

The Economic Club of New York

74th Meeting

Larger Adjustment of Taxation

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Introduction

Howard Elliott, Presiding

Gentlemen of the Economic Club: This is your 74th meeting and I am glad to report to you that our Club is thought enough of so that the membership of 1200 is complete and there are not vacancies.

Your Executive Committee felt that of the great questions now before the public the question of Taxation was predominant at this time. They have, therefore, selected that topic for this meeting. We had inserted in the dinner card a brief memorandum furnished through the courtesy of the National Industrial Conference Board of the House Ways and Means Committee's proposal for the new tax bill. Many of you, of course, will remember away back in 1896 how frightened the country was about the silver question and how many there were in certain parts of the country that thought that was simply a question affecting the rich or well-to-do. But, after an education process, it was brought home to the whole country that proposals about silver at that time had reached down into every little town and hamlet in the country and affected every man, whether he was a wage-earner or a capitalist.

And so, with this great question of taxation, at times it has been said by those who have not thought anything about it, that that, again, was a question affecting the well-to-do and the rich. Since the War the educational process about taxes has been going on and happily now there is a

change in public sentiment, with every prospect of getting a tax bill that is far superior to anything we have had for many years. Just a few figures to bring home to you the magnitude of it - the national income in 1924 was estimated \$63,500,000,000. In 1923 it was a little more, \$65,600,000,000, and it is thought 1925 will show a substantial increase over 1924, and out of that enormous sum in 1924 there were \$7,907,000,000 paid for Federal, State and local governmental services. Or, to put it in a simpler way, out of every dollar of the combined income of the American people, 12-1/2 cents was used in 1924 for the maintenance of government, Federal, State and local, as compared with 6.9 cents in 1913, nearly double.

Between 1919 and 1924, the total collected by the Governments declined nearly two billions of dollars, but State, County and Municipal governments have not been so successful, and those taxes have been going up. The total tax burden in 1924 was greater than 1923, and greater than 1922, due entirely to the extravagance of State, County and Municipal governments. The people want everything, forgetting that sooner or later they have to pay for it.

Now, your Executive Committee has been very fortunate in the speakers that have been kind enough to come here and give first-hand and first-class information about this great subject of taxation. The first speaker is a gentleman to whom the country owes a great vote of thanks. He is Chairman of the Appropriations Committee in the House of Representatives, that great committee that has to pass upon the enormous demands for money to be spent by the various departments of the Government, and since the war he has said "No," and helped to stop

appropriations that amount to \$4,250,000,000, and without such watchful care as that we could not have paid as much as we have of our debt, nor could we now approach a period where we are going to have a reduction of taxes.

This gentleman is a Congressman from Illinois, from the great city of Chicago. He has had a wide business experience and a wide experience in affairs. He has had 20 years in Congress and he is now Chairman of the Appropriations Committee of the House of Representative. He left his important duties today, having witnesses before him all morning, to catch the noon train to be with you tonight, and he has to go back again tonight after this dinner. So I say it is a great compliment that he has come here to us tonight, and it is a privilege and a pleasure to present to you the Honorable Martin Barnaby Madden, Congressman from Chicago, and Chairman of the Appropriations Committee. (Applause)

The Honorable Martin Barnaby Madden

Congressman from Chicago

Chairman, Appropriations Committee

Mr. Chairman, and Gentlemen of the Economic Club: I come from the imperial city of the Central West, where the people have no grudge against men who are successful in business, even if they make money by their success. We have no criticism of New York's wealth or its influence. We are happy to join hands with you or with anybody else within the confines of

America to create a more stable condition in our affairs than we have had before. We come to you tonight to plead for cooperation on the part of those who are busy with their business, and who, in most cases, do not consider politics a part of their business, much to my regret, and I want to say to you before I begin on the topic assigned to me, that if you would take a little less time for your business and a little more time for politics, you would have a better government, because I apprehend that men of the type I see before me in America could shape the sentiment that rules the Nation, if they would, and if you do not get the kind of government that you think you ought to have, blame yourselves for your indifference to it. (Applause)

There are many men in the nation who give themselves, body and soul, to the service of their country. They serve the nation without ambition, without price. They give every dollar they have that they may serve. They have no thought of emolument or reward. Their only thought is how they can help to improve the conditions of the people of the nation, and, to a limited degree, the people of the world.

The cost of American government, and I am going to talk on this tax question from the standpoint of appropriations, -- we have as the other speakers of the evening two gentlemen who are experts on the other side of the tax question -- the cost of the American government from the day of the Declaration of Independence to the day that the Great War with Germany was declared, was between \$35,000,000,000 and \$36,000,000,000. This covered every phase of the government during that period, including the cost of every war, and of every incident to every

war, including pensions. And strange as it may seem, the obligations created against the people of America during the first six months in which this nation was engaged in the war, amounted to \$24,000,000,000, or very close to the total figure of the government cost during all the period from 1776 to 1917, and the total appropriations made by the Congress of the United States during the war, for the war, amount to \$45,000 000,000.

It is true that before the war closed we were able to repeal \$7,000,000,000 of this, so that we had at least \$32,300,000,000 of this as the result of our entering into the war, and we came out of the war with \$25,500,000,000 of obligations against the American people, whereas, we went into the war with less than a billion of obligations.

The highest annual interest cost after the war was \$1,055,000,000. The highest interest before we went into the war was \$22,000,000 per annum. Since the war closed, by the economies which we have instituted, the government has paid back \$5,000,000,000 of the obligations created by the war, and we find ourselves today with about \$20,000,000,000 of public debt as compared with \$25,500,000,000 when the war closed.

We have reduced the interest charges from \$1,055,000,000 a year to \$795,000,000. That will be the interest charge for the coming fiscal year beginning on 1st of next July. This year it is \$830,000,000.

The highest annual appropriations were reached in 1919, when the cost of the government for that one year mounted to \$19,000,000,000, or 19,000,000,000, or, to be exact, \$18,500,000,000, and the cost of running this government the succeeding year is about \$7,046,000,000. We have reduced this cost by constant vigilance and unselfish devotion to duty, until today the annual cost of government is \$3,529,000,000, including the Post Office Department which amounted for the current fiscal year to \$636,000,000, payable out of the revenues of the Post Office Department.

During the period since the war, Congress has, by its vigilance, appropriated \$4,205,000,000 for the conduct of the government less than the administrative offices of the government have requested. It is generally understood that Congress is extravagant, and that the administrative offices of the government are economical. But these figures speak for themselves.

It might be interesting for me to tell you just exactly how these figures are made up, this \$3,736,000,000 which we appropriated for the last year, or the \$3,529,000,000 for this. It was made up of \$830,000,000 for interest on the public debt; \$484,766,130 for the Sinking Fund, and other debt payments; \$405,700,000 for the maintenance of the Veterans' Bureau. The Veterans' Bureau is the instrumentality through which we provide for the care and comfort of those who came back from the war worse physically and mentally than they were when they went away. It covers the cost of hospitalization, insurance, vocation training, allowances and all their incidental costs connected with the care of these men, many of whom will never be rehabilitated. And then it covers the cost of pensions to Civil War Veterans and Veterans of other wars, amounting to

\$199,095,000; and then, we have, for the conduct of the Navy, \$302,862,378 for the current fiscal year, and for the Army, \$260,757,250.

