

The Economic Club of New York

101<sup>st</sup> Meeting

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John W. Prentiss and

George Soule

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April 29, 1932  
Hotel Astor

GENERAL MCROBERTS: I regret that the distinguished man who is succeeding me as President could not be here tonight. He has a very good reason for not being here, but I congratulate this club on my successor. I have enjoyed the experience, which has been interesting during the last two years and I am particularly gratified that John Watson is to take charge of these dinners during the coming year.

We do not seem to be able to get away from the question of taxation. In common with the whole world we are involved in these fiscal and economic problems, and they seem to be the problems that are foremost in every one's mind at the present time. When Winston Churchill painted the world picture to us, as we understood it we thought we would reach an early solution, and when we had Mr. Ogden Mills, who gave us a very clear and definite program as to how we were to balance our budget, we felt that we might proceed to some other subject during the following dinner, but we are more or less in the same position we were at the time we had Mr. Mills with us.

We have this difficulty, too, tonight. Congressman LaGuardia has been detained in Washington, and we are very much disappointed in having to say to you that owing to a night session he has been unable to attend this dinner. Now, in strict justice to him, I am sure you must understand that he could not come. In fact, I think he spent a large part of that reduced Congressional salary of his in the last few days wiring us and explaining just why he could not come. I think Mr. Ely, who was in touch with him, wants to make a statement.

MR. ELY: Mr. President, it is only fair to Mr. LaGuardia to say that he has done his utmost to keep this engagement. In a telephone conversation with him in Washington he promised to come and said he had made all his preparations. Then he sent the first of a number of telegrams. This one is dated April 25<sup>th</sup>:

“Deem it my duty to inform you that announcement was made today that we would be in night session Friday, April 29<sup>th</sup>. If that is so, it will be impossible for me to keep speaking engagement, subject to this contingency. Will wire again tomorrow.”

Then he wired twice the next day:

“Situation has not changed much. Impossible to tell what the parliamentary situation will be Friday. Will wire you again tomorrow as well as Friday morning. I am making every human effort to keep this appointment, but everything seems to be against it.”

“Situation not much different than yesterday. There is a slight hope that we may finish economy bill in time. Will wire you again tomorrow night.”

And so on. The last message was this morning, when he said he would have to give it up.

(Applause) He was ready to fly.

Mr. President, may I take this opportunity to say that a number of questions have already been sent to your Secretary. More are desired. Send them along and either of the speakers will consider the questions, and if there are any questions that they are not equal to, and which the President cannot tackle, I agree to send them to Mr. LaGuardia and ask him to telegraph his reply. (Laughter and applause)

GENERAL MCROBERTS: The first speaker that will address you, Mr. John W. Prentiss, is no doubt known to all of us. He has spent practically his entire career in New York City, and in a rather prominent way during recent years. He was born in Maine, and he graduated from Harvard, and immediately upon his graduation became an employee of the banking house of Hornblower & Weeks. He is one of the Harvard bon salesmen that has made good. (Laughter) He has been a partner in the firm for the last 26 years.

Now, this firm of Hornblower & Weeks, in addition to being known as a very active security house, doing many constructive thing—and if we believe all that some other people have said, other things—but they have been known as a group of very thoughtful men that were quite willing to devote their time and attention to public affairs as well as matters of business.

One of their partners, Mr. Weeks, whom you all know, was a Congressman over a period, and he served the country brilliantly as Secretary of War in the Harding and Coolidge Administrations. The partner that is going to address us this evening has done his share and has been generous in

devoting his attention to matters of public interest as well as his private firm affairs. During the war he served as a colonel in one of the divisions of the General Staff in Washington, and in all our local bodies, etc., John Prentiss has done his part. I am sorry I cannot give him an opponent. This is not a debate, exactly. Neither were the speeches prepared as a debate, but I am sure that Mr. Prentiss's interest is just as keen in enlightening us on the question for discussion as if an opponent that he expected would be here, and I take pleasure in presenting Mr. John W. Prentiss. (Applause)

MR. JOHN W. PRENTISS: General McRoberts, Ladies and Gentlemen: I am glad to be here, but it is a terrible disappointment that the Congressman is not here (Laughter). I have been corresponding with him through the public press. I have never had the pleasure of seeing him and I was rather looking forward to it (laughter). This is such a large town we live in that we do not know all of our own congressmen as we do in smaller communities, and I thought that I would rather than say them a long distance, but whatever I say and in the language I have prepared I am going to show the Congressman that there is no ill-feeling or personal feeling or spite or anything of that sort, and I hope he will take it in that way.

In these days of unbalanced budgets, national, state, municipal, industrial or other kinds, we are all very conscious of the tax problem because we realize that budgets must be balanced. It is necessary for the Federal Government to balance its budget. It is necessary for the city of New York to balance its budget. It is likewise necessary for the U.S. Steel Corporation or the New

York Central Railroad, or the General Motors Company to balance its budget, or any individual.

Private corporations, moved by considerations of commonsense and regard for the interests of their stock holders try to balance their budgets by reducing outgo—by spending less so that less must be raised. This process is not fashionable with governments. Their basic proposition is that they must spend as much or more than ever before.

In order to balance budgets we have got to take a certain amount of medicine in the form of additional taxes. Most medicines are unpleasant to take but if they accomplish their results quickly and painlessly, the patient ought to be satisfied. Today it is necessary, in order to balance the budget, to tax practically everything. It makes no difference whether it is real estate, incomes, wheat, corn, cotton or stocks, or even beer; they have all got to be taxed. The problem is now to tax them in the simplest manner and get the money because unless a tax produces the money it is no good.

