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CHAPTER 7

Taxation: Needs, Limitations, and Possibilities

IN WARTIME the exigencies of the military situation determine an unusually high proportion of official decisions concerning the amount and kinds of public expenditure, but the expenditures can be financed by various methods or combinations of methods. We have seen in Chapters 4 and 6 that total federal expenditures, defense and non-defense combined, must, as a practical matter, be met by tax revenues plus borrowed funds.

The federal budget, submitted in January 1942 for the fiscal year ending June 30, 1943, called for total expenditures of about \$62 billion, including about \$3 billion to finance net war outlays of certain government corporations, \$53 billion budgeted for war purposes, and \$6 billion for other items. An additional \$1.3 billion to transfer obligations from government corporations to the Treasury can presumably be covered by a refunding operation not essentially different from that which replaces maturing direct obligations of the Treasury by new Treasury securities, and does not, therefore, represent any new funds. Accordingly, the total *new* funds required to finance the 1943 budget amount to about \$62 billion.

The war program has expanded very rapidly since the Pearl Harbor attack; and the figures of the January Budget Message were superseded by revised figures in a press release by the Director of the Bureau of the Budget, dated April 24, 1942. There the significant change is an increase in the budgeted war expenditures from \$53 to \$67 billion. With the

items of \$6 billion for other expenditures and \$3 billion for Treasury financing of war outlays by government corporations unchanged, the resulting total of new funds required for the fiscal year 1943 is raised from \$62 to \$76 billion. Although still further expansion has taken place, and will probably continue, in the program of war expenditures, and although some of these further expenditures may be made in the fiscal year 1943, the analysis here is based upon the revised budget estimates of April 24 as the most recent official summary of the entire budget outlook.

Chapter 6 gives brief attention—further analysis appears in the Appendix—to possible cuts, beyond those indicated by the budget, in non-military expenditures as a means of reducing the grand total of \$76 billion. Possibilities in this direction, while important, are not very large; and the maximum reduction which can be achieved is unlikely to exceed \$1 billion. Hence, the total funds which must be secured, to meet the scale of expenditures provided by the revised 1943 budget after possible further cuts in non-defense items, run to about \$75 billion.

Chapter 6 showed that various considerations of public policy may justify raising about \$20 billion of the \$75 billion needed by borrowing, and that considerably more borrowing can probably be handled without inflationary consequences. This leaves some \$55 billion as one tentative goal of a tax program for the fiscal year 1943, with the possibility that it can be substantially lower, perhaps as low as \$40-45 billion without necessitating inflationary borrowing. As estimates of tax revenues for the fiscal year 1943, on the basis of laws in effect at the time of the estimate, total about \$18 billion (revised budget figures of April 24), the goal for new taxes ranges from roughly \$22 to \$37 billion.

This and the next chapters examine means of progressing toward the tax goal of \$22 billion; they do not outline any single tax program as more clearly adapted than others to meeting the needs of the case. Instead they analyze all the

important elements, so far as we have discovered them, of a feasible program. Among these elements are different types of tax, different rate schedules for various taxes, different provisions as to exemption or other amelioration, different modes of collection. Each element is examined in terms of its probable effect on revenue yield and of its capacity to meet the basic wartime economic objectives discussed in preceding chapters. Each is examined also with respect to its probable or foreseeable effects, economic or other, because their consideration will of necessity influence public choice as to which elements should be incorporated into a tax program. Unless we have overlooked important elements, the tax program Congress will adopt will be made up of some of and perhaps all the elements discussed, in some combination that will be arrived at by that rough balancing of conflicting considerations that marks the legislative process. We do not attempt to predict what combination will be arrived at by this process, or to demonstrate that some one combination is the best. We do, however, try to make clear that *some* combinations that might be devised on paper are not practicable; for example, a heavy sales tax would seek to tap the *same* section of income as a heavy low bracket income tax collected at the source. The feasible combinations of the elements are not numerous. We give some examples, without suggesting that any one is clearly preferable. Nevertheless, some among the combinations and some kinds of taxes are especially adapted to meeting the needs of the situation, with special reference to the absorption of that excess of consumer and other civilian incomes capable of inducing price inflation. Chapters 2 and 3 have shown that, as a result of the war program the money incomes of enterprises and individuals are being enlarged and at the same time the supply of civilian goods is being restricted. The resultant excess of civilian incomes available for spending is distributed between enterprises on the one hand and individual consumers on the other, and among individuals

according to the size of their incomes, in a manner that can be at least roughly estimated. The estimates developed in these earlier chapters furnish a rough guide to the selection of tax policies which will absorb income at the necessary points in the whole economy, as well as the needed aggregate for the whole economy.