It might interest you for me to say to you that two years after the close of the war the men who were in charge of the Army recommended a standing army, a peacetime standing army, of 500,000 men, at a cost of \$1,185,000,000 a year, and universal military training at a cost of \$900,000,000 a year, which, you see, is over \$2,000,000,000; and that the men in charge of the Navy recommended a Navy of 350,000 men at a cost of \$1,400,000,000 a year; these two items alone amounting to \$3,500,000,000. Congress did not allow this, of course. It would have been absurd, ridiculous, criminal to do it; somebody would have had to pay the bills, and these bills, if allowed then, would mean for those two activities of the government, national defense alone, about as much as all the government costs today, including even the Army and Navy, which is now \$563,000,000 a year on the combined forces.

You will see from these figures that we have 66% of all the expenditures of the government for war, for things that resulted from the war, for preparation for war, and only 33% for all other activities of the government, which amount to \$482,000,000. It has been said recently by many men who know nothing about it that if we could consolidate the various departments of the government we could save \$200,000,000 a year by doing it. But you could not cut anything off the interest of the public debt by consolidation. You could not out off anything from the pension roll of the Civil War Veterans, amounting to \$199,000,000. You could not stop the Navy, which

amounts to \$302,000,000, and you could not stop the Army, which amounts to \$260,000,000, and you could not stop the care of the wounded veterans, and you could not stop the Sinking Fund, which amounts to \$484,000,000; and so we have \$482,000,000 for the conduct of all the civil activities of the government except those which I have enumerated, out of which, by consolidation, it will be proposed to save \$200,000,000; it is ridiculous. It cannot be done, and the men who tell you and tell the public that it can be done are telling them something that is not true, and what is the use of trying to fool the public?

Now, we have a total for the current fiscal year of \$3,736,124,000 of appropriations; \$3,529,000,000 proposed for the coming fiscal year. Out of that \$3,529,000,000 there will be \$740,000,000 for the Post Office Department, and most of the revenue to pay those bills of \$740,000,000 will be derived from the sale of postage stamps, and it is fair to say that we have reached the bottom in our attempt at economy. For example, the Post Office Department increases its volume of business about seven percent per annum, and seven percent of \$750,000,000 means about \$50,000,000 a year of increase. There are 350,000 men and women engaged in that service, and we are putting new people into that service at the rate of 5-1/2% increase every year. You cannot reduce that force and you cannot reduce the other forces to any great extent. The country is growing; it is bound to continue to grow, and our biggest job from now on will be a stabilization of the amount of money to be appropriated for the conduct of the government. It will be to prevent the looters of the Treasury from getting their hands in up to their shoulders when they ought to be kept out. Our job is to keep the government finances

stabilized, and I maintain that there never has been a job where there has been such vigilance or integrity or unselfish devotion as has been displayed in the settlement of the intricate and perplexing problems that came down to us from the war as has been given to this great national government problem of ours, and while we have been refusing \$4,250,000,000 of appropriations sought, we have done more than that.

In 1921 we reduced the taxes on incomes in an amount of \$800,000,000 a year. In 1924 we reduced the taxes on incomes again in an amount of \$450,000,000 a year. And now, just as this meeting gathers, the Ways and Means Committee of the House of Representatives, of which your distinguished member, Mr. Ogden Mills, is an important factor, has agreed upon a revenue bill that will give you a further reduction of \$325,000,000 a year more. And so it goes. So you see, that since this problem has been turned over to us since the war, we have not only paid off \$5,000,000,000 of public debts, but we have reduced the taxes on incomes \$1,600,000,000 a year. We have stabilized the finances of America. We have stabilized, in a measure, the problems of the world. We have made America the leading financial nation. She is the beacon light now that leads the way to better things for the people of every nation in the world, and this has been done because of the fidelity to duty of the men who have had the genius and the courage and the integrity, without any hope of reward, to give themselves whole-heartedly to the problems that have confronted the nation. If we had not done this I think the nation would have been in a state of chaos.

When we took charge of this problem we found that the government bonds, for example, were down as low as 80. We established the sinking fund, which had never been established before. We have lived up rigidly to the requirements of the sinking fund. We have stabilized the bonds. We put them above par, and it is estimated that today, because of the action of your government in Washington, that the bonds of the nation are worth \$3,000,000,000 more on the American market than they were when we began this question of rehabilitation.

I personally have been in favor of reducing the normal or the maximum surtax to 15%. The Committee of Ways and Means, in its wisdom, concluded that it ought not to be less than 20%. I was not in favor of any additional exemptions. I believe that any man receiving anywhere from \$1500 to \$5000 income can afford to be on the tax roll. It makes him a better citizen. There is nothing that gives him more character than a receipt for his club dues in the greatest of all clubs, his government, and it does not cost him much. But the Ways and means Committee was confronted with conditions which they had to meet, and they extended the exemptions above what they now are, and it will take 1,000,000 men or women, as the case may be, off the tax roll, much to my regret. I would like to have seen them kept on.

I have been opposed to the inheritance taxes of all kinds. It was hardly fair to hope that the Ways and Means Committee would be able to abolish inheritance taxes altogether. They accomplished a wonderful achievement when they reduced it from 40% to 20%, I think. They are to be congratulated on that.

I was opposed to gift taxes. I thought that if a man had a child, or more than one, that he wanted to give something to, or a charity that he wanted to contribute to, throughout his lifetime, that he ought to be allowed to contribute of his hard-earned accumulations without being required to pay a tax to the Treasury of the United States for the privilege, (Applause) and that has, thank goodness, been accomplished as far as the House goes. They have eliminated the gift tax. So, if you have any money, come up to the Captain's desk and make your gifts.

I have always believed that more money could be collected on a small, and reasonably small, rate of taxation than on a very large rate. We raised the taxes to 73% during the war, and since the war on certain classes of incomes, and, of course, everybody knows that nobody will work to earn money to pay 73% of his income to the Government of the United States in times of peace, and he ought not to be asked to do it. I think you could raise more money on a 15% maximum surtax than you could raise on a 20% surtax. But, as it is, it is far better than it ever has been before, and the business people of the United States and others have reason to congratulate themselves on having as member of the Ways and Means Committee men like Ogden Mills, who have had the courage and the intelligence and the genius and the industry to work out their problems to equalize the tax on incomes and on all other questions for the maintenance of the government.

Of course, taxation will be large or small, depending upon the demands of the people. You can have a small tax if you will do some of the things yourselves that you demand of the Government, that you demand the Government shall do for you. But if you insist that the Government shall do everything for you and that you shall do nothing for yourselves, you must not find fault if the tax bill is large at the end of the year. I had a crowd of people coming to see me not long since as Chairman of the Appropriations Committee. They said they were taxpayers. They demanded a very unreasonable appropriation, something that ought not to be granted. They said they demanded it in the name of taxpayers, and I said, "I am a taxpayer. I am against what you want and you have to get by me before you get it," and they did not get it, and most of the people that you find are in favor of economy. Everybody is in favor of general economy. But somehow or other nobody is in favor of specific economy. (Applause)

I was down in St. Louis the other day making a speech on government to the Chamber of Commerce. They gave me quite a meeting. They were very enthusiastic about what I said about economy, and when I got through speaking there were 12 men came to me at different times to say that while they were in favor of economy as a general rule, that they were particularly interest in certain phases of the Government, and the appropriations for which must not, under any circumstances, be curtailed. They said that on the side. (Laughter and Applause) I don't know how many people will say that here tonight. Every time we try to reduce the cost I suppose I will receive a thousand telegrams from different sources saying that it is a special thing about which we are going to reduce the cost, and it is so essential to the life of the nation that it is vital

that it shall be maintained at its existing standard. Well, the telegrams go promptly into the waste basket. And we get two or three hundred letters the next day from many of the same people who sent the telegrams, criticizing us for extravagance.