To accomplish this end, the sales tax is, of course, the most desirable. First, because it is universal, it compels every individual in the country to share directly in it and it thereby makes that individual tax-conscious and will, perhaps, persuade him to rebel against the present extravagance in Government. Second, because it is a logical supplement to the income tax; third, because based on its success in Canada it promises actually to produce the large volume of revenue which is necessary to balance these expanding budgets. The way in which a sales tax

supplements the income tax becomes immediately apparent when it is realized that in this country there were in 1930 only 2,454,000 income tax payers out of a total population of 125,000,000 people. In England, for example, there are 2,250,000 income tax payers out of a total population of about 40,000,000. In England the income tax base for the head of a family is \$750 and in the United States it is \$3,500. As I am going to show, the rapidly decreasing incomes of the people of the United States, makes it impossible to do any budget balancing with income taxes. It therefore must and should be done with the sales tax.

Let us, for a moment, consider Federal, State and Municipal indebtedness; before the war the debt of the U.S. Government was about \$1,000,000,000. It rose during the war and immediately thereafter to about \$26,000,000,000. Then it fell to about \$16,000,000,000 and is now rising again so that at the moment it is over \$18,000,000,000. At the end of 1913, not quite 20 years ago, the total debt of our states and municipalities was approximately \$3,000,000,000. It has steadily risen since then until now it is approximately \$16,000,000,000 so that as we stand today our total debts, Federal, State and Municipal, have risen since 1913 from approximately \$4,000,000,000 to \$34,000,000,000. In other words in not quite 20 years our debts in this country have increased 800 percent. I wonder how long the people of these United States can stand this burden which becomes even more acute when the actual costs of Government are compared to the National Income out of which they must be paid, now that State and Municipal bond financing are out of the question. Whereas the national income was raised between 1913 and 1929 from \$34,000,000,000 to \$85,000,000,000, even in this period the rate of taxation increased

so disproportionately that our Government costs, which had amounted to only 8 percent in 1913, stood at approximately 15 percent by 1929. Since then the national income, as you know, has shrunk alarmingly, so that for the calendar year 1932, we, as a nation, must expect to see our income drop below \$45,000,000,000—a drop from \$85,000,000,000 to \$45,000,000,000 in three years—a fact to which our political leadership has obviously closed its eyes inasmuch as a fair estimate of taxes for the current year would total at least last year's volume, or \$14,000,000,000, or nearly one-third of the national income.

Subtracting total Government costs—National, State and Local—of \$3,000,000,000 in 1913 and \$14,000,000,000 in 1932 from the estimated national incomes of those years, it is shocking to find that the net income accruing to the tax payers of this country will be approximately \$31,000,000,000, or nearly the same as that which accrued to our taxpayers in 1913, in spite of the 25 percent increase in population which has occurred in the meantime, and in spite of the fact that the public pocketbook will be called upon to make almost super-human sacrifices in this dreadful year to support an unemployment relief program more serious than any question which has heretofore faced our Nation.

Because I feel these figures are so important, I have undertaken to prepare them in a tabular form which I believe must immediately strike home in the mind of every taxpayer, and which I had hoped would impress the Congressman and his associated with the grievous need of the American people for relief.

	1913	1929	1932	Approx. % of Increase
U.S. Govt. Debt	\$ 1,193,000,000	\$16,742,000,000	\$18,500,000,000	
State & Local Debt	3,596,000,000	13,500,000,000	16,000,000,000	
Total Debt	4,789,000,000	30,242,000,000	34,500,000,000	800%
National Income	34,400,000,000	85,200,000,000	45,000,000,000	30%
Total Govt. Expenses (National, State & Local)	2,919,000,000	13,048,000,000	14,000,000,000	480%
Net Income (Available for taxpayers)	32,451,000,000	72,152,000,000	31,000,000,000	5% <sup>d</sup>
Total Government Expenses (as % of National Income)	8%	15%	30%	

d-decrease

We are headed straight for insolvency. There is not a bank in the United States that would lend any corporation a nickel on a statement like that. It is a dreadful condition.

Therefore, gentlemen, I repeat that blind as our Government was to the increasing danger of this tax burden even in the prosperous years of the late twenties, this blindness seems excusable compared with the reckless disregard which our public officials, National, State, and Local, have paid to the problems arising from our financial and industrial collapse.

Let us consider what this blindness has meant to industrial America in the last three years. It is estimated that in 1930 approximately 20 cents in every dollar earned by the American people

went to pay our cost of Government—National, State, and Local—and in 1931 this dangerous overhead rose to early one-quarter of the national income and currently promises to run at nearly one-third of our present income. There are lots of people who do not believe they are paying any taxes. Back in 1913 our Governmental costs happily stood below the immemorial tithe which history has proved to be the maximum overhead which the Government can impose on its people with safety. With current expenses draining one dollar in every three that will be earned by the American people, there has not been a single public leader who has openly faced this problem, and economies heretofore proposed have not been drawn up in regard to the overwhelming Governmental costs of our people.

Gentlemen, it is clear that this overwhelming taxation is not only the greatest obstacle to any industrial recovery of our people but is actually a millstone around their necks. Without drastic tax abatement, business advances will continue to be impossible and if incomes fall at the rate at which our income has declined since 1929 thru 1932, it becomes apparent that by 1935 at the latest the entire earnings of the American people will fail to match the \$14,000,000,000 to \$15,000,000,000 extravagances of our political leaders. The absurdity of this situation is apparent, yet the vanishing point is only three years away.

