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Who Will Pay for the Increased Taxes?

Guest Moderator, SOL M. LINOWITZ

Speakers

HUBERT H. HUMPHREY   RALPH E. FLANDERS

Interrogators

MARK STARR   HERBERT STEIN

THE LISTENER TALKS BACK

on

"Are We Governed by Lobbies?"

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THE SPEAKERS' COLUMN

SENATOR RALPH E. FLANDERS — Republican of Vermont; member of the Senate Armed Services, and Rules and Administration Committees. Born in Barnet, Vermont, in 1880, Senator Flanders is a graduate of Dartmouth College, M.A. degree, and of Stevens Institute, M.E. degree. After serving as an apprentice machinist and draftsman, he became a designer with the International Paper Box Machinery Co. From 1905 to 1910, he was editor of *Machinery*. In 1910 he became an engineer with the Fellows Gear Shaper Co. Two years later, he became director and manager of Jones & Lamson Co., of which he has been president since 1933. In 1946, Mr. Flanders was elected to the United States Senate. Prior to that, he had been a member of numerous government commissions and boards. He is the author of several books and many technical articles.

SENATOR HUBERT H. HUMPHREY—Democrat of Minnesota; member of the Senate Committee on Expenditures in the Executive Departments, the Committee on Labor and Public Welfare, and the Select Committee on Small Business. In 1942, after several years of diversified experience, Mr. Humphrey was appointed State Director of War Production and Re-employment in Minnesota, and in 1943 he became Assistant Director of the War Manpower Commission in his region. During the next few years, as his participation in political affairs expanded, Mr. Humphrey served as a daily news analyst and commentator for a Minnesota radio station, taught political science in a St. Paul college, and lectured. Nominated for Mayor of Minneapolis, he was elected to that office in 1945 by the largest plurality in the city's history and was re-elected in 1947. Senator Humphrey is a member of the National Citizens' Council on Civil Rights and Vice-Chairman of Americans for Democratic Action.

Interrogators

MARK STARR—Educational Director for the International Ladies Garment Workers Union.

HERBERT STEIN—Associate Research Director for the Committee for Economic Development, Washington, D.C.

Guest Moderator

SOL M. LINOWITZ—Prominent Rochester (N.Y.) attorney, President of the City Club of Rochester; Co-Chairman, Executive Committee of the Rochester Institute of International Affairs, 1951.

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Who Will Pay for the Increased Taxes?

Moderator Linowitz:

Good evening, friends. I am very glad to have this opportunity to substitute again for George V. Denny, Jr. Tonight we are dealing with the difficult problem of how to finance the operation of the United States Government, the biggest business in the world. We are going to talk about the increased tax bill which you and I will have to pay.

A few months ago, President Truman asked for a tax increase of ten billion dollars. Last June, the House passed the bill designed to produce $7,200,000,000 in additional taxes. Within the past few days, the Senate Finance Committee has whittled this down further by cutting $1,600,000,000 from the House-approved increases in personal income and corporate taxes.

Despite the loud and bitter wrangling going on regarding any tax increase, there is almost universal agreement on certain fundamentals. First, practically everyone agrees that we should try to operate our government on a pay-as-you go basis and thereby avoid further increasing the national debt. Secondly, almost everybody believes that taxation can and should be an effective force in combatting inflation.

Finally, nearly everyone will argue that the additional taxes required should really be imposed on the other fellow.

Some 300 years ago, a student of taxes named Jean Baptiste Colbert, Comptroller General of Finance to Louis XIV of France, defined taxation as the art of so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing. Well, tonight, as the feathers seem to be getting scarcer and the hisses louder, we're going to take a long hard look at our economy and ask some pointed and critical questions.

How much must we raise in new taxes to accomplish the job we have set out to do at home and abroad? Can our economy take the necessary hike in taxes *without* reaching the breaking point? Who should bear the greatest part of this tax increase? These are vital problems for all of us, and we are very fortunate indeed to be able to address our inquiries tonight to two outstanding members of the United States Senate—Senator Ralph E. Flanders of Vermont, and Senator Hubert H. Humphrey of Minnesota.