One of my very best friends in Chicago, a very prominent man, a very large employer of labor, telegraphed me one day to urge appropriations which ought not to be granted, and he wrote me another day saying that he thought he would, well; he was getting disgusted with the men who were running the government. They had not accomplished anything; they were extravagant and wasteful. So I wrote him a letter and enumerated the things that we had done that I thought were beneficial to the people of the country and to the country itself, and I said that every time we tried to save I would get these thousand telegrams and one of them would be from him and I would get 200 letters on the other side of the question the next day and one of them would be from him and I said to him, "If you will just quit wasting my time reading your telegram on one side of the question today and a letter on the other side tomorrow, I will have more time to give the country better service and perhaps we will reach a satisfactory conclusion about the things you are interested in, and if you will quit wasting your own time writing telegrams on one side and a letter on the other side, and devote the time that it takes you to do that to going around among your neighbors and creating an honest, decent public sentiment for better economy in government, you will be doing the work of a patriotic citizen, and we don't care what party you belong to; we want you as an American, and we want you as an economist. We want the government run like any other business would be run." (Applause)

Of course, that is perhaps too much to expect. But we do the best we can, and with your help we can do better than we have done, if you will only encourage us instead of finding fault with us. We do not care how much you criticize, if the criticism is constructive, and we invite your cooperation and your advice. We don't run away from it. On the contrary, and this is contrary to general belief, most of the men of public office who want to do the right thing are anxious to know what the people are thinking about and how to approach the solution of the problem in which the people are interested, and we know very little about the people in the nation's capital, because we are away, we are in an artificial atmosphere, and we will be glad to have you, either by letter or otherwise, communicate with us and tell us what the people want, and if what you say they want is reasonable and decent and right and does not cost unjustifiable amounts of money that ought not be expended, you will get cooperation from us. We want cooperation from you, so don't be afraid to tell us what you want.

Taxes mean either economy in government or extravagance in government, depending upon the demands that you make upon the government. If you have high cost of government you will have high tax rates. If you have low cost of government you will have low tax rates. If you demand economy you will get low tax rates, because there is a disposition on the part of members of Congress to help you to do that. But you cannot get increased appropriations and reduced taxes in the same bill, or on the same day. You cannot spend your money and have it. But I suppose you can continue to do what the American people consider the great American privilege, demand

what you want, get it, and kick about paying the bills when the time comes. (Laughter) and that is what most of them do.

You know, I think you ought to get acquainted with Congress. There are a lot of good people there. There are a lot of very able men there giving their time, and they are giving it without stint. They are giving their genius, and I think if we could get to the men who do not pay taxes and show them, for example that their vote imposes more burdens upon themselves that it does upon anybody else, that we could have a better condition of things; (Applause) if we could only show them that their vote impose new burdens on the public treasury, that their own vote increases the cost of things that they have to buy, and if we could only get to them and show them that it is not the man who files a tax schedule who pays all the taxes, not at all, because what he pays, after all, is put onto the cost of the article that he sells to the man who does not file a schedule; so that in the last analysis, the man who thinks he escapes the tax, is the man who pays it. And I believe that if we would only organize and place this question squarely before the men who do not have to file a tax schedule, if we could make them understand that they ought to cooperate with the men who do file tax schedules, and they would cooperate, government would be easy.

For example, it was not long since that I had a man come over from New York to see me. He wanted me to agree to favor an appropriation for the establishment of a national conservatory of music in Washington and make it free to the people of all the states. I said, "Has not New York State a conservatory of music?" He said, "Yes, and a good one." Well, I said, "Why do you want

to impose that additional burden on New York?” and he said, “We don’t want to impose it on New York. We want to transfer it from New York.” “Well, but,” I said, “don’t you know that New York pays 25% of all the taxes that go into the Federal treasury, and that in addition to what you are already paying, if you do the thing that you are proposing, you will add just 25% of the cost of the construction and the maintenance of that conservatory on the people of New York?” He said, “I never realized the situation from a tax standpoint.” So there you are. What we ought to do is to cooperate to the extent of making the word “American” means more than it ever meant before, for we live in the greatest country in all the world. We ought to be proud to be Americans, proud that we live in a land where every citizen is a sovereign, and where every man and woman and child is free to worship God according to the dictates of his own conscience; in a land whose inventions lead the world; where the printing press and the Church follow close upon the march of empire; where labor is exalted to comfortable homes and where caste is ignored, and where the humblest child of poverty may aspire to the highest place in the gift of the nation.

The great world war made the men from the worn-out monarchies of Europe realize for the first time that the noblest trend of human progress lies in the direction of republics. In this form the latent possibilities of the human race may best find expression, and that under a free government America has outstripped the world, and all we have to do, gentlemen of this great Club, is to see that the men who are on guard at the head of the states and the cities and the nation, are men of unblemished character; men who have the genius to do the things that ought to be done for the best of this country, and men who are unselfishly devoted to the cause of government. And if

these men can be kept on guard and they can be supported by an unselfish, united, devoted American people, why, America can live forever to exemplify the life and the strength of this, the greatest of all republics, and we will be able, if we do this, to hand down untarnished, the great American institutions, to the generations that are to people this continent in the ages to come.

Gentlemen, I have made a desultory talk. I know that the time I have taken is longer than it ought to have been. I appreciate the privilege of having been here and I thank you for the attention you have given me. (Applause)

PRESIDENT ELLIOTT: Gentlemen, by agreement between Mr. Adams and Mr. Mills, the order of speaking has been changed, and it is therefore, my privilege, and it is a privilege to me, for a number of reasons, to introduce the next speaker. I happen to be a Harvard man. You have heard of that great university. Mr. Mills happens to be a Harvard man. I happen to live in his district of New York and to have the pleasure of voting for him. As Mr. Madden says, he is a strong and able member of the Ways and Means Committee, and he represents, to a very high degree, an unselfish devotion to public duty that means a great deal in carrying forward this great government that Mr. Madden has spoken about, and one hope of making our country even greater than it is, is that men of the type of Mr. Mills are willing to give their time, their strength, and their mental energy to helping to make a better government.

It is, therefore, with a great deal of pleasure, that I introduce the next speaker, Hon. Ogden L. Mills, Congressman from New York, and a leading member of the Ways and Means Committee that has helped to frame the oncoming tax bill. (Applause)

The Honorable Ogden L. Mills

Congressman from New York

Leading Member, Ways and Means Committee

Mr. Elliott and Fellow Members of the Economic Club: I propose to outline to you the provisions of the new revenue bill prepared by the Ways and Means Committee, and I wanted to speak before Dr. Adams so as to save the best for last.

Taxation is essentially a dry subject, but there is one man in the country who at all times can make it live and interesting and that is what Dr. Adams, who you are going to have the pleasure of listening to this evening can do.

For the last six weeks the Ways and Means Committee has been engaged in the task of preparing a new revenue bill, intended to reduce Federal taxes 336 million next year. The bill will be introduced on Monday, reported Tuesday by the unanimous vote of the Committee, and will pass the House, substantially as reported, before Christmas. (Applause) there is no reason on earth why it should not become law prior to March 15th, the date on which income tax returns are due,

at which time the new rates must be in force if the people are to get the full benefits of tax reduction next year.