In other words, at the rate our income has been going down in this country for the last two years, and the rate at which our taxes and overhead have been going up, all of our income, the entire gross income of the American people by 1935 will not be enough to pay the interest on the debt.

Now, what are you going to do with a condition like that? Are you going to cancel your debts? Are you going to have a moratorium? Are you just going to forget it? You have to get enough money to pay your running expenses somehow. You cannot get it by an income tax when your income is going to disappear. About the only way you can get it is by a sales tax.

While it is foolish to hold Congressman LaGuardia personally responsible for the entire Governmental blindness to our critical situation, nevertheless, the bill which passed the House of Representatives carried in the popular mind the stamp of his name. I do not want to argue with Congressman LaGuardia; I want to inform him of the gravity of the current situation, feeling that once he appreciates it, he too will wish to abandon demagogic appeals and confiscatory legislation aimed against the rich, but which in actuality will be productive of little real revenue.

When Congressman LaGuardia introduced his tax of 1/4 of 1 percent with a minimum of 4 cents on sales of stocks and 1/8 of 1 percent on the sales of bonds, he, perhaps, thought that he was “soaking the rich” or “soaking Wall Street” but he has got another guess coming. In the first place there are no rich left to “soak” because 34 billion of Governmental debts and 14 billion of Governmental overhead have so decreased the income and value of property that those who were once rich are now poor and the only man who really can be considered rich in these days is the man who is drawing an untaxed Governmental salary that is paid by citizens who are rapidly becoming insolvent. (Applause)

If Congressman LaGuardia thought he was “Soaking” the stock brokers with his tax, he is very much mistaken because the stock brokers do not pay the tax. They pass it on to the customer, some twenty-five or thirty millions of people who own securities.

It is estimated that in order to produce the \$75 million of income that Congressman LaGuardia says this tax will produce, we have got to do for the balance of the year a daily business on the New York Stock Exchange of about 5 million shares and I, on this stand before you, offer to anyone in this audience, all I have left, including my shirt, if he can produce a daily business of 5 million shares on the New York Stock Exchange for the balance of 1932.

Suppose we turn to the real estate situation in New York; perhaps Congressman LaGuardia does not have the same antipathy to real estate that he has to stocks. He has apparently not discovered, as yet, that on Manhattan Island, real estate and stocks are very closely related.

In the financial district 12 percent of all the rentable area is vacant, and I am told of a lot of people who now occupy space who are not paying their rent. We have some space we would like to rent ourselves. In the insurance district, 12 percent is vacant; in the neighborhood of City Hall, 14 percent is vacant and in the Grand Central zone, which is four miles from Wall Street, 16 percent is vacant. In addition to this, rents have declined an average of 33 percent since 1929 and those of you who are interested in real estate will, no doubt, know without my telling you that when a building is 15 percent vacant and its rental roll has declined 33 percent that it is hardly

making enough money to pay its taxes. I do not have to tell you gentlemen that when a building is 15 percent vacant and the rent roll has decreased 33 percent, that the building is only one jump ahead of the Sheriff.

Let us turn, for a moment, to domestic apartments. There are 750 vacant apartments on Park Avenue; the land of those who were once rich. Above 34<sup>th</sup> Street, on the east side of Manhattan there are 3,000 vacant apartments and some of these are in Congressman LaGuardia's district. Many of these nonproductive buildings and vacant apartments are due to the loss in income that people have received from their securities or to the loss in the value of the securities. It is, I believe, part of the income tax law that a man may deduct other taxes paid from his income tax and if the owners of real estate in New York City are not going to get much income out of their real estate and can at the same time deduct their taxes, the Federal Government is not going to get very much money and Congressman LaGuardia will probably have to revise his opinions on the amount of money to be secured by the Federal Income Tax.

I want to talk a little bit more about Congressman LaGuardia's home town. I do not know whether the Congressman really considers New York his home town, not the way he has been talking about it recently. We all live on the Island of Manhattan and he does, too, and he is one of our Representatives in Congress. The prosperity of the Island of Manhattan is very dependent upon the prosperity in Wall Street. It is safe to say in New York City that we are more dependent on security income and security prices than perhaps any other community in the world, and I

think it is safe to say that any shopkeeper, hotel keeper, real estate dealer, speakeasy or bootlegger will tell you that when there are good times in Wall Street his business is good and when there are bad times in Wall Street his business is bad. I really do not think that when Congressman LaGuardia put through his prohibitive tax on the sale of securities and caused an immediate drop in a few weeks of about \$5,000,000,000 in the value of securities that he meant to hurt the business of the storekeepers, hotel keepers, speakeasies and bootleggers. I reiterate, he certainly did not do it intentionally because I understand he is as wet as I am and I am sure that neither one of us would intentionally hurt the business of our friendly bootleggers.

New York has two great industries – banking and insurance. We have on Manhattan Island the largest bank in the world and two other banks that are pretty nearly as large. We have the largest insurance company in the world and two other enormous insurance companies. We have half a dozen savings banks that are larger than savings banks anywhere else in the world. These banks, insurance companies and savings bank, have hundreds and hundreds of millions of dollars of bonds whose liquid market Congressman LaGuardia is attempting to destroy by this villainous tax of his. I think it no exaggeration to say that the banking and insurance business and the stock brokerage business is the heart of New York and we now have the incredible spectacle of a Congressman from new York trying to cut the heart out of his own city. If he can cut the heart out of New York and leave its other parts in good working order he is getting to do something that no surgeon in the world has ever been able to do yet.