Our first speaker, Senator Flanders, is a member of the Senate Finance Committee, which is now wrestling with the new tax bill. He also serves on the Armed Services Committee and on the Joint Senate and House Committee on the President's Economic Report. Senator Flanders is not only a highly regarded economist, but also a Republican from Vermont endowed with a goodly share of Yankee common sense and a willingness to speak his mind. It is indeed an honor to present to you one of the most distinguished members of the Senate, Senator Ralph E. Flanders.

Senator Flanders:

The question is, "Who will pay for the increased taxes?" The answer is "Everybody will; nobody should." I'm sure Senator Humphrey will agree with at least half of this statement.

No one needs to be told that taxes are the heaviest they ever have been excepting in all-out war. No one needs to be told that they will be heavier yet. We know that.

We are imposing them in the hope that these heavier taxes will curb inflation. Yet, we will not, dare not put them high enough to pay as we go in this period of panic-stricken defense expenditures.

Why don't we put them high enough? The trouble is we don't know where to put them. Much more than one-half of all our taxable individual income goes to those who receive $5000 or less of taxable income per year. They are already having a hard time, but the Finance Committee has found it necessary to add a bit to their burden.

Well, why not tax 100 per cent on net incomes above $100,000? For one thing, there is only a total of $604,000,000 in this group, and those who get this income are already paying $544,000,000, so that confiscating these top brackets would give us only $60,000,000, and the President asks for $10,-000,000,000. Here again, however, the Finance Committee is adding a little more.

So far as individual income is concerned, this leaves the middle income group as the happy hunting ground of the tax collector. And here is where we must look for most of our increased tax income. But here likewise is where inflation hits hardest on their comparatively fixed incomes and small investments.

Inflation and taxation ruined the middle classes of Austria and Germany. Inflation and taxation are ruining the middle classes of England. The job is pretty nearly done. Karl Marx is vindicated, and Stalin is happy.

But there are still business pockets to be taxed, so let's get after them. Well, we've been getting after them—first 38 per cent, then 47 per cent, and now on the new bill, 52 per cent—with added excess profits taxes for profits which in many, many cases are such in name only.

The present proposal is to permit a total of normal surtax and excess profits up to 70 per cent of corporate income. This in itself is bad for the wage earners, if it lasts for more than a year or two, for it virtually puts an end to personal risk investments and new undertakings, and risk investment is the only source of increase in the standard of living.

I left school at 15 and went to work at 16. Neither my family nor most of the families of other wage earners had indoor toilets or hot running water. No automobiles, of course. The bicycle was a luxury. We worked 60 hours a week, and the work was hard, without material handling equipment or other aid to tired muscles.

Now we work 40 hours a week, with less muscular strain, and under conditions which are for the most part heavenly as compared with the dark, dirty gas-lighted shop interiors of my youth, with their primitive hygienic facilities.

Our great advance in autos, plumbing, radio, and so forth was not made, then, by longer hours or harder labor, for our work is easier and shorter. These things and many others came to us because men sought profit by investing savings in new products, new equipment, new ideas in general.

Heavy taxes on corporations diminish profits; heavy taxes on individuals hinder savings. The two together stop the progress of the wage earner.

All this paints a dismal picture. Our expenses are growing. To prevent destructive inflation, we wish to pay as we go; but to pay as we go at the rate we are going requires destructive taxation, both individual and corporate.

What then is the answer? The answer is to be found in cutting our expenses to fit maximum safe taxation. Both civil and defense expenditures must be cut, the former judiciously, the latter both judiciously and drastically. How can that be done?

The answer, alas, is not to be revealed tonight. We were asked to speak about taxes, not about expenditures, and particularly not about defense policy. I'm going to be a good boy and not give you the answers because they are not on this program. Perhaps Senator Humphrey will. *(Applause)*

Moderator Linowitz:

Thank you, Senator Flanders, for that forthright statement. I must say I believe you have given us an answer, though, as I get it you're suggesting that the Government should be taxing its ingenuity.

Last year, when the Revenue Act of 1950 was before the Senate, Senator Hubert H. Humphrey, the Democrat from Minnesota, led the fight on the floor to amend the bill reported out by the Senate Finance Committee. He is not expected to remain silent when the new tax bill comes before the Senate in a few weeks.

The dynamic Junior Senator from Minnesota came to the Senate in 1948 after illustrious service as the Mayor of Minneapolis. In the Senate, he has won the respect of his colleagues for his energy and ability and readiness to deal with reality.