Chapter 3 sets forth that, at a level of income payments of \$109 billion, the aggregate sums in the hands of individuals for savings and taxes would probably amount to \$48 billion. Of this amount, some \$14 billion would accrue to the income group above \$10,000, about \$31 billion to the \$1,750-10,000 group, and about \$3 billion to the group under \$1,750. This probable distribution of unspent income has an important bearing upon the program of war finance, and in particular suggests that tax and borrowing policies will need be directed especially at the middle of these three broad income groups.

This chapter is a general treatment of the tax problem; the needs for new taxes are outlined in the light of expected revenue yields of existing taxes, the salient characteristics of the existing tax structure are set forth and its chief defects as a means of serving wartime economic objectives noted; the main policy considerations that will guide the selection of new taxes are listed, and their place in the analysis developed in this book indicated; and the range of tax changes, examined in detail in later chapters, is summarized.

1 THE PRESENT TAX SYSTEM

Formulating a huge tax program is not simply a matter of obtaining cash for the Treasury. Heavy taxes have far reaching economic and other effects that may or may not assist in the attainment of basic objectives of economic policy under an armament program and such other objectives as are recognized as desirable even in wartime. Hence a prescription for taxation that hopes to achieve satisfactory re-

sults must be written with these broader consequences in mind.

To clear the ground for consideration of those questions of policy, we examine the tax system now in effect. Table 14 summarizes the kinds and the relative importance of the taxes collected during the fiscal year ended June 30, 1939, the last to be completed before the outbreak of World War II; the year ended June 30, 1941, reflecting in part the two revenue acts passed in 1940, the latest fiscal period for which data on actual collections are available; and the most

TABLE 14

Federal Tax Revenues, 1939, 1941, 1942, 1943
(billions of dollars)

SOURCE	FISCAL YEAR							
	1939 ^a		1941 ^b		1942 ^c		1943 ^c	
	Amount	% of total	Amount	% of total	Esti- mated amount	% of total	Esti- mated amount	% of total
Corporation taxes	1.3	23	2.2	29	4.2	33	6.7	38
Individual income taxes	1.0	19	1.4	18	3.2	25	5.0	28
Estate & gift taxes	.4	7	.4	5	.5	4	.5	3
Excises	1.8	32	2.4	31	3.1	25	3.4	19
Social security taxes	.7	13	.9	12	1.2	10	1.8	10
Customs	.3	6	.4	5	.4	3	.3	2
Total	5.5		7.8		12.6		17.8	

Totals do not exactly check, because of rounding of figures.

Compiled from

^a Treasury Department *Bulletin*, Sept. 1941, pp. 4, 40.

^b *Ibid.*, pp. 4, 40, 42.

^c Budget of 1943, issued in January 1942. We have roughly apportioned budget figures for back taxes between corporations and individuals, and have estimated small increases in separate 1943 items to bring the total up to the revised budget figure of April 24, 1942. Actual figures for the full fiscal year 1942, from Daily Treasury Statement of June 30, 1942, show total revenues of \$13.4 billion, including (all in billions): income tax (both corporate and individual), \$8.0; miscellaneous internal revenue, \$3.8; social security taxes, \$1.2; customs, \$.4. As these figures are not broken down for certain items in the table, no new calculations of percentages are presented for 1942.

recent estimates of the probable yield during the fiscal years 1942 and 1943 of the tax system as amended by the Revenue Act of 1941.

The tax system on which the Revenue Act of 1941 was superimposed has three major components: a group of corporation taxes, a tax on net incomes of individuals, and the so-called excises, which include a wide range of imposts on the manufacture or sale of particular services and commodities, the most lucrative being taxes on liquor, tobacco, and gasoline. Somewhat less lucrative are the special levies on employers and employees, including those on railroad payrolls, which are used to finance old age annuities and the unemployment insurance portion of the social security legislation, and are listed here as social security taxes. A relatively minor role is played by estate and gift taxes on the one hand, and customs duties, once the main bulwark of federal finance, on the other.