Let us get back to the rich for a minute. I do not want to overlook the rich. The Congressman has not overlooked them. Just who are the rich and what is their income? In 1929 Congressman LaGuardia's friends, the rich, got dividends of approximately \$8,000,000,000. For 1932 they are going to get dividends, maybe, of approximately \$3,000,000,000. The Congressman has lost more than one-half of his friends in three years. So much for the income of the erstwhile rich. What has happened to their principal? In 1929 the rich were worth \$136,000,000,000 and today they are worth \$64,000,000,000. In other words, their principal has shrunk just about as much as their income has shrunk. It is about cut in half. These figures are the total figures of the value of all stocks and bonds listed on the New York Stock Exchange.

Again, I ask you, who are the rich? For example, the New York Central Railroad, which we have always understood was owned by the rich, used to pay about \$40,000,000 a year in dividends; now it pays nothing. The United States Steel Corporation paid out approximately \$64,000,000 in dividends to its common stockholders in 1929 and now it is paying nothing. In 1929 the great Anaconda Copper Company paid out in dividends \$53,000,000 and now it is paying nothing. Two days ago the Pennsylvania Railroad passed its dividend for the first time in 47 years. Where are these rich people? How in the world is the LaGuardia tax bill going to balance the budget with a condition of this sort? There is only one way to do it and that is by a general sales tax and if Congressman LaGuardia wants to be of real benefit to his constituents on the Island of Manhattan and to the people of the United States at large, he will persuade his Bloc to agree to a general sales tax, not for the benefit of the rich but for the benefit of the poor who were once rich

and all other citizens of the United States.

Some of you may think that I am joking or have drawn an exaggerated picture, but these figures that I have given you are approximately correct and have been carefully prepared. I am in a business downtown and I am in a position to know what moneyed people have and what they have not. When the time comes to call for margin I am in a position of knowing about their income. I deal in securities. I deal in securities representing money, or money representing securities. I would like to tell you about myself for a minute. Perhaps you will pardon me if I talk about myself, but I used to have a pretty good business down in the lower end of Manhattan. Some of my own friends used to say that I must be getting rich. As a matter of fact, I thought so myself at one time. (Laughter) I did not pay any income tax in 1931 because I did not make any money in 1930. I am not going to pay any income tax in 1932 because I did not make any money in 1931, and I do not expect to pay any income tax in 1933 because it is a cinch that I cannot make any money in 1932. I am living on my fat and I am just like a lot of other stockholders downtown. We had some prosperous years and we saved a little money, but there is not anybody downtown making any money any more. And I have not lost this money gambling in the stock market. I have not lost my income because I had to sell securities at a loss. I have just lost it because I am paying out more money in clerk hire and rent than I am taking in in commissions. I have lost it because my business has evaporated, and everybody's business has evaporated. How are you going to balance your budget on an income tax when you cannot find the income? It is just like chasing a rainbow to find a pot of gold at the end of the rainbow. It just isn't there.

We are terribly burdened with debt in this country—that is the principal reason for our depression. People are frightened. People worry about these debts. People are literally throwing their securities away. It is criminal to think of the prices that things are selling for. Some people sell through fear. Others through hunger because they have got to sell in order to pay their living expenses. To me the worst part of the whole situation is that the people of the United States have lost confidence in their own Government.

I believe the true situation in this country is becoming clear to the man in the street who, with his wife, does most of the voting. I believe he senses that the government is headed toward insolvency, that somehow foreign trade is necessary to domestic prosperity, and that somehow disrespect for law, centering in the Eighteenth Amendment, is undermining our national character. I believe he sense that it is the wrongness of these things that is having a direct and damaging effect on him and his family and that perhaps the remedy lies in his own hands. I believe he is ready to understand and to welcome, in the coming campaign, a platform with teeth in it; and to support any candidate brave enough to stand on it. I suggest the following platform:

We demand that the federal government stop spending money it has not got. We are against the spending of public money for private relief. We demand cutting down the number of government employees and cutting out government bureaus. We claim that it is “practical” to run government business with the same economy and commonsense which the average American citizen of fair intelligence and good character uses in running his private business.

Second Plank: We demand a sales tax to balance the budget. (Applause)

Third Plank: We demand unconditioned repeal of the Eighteenth Amendment. (Applause)

Whether viewed as an experiment or as the law of the land we assert this amendment has proved more harmful to public morals and to private character and to the Federal Treasury than any experiment, enactment or experience of this nation in all of its history. (Applause) That is a very brief political platform.

There is, I think, only one man in this country who could carry out this platform and that man is Calvin Coolidge. (Applause)

GENERAL MCROBERTS: When it became apparent that Congressman LaGuardia could not be with us tonight we canvassed the distinguished and learned gentlemen who were the guests of the club this evening, who might be willing to take his place on the program. Mr. George Soule has very kindly consented to do so. He is a well-known journalist, a frequent contributor to our morning papers and periodicals, and editor of The New Republic. He has had experience in Governmental affairs. He has expressed opinions which, while I would not say on all fours with those of Congressman LaGuardia, at the same time they may be considered as expressing somewhat his point of view. It is very kind of Mr. Soule to undertake this. I think we all appreciate it, and I take pleasure in introducing him to you. (Applause)

MR. GEORGE SOULE: Mr. President, Ladies and Gentlemen of the Economic Club, and Guests: I hope you won't think I am speaking as a substitute for Congressman LaGuardia. I cannot substitute for him in eloquence, in fire, and I should not want to have you impute to him all the views that I may express. As a matter of fact, I do not know anything about what he thinks about this question, except what we see occasionally in the daily press. My own opinions have been formed over a considerable number of years, and it is possible that Congressman LaGuardia has paid attention to some of the same sources that I have.