Well, Senator Humphrey, as Barkis points out in David Copperfield, "Nothing's more real than taxes," and what do you think we ought to do about them? *(Applause)*

Senator Humphrey:

Well, I have great respect for my friend and distinguished colleague Senator Flanders. He has advanced a program that I wish I could accept. It is appealing to the taxpayer and, to say the least, it soothes our nerves in this period of tension. But we must join the issue tonight.

Senator Flanders says in effect that the solution to our taxation problem is to cut expenditures for both defense and nondefense activities. He then challenges the principle of pay-as-you-go and warns that to pay as we go at the rate we are going will destroy our economy. But we talk about increased taxes at a time when our nation,—yes, this whole free world —is under attack by the subtle, the relentless, and the ruthless power of communist aggression.

I, too, wish to see expenditures reduced. But expenses today for national security are not entirely within our own control. The Joint Chiefs of Staff, the Secretary of Defense, General Eisenhower, and many others have warned the Congress and the American people that our present rearmament program is a minimum program, and that it is a calculated risk in view of the known power and the mobilization of the Soviet Union.

We are fighting for time, and there can be no slow-down or no delay.

The simple and obvious truth is that taxes must be increased if we are to pay the bill for our defense. Yes, and everybody must shoulder his fair share of the increased tax burden. Two fundamental questions however, must be answered: First, shall we pursue a policy of pay as we go? Second, shall we adhere to the principle of taxation on the basis of the ability to pay?

I believe in a pay-as-we-go policy. This means that in this year we must raise a minimum of $7,000,000,000 in additional revenue, and we must be prepared for an accelerated program for the following two years that will require even greater expenditures.

To further increase the public debt would add fuel to the fire of inflation; to balance the budget will put a brake on inflation.

We can pay as we go. Our national income is constantly increasing. Present levels of taxation and the announced proposals for sharply increased taxes have not curtailed investment or incentive. Capital investment today, this day, is running at the rate of $64,000,000,000 a year, as compared with $40,000,000,000 a year in June, 1950.

Now the Number One economic problem is not taxes, but inflation. It is inflation that threatens this economy. It is inflation that destroys incentive and the value of investments. The cost of our defense will either be paid honestly and honorably by taxation, or it will be extracted from the people unfairly and cruelly by inflation.

Now, as regards the principle of ability to pay. We cannot in good faith ask the rank-and-file citizen to pay heavier taxes when it is common knowledge that there are glaring loopholes in our present tax laws which favor the higher income brackets.

Now let there be no mistake about this. Billions of dollars can be raised by plugging tax loopholes, and I said billions. There are special tax concessions to the owners of oil and gas wells, mines and timber. The President properly termed this loophole the most glaring in our tax laws. State and gift tax laws are in a pitiful state, and we should have a withholding tax on dividends and interest. Over one billion dollars went unreported in interest and dividends in 1949. Income-spreading provisions again favor upper income brackets.

People with incomes under $5,000 a year gain nothing under this provision, and this includes 80 per cent of all the taxpayers. Then too, there are such fancy loopholes as corporate split-offs—I'm sure you've never heard about them—stock options, and the famous capital gains provisions.

Now if we plug the loopholes, we can conservatively raise over $4,000,000,000 without increasing the rates one bit, and then additional revenue can, in all justice and equity, come from increased rates, and such increases will be exacted more equitably and with a strict adherence to the principle of the ability to pay. And I remind you that even at the peak of our rearmament, the maximum cost of our security program will not exceed 18 per cent of our gross national product.

Increases, then, in taxes are necessary. I say we must pay as we go. We must close the loopholes, and we must adhere to the policy of taxation based upon the very equitable principle of the ability to pay. *(Applause)*

Moderator Linowitz:

All right. Thank you very much, Senator Humphrey, for that challenging statement. Well, ladies and gentlemen, the issue seams have been squarely joined. Senator Flanders answers the question of who should pay the increased taxes, and says *nobody*. Senator Humphrey says *everybody*.

Before turning to our interrogators and the taxpayer members of our audience here tonight, let's see if our speakers won't have a further word with one another. Senator Flanders, do you want to take issue with anything Senator Humphrey has just said?