The total collections realized in the fiscal year ended June 1942 exceeded those obtained in the last year before the war by nearly 144 per cent and those for the fiscal year 1941 by 72 per cent. The total expected for 1943 exceeds that for 1939 by over 220 per cent. These increases are partly explained by the rise in real national income and the advance in prices. Both enlarge the base upon which the tax system is imposed and hence add to the latter's yield. In addition, revenues are being realized from changes effected by the several revenue acts passed since the armament program was commenced: the application of higher rates and smaller allowances to existing taxes, and new levies, such as the tax on excess profits imposed by the Second Revenue Act of 1940 and the excises introduced by the Revenue Act of 1941.

The consequences of these changes are not limited to the increase in total tax collections. The percentage of total revenue yielded by each main category listed has shifted somewhat, but the really spectacular changes have come in the relative shares of the excises, and of the corporation and per-

sonal income taxes. Excises are no longer the largest source of federal revenue. That place has been taken by corporation taxes, which are laid chiefly on earnings. The personal income tax, greatly inferior to excises as a source in 1939, will in 1943, under the Revenue Act of 1941, clearly supersede excises as having second place in the revenue system.

These latest developments should not, however, be considered alone. A longer view of the changing makeup of the federal tax structure shows numerous important shifts in the less recent past, some of which can be explained by changes in economic conditions or other factors rather than solely by changes in tax policy. Changes in tax policy with respect to the objects of taxation, such as the specific commodities and services and the incomes or legally specified parts of incomes of individuals and corporations, and also to the rates and other features of the tax law, do indeed bring shifts in the contributions from various types of tax. But changing economic conditions also account for such shifts. For example, during the deep depression following the collapse of 1929, individual and corporate incomes shrank so greatly that revenue from taxes on them, despite higher rates, was much less than in the immediately preceding years. Indeed, one of the very reasons for greater reliance upon excises was that public revenues could not be adequately supplied by taxes on individual and corporate incomes at any rates, high though they seemed, that Congress was willing to impose. Moreover, another factor not primarily involved in tax policy, influenced the relative share of excises: with the repeal of prohibition large revenues could be collected from excises on alcoholic beverages. The most striking feature of the revenue structure is its lack of stability: numerous and wide shifts characterize the entire record, not merely the recent years covered in Table 15.

So far as these developments are due to changing tax policy, however, they are not being examined here on their merits as revenue measures for a peacetime economy, but

with reference to a wartime situation the necessities of which dominate all other considerations. The Act of 1941 raises at once the basic question to which this section is directed: is the federal tax system, as now constituted, adequate to the

TABLE 15

Percentage of Federal Tax Revenues from Each Major Source, Selected Years

	FISCAL YEAR							
	1916	1920	1923	1925	1930	1933	1937 ^a	1941 ^c
Corporation taxes	7.9			32.1	36.1	21.1	23.8	28.6
Individual income taxes	9.4			27.0	31.6	18.8	21.2	18.3
Above combined ^a		70.7	55.7					
Estate and gift taxes		1.8	4.0	3.5	1.8	1.8	5.9	5.2
Excises	53.3	21.9	22.7	19.9	14.3	44.9	34.4	30.9
Customs ^b	29.4	5.6	17.6	17.5	16.2	13.4	9.5	5.1

^a Corporate and individual not segregated in 1920 and 1923 official reports.

^b Customs includes 'tonnage' in all years shown except 1933 and 1937.

^c Includes also social security taxes, amounting to 5.2 per cent in 1937, 11.9 per cent in 1941. Data compiled from *Annual Reports*, Secretary of the Treasury.

twofold task of financing such reasonable proportion of total expenditures, including the armament program, as must be paid for by taxation if inflationary borrowing is to be avoided, and of implementing other economic policies appropriate to expanding armament production? The first task is concerned with preventing inflation; the second includes as its main sub-heads assistance in diverting resources from civilian to military use, allocating small supplies of civilian goods among consumers, and the leaving as a postwar legacy a minimum of disorder in the economic structure.