It would be a presumption not sanctioned by good manners for me to make this suggestion to the Senate, but I see no reason why others not members of the House should not do so emphatically and with entire propriety. (Applause)

This is the Christmas gift of the Coolidge Administration to the American people. (Applause) Partisan critics whose knowledge of government finance seems to be wholly confined to spending may sneer at Coolidge economy, but the President's unshaken determination to save is what has made this reduction possible, (Applause) – a saving accomplished without impairing the service of government, just as taxes will be reduced without violating sound principles of finance. By this I mean that we shall continue, in conformity with the well-established American practice, to redeem our national debt at a reasonable rapid rate. As Mr. Mellon well said; "The time to pay your debts is when you can. The time to mend your roof is in good weather."

I mention this because suggestions have been made that we extend the life of our national debt to 62 years, and because in our own State we are engaged in the doubtful practice of making tax reduction possible, not by lowering the cost of government, which continues to grow at an alarming rate, but by increasing the State debt, -- a policy for which we will pay dearly some-

day. If, in order to save \$280,000,000 annually in debt service charges, we should extend to 1982.

The redemption of that part of our national debt now covered by sinking fund provisions, we would have to raise eight and a half billions more in taxes to pay the additional interest costs over the longer period.

I have described the new revenue bill as the Christmas gift of the Coolidge Administration. I can add, “and of the House of Representatives.” Insofar as the latter is concerned, this gift is twice blessed, not only because of its nature, but because of the manner of giving. In dealing with this all-important problem, the Ways and Means Committee has laid aside partisanship, and I am confident the House will follow suit. We have drafted the bill, not as Republicans and Democrats, but as representatives of all the people, earnestly seeking to frame a sound tax measure calculated to bring the greatest good to the greatest number. All honor to our Democratic friends who, under the able leadership of Mr. Garner, decided that the welfare of the country could best be promoted by constructive co-operation, rather than destructive partisanship. This was not only sound patriotism; it was good politics.

We met them half way. Mr. Garner would deny it was half way, and probably it wasn't quite that, but in any event we went some way to meet them. At least, I know I did.

There has been some criticism of the action of the majority; some complaint that we did not exercise to the full power which we undoubtedly possessed in the Committee.

My answer is, that accord could only be achieved on a give-and-take basis, and that the advantages that accrue from a unanimous report of the Ways and Means Committee, meaning, as it will, non-partisan consideration in the House and a united opposition to destructive amendments, far outweigh the temporary ones that might have been achieved by unyielding majority action. (Applause)

Consider the facts of the Revenue Act of 1924. As reported originally by the majority of the Ways and Means Committee it was a sound measure. From that day on it became the football of personal, group and party politics in both House and Senate, until, when it came up for final passage, it was so full of economic enormities that, in spite of the tax reduction it carried, in spite of the many months of hard labor I had devoted to it, I, for one, felt compelled as a matter of conscience to vote "No." the excessive surtax rates; the unjustifiable increase in estate tax rates; the unworkable and unfair gift tax; the publicity feature; were all the children of bad economics fostered by a bitter partisan conflict. The one sure protection against the repetition of the actions that in 1924 frustrated the efforts of the Treasury to give the country a sound revenue law is the elimination of partisanship and politics. To date, they have been eliminated; and as a result we have a bill which, while it does some things I would not do and fails to do others that I would is,

I believe, built on firm economic foundations, and cannot be assailed, certainly as to fundamentals.

It is a measure of very great importance indeed, for with expenditures, except interest charges which will continue to decrease, about stabilized, we are no longer just laying the foundation of our peace time tax system; we are outlining the system itself in detail.

A progressive income tax on individuals, accompanied by a flat tax on the net income of corporations, will be the backbone of the system. The personal exemptions will be liberal, the surtax rate, starting with a low minimum, will rise sharply to a maximum rate that will be high according to pre-war and peace time standards. In any sound and well-balanced tax system and income tax of this character, even when accompanied by ample revenue from customs, should be supplemented by a limited number of excise taxes specially selected because of their broad bases and the corresponding lightness of the burden on the individual taxpayer. The tax on tobacco is the best example of what I have in mind.

So much for the general background, what of the bill itself? We cannot concern ourselves with the details tonight; we must limit ourselves to the high spots. There are five of these: the income tax; the estate tax; the excise and special taxes that were reduced or repealed; the taxes that were not; and the administrative features. The discussion of these last I gladly leave to Doctor Adams, who is infinitely more competent to discuss them than I. all I care to emphasize in this

connection is that administration is the most important part of any tax system, something frequently overlooked by many who, persuaded by the theoretical soundness of a given tax, stubbornly refuse to recognize that in practice it may, and frequently does, break down completely. I have in mind particularly those advocates of excessive rates who cling tenaciously to their original position, in spite of the practical experience acquired in administering them.

In discussing the income tax, exemptions are the first item to be considered. We have increased the exemption for single men from \$1,000 to \$1,500, and for married men from \$2,500 to \$3,500. This, on the face of it, is open to criticism, since in a democracy like ours it is very desirable that as many as can with justice be asked to have a direct, even if very small, financial interest in the cost of government; and this increase may take as many as 2,000,000 taxpayers off the rolls. Franklin, this was the one concession that I accepted most reluctantly. But there are persuasive arguments on the other side. The proposed exemptions are below those granted in the 1916 law, which, after all, represented our conception of a peace time income tax; and since 1916 the cost of living has risen over 50%, thus further diminishing the value of the exemption. Moreover, the whole standard of living in this country is so much higher than anywhere else that the low exemptions existing in other countries offer no fair basis of comparison; and since we pride out selves at placing the minimum requirements of an American family at a high point, I think it, on the whole, fair to conclude that the American conception of a peace time income tax conceded at the start very high exemptions.

The normal tax has been reduced to 1-1/2% on the first \$4,000 of taxable income; to 3% on the second, and to 5% on the remainder.

Exemptions and the normal tax are generally said to concern chiefly the men of small and moderate means; surtaxes the rich. The two changes I have just mentioned will occasion a loss in taxes of 88,000,000. I call your particular attention to this figure because of the false charges made in some quarters that the proposed changes benefit the rich alone. How well the small man is being taken care of is demonstrated by these figures, which are all the more significant when you consider that the lower brackets received a 60% reduction in 1924, as compared with a 20% reduction in the highest brackets.

In accordance with the principle which meets, I think, with universal approval, the limit within which the earned income differential may be enjoyed has been increased from \$10,000 to \$20,000, involving a saving to this class of taxpayers of \$7,000,000.

We have reduced the maximum surtax rate from 40% to 20%, making the latter applicable to incomes in excess of \$100,000, and adjusted the rates in the lower brackets to give a well-balanced, gradually increasing schedule. There has been some criticism of the fact that rates in some of the brackets have not been reduced. The criticism is unjustified, because the rates in any individual bracket have no particular significance. The true measure of the benefit to be received by any taxpayer, whether in the \$25,000, the \$40,000, the \$50,000, or any other class, is the

amount by which the taxes on his entire income, as contrasted with any part of his income are to be reduced, and judged by this test, every taxpayer will receive a material reduction. That some will benefit more than others is due largely to the arbitrary character of the 1921 and 1924 cuts. What we are aiming at now is to adjust our rates that, within the agreed limits and in accordance with the progressive principle, the percentage of total income paid in income taxes will increase gradually and with reasonable uniformity according to the size of the incomes. How well we have succeeded is indicated by the table, which I have not the time to read, but which I have given to the press in the hope that they will publish it for the enlightenment of all those interested.