Senator Flanders: Yes, I want to take issue with some things but by no means with everything. He states that I challenge the principle of pay-as-you-go. I do not challenge that principle. I only challenge the rate at which we go. The rate at which we go should not be so fast, so the pay should not be so high, but I am strong for the pay-as-you-go principle.

He also speaks of capital investment today running at the rate of $64,000,000,000 a year. I would like to call attention to the fact that capital investment of the kind which is being curtailed and which is most serious is the risk investment, on which the future raising of the standard of living of the people of this country is based. This $64,000,000,000 a year is not risk investment, and it is largely provided by the big companies plowing back their earnings.

And then there is another point here on this withholding tax. I don't know how many of you know what that is, but if you own five shares of stock in a company and you have not much of any other source of income, the Government is going to assume that 20 per cent of that is taxable, and they're going to take the 20 per cent before you get your dividends. Now, you may not have an income that is taxable at all, in which case you've got to get that 20 per cent, or such part of it as is applicable, back from the Government.

Now that's what Shakespeare called the insolence of office. Never before has a government taken money from people and dared them to get it back. That's insolence of office. And when they say that over one million dollars went unreported in 1949, they just don't know, and the way to find out is not to take it away and then ask the stockholder to get it back again if he can. The way to do is to take a sampling process, say, of letter G, of the stockholders of the American Tel and Tel, which is widely distributed, sample letter G, and see how much goes unreported. That billion dollars just doesn't mean anything.

Then just one other thing. He says that our defense expenses would take only 18 per cent of the national income. I suggest that he go and join the Optimist Club in Oshkosh.

Senator Humphrey: Well, I surely want to make a quick and I hope a definitive comment on the last remark of my friend, the Senator from Vermont, Mr. Flanders, because just this afternoon I called the Clerk of the Staff on the Economic Report, the Joint Committee on the Economic Report of which he is a member. And the staff director of that Committee on the Economic Report pointed out to me just what I have said, that in the report which the Senator from Vermont has already signed—a little short report, a one-page report — it is calculated that by 1954, fiscal 1954, which will be the peak of our defense program, 18 per cent of our gross national product will have to go for the purposes of national security.

Now I want to say one other word in reference to some of the comments that have been made. Let's talk about withholding on dividends, for example. Senator Flanders knows very well that the Treasury Department has already made a survey on the withholding of dividends. He is also, I am sure, familiar with the statement of the Treasury Department which I placed in the record—the *Congressional Record*—a year ago.

And in that statement it was revealed that in 1949, well over one billions of dollars of dividends and interest payments which were made out by corporations and other forms of business went unreported to the Treasury Department of the Collector of Internal Revenue.

Now I say this, that if a wage earner can have his withholding tax taken out every single week, then too a dividend or an interest receiver can have a withholding tax taken out every week. I don't want to be unkind to them. I simply say it's sheer equity.

A wage earner also has to look for refunds. In fact, over $500,000,000 of refunds are made every year to the wage earner, and he has to wait for it, and that's the $40-a-week man, the $50-a-week man, or the $35-or $60-a-week man.

I think there's another point that one ought to take note of. Senator Flanders has taken issue with me in reference to the matter of corporate investment. I said that some $64,000,000,000 of investment was going in for capital assets or capital development. This is a fact. This fact has been again reported by the Joint Committee on the Economic Report, a committee of which the Senator is a member. I point out that every year since 1939 they have been saying that we're going to destroy incentive; we're going to destroy risk capital. And every year since 1939 there has been more incentive and more risk capital and more investment. This was said the time that we passed the last tax bill. The very same argument I heard on the floor of the Senate, and I heard it repeated again and again that if you raise the corporate rate—and we raised the corporate rate, I think, five points, five per cent, and we raised the individual earned income rate—it was said if you do this, you'll destroy the investment capital; you'll destroy incentive.

And here I submit to you that we have had more investment capital in the last year than at any time in our history, and we had lots of investment capital in 1946, '47, '48 and '49 which were the periods of peacetime operation.

I think that joins the issue with Senator Flanders and I'm going to let the case stand where it is.

Moderator Linowitz: Thank you, Senator Humphrey. I think you will agree, ladies and gentlemen, that neither of our speakers tonight is going at this in a half-hearted fashion.