Now, you have just heard a very convincing demonstration that we are in the middle of a depression. I do not believe that we really needed to be reassured that that was the case. During the days of prosperity it used to be said that there was a tendency for everybody to get excited and to go extremes in their beliefs, not only about what was happening then but what was going on, what was to happen in the future. A great many people believed that prosperity would be endless, and we have had a good many warnings since then that we should not go to the other extreme about depression, that we should not think that just because we have a depression that that depression will be endless.

Now, I am not going to say to you that I think that prosperity is just around the corner. I think we are in an extremely serious situation, but at the same time while I expected the argument of Mr. Prentiss to be based on the assumption that depression was going to go right on, I really did not expect anybody to say that the National income is going to go on decreasing at the same rate that

it has been decreasing for the past three years. As a matter of fact, if the depression is going to go on at the present rate, and if it is going to get worse, I do not see what earthly good balancing of the budget is going to do, so I think we have to look to some far more drastic measures than that.

Now, what sort of depression is this: Nobody has solved the secret of its causes, but there are certain outstanding characteristics that we may identify, and in order to identify them let us go back a little into the years of prosperity and see what happened then and what were some of the seeds that appear to have given rise to the recent situation.

We heard a great deal during prosperity about the economy of high wages. We were going to keep prosperous, some of us, by increasing wage rates so that the wage earners would be able to buy back the things that were being produced. The best statistics that we have on the subject show that in manufacturing in the United States the actual real earnings of wage earners were lower in 1928, during the last year of prosperity, than they were in 1923, at the beginning. The miners were making less money at the end of prosperity than they were at the beginning. The farmers had hardly increased their real earnings at all during prosperity. There were slight increases in transportation, and somewhat larger increases in the building trades, which happened to be exceptionally prosperous. But taking all wage and salary earnings on the average, it is not likely that their purchasing power per capita increased more than 5 percent in the five years 1923 to 1928, say, on the average of 1 percent a year.

During this period the production of industry in the United States was increasing at the rate of 4 percent a year, or four times as fast as the basic incomes of farmers and wage earners, who were supposed to buy the production. Transportation, as measured by railway ton miles, increased 4 percent a year, and during that period, or at least the early part of it up to 1927 or 1928, aggregate corporate profits in the United States grew at the rate of 9 percent a year, or more than twice as fast as production, and about nine times as fast as wages.

Now, without going any further into the details of what is really an extremely complex theoretical subject, it looks fairly reasonable to suppose that we were building up our industrial equipment faster than we were distributing the purchasing power with which the product of that equipment could be bought. That looks as if I were going to subscribe to the theory of over-production as the cause of the depression. Not at all. I do not think our industrial capacity was increased too rapidly. I think the trouble was that the purchasing power was not increased rapidly enough. What caused the depression, as far as this range of events caused it, was under-consumption and not over-production. We have never yet produced anywhere near enough in the United States to satisfy the legitimate wants of the rank and file of the people, and particularly of its poorer strata. Plenty of more goods could have been sold if the rank and file had the incomes wherewith to buy them. The trouble was that we did not actually organize to put into effect the economy of high wages.

Now, of course, the depression had international causes as well, but there also I have an analysis

to show that it was a failure of purchasing power through maladministration of various kinds which caused our exports to fall off. Now, here we are in this depression, with the magnificent productive equipment that we have build up, much more than is being used, as you can tell by the figures of production as compared with the figures of capacity in almost any industry, and the question is what we ought to do about it.

Now, there are two kinds of theories as to what we ought to do about it. One kind says: “Keep up, as far as you can, the capital values that have been invested in the productive equipment. Invest more capital.” But it is difficult to see how that can occur under these conditions. The Reconstruction Finance Corporation is saving companies, banks and railroads from liquidation. Its tendency is to keep up capital values in so far as it operates. But it cannot keep up all capital values forever. Furthermore, it is difficult to see who is going to invest new money, and in what? At present the Government and the Federal Reserve System are carrying on an experiment in the expansion of credit. The Federal Reserve Banks are buying large quantities of Government bonds, the effect of which is to gradually increase the credit resources of the member banks, and it is hoped that this credit will be used in new construction, new private construction and expansion of business and new investments. The question is will it be? Perhaps it will, but it is difficult to look at any quarter and find a businessman who sees any possibility of using even the equipment that he has, to say nothing of building more.

Now, the other schools say: “All right. We have got ourselves into this situation. We have

adopted a policy of sustaining capital values as far as we can, which is an artificial policy. If we were just going to keep Government out of it altogether and keep central banks out of it altogether, the way to get through the depression would be to let capital be liquidated just as rapidly as it can be, so that interest charges and fixed charges and overhead could be reduced, and a new balance might be struck between prices and popular purchasing power.”

As long as we are not doing that, as long as we have embarked on a course to try to do something conscious about this situation, every Governmental policy ought to be directed toward increasing the purchasing power of those who formerly have not had enough and who now have still less. Every Governmental policy ought to be judged by that criterion. Now, the policies that are being adopted are diametrically opposite to this in most cases. The President has been telling people that they ought to spend more in past months, and now everybody is telling the Government that it must spend less. Private business has discovered that it cannot spend more under the existing situation. It cannot artificially create a demand. It must trim its expenses to keep them within its income. Government is the only great economic unit in the United States which can spend more if it wants to, and why? Because most of its products are not for sale. Therefore, it does not have to depend on the market for its revenue, and because it can spend for permanent improvements of various kinds of money which is not devoted to selling goods.

It is difficult to see how we are ever going to revive unless somebody starts spending more.