MARRIED PERSON WITH NO DEPENDENTSALL INCOME EARNED

<u>NET INCOME</u>	<u>AMOUNT</u>	<u>TOTAL TAX</u> <u>PERCENT OF INCOME</u>
\$ 3,000	\$ 0.00	0.000%
4,000	5.63	0.141
5,000	16.88	.388
6,000	28.13	.469
7,000	39.38	.562
8,000	56.25	.703
9,000	78.75	.875
10,000	101.25	1.013
11,000	131.25	1.193
12,000	168.75	1.406
13,000	213.75	1.644
14,000	258.75	1.848
15,000	311.25	2.075
16,000	363.75	2.273
18,000	483.75	2.688
20,000	618.75	3.094

22,000	818.75	3.722
24,000	1,038.75	4.328
26,000	1,278.75	4.918
28,000	1,538.75	5.496
30,000	1,818.75	6.063
32,000	2,118.75	6.621
34,000	2,418.75	7.114
36,000	2,738.75	7.608
38,000	3,078.75	8.103
40,000	3,438.75	8.597
45,000	4,368.75	9.708
50,000	5,358.75	10.718
55,000	6,408.75	11.652
60,000	7,458.75	12.431
70,000	9,658.75	13.798
80,000	11,958.75	14.948
90,000	14,358.75	15.954
100,000	16,358.75	16.359
150,000	29,258.75	19.506
200,000	41,758.75	20.879
250,000	54,258.75	21.704

500,000	116,758.75	23.353
1,000,000	241,758.75	24.176

MARRIED PERSON WITH NO DEPENDENTS

EARNED INCOME LESS THAN \$5,000.

<u>NET INCOME</u>	<u>AMOUNT</u>	<u>PERCENT OF INCOME</u>
\$ 3,000	\$ 0.00	0.000%
4,000	5.63	.141
5,000	16.88	.338
6,000	31.88	.531
7,000	46.88	.670
8,000	69.38	.866
9,000	99.28	1.104
10,000	129.38	1.294
11,000	169.38	1.540
12,000	219.38	1.828
13,000	279.38	2.149
14,000	339.38	2.424
15,000	409.38	2.729

16,000	479.38	2.993
18,000	639.38	3.552
20,000	819.38	4.597
22,000	1,019.38	4.834
24,000	1,239.38	5.164
26,000	1,479.38	5.690
28,000	1,739.38	6.212
30,000	2,019.38	8.731
32,000	2,319.38	7.248
34,000	2,619.28	7.704
36,000	2,939.38	8.165
38,000	3,279.38	8.630
40,000	3,639.38	9.098
45,000	4,569.38	10.154
50,000	5,559.28	11.119
55,000	6,609.38	12.017
60,000	7,659.38	12.766
70,000	9,859.38	14.085
80,000	12,159.38	15.199
90,000	14,559.38	16.177
100,000	16,959.38	16,959

150,000	29,459.38	19.640
200,000	41,959.38	20.980
250,000	54,459.38	21.784
500,000	116,959.38	23.392
1,000,000	241,959.38	24.196

I do not believe that the reduction of the maximum surtax rate calls for an extended explanation. Twenty-four percent of his total income is probably as much as any man should be called upon to pay in peace time in addition to State and local taxes. But if we are disposed to look beyond the equity argument, ample justification is furnished by the fact that the high rates have promoted evasion, and in practice have proved to be, in large measure, uncollectible. This is generally recognized by all familiar with the facts, but let me give you a few striking examples.

Considered from the standpoint of tax yield, incomes of a \$1,000,000 and over actually contributed \$20,000,000 more in 1916 at a 13% rate than they did in 1921 at a 73% rate, and \$5,000,000 more than they did in 1924 at a 46% rate. Incomes of over a \$100,000 in 1921, at a rate which ran from 80% at \$100,000.00 to 73% at \$100,000, yielded but \$202,000,000, as compared with \$300,000,000 in 1924 at a 43 to 46% rate; or, in other words, a 20% increase in rates yielded \$100,000,000 less in taxes. If we study the yield from the larger fortunes, we find that while it held up very well during the War, when men were actuated by patriotic purposes, as

soon as the War was over it began to fall off rapidly under the temptation to evasion induced by the very high war-time rates, and this lasted until the combined effect of the cuts made in 1921 and 1924 began to bring results which have just appeared in the increased amount paid in taxes during the calendar year 1925.

The same process is plainly evident, if we study the number of taxpayers in the higher brackets, and the amount of income reported by them for tax purposes from the year 1916 to date. We find that 6,633 men reported incomes of over \$100,000 in 1916; that that number had fallen to 4,031 in 1922, but rose again to 5,694 in 1924 under the stimulus of lower rates. These men reported for income tax purposes \$1,856,000,000 in 1916, only \$892,747,000 in 1922, and again under reduced rates \$1,223,000,000 in 1924. Expressed in terms of percentage, men with incomes of over \$100,000 reported 29% of the total amount reported for income tax purposes in 1916, when the rate was low, but only seven percent in 1922 and 1924, when the rates were high. If it be contended that these changes were the result of general business conditions in the years in question, rather than to changes in the rates of the income tax, I call your attention to the fact that incomes of \$100,000 or more reported in 1916 \$944,000,000 in dividends, only \$462,000,000 in 1922 and \$640,000,000 in 1924. In those same years all dividends reported by individuals for income tax purposes increased from \$2,136,000,000 in 1916 to \$2,400,000,000 in 1922 and to \$3,207,000,000 in 1924. In other words, while all dividends increased from 1916 to 1922, dividends reported by those of \$100,000 income or more were somewhat less than half what they reported in 1916. Expressed in terms of percentages, people having incomes of \$100,000 or more

reported in 1916 under low rates 44% of all dividends reported. At the extremely high rates prevailing in 1922, and even at the more moderate rates prevailing in 1924, they reported but 19%. Does this mean that these men had actually parted with the stock upon which those dividends were paid, and had sold it to individuals in the lower brackets, which incidentally would have involved a transaction of close to \$10,000,000? Of course not. What unquestionably did happen, was that the owners of these securities, in order to escape what they considered excessively high taxes, so arranged their affairs as to reduce their taxable income below the \$100,000 mark, and so subject the \$500,000,000 more or less of dividends to lower instead of higher rates. How is this done? How does actual income vanish the moment we seek to make it a taxable income? There are a variety of means, some of which can be partially blocked, and some that cannot. I might cite among other tax-exempt securities, division of estates, incorporation, deduction of losses, the failure to take profits, investments abroad and permitting profits to accumulate there, and finally, plain failure to make productive use of existing capital. Shut one door, another one will be found.

The examples which I have given can be multiplied indefinitely, -- but what's the use? The fundamental fact is that taxation at excessive rates is unproductive. This fact is as old as taxation, and as inevitable.

The loss in revenue occasioned by the reduced surtax rates is estimated at, approximately, \$98,000,000, but this will only be temporary. The Treasury believes, and the record seems to

indicate that, with the additional income that will be reached at the lower rates, in a comparatively short time the loss will be more than made good.

Thus we see that income tax reduction has this time been apportioned with scrupulous fairness, \$98,000,000 of surtax reduction for the well-to-do, \$95,000,000 in increased exemptions, and a lower normal rate for those of moderate means.