Well, now, let's turn to the interrogators we have with us. We are very fortunate, indeed, to have two prominent economists as our interrogators tonight who have been surveying the economic scene during the past years from somewhat different vantage points. Mr. Herbert Stein is Associate Research Director for the Committee for Economic Development, and Mr. Mark Starr is Educational Director for one of our largest unions, the International Ladies' Garment Workers Union. Let's start with Mr. Stein. Mr. Stein, do you have a question for either or both of our speakers?

Mr. Stein: I'd like to ask Senator Flanders a question. Senator, would you explain just how the high tax rates on corporations and the upper individual incomes affect the living standards of the average man?

Senator Flanders: Yes, I will. Let's take a man that gets $75,000 of net taxable income and he has a wife and two children. The net income is $75,000, his individual income tax is $34,500, his disposable income is $40,500. Now let's assume that he wants to live on $25,500. He lives comfortably, he lives well, gives a fine education to his children, and goes to Europe with the family. That leaves them a variable for investment of $15,000.

Now we're talking about risk capital—this investment that Senator Humphrey mentioned is not risk capital, that is largely the investment of the big corporations plowed back into their own undertakings—but now we're talking about risk capital. Assume a purchase of stock in a comparatively small corporate venture which has a total of $500,000 equity capital and which is not subject to excess profits tax. Supposing the venture works out well. Supposing it earns 10 per cent—and that's a lot. Then it earns $50,000. The corporation income tax on the present law is $18,000; the disposable corporate income is $32,000.

It would be unsafe to distribute more than half of that in dividends. All right, it distributes $16,000 in dividends, and our investor gets from that in accordance with his investment $480, but this comes into his upper bracket of income which is at the rate of 81 per cent, so of that $480 he only gets $91.20, which is six-tenths of one per cent for his risk investment. He will not make that risk investment, he will not contribute to the increase of the standard of living. Instead of that, he'll go out and buy state and municipal tax-free bonds.

Mr. Linowitz: All right, Senator Flanders that was certainly a very full answer. Mr. Starr, do you have a question?

Mr. Starr: I'd like to come down from corporations and the billions that we've been talking about to one of the more concrete things which certainly affect our listeners. We've heard about destroying the incentive of the would-be capitalist. What about destroying the incentive of the worker? I think Senator Flanders knows something about that. Let me give you a case in point. We are arguing that in our mobilization economy we ought to utilize more than we have done the big resources of our labor, including that of our women workers.

If a woman worker goes out and, let's say, earns $60 a week, and she has to pay $25 for somebody to clean up the house and look after her kids, is it not destroying her incentive to go out and work if she's not allowed to charge that off as a business expense? The businessman can charge off such business expenses. Should not this principle of sharing the risk and the incentive be brought down into those individual cases?

Senator Flanders: All I can say is, sir, that you've made a good case. It's one that we should be thinking about. This matter of what are business expenses and what are not has not had sufficient attention. Now I'm not going to say that I'm going to agree with you, because I'm not sure, but I am going to say that what you're saying is worthy of study.

Mr. Linowitz: All right. Senator Humphrey, do you want to come up here and talk about that briefly?

Senator Humphrey: I'd be happy to make a comment on it. I think the case is well taken. This is a very practical case and, let me say, a very common one. It is no secret that in many corporate enterprises and business enterprises, vast numbers of items are charged off as business expense, and most of them are legitimate business expense. But it just so happens that a salary worker or a wage worker that may take a trip, for example, that involves something to do with his general income or prospective employee—he can't charge that trip off as a business expense; but it is perfectly true that a businessman that takes a trip and makes a purchase of goods and carries on the dealings of his business on this trip—that's a legitimate business expense. I speak, for example, quite familiarly about this. My brother can do this who is in business, and I can't and many times I've talked to him about this very problem.

I also make note of the fact in reference to this matter of the risk capital that we're talking about, and the problem that you've posed here about incentive. There has been no lack of incentive in America these past few years, and tax rates have been high. And I say this, that if it takes incentive to get us to defend our country, if it takes incentive anymore than to look at the picture of Joe Stalin and the menace that he poses for this world, then there is something wrong with America.

I said this afternoon to one of our friends that some people may call this demagogy but I say that it's a plain fact. It's time to recognize that incentive is one thing and patriotic duty with a good profit is another thing. And there is plenty of good profit being made.

Mr. Linowitz: All right, thank you, Senator Humphrey. Mr. Stein has a question for Senator Humphrey.