Well, now, if we are going to deal with Governmental fiscal problems we have to have some sort

of theory about what is going to happen in the future. The theory which you have just heard expounded is based on the assumption that the depression is going to continue indefinitely, or possibly is going to keep right on going down. It does not seem to me that any Governmental fiscal policy can be intelligently based on such a theory. If we are going to adopt that theory we might as well give up the present way of doing business altogether.

It seems to me that the way to balance the budget is not so much to raise tax rates on the one hand or to slash Governmental expenses on the other, as it is to do something that may help bring back prosperity. If the National income were today what it was in 1928 or 1929, or even in 1927, we should have no Governmental fiscal problem, and still the rates would be what they were two years or more ago. Now, if we adopt the theory that perhaps prosperity is not going to come back tomorrow, but that it is going to come back some time and that perhaps it won't come back for five or six years, but at least we are likely to have some kind of slight business revival, and that we may possibly help to do something to bring it about, then the question of balancing the budget does not seem to have such an enormous weight in the present situation.

If you assume a succession of lean years and fat years, you can readily understand the wisdom of a policy of the Government in attempting to rigidly balance the budget in lean years and accumulating a surplus in the fat years to pay off the debts which it must incur in the lean ones. More than that, however, what are we to understand by balancing the budget? Secretary Mills has said, "By a balanced budget we mean that the Government will live within its income; that

current receipts will be adequate to cover current expenditures; that borrowing will not be resorted to, to pay the ordinary running expenses of the Government.”

Now I am willing to accept that definition, but I want to point out to you what it implies. At the present, when people talk about balancing the budget, they mean raising Government money by taxation so that no money will have to be borrowed at all, whether for the ordinary operating expenses of the Government or for permanent construction. No private business is run on any such system of bookkeeping. A private corporation would be aghast if it were told that it could never borrow money or issue bonds in order to enlarge its plant, and that its current income must always be sufficient to pay all expansion and all permanent improvements. Now, if we divide the Government budget into current operating expenses and construction expenses, then balancing the budget becomes an easier thing and something which is quite within reason. We are quite at liberty to borrow money at a time when an expansion of Governmental expenses for permanent improvement seems desirable—more desirable than at any other time in the business cycle, with the assurance that as prosperity returns the debt may be paid off before the final depreciation of the construction occurs.

During the war we accumulated the debt which you have heard given in the figures, something like \$22,000,000,000. We accumulated this debt within about two years. Nobody then talked about the immediate necessity of balancing the budget. We are told that this emergency is similar to that of war. We have eight to ten million unemployed people. We know that purchasing power

must somehow be put into circulation if we are ever to have any upturning business.

We know that Governmental construction does put money into circulation, puts it into circulation in wages, in orders for materials. There is no question that money so spent gets around to business enterprises and even helps to sustain capital values, and that it multiplies as it goes.

Why, then, should we fear to increase our Government debt during the present emergency by perhaps three, four or five billion dollars and still not get it anywhere near up to the level that it was in 1919, when our productive equipment and our proportions were far smaller than they are today? Is it not a sign of panic that we recoil from such a proposition with horror? Now, of course, even if we adopt this restricted definition of budget balancing, we shall have to increase taxation, and the question is how best to do it.

First, let us take the sales tax. I want to point out that the sales tax like any other conceivable type of tax is a tax on incomes. It comes out of people's incomes. The difference between the sales tax and what we ordinarily call the income tax is that its burden is differently distributed. Nobody can raise any money by taxation in the United States but that it does not come out of somebody's income, and you cannot raise any more by the sales tax than you can by any other form of taxation.

Now, how does it differ from the ordinary income tax in the assignment of its burden? Well, in the first place it bears on everybody. It bears on the partially employed man. He may be

receiving only for our five hundred dollars a year and his children may be under-nourished and partly starved. It bears even on the purchases that would be made to relieve the unemployed, so that its burden is not distributed according to capacity to pay. That is its first difference from the ordinary income tax. Not only that, however, for whether the ordinary income tax is progressive in the sense that it places higher rates on the higher ranges of income, the sales tax is regressive in the sense that it places larger proportional burdens on those of small income than it does on those of more, for, mark you, it is collected only when goods are sold. People of small incomes have to spend every cent they make in buying goods. The sales tax is not collected when money is saved or invested, and it is the people with large incomes who save or invest the largest amount of money. Therefore, it takes a larger percentage of the actual living needs from the poor man than it does from the rich. It is an outrageous piece of class legislation.

In the second place, the sales tax does the very thing that I pointed out at the beginning it was unwise to do. It diminishes the purchasing power of the rank and file of the people, whose purchasing power ought to be increased. The purpose of advocating the sales tax is to place the burden on the sale of goods and not on the investment of money, but if it is true that what we need to do first is to increase the sale of goods rather than to increase the investment of money, what point is there in hampering the sale of goods in order to relieve investment?

I noted with great interest that while Mr. Prentiss advocated the general sales tax, he was very bitter against the stock transfer tax, which is merely one form of the sales tax, the sales tax on the

sale of stock. Now, he sees very clearly the detriment that such a sales tax makes in the goods of his own business, and in that he is like every other manufacturer who has objected to the sales tax on his particular product. Each manufacturer knows well enough that it would interfere with his own market, and of course it would interfere with all markets.