Coming now to the estate tax, there are very few people who question the soundness and fairness of inheritance taxes levied at reasonably high rates. But there are many, many, including myself, who believe that, by tradition and legal theory, and by reason of revenue necessities, this tax should be left to the States. (Applause)

The controlling factor with me is that the States need the money to relieve in some measure the colossal burden of State and local taxes; while the Federal Government doesn't. (Applause)

On the other hand, it is undeniable that the States have made a fine mess of the situation by their unwillingness to adopt some uniform standard, resulting in the taxation of the same property, many times with a complete disregard of ordinary justice. Moreover, two States, Florida being the more conspicuous one, have thrown a monkey-wrench into the whole works by adopting a constitutional restriction on this form of taxation, in the hope of attracting men of wealth to a tax-

free haven. Of course, the haven will not be tax-free, since what is not raised by inheritance taxes will have to be raised some other way, very possibly by a property tax on intangibles.

So I day say that if anyone has been fool enough, or is fool enough to go to Florida, they will find in a very short while that maybe their intangibles are going to be actually reached, and we may see some of those gentlemen coming back very soon dragging their estates behind them.

(Laughter and Applause)

Moreover, I do not believe many men will transfer their residence to escape a reasonable inheritance tax in their own State, say, one with a maximum rate of 15%, with no Federal Tax superimposed. No, the Florida bugaboo doesn't scare me at all, but, coupled with the lamentable situation existing among the States; it has influenced a large body of public opinion – and with some reason – to demand the retention of the Federal tax.

Under the circumstances, we should be satisfied, I think, with a reduction of the Federal rate for a maximum of 20% on an estate of \$10,000,000 and over, which means a tax of 13% on an estate of \$10,000,000, coupled with a credit up to 80% of the Federal tax for inheritance taxes paid the States. We should be satisfied for the present. When the States put their house in order – as it is to be hoped they will after this campaign of education, which must not be relaxed, -- the Federal Government should get out of the field of death taxes. (Applause)

By repealing the gift tax and the so-called publicity provision – the Peeping Tom Amendment – we have wiped out two other ill-considered provisions forced on us by the partisan conflict of 1924.

This brings us to the excise and special taxes. We began by eliminating a number of the minor nuisance taxes, which bring in a comparatively small amount of revenue – taxes on the sale of cameras, photographic films and plates, on firearms – except pistols – shells and cartridges, cigarette holders and pipes, coin-operating devices and Mahjong sets (Laughter); the occupational taxes on brokers, proprietors of bowling alleys, billiard rooms, shooting galleries, riding academies, and on persons carrying on the business of renting passenger automobiles; the special tax on the use of pleasure boats, except those built abroad. In this same category is the tax on physicians, who administer narcotic drugs, which we reduced from \$3.00 to \$1.00.

We next took up those excise taxes which are either difficult and costly to collect or seemed to fall with hardship on not over-prosperous industry. The tax on the sale of art works fall in the first class, because of the ease with which sales of valuable works may be consummated abroad. The tax on jewelry falls in both classes. It has been difficult to collect, being in practice simply a tax on the honest jeweler, and, moreover, the trade is able to show that during the last six years it had earned on the average only 1-1/2 % on capital invested, and that in view of the fact that the average jeweler was obliged to absorb the tax, it constituted a genuine burden. This was likewise true in a general way of the cigar manufacturers, who demonstrated that under the high war taxes

the number of cigars sold was steadily diminishing, as was the number of cigar manufacturers. Accordingly, it is proposed to repeal the tax on the sale of art works and jewelry, and to cut materially the tax on cigars particularly of the cheaper variety.

Finally, there remain two taxes which, while very productive and not difficult to collect, were represented as burdensome to the consumer. There was considerable conflict of opinion as to both, but the Committee concluded in both cases to give substantial relief. The tax on alcohol is to be gradually reduced from the war maximum, on the ground that it is a tax on the raw material out of which many drugs absolutely necessary for the protection of the health of the people are manufactured. (Laughter)

Insofar as automobiles are concerned, all were agreed that what was left of the tax on trucks should be repealed, to do away with the existing discrimination; and that the tax on parts and accessories – the so-called tax on misfortune – should also go. But the same cannot be said of the tax on pleasure cars. The Treasury frankly opposed any reduction on the ground that the tax was very productive, that it was levied at a low rate on a very broad base, that the automobile was a semi-luxury, the tax on which at a low rate imposed no hardship, as is evidenced by the enormous prosperity of the industry and the number of cars sold, and, finally, that the Federal Government is spending annually approximately the full yield of the tax on good roads for the direct and almost exclusive benefit of the automobile owners. My own feeling is that the Treasury is, on the whole, right, and the tax should not have been reduced by more than one

percent in any event. But the majority of the Committee thought otherwise, and decided to reduce it from five percent to three percent for the benefit of the consumer, the manufacturers having pledged themselves to give the latter the full benefit of the reduction.

Let me conclude by saying a word or two about the taxes that were left untouched.

The capital stock tax should someday be repealed. But, yielding, as it does, \$94,000,000, it could not be repealed now, unless we were prepared to raise the corporation income tax rate, which would have involved an element of injustice to many corporations.

I should have liked to see the exemption from the admissions tax raised from 50 cents to a dollar, but it was not felt that in view of the reductions already made the Treasury could afford the loss. It will come. The admissions tax presents quite a problem. There is no disposition to burden recreation, but at the same time as long as we must raise vast sums by taxation, no one can glance at the multitude crowding the Yale Bowl or the Harvard Stadium on a November afternoon, without admitting that there is a source that can be tapped without hardship or the slightest inconvenience to anyone; and who will care to claim that if Jack Dempsey can receive \$500,000 for the seven minutes' effort required to knock out Firpo, those who are willing to pay so gigantic and ridiculous a sum to witness the show cannot well afford on such an occasion to pay a moderate tax to the United States Government. (Applause)

Stamp taxes are exceedingly productive, and taken as a whole are not open to serious criticism. We have repealed the stamp tax on land conveyances, and some of us would have liked to reduce or repeal the tax on the sale or transfer of capital stock and on the sale of produce on exchanges. But here again it was not felt the Treasury could stand the loss, a feeling that was strengthened by the fact that the volume of business indicated that the tax imposed no serious impediment to the transactions in question. I have read in the press that I have been blamed for the action taken by the Committee. I assume, of course, that there is no escape from criticism when engaged in a task of this kind. But I want to take this occasion to say that in this particular instance the criticism is not justified by the facts.

That gentlemen, completes the outline of the revenue bill of 1926. I do not agree with all of it, -- but I am convinced that it is a thoroughly sound measure, that it is far and away the best revenue bill that has come out of the Ways and Means Committee since we first started raising real money some 10 years ago, and that it's the best measure that can be drafted and had at this time. I say this, not as one of its authors, but as a taxpayer and tax student. Having expressed this conviction, I want to add, that this bill should not be allowed to be torn, mutilated or destroyed in the course of a partisan conflict. It is the fruit of non-partisan agreement. It should remain so until it reaches the President for signature. Public opinion, and public opinion along, can insure this. We believe we have given the country a sound revenue bill. If the people agree and approve, it is now up to them to protect it. (Applause)

PRESIDENT ELLIOTT: Now, Gentlemen, you see why I am proud of Harvard. (Applause) I think you will agree with me.

Next to Harvard I am a great admirer of Yale, on some occasions. (Laughter) We are very fortunate in having for our next speaker an eminent Yale man. You have heard a very powerful address from an eminent Harvard man, and I know you are going to hear a very lucid address from an eminent Yale man, and when you come to decide between the two addresses, I think very likely you will decide as the contest in the Harvard Stadium a week or so ago, where the score was exactly even.

Thomas S. Adams has been a professor of political economy in Yale University for 10 years. He is a great tax student and has been called to the Government many times as an advisor. He has written many books on tax labor problems, and he will now give you an illuminating address.