Mr. Stein: Senator Humphrey, you've emphasized the importance of taxing according to the principle of ability to pay. In your opinion, does the corporation profits tax which taxes the stockholders' earnings at the same rate, whether the taxpayer is rich or poor, conform to the standard of taxation according to ability to pay?

Senator Humphrey: No, as a matter of fact the dividend that an individual receives is taxed on the basis of the rate which applies to his respective income. Now I don't think we should fog this question up one bit, but you're saying to me here that there is somehow or other a unity of pattern which there is not. A corporation is a legal entity. A corporation and the stockholders of a corporation have limited liability. Now if you want the privileges of limited liability in a corporation, you cannot make it look like a partnership or a family affair or an individual business enterprise. So what we do is have, Number One, a corporation tax, and after the corporation tax there is what we call a net profit, and that net profit has been running anywhere from 20 to 23 billion dollars a year after taxes. No one's going broke at that. And then after the $23,000,000,000 has been accumulated, a portion of it is distributed in dividends. Now if that dividend goes out to an income producer of $3,000 a year, that dividend is taxed on the basis of the surtax rate for the $3,000 income person. If it goes to a person that has an income of $100,000 a year, that dividend is taxed on the basis of a surtax rate for a $100,000 income.

QUESTIONS, PLEASE!

Mr. Linowitz: Let's now turn to our audience here and take a few questions which represent what you, the people, are thinking. Yes, sir, this gentleman here.

Man: Senator Flanders, instead of depriving the low-income groups of the necessities of life through excessive taxation, why not increase the taxes of the rich?

Senator Flanders: I explained to you, sir, or I tried to explain, that the extreme upper classes of the rich are so near a hundred per cent that there is no more juice in that turnip. And that what little there is left should be needed for investment. The unfortunate fact is that more than a half of the income of the country is, as I explained, in the low-income groups, and we mustn't tax them much more. In fact, they have about reached the limit of the taxes that should be applied to them, and as I furthermore explained, the happy hunting ground of the tax collector therefore is in the middle-income groups which, I fear, are on their way to extinction in accordance with the tenets of Karl Marx and Joseph Stalin.

Mr. Linowitz: Before we leave that question, Senator Humphrey has a comment.

Senator Humphrey: I think it's time that we clarify what I consider to be a myth and a theory, and not an economic fact about taxation. Now I fully recognize that when you get to the $50,000 level or the $100,000 level, you get a very heavy surtax rate. I believe that on $50,000 you have a rate something around $20,000 of taxation or more. But I want to point out the fact that one of the gimmicks that is used and what I call a loophole in the tax law is converting earned income which is taxed at high rate into capital gains.

Now many of you may remember these old fairy stories, those legends of old, where the kings used to lock up in the gables of the castle the chemist. And the chemist was called an alchemist, and the alchemists tried to convert base metal into gold. They never succeeded. But the modern tax lawyer has succeeded. He's able to take earned income, convert it into capital gains, and thereby have only a 25 per cent tax rate.

Now what does this mean? I have before me the facts. In the $500,000 class—that's the $500,000 income class—one-third of all that income is not derived on the basis of earned income, which is the high tax rate running up to 70 some per cent, but it comes on the basis of capital gains rate, which runs at 25 per cent, and that's a long ways away from all the surtax rates we're hearing about.

And I would call to this audience's attention a recent issue of the *Wall Street Journal* which had a feature article entitled "How Big Executives Use the Loopholes to Get Increased Income"—a full revelation of the loopholes that I've been talking to you about, how stock options are taken on and converted into capital gains at low rates.

Mr. Linowitz: All right. Now Senator Flanders is in a touchy spot.

Senator Flanders: The capital gains tax is not as simple nor as unsocial as has been described. It is the only possible loophole by which an investor can possibly invest money in this capital and hope to get any return. It is the only incentive left for the investment of risk capital.

Senator Humphrey: I want to make it perfectly clear. I'm not opposed to the capital gains tax structure; I'm opposed to its abuses. The Senator from Vermont knows that when capital gains tax structure was incorporated in our law, it required that you hold the property that you were going to convert into capital gains for two years. That meant that you refused risk capital to make a legitimate investment for the purposes of production.