Now, as to the income tax; obviously we must increase the receipts from the income tax everywhere to get the necessary money to pay current operating expenses of Government. I do not think the rich have all disappeared. If they have it is a little difficult to understand the spirited opposition to the increases in the surtaxes. Personally, if I had to pay no tax I would not care whether surtaxes were increased or not. It is true that we may have to go down the scale in the income tax scale. We may have to reduce the exemptions, and certainly we shall have to increase the normal taxes in the lower brackets. England, as has been pointed out, goes much further in this direction than we do, but if that is necessary it is a far more wholesome thing than it is to put on a general sales tax, because it still keeps the principle of some graduation according to ability to pay. If we must tax the income of the man who does not earn enough to support his family, let us at least be frank and call it an income tax and say, "Any man who earns \$500 or more must pay 2 percent to the Government through the income tax." Personally, I do not believe it is necessary to go anywhere near as low as that.

Another argument that was not made tonight, but which you often hear, is that even though there are some rich left you cannot get any more by increasing the surtaxes because of the existence of

tax exempt securities, that the rich men will all put their money into tax exempt securities in case the surtaxes are raised. Well, of course, they might do so, but they never have. At the time when we had the highest income taxes that we ever did have, after the war, before the reduction of 1924, for instance, a study was made by a Senatorial Committee, using the Treasury Department records of men having \$300,000 or more income in 1916 and tracing through these same incomes up until 1924, in order to find out how much they had done in the way of buying income tax free securities, and it was discovered that the proportion of taxable income to the proportion of nontaxable income among these rich men was even in 1924 about nine to one; that is, they only had about one-ninth as much nontaxable income as they had taxable.

At the present time individuals own only a minor part of the tax exempt securities of the country. There is a great demand for Government bonds, of course, among banks, insurance companies, trust funds of all kinds, which is bound to keep up, and as a matter of fact private investors do not really save money by owning tax exempt bonds, unless they expect that stock and other types of property are going to have practically no appreciation over the years.

Now, there are certain other things we might do to improve the Income Tax Law. I am not prepared to go into all the details, but I might throw out a few suggestions. We could abolish the exemption in the case of capital gains, and by that I do not mean that we abolish the Capital Gains Tax. I mean that we tax capital gains just the same as we do any other kind of income. There is no real logical distinction, and there is no reason why an income which comes from

capital gains should not be taxed at the full rate. Now, of course, that is my real hardship in a certain instance where the gain was realized in a given year, but we could get around that as well as other undesirable features of the tax by doing as they do in England, just to tax on the average income of the number of years instead of merely on the income of the previous year. We might take a three or a five year average.

The gift tax could be tightened up. Congress is already attending to that.

Furthermore, it is quite possible to have far higher estate taxes than we have, and the estate tax is recognized to be by almost all economists one of the most just and most easily collected types of taxation. Almost every other country has far higher estate taxes than we have, Great Britain and France, as well as higher income taxes, and they collect the money. I do not think it can be asserted that the depression has hit the United States worse than it has England. As a matter of fact, England did not have the prosperity that we had before 1929, and yet England has balanced her budget largely by the imposition of income and estate taxes, and without resorting to a general sales tax. Her tariff duties, of course, are still far lower than ours.

Well, now, to sum up it seems to me absurd to get panicky about the situation, in spite of the somewhat alarming statements about balancing the budget which have come from high officials. Either we are now to get out of the depression or we are not. If we are not going to get out of it, why talk about balancing the budget at all? We better talk about something far more drastic than

that. If we are going to get out of it eventually, we do not have to arrange our taxation as if the income of the year 1932 were the income to be expected forever. We do not have to balance the budget in the sense of paying not only for all operating expenses but for all permanent construction. We have to remember, too, that the great increases in our Federal budget are not caused by expansions of ordinary Governmental activities, but by the war debt, by the growth of our National defense armies and by payments to veterans. Now, if we are going to make any real cuts in expenses, those are the places where we will have to make them, and it is very difficult to make any cuts in interest payments or payments to veterans, although the latter is a possibility. It is a very good thing to call for efficiency in the civilian bureaus of the Government, but any possibility there of such efficiency could not be other than a drop in the bucket in the matter of balancing the Federal budget. Furthermore, any gain that is made in doing more work with less labor ought to be utilized by expanding Governmental expenditures for works of permanent value which will help to restore prosperity.

The next thing to remember is that the expenses of the Federal Government are a minor part of our taxation expense. The great increases have come in State and local governments. Nor must we assume that all Governmental expense is wasted. People sometimes talk as if money handed over to the Government just went up the flue. They forget that we have schools and we have roads, without which the automobile industry could not have developed, and those two things together have caused the greatest part of the increase in State expenditures.

Now, I agree that the burden of State debt and of local debt has become much too large. The question is what are we going to do about it? Are we going to stop educating our children? Are we going to cripple automobile transportation? Are we going to default on the bonds which the States and localities have issued? I do not think we can do any of those things, unless our civilization is going to crack entirely. What we have to do is shift the burden of the taxation in such a way that it can be more easily borne, and that means resorting to State income taxes instead of the inequitable and unduly burdensome property tax. The property tax is passed on to the consumer. It bears as heavily on the person who cannot pay it as on him who can, and if we can in any way encourage the States who rely more on graduated income taxes and less on property taxes, it would be much easier to carry the burden. And there, I think, is another opportunity for the Federal Government to help by encouraging a rebate to such States as levy income taxes up to, say a quarter of the rate exacted by the Federal Government.