Professor Adams. (Applause)

Professor Thomas S. Adams

Professor of Political Economy

Yale University

Mr. Chairman and Gentlemen: I have had occasion several times to talk after Mr. Mills. I want to know if you won't agree with me that I am rather generous to resign my place to him. I can say

some things about the next tax bill which he could not gracefully say, and I want to use a minute or two of my introductory remarks to say them.

The Revenue Act of 1925, or 1926, the next Revenue Act, will be, in its broader qualities, I think, the most statesman-like revenue act that we have had for the last 10 years, or for many years. Much of the credit of that will go to the titular party heads, to whom much credit belongs, the President of the United States, Secretary Mellon. Their work in the past has made it possible; to the amiable Chairman of the Ways and Means Committee; to Mr. Madden, and the men to whom credit will go as a matter of course. But for such of the qualities of that Act as have been properly designated the fruits of non-partisanship, and if, to change the course of my sentence a little, the Revenue Act of 1925 escapes the shipwreck which accompanied the later passage of the Revenue Act of 1924, the principal credit will be due two men, a peppery Texas partisan, perhaps the most adroit political maneuverer in Congress, Mr. Garner, and to Ogden L. Mills, the man that preceded me. (Applause) It is to those two men that that absence of partisanship will be principally due. To that absence of partisanship the Revenue Act of 1925 will owe its chief virtues, and if it escapes the shoals of partisanship in the Senate, and if it is not mutilated in the Senate, it will be because from the House of Representatives a united Republican and Democratic party has been formed for a sound, wise and statesman-like bill.

I frequently wondered whether the People of the United States know the debt which they owe to Ogden L. Mills. It is very great, and I sometimes wonder whether even the people of the United

States know the mastery which he has achieved of financial details and the enormous influence he exerts over the revenue measures in the framing of which he participates. Just as Mr. Garner of Texas is sometimes really beaten in his very Congressional triumphs, so Mr. Mills, on many occasions, has accomplished a great victory in the midst of apparent defeat. That he has been able to remove partisanship in the House is due very largely to the fact that in factional battles in the past in which he has been vanquished, apparently, he has so impressed his opponents with his fairness and his grasp of fundamentals that they have, in this present emergency, been willing to cooperate with him and work in the spirit of non-partisanship for a sound and statesman-like tax bill.

I am not going to take very long and I am not going to talk in any very formal way. Most of you will be wanting to go home and I hope that anyone who wants to go will go. I do want to mention two or three of the more important administrative aspects of the tax bill which have their own importance. Most of these problems, of these larger administrative problems, are going to remain after the passage and adoption of the new tax bill. This new bill will, apparently, offer some very substantial improvements, and I welcome this opportunity to speak a little indirectly at the Chairman of the Appropriations Committee in this connection. The House of Representatives in the new bill has done a very courageous and, I think, a very statesman-like thing, in agreeing to do something which I have striven for for years and which, for the first time apparently, we have a real prospect of securing, anyway, the introduction into the tax service of the United States of a few men at the top, paid reasonably adequate salaries, and given a position

during good behavior. That, in its way, is a triumph quite as important, much more prosaic, much less exciting, but in a long time run, even more important, in my opinion, than the reduction of the surtax rate.

The administration of the important major Federal taxes in the last five or six years, in some essential ways, has been a disgrace to the intelligence of the American people. I want to be understood about that. The men who administer it are fine men, morally and mentally my equals and your equals. There have been in the service of the United States in this connection a surprisingly large number of devoted, talented and able men, and there are plenty of such men there still. Despite that fact, when the historians of the future, the financial historians of the future, come to write the history of the tax administration since the beginning of the war, they will be struck with amazement that an intelligent people tolerated many of the things that you have tolerated and that we are still tolerating.

Adam Smith, in those famous axioms of his which, in the field of taxation, stand somewhat like the Decalogue, has stated that the first requisite of a good tax is certainty, and I think that is a verdict which has been accepted almost universally since that time. There has been no certainty about our major tax in the last 10 years. They have been characterized by a vacillation, by an amount of uncertainty which has been almost unbelievable. Rulings have been switched and changed. Tax-payers who thought their obligations were settled have found them years later, changed. There has been a universal feeling of uncertainty among the businessmen of the nation.

The roots of this evil are many. They go deep, the constant change in the personnel that has occurred in the Bureau of Internal Revenue. I have in my pocket, I was looking over it a little while ago, a list made a year ago, of the principal positions in the Bureau of Internal Revenue, probably 200 of them, and the history of their occupants in the last five or six years. The average term of those positions has hardly been much over a year. Those are the men who are passing upon millions of taxes, and I mean literally millions of taxes. When I occupied one of those positions for a time during the war, I estimate that for two or three months the average amount of doubtful taxes that passed over my desk, things in doubt that could go one way or the other that I was passing on. It was considerable in excess of \$1,000,000 a day. And there are men in the Treasury Department, in the Bureau of Internal Revenue, particularly in the office of the Solicitor of the Bureau of Internal Revenue, who are doing that today. There is not abroad a sufficient appreciation of the financial importance of these positions.

I have been fiddling with certain tax cases in the last two or three weeks. One of those, the range of money involved is from about \$19,000,000 against the taxpayer to about \$18,000,000 in his favor. In another one I computed the range yesterday and it runs from \$15,000,000 additional tax to \$12,000,000 reduction. And within those ranges there are a dozen questions which you never heard about, upon which there are no clear-cut legal precedents, about which there is no clear-cut right and wrong, equitable or legal; which most of the lawyers and Judges of the United States, the existence of which most of those Judges and lawyers never suspected, but which will make

the turn of those particular cases, \$1,000,000 this way or the other, and those questions are being decided by men whose salaries range between \$5,000 and \$6,000 a year. They are being decided in an office where they cannot take in a man at a salary in excess of \$3800 a year. Those men go up against lawyers of the type of Mr. Hughes and John W. Davis on occasions.

The amounts of money involved are fabulous. They are literally unbelievable, and in these positions we bring in men and keep them a year and a quarter and pay them \$5,000 or \$6,000 a year.

I haven't time to discuss many of the subjects which I shall tackle adequately. But I know from long experience, from having lived in that atmosphere for years and years and years, I know that the most essential thing required in the improvement of administration of the Federal tax system is security of tenure. These men leave partly, and in the minor part, only, because they are not paid as much as they can earn outside. They want a little more salary, as a rule. They leave principally because they are not assured of the future. Because, at some time they may be humiliated, either by an investigating commission who believes they are not taxing enough, or humiliated through the influence of some large taxpayer who thinks they have been too severe. One of the lamentable facts about the administration of taxation in this and other countries is the fact that men in charge, the men engaged in it, are exposed to the merciless cross-fire of criticism. They need protection the same as your Federal judges. The outstanding cause of the superiority, the great superiority, of the administration of British taxes, is the fact that the men

who are in control have a life position; their offices are dignified, they are regarded and they are the metal and economic and legal peers of the great businessmen and the great lawyers and great accountants with whom they are called upon to contend.

The best thing that can be done for the administration of taxes in this country is to pay the men somewhat higher salaries; they do not have to be so very large; but beyond and above everything, to make a long tenure of office. One of the rather interesting characteristics of this little list that I have in my pocket, it shows that the average tenure of office in this position has been about a year and a quarter, is a little notation back of each name indicating what became of the man after he left the service. I think I might point that out, these little marks that you see, the dates on the side. Where there is a blank or a long explanation, the man has gone into some higher branch of the government service or has simply resigned. But the little date mark here illustrates the proportion of these men who have become tax experts. There is the second page and there is the third page. About 90% of them have gone out into the tax practice.