With respect to the first task, the question may be answered without equivocation in the negative. The tax system, as amended by the Revenue Act of 1941 and including income placed in trust funds, chiefly from social security taxes, is expected to yield about \$18 billion in the fiscal year 1943. If at least \$40.45 billion is regarded as having to be obtained

by taxes in order that total borrowing shall not include inflationary elements, a minimum shortage under the 1941 law of approximately \$22 billion is indicated.

The second and related part of the question is to be approached by way of the requirements and the economic effects of an armament program. As these have already been examined at length, a brief restatement suffices to establish the relationship to taxation measures appropriate for implementing the economic policies.

An armament program, especially under the drive of war, requires a far-reaching and rapid reorganization of productive resources. Since the United States did not start the armament program in a period of optimum employment to reorganize the economy for war has been somewhat easier. Certain resources, uncommitted, so to speak, were shaped the more readily to new undertakings; but, by the beginning of 1942, most of the slack had been taken up. As long as the war lasts, national policy must be aimed not simply toward utilizing idle resources in the manufacture of munitions; resources used for civilian production must be diverted on a huge scale. Production of armament, soon expected to absorb half of the national income, has already diminished the supply of many consumer goods; and, as the program is enlarged, it will trench still more on the things consumers use. Armament in the quantities desired can now be had only by drastic reduction in civilian consumption. As pointed out in preceding chapters, however, a general expansion of production, whether for the things of war or of peace, brings with it an increase in money incomes of individuals and enterprises. Thus the situation emerging from the transformation of our economy to an armament basis poses the paradox of giving civilians more money and fewer goods to spend it on. Unless civilian spending can be adequately curtailed, inflation is inevitable despite such attempts at price control as may prove politically or otherwise feasible.

The financial program of the government as a whole

should provide means for transferring money income from private hands to the Treasury, and to that extent prevent inflation. Such transfer can be accomplished either by taxation or by borrowing; taxation has the advantage of leaving no heritage of public debt, but other considerations may favor partial reliance on borrowing (see Ch. 6, Sec. 9). The tax system can be designed to assist also the transfer of resources from civilian to armament production and the allocation among consumers of any supply remaining for them. By making the prices of things needed for military use higher, thereby discouraging their consumption for civilian purposes, it provides an allocation which, though defective—perhaps decisively—in that it ignores the needs of consumers who cannot pay higher prices, avoids or reduces the administratively difficult, costly, and annoying controls involved in detailed rationing.

Money for public purposes may be obtained by other means, not all of which are inflationary, and the acquisition of revenue by the government is not central to our analysis of the functions of taxation. We emphasize instead taxation as a means of preventing inflation and of facilitating armament production. That revenue will be realized from these uses of taxation is not unwelcome; nor is the fact that this revenue is free from the obligation of any future payment of interest or principal. But the question of exercising proper controls over the economy in the present situation goes beyond that of the government revenue requirements, and even that of avoiding future burdens.

Defects

Attainment of the first objective, to absorb civilian money incomes in order to prevent inflationary price advances, is hampered by two major defects and certain other shortcomings in the federal revenue system, as revised by the Act of 1941. These major defects appear in the inadequate magnitude and delayed timing of the aggregate taxes imposed. The

estimated tax revenue, \$18 billion for the fiscal year 1943, falls far short of covering the part of governmental costs which cannot be financed by such borrowing from civilians as can be justified on certain recognized grounds of public policy. That further non-inflationary borrowing may be feasible and that it would reduce the occasion for absorbing civilian incomes by taxation are admitted; but no serious doubt can exist that, even with the feasible maximum of non-inflationary borrowing, in which considerable reliance might be placed upon compulsory loans, the income remaining that should be absorbed by taxes would greatly exceed \$18 billion.

The defect in timing arises because of the long interval customarily elapsing between the receipt of civilian incomes and the payment of taxes: from the present tax system revenue is for the most part delayed. Personal and corporate income taxes, which together supply about 65 per cent of total federal revenue estimated for the fiscal year 1943 under the present law, are not collected currently. The return filed on March 15 reports income received during the preceding calendar year, but only one-fourth of the tax has to be paid at that date. The remainder may be paid in three installments, the last on December 15.¹ Estate and gift taxes, especially the estate tax, are also subject to long delay. The portion of the unemployment insurance tax that is collected by the federal government, about 10 per cent of total collections of this tax, is due a month after the close of the calendar year and may be paid in installments.² Excises, the old age annuity tax, and customs alone are paid currently.

