secretary, nearly all of the questions, unless I have been unintentionally remiss, have been covered in substance if not literally. But here are two final questions. This one is printed so that he who runs may read: "Why wait until 1934 to balance the budget?" And then another: "Why do we need to wait until 1934 to balance the budget? What assurance have we that the budget can be balanced better in 1934 than at present?"

THE HONORABLE OGDEN L. MILLS: I will answer the first question first. It is perfectly obvious that with the fiscal year half over and with an estimated deficit of over $2,000,000,000 you cannot raise your tax in the last six months to balance this budget. That would be taxation at the rate of an additional $4,000,000,000 a year which is inconceivable. As to next year, in order to balance the budget after the reduction of expenditures of $370,000,000, we would have to raise $1,400,000,000 in taxes. The Treasury thought on the whole that that was too much to expect or to ask under the circumstances. We prepared a tax program which we do not think will add a great burden on business or in any way prove a barrier to the restoration of prosperity, and its effect, if it is incorporated in full, will be to bring the increase of the public debt to an end next year, while not making sinking fund provisions fully effective. We are in a great period of depression. There is a great deal in what Professor Seligman said about not trying to do it all at once or raise it all in taxation. We have tried to steer a middle course. We feel that $900,000,000 was as much as we ought to ask. But that $900,000,000 will bring the increase of the public debt to an end on June 30th, 1932. That is a great accomplishment, and if in the following year you can make your sinking fund provisions fully effective and have a cleanly balanced budget in 1934 after facing a public deficit of $2,100,000,000, I say to you that that will be a real fiscal achievement. I don't know whether we can do it. If we do, it is a great stunt and we ought not to be expected to do more. (Applause)

As to 1934, there is no one more unpopular in this country right now than prophets and I can assure you that the Treasury would not have attempted to forecast what would happen in 1934 unless it was absolutely compelled to do so as a matter of duty. Our 1934 estimates simply represent our very best judgment as to the course which events are likely to take and what the revenue is likely to be on a fairly conservative basis. There is no man living who in December, 1931, can forecast with any degree of accuracy the taxes that are going to be collected in the fiscal year ending June 30th, 1934. That is beyond the vision of man. We have done the best we could on the available data. We think this program will do it. But don't think for one minute that we are guaranteeing it.

MR. ELY: In addition to the questions there have been handed in notes from different persons expressing the greatest appreciation of your address and thanking you individually for what you have done for us tonight. I know what I would like. I would like to hear you read once more those magnificent lines from Robert Browning so that we may all go home with that spirit within us.

THE HONORABLE OGDEN L. MILLS: I don't know that I want to do that. It has been a great privilege, of course, to come here to talk to a group of men who sat through an hour's very dry discussion with infinite patience and attention. I appreciate the fact that we have been discussing difficult problems before an audience that was fully capable of grasping their significance and analyzing critically the remedies which we propose. I know, of course, it is not a perfect program; nothing is perfect in this world; it represents our best judgment as to what ought to be done.

Of this I am perfectly sure: Just as every other nation wants to protect its future, it has faced the realities of its situation, shouldered the necessary burdens and is determined to see it through, I am confident that the people of the United States will approach their problem in a like spirit. I am perfectly confident that once this nation understands what is involved, what is really demanded in order to overcome our difficulties, that it will face it with its usual courage and determination and sense of realities and follow the right road irrespective of the fact that it is not the easiest one.

And the only final message I can give to each and every one of you in these difficult times is to realize an individual sense of responsibility to your community and to your country. Be prepared to make the necessary sacrifice. Face the realities of the day and the problems of the day with courage and resoluteness and with the full confidence that if we all put our shoulder to the wheel in that spirit and with that determination the dawn of a new day is not very distant. (Applause)

End of Meeting