Then what did we do? The Congress amended that, to hold capital gains privileges—just hold that kind of capital—for one year. Then what did we do? Six months. Then what did the Senate try to do last year? Three months. Which means that all you had to do was to take some earned income, make an investment, hold it three months, and convert it into a 25 per cent tax rate instead of a 50 per cent rate tax. And I say that's abusive, I say it's unfair, and it's a violation of the legitimate principle of the capital tax gains rate.

Mr. Linowitz: Now, Senator Flanders, I don't want to get caught in the middle.

Senator Flanders: Well, I just wanted to say that I am glad that Senator Humphrey has made it clear that there is a legitimate use of the capital gains tax, because I did not get that from his first attack upon it. And there is a real chance for honest differences of opinion on the terms on which the capital gains tax is applied.

Mr. Linowitz: Thank you very much. All right, before we take another question from the audience, I see Mr. Starr has a question here for Senator Flanders.

Mr. Starr: I wanted the benefit of Senator Flanders' thinking on the question of those loopholes that Senator Humphrey just talked about. Are those loopholes in your opinion genuine? Can they be plugged? Can they raise the revenue that Senator Humphrey suggested?

Senator Flanders: There are a good many loopholes. That will be, from this point on, that and the excise taxes which we haven't mentioned, the principal work of the Finance Committee, and that is a difficult problem. Just let me mention that one loophole of the unreported dividends. The Treasury doesn't know how much of those unreported dividends are taxable. When they are interrogated they admit they do not know, so they want to apply the withholding tax to find out. What I say is that they should find out by sampling and not by this outrageous process of taking the money away from people and asking them to try to get it back. It is not the equivalent of the withholding tax on the known wages of the worker.

Mr. Linowitz: Thank you very much, Senator Flanders. I see we have a question here from Mr. Krelstein, the manager of WMPS, the ABC station in Memphis, yes sir.

Mr. Krelstein: Senator Humphrey, educational and certain other institutions have vast holdings in competitive business and industry. Isn't this a rather interesting and unfair non-taxable loophole?

Senator Humphrey: I agree with you, it surely is. I think it is the duty of Congress to plug that loophole, and I shall work for that.

Mr. Linowitz: Thank you. That's the shortest answer we've had here tonight.

Man: Mr. Starr, as a means of

tapping new revenues, why not tax unions as other corporations? Some of them own banks.

Mr. Starr: Trade unions are not corporations and trade unions as such do not own banks. It would be just as foolish as to think of taxing friendly societies.

You can tax a corporation that is making profit. A union is a service organization. It would be perfectly ridiculous to treat it as a corporation.

Mr. Stein: Senator Humphrey, I'd like to get back to one of the main reasons why we talk about raising taxes at this time, and that is, as Senator Humphrey pointed out, we need higher taxes to help prevent inflation. Are some kinds of taxes more useful than others in helping to prevent inflation? If so, which do you think are more useful?

Senator Humphrey: I think some kinds of taxes are more useful than others to prevent inflation. I think it's those taxes which primarily draw off excess purchasing power, and I think that both Senator Flanders and I would agree tonight that the excess purchasing power does not lie in that group of $3,000-a-year income or less. It is perfectly true that some of the middle-income group will have to take an increased tax, but I say that it is also true that when you are running at the rate of 21 to 22 billions of dollars per year in corporate taxes—it fluctuates between 20 and 22 billions—it is unwise and I think unsound to say that you cannot extract a little more taxation from there without destroying the free enterprise system. I'm for the free enterprise system, and I say to you that our free enterprise system will be destroyed, ruthlessly destroyed, by uncontrolled inflation. Taxation has not destroyed free enterprise, but ruthless inflation has destroyed it.

Mr. Linowitz: Senator Flanders, you have about 40 seconds to comment on that.

Senator Flanders: I would just like to say that I would not claim that the new taxes that we're going to put on corporations—and we're going to put new taxes on corporations—will destroy the private enterprise system. What I was merely saying was that it makes the application of risk capital continuously harder, and therefore it makes the raising of the standard of living continuously harder.

Mr. Linowitz: Thank you very much, Senator Flanders and Senator Humphrey, for your thought-provoking comments with reference to this very, very difficult question, and to you Mr. Stein and Mr. Starr, for your very stimulating questions. So plan to be with us next week and every week at the sound of the Crier's Bell.