I do not see what else we can do. I do not see anything but disaster ahead by a panicky attempt to do the impossible, or by measures which only tend to drive the depression to deeper levels than it has already reached. It seems to me that if we keep our heads level, attempt to use reason about the situation, and do not allow personal interests to influence our beliefs unduly, we shall come to the conclusion that the best thing to do is to get behind a program of large Governmental construction for useful works, with the idea that it will put money in circulation, increase employment and tend to increase commodity prices, that we shall not expect to pay for this construction during depression, that we shall attempt to pay the necessary operating expenses of

Government out of taxation, but not out of taxation that will restrict trade and employment, but out of as much increase as is necessary in the income and estate taxes, and that as far as local taxes are concerned, we shall do our best to shift the burden of the necessary expenses to shoulders which can carry it more easily, by substituting State income taxes for local property taxes as far as possible. I thank you. (Applause)

#### QUESTION AND ANSWER SESSION

GENERAL MCROBERTS: If anyone has felt the urge of asking a question, I hope it has been sent to Mr. Ely. Mr. Ely will present the questions.

MR. ELY: There are some questions, Mr. President, and if there are any others they may be sent to this table as quickly as possible. Here is a question, though the answer may be obvious:

“Will you please state unreservedly why, in your opinion, Congress declines to adopt the general sales tax?” Mr. Prentiss, that seems to be rather aimed at you.

MR. PRENTISS: The talk down in Congress is that all of the responsible fellows in Congress want the general sales tax but they were shouted down two weeks ago and it is perfectly hopeless, because if you send it back into the House again the LaGuardia Bloc will kick it over. (Applause)

MR. ELY: This question is naturally only addressed to Mr. LaGuardia, and there are one or two others. I will see that they are forwarded to him.

“What is your particular objection to the sales tax, and why do you want to soak the rich?”

(Laughter)

Here is another one:

“Do you think the country should have a dictator similar to Mussolini, and if so, would you be willing to accept the position?” (Laughter)

Here is another. Perhaps Mr. Soule, this would naturally fall to you, if you can say anything about it. “In view of the general reduction in salaries and wages which has taken place throughout the Nation, and the proposed reduction in salaries of Government employees, would it not be in order to enact new laws revising downward the compensation promised to veterans and which, according to Mr. Hines, will have by 1945 amounted to twenty-one and one-half billion dollars?”

MR. SOULE: I am party at interest in this question because I am a veteran who never took the trouble to fill out his bonus bank and send it in. (Applause) I feel that as far as hospitalization

charges and compensation of the wounded and that sort of thing are required, they are, of course, absolutely necessary, but I am bitterly opposed to setting up the veterans as a separate class in the Nation, whose chief business is to milk the treasury. (Applause) There are many unemployed veterans, of course, but there are also many unemployed non-veterans, and I think that they have to be sustained if they cannot find employment, and if the funds which are available or have been available to sustain them give out, I think they ought to apply to the Federal Government for relief because they are unemployed and not because they are veterans. I thank you. (Applause)

MR. ELY: Here is a question one ethics. While it is addressed to a particular person, whose name possibly you may guess, still it perhaps has general interest. Mr. Soule, you are a journalist and perhaps you would not mind saying what, from the point of view of your own profession, you think of this:

“If information with regard to bribing financial writers was given, let us say, to you in strict confidence, but such information seemed to you to vitally affect the public welfare, would you feel free to violate that strict confidence?”

MR. SOULE: This is a question of personal ethics, Mr. Chairman, and I do not think I shall be called upon to answer that question until the situation arises. (Laughter and applause)

MR. ELY: It might arise tomorrow. We might wish to send you to Congress soon. What would

you do if we did?

MR. SOULE: Of course, according to legal ethics, no one has a right to observe a confidence which involves a criminal act, and it seems to me that this approaches pretty near a criminal act in regard to the public welfare. (Applause)

MR. ELY: Here is another question.

“How is it possible in a country governed under what is supposed to be a democratic regime like ours, how is it possible to get a National legislature, the individual members of which will put National interests ahead of the supposed interests of their local constitution?”

MR. SOULE: You are asking this question of me?

MR. ELY: Well, yes.

MR. SOULE: In the first place, we want to be very sure that we know what National interest is before we assume that Congress does not actually do that now, and I do not think the majority of people do know what the National interest is. It seems to me the first step is better and more consistent information, such as might be obtained if we had a continuing board of experts sitting as a National Economic Council, with no injunction except to work out politics for the benefit of

the whole people. If we had such a board we might be able to judge what the National interest is and put pressure on Congress to follow it. (Applause)

GENERAL MCROBERTS: Would you like to say something in conclusion Mr. Prentiss?

MR. PRENTISS: I do not think that I have got very much argument with Mr. Soule: I am willing to have income taxes if there are incomes. I am willing to admit that the sales tax is perhaps an income tax. I am willing to admit that it is an inverted tax, that it bears more heavily on the poor than it does on the rich, because the poor buy less anyway than the rich do. It bears on a man in proportion to what it bears, and whether you pay two cents a pound for sugar or two and one-eighth cents or two and one-quarter cents a pound for sugar, neither the rich nor poor are going to know it. What I do object to is this terrible increase in our debts, particularly our local debts, with no statement on the part of anybody apparently in government as to how we are going to pay those debts. That is what I think we have all got to look into, and it seems to me that the sales tax is the only method in a time when incomes are falling. If you cannot get your money from the income tax, get your money from the sales tax and get it now. Later on, if you want to change back to the income tax, do it, but we are in an emergency, and the sales tax is the answer to the emergency. (Applause)

GENERAL MCROBERTS: This is the last dinner of the year. I hope you will all have a happy summer, even if it is an economical one, and I hope by the time we gather here again that this

depression, in the same mysterious way in which it has fallen upon us without anybody seeming to be able to explain why, that it will begin to steal way again, and that hope will percolate again into the souls of men. I bid you good night. (Applause)