That has its meaning. It is not altogether a bad thing. These are honest and able men as a rule. They do not hurt the tax practice by going into it. On the whole they improve it. The man who comes into the government service and stays there a long while catches some appreciation of the government's point of view. It is good for him. He becomes in the average case a more wholesome servant of the public, and a more wholesome and able adviser of the taxpayer that he would otherwise have been. But, nevertheless, there is a subtle evil, in my opinion, in the fact

that in these higher positions of the Treasury Department, we have been conducting for years a training school for tax experts. It is not wholesome in its net effect, and it ought to be stopped. It is one of the strong features of the new Revenue Act that the members of the Appeal Tax Board who are exercising, in this connection, in the settlement of those important tax cases, more influence than anyone thinks, that they are given a salary of \$10,000 a year, and a tenure during good behavior, with the provision that if they accept such a position they shall not be permitted to practice for four years after leaving the service. There is much complaint about that, but if we give the unlimited tenure, I personally feel that that condition is sound and wholesome.

While I am on this subject of tax administration, I want to mention one other general condition. One of the great evils of the existing machinery at the present time is that the neck of the bottle is too small. There are too few men in the Bureau of Internal Revenue entrusted with the serious and grave responsibility of settling cases. In the last resort, in important cases, you come down practically to one man. There ought to be more than one man. Physically one man is not able to stand the burden. It is infinitely important that with the proper safeguards and with the sanction and understanding of Congress, that there should be in the Bureau of Internal Revenue a larger number of men charged with the power of settling cases.

One of the most striking difficulties of the Federal administration of taxes is the difficulty of getting a settlement. You can go to England and after a reasonable length of time, have an unequivocal statement from the government of the position that you are taking, that they are

taking; you can come together, settle your tax, get away, and have done with it. That is not the state of affairs in the Federal government here. Things drag out for months and months. There ought to be more men, as I say, empowered to settle tax cases, and I am very glad to say that the new bill will accomplish a great deal in this respect. It provides for six new additional Deputy commissioners of Internal Revenue appointed for 10 years at a salary of \$8,000 a year, and I hope that in some way, before the bill is eventually concluded, two changes will be made in the provisions; first of all, I hope there will be inserted in connection with the group of Deputy Commissioners, a provision which deals with those sections of the law dealing with the Board of Tax Appeals, that these men shall be appointed solely for fitness to perform the duties of the particular office. It seems to me that that is worthwhile and it is important. Certainly, I hope, with respect to these men, that the tenure of office can be made even longer.

Down at the bottom we infinitely need in this connection, in my opinion, and this is one of the tasks which I hope that this group of Deputy Commissioners can perform, we infinitely need a clean-up Commission. We need a Commission, better within than without the public service, to go in and clean up the old war tax cases. They hang still, and in my opinion they will hang for many years like a millstone upon the neck of the Treasury Department.

Why they are permitted to linger I do not know. In the average case the passage of time means loss to the Government. A decision has recently been handed down which will cost the government of the United States, it is estimated, \$110,000,000, four or five months ago. A

decision was rendered just last week or so by the Board of Tax Appeals which will cost the Government in these cases \$50,000,000 or \$60,000,000, at least. In the long run the taxpayer, vigilantly guarding his interests in particular cases, on his toes every minuet, is getting advantage of each new favorable decision. The government cannot be so wary in protecting its interests. These cases should have been wound up long ago. Daily procrastination, apparently meticulous examination of details, gets no greater accuracy and, gentlemen that is the final thought I want to leave with you.

There is a fundamental misapprehension, if I may say so, in expressing my opinion, in this country, about the proper ideals and proper methods of tax administration. We are being misled in this connection, and the Bureau of Internal Revenue is being misled, by a very high ideal, which is impossible of realization. We have got the notion that with respect to the tax law there ought to be some exceedingly plain and unmistakable duties and obligations; that the administrative authorities should take those provisions and enforce them sympathetically, but without fear or favor, and that there should be about the application of these important Federal taxes a certain sort of mathematical certainty and directness. In short, that we should conduct the decision of these cases after the manner of the individual lawsuit. That is a high ideal. I haven't any quarrel with it as an ideal. But it is utterly impossible of realization. In any important tax case there will be five or six points swinging five or six million dollars this way or the other upon which there is practically no precedent from an important court, upon which experts differ, and which may not be decided by the Supreme Court for six or seven or eight years. We cannot

wait until those things are decided. There is necessarily involved in those cases something in the nature of an inevitable compromise on a high plane, and which every honest man presumes to be something in the nature of a business deal. Apparently, however, I can get few people to admit it openly. Every tax expert knows that it is true, privately. Those old war cases are never going to be settled in any other way.

With respect to a recent case, a man in the Attorney-General's Office, who looks after the trial of these cases, said to me, with due apologies, because I want to quote exactly, "For god's sake, keep this out of the courts. It will cost us \$150,000 to prepare the case, and we cannot settle it in less than eight years." Why do we persist then, in attacking this group of cases in the belief that somehow there is a definite clear-cut legal correct solution of it which can be found if we will keep at it a little longer? It won't be found. Those cases ought to be settled by a group of high-grade able men entrusted by Congress with power to get rid of them, and if that had been done five years ago the Government of the United States, and I am speaking deliberately, would have been, in my opinion, better off by at least \$500,000,000. They shrink with the passage of time.

I should have stopped before. The administration of Federal taxes should be provided for by Congress with these facts in mind. I don't know what it all means, but I do know, that charged with the tremendous possibilities that these men have, the public is culpable if it does not get a permanent service of men of first rate ability. Get them in the service and keep them there. I know that we are making a mistake if somehow we do not entrust a small body of men with the

power to settle these cases quickly, and I know, best of all, that if you gentlemen agree with me on that question, and if you will do what Mr. Madden asks you to do, exercise a duty and responsibility of citizenship, if you will go to Congress and press those points upon them, Congress will give them to you.

Taxation, and here the businessmen frequently make their mistake, is, in some of its characteristics, a great conflict of forces which you have got to go and fight for what you believe is right, content to accept in the end the results of a great mass of conflicting forces, many of which seem to you possible wrong. In matters of policy you can only exert a little influence. You only ought to be able to exert a little influence. I am speaking to you as employers and businessmen, as upper professional men. There are other groups of population which have other interests from yours, but the Federal Tax Bill is going to be the resultant of a conflict of forces coming from many directions. But on the importance of procedure and administration of these questions, of getting odd men and holding them and making the only kind of provisions that will get and hold them, on the settlement of those questions you are experts; and if you go to Congress and ask for those things which your experience tells you are essential to the maintenance of efficient administration, you will get them.

The new tax bill is going to have a provision for a joint Tax Commission designed to investigate and report to Congress on methods of improving the administration of the income tax, and particularly of simplifying the income tax. That needs all the support that it can get, all the work

it can get, and all the assistance it can get from the professional and businessmen of this country. That is a long, hard, arduous task. In my opinion, the Federal tax system and the income tax can be simplified very materially. It is infinitely difficult to work out technical ways; infinitely difficult to convince the country that methods of simplification that you propose are sound.

I want, in conclusion, to ask you gentlemen to remember that joint Tax Commission, and when it gets to functioning, to give it what the provisions of the law make it legitimate for that Commission to accept, your voluntary assistance.

I thank you. (Applause)

PRESIDENT ELLIOTT: The meeting is declared closed.