"TOWN MEETING" ON TOUR

When Town Meeting comes to town, fans of every type and description flock to see and take part in the program. Station managers and editors are unanimous in their verdict that no event attracts so representative an audience as a Town Meeting origination. Bankers and janitors, college presidents and plumbers, butchers and housewives, teenagers and pensioners rub elbows at this great American institution.

Since its inception, we have wanted the program to be truly *America's* Town Meeting and have used a variety of methods to secure representative American audiences. The most successful method by far has been the Town Meeting tours.

Since the first out-of-New York broadcast in 1939 and the first coast-to-coast tour in 1941, Town Meeting has traveled more than 200,000 miles in the United States and abroad.

September 4 marks the beginning of another tour. If you live in or near one of the following cities, we cordially invite you to see Town Meeting in action. Tickets will be available through the local auspices.

September 4 **Oshkosh, Wis.,** under the auspices of the Optimist Club.

September 11 **Schenectady, N. Y.,** in association with the Schenectady chapter of the National Association for Advancement of Colored People.

September 18 **Flint, Mich.,** in conjunction with the Flint Public Library Centennial.

September 25 **Oswego, N. Y.** under the auspices of Kappa Phi Kappa of the State University of New York, State Teachers College, and the Oswego Retail Merchants Association.

October 2 **Durham, N. C.,** in association with the Men's Student Government Association of Duke University and various civic organizations in Durham.

October 9 **Pinehurst, N. C.,** in conjunction with the Regional Convention of Realtors.

October 16* **Boston, Mass.,** in connection with the National Convention of the Girl Scouts of America.

October 23 **Glencoe, Ill.,** under the auspices of the North Shore Forum.

October 30 **Johnson City, Tenn.,** in association with East Tennessee State College and Johnson City civic clubs.

November 6 **Ripon, Wis.,** in conjunction with the Centennial of Ripon College.

*The program will be presented Monday night, October 15, and recorded for broadcast the following evening.

THE LISTENER TALKS BACK

"ARE WE GOVERNED BY LOBBIES?"

Program of August 21, 1951

Speakers

Richard Bolling **George P. Lamb**

Each week we print as many significant comments on the preceding Tuesday's broadcast as space allows. You are invited to send in your opinions, pro and con, not later than Thursday following the program. It is understood that we may publish any letters or comments received.

POINTING THE FINGER

We are (governed by lobbies) far too much for the best interest to the nation and the majority of the people. The Chinese Lobby, the lobbies of the Chamber of Commerce and the National Association of Manufacturers, as well as the American Grange and the American Medical Association . . . have greatly influenced enough Congressmen in both House and Senate. The power lobbies (successfully prevented) a Missouri Valley Authority, for instance, which could have prevented or greatly lessened the recent great flood which was so destructive in Missouri and Kansas. Lobbies ganged up together to prevent passage of wage-price control, and in fact forced price roll-forwards . . . a few months ago. The American people have been waiting for prices to "return to normal" since these lobbies killed the O. P. A. back in 1946. What is needed most is a lobby for the American people. — WILLIAM D. TURNER, Lexington, Kentucky.

LETTERS, LOBBYISTS, AND LEGISLATORS

Letters from the public cannot possibly compete with the intimate and personal touch of lobbyists, even if the letters did get past the secretaries of our legislators, which they do not. No, letters from the public are just a lame excuse of the legislators for not considering the general public. If they were fair-minded, they would consider the good of the class who are not represented by lobbyists. . . . But because we do not have and there is no hope of ever getting fair-minded legislators, large numbers of people do not vote. As far as we are concerned, there is no use in voting. We are only helping one faction against another, neither of which is for us. . . . No party will give the welfare of the common man any consideration.—LILLIS HAMILTON, Vancouver, Washington.

ABOLISH LOBBIES

Personally, I feel lobbying should be absolutely abolished if we really . . . want good clean government. How can anything be "clean" when a group of men are sent . . . to see that their ideas or projects are put through? Such procedure invites bribery, coercion, and corrupt practices. . . . how can any decent-minded person condemn gangsterism, gambling, (and) cheating, when we have in effect the example set right in the . . . practice of lobbying, and in a place where the example of only the highest principle of government should be practiced?—BEATRICE HAPP, Hallandale, Florida.