Taxes are commonly paid with money which would otherwise support increased demands in the market.³ But if tax payments are to function in preventing inflation, they should be made currently as purchasing power is received by the taxpayers. The anti-inflationary objective will not be realized if individuals and corporations retain their entire incomes for months. Long before these incomes are to be reported for taxation, and still more months before the tax must be paid

in full, the money, except such as had not only been set aside in reserves for taxes but held idle or invested in federal securities pending tax payment, will have been spent or invested and consequently will already have affected prices. Besides, in a period of rising prices, the payment in any given year, being based on the income realized in the preceding year at a lower level of prices, will generally be smaller in relation to income and prices current in the year of tax payment than to income and prices in the period in which the income was earned. On the other hand, persons and business firms whose incomes do not respond to the rising level of prices will be discriminated against in that their tax payments will be relatively heavier in comparison with income in the year of tax payment.

The present federal system of taxation, because personal and corporation taxes predominate, also suffers because rate and other changes cannot easily be effected more frequently than annually; and this is an additional defect from the viewpoint of inflation control. These taxes are based on the concept of annual income. Consequently changes in rates, and other factors determining the amount of tax, apply to income defined on a twelve-month basis. But the armament program is rapidly expanding, as is the flow of public money to individuals and business enterprises. Already the estimates of what the nation will accomplish during the fiscal year 1943 have been boosted significantly. Expenditures for weapons and war supplies will be increasing all through the fiscal year 1943, and probably during the next year, if not still longer. These increasing additions to money incomes may afford strong reason for introducing higher rates on personal and corporation incomes at intervals of less than a year. Yet that cannot be done under present arrangements, with various elements in the tax system so designed that tax liability can be determined satisfactorily only on an annual basis.

These defects in the federal tax system are not surprising. The contributing sources of revenue have been developed

during many years and were intended neither separately nor collectively to perform the economic tasks implicit in a great armament program. Moreover, the tax system is largely a legacy from a period in which tax policy was designed to reduce saving and stimulate consumption, not to absorb the sort of money incomes being created or notably expanded by the war. The outlines of our appraisal of war tax measures are therefore traced by these deficiencies in the revenue system as it stands after the alterations made by the Revenue Act of 1941. We shall discuss changes that will tend to check inflation and that will facilitate accomplishment of the other economic objectives recognized as desirable under present circumstances. The changes relate mainly to types of tax already included in the system—changes in the specification of the object taxed, in rates, in allowances and ameliorations which reduce the tax levied, and in the manner of collection. Certain other changes are to be considered—changes involving types of tax entirely or largely absent from the existing tax system. Not numerous, these include such items as a general sales tax, a tax on gross incomes of individuals or enterprises, a tax on property of the capital levy type, a levy of the forced-loan type which has characteristics of both taxation and borrowing. The very fact that these types of tax have little or no place in the existing system does not mean that they have never been suggested or considered, but implies rather that strong arguments against them have been recognized. In wartime, fiscal needs are, however, so vast that even questions that have been treated as closed may have to be reopened.

2 LIMITING FACTORS ON TAX POLICY

Once the vast needs for taxation in wartime and the inadequacy of the present system to meet those needs are recognized, devising a tax program means choosing a combination of some new taxes or changes in existing taxes. Several combinations would meet or largely meet the basic wartime eco-

conomic objectives of diverting resources to military use and preventing inflation. Choice among the combinations, such a choice as in fact the government must and will make, is subject in greater or less degree to highly important and somewhat imponderable limiting factors.

One limitation arises because the needs to be met, in respect of both diversion of resources and prevention of inflation, are complex and specific rather than simple and general. While a general need exists for reducing civilian consumption to release resources for military use, and accordingly taxes that restrict such consumption in a general way do contribute to a wartime economic need, a much more effective contribution will be realized by applying taxes that restrict the particular kinds of consumption most likely to compete with the military use of resources. Likewise, though a general need exists for absorbing civilian incomes in order to prevent inflation, and accordingly any taxes—for all taxes, with negligible reservations, absorb civilian income—contribute to that need, a much more effective contribution will be realized by applying taxes which absorb income at such points in the economic system or in the hands of such individuals that its capacity to induce inflation is most serious. Chapters 2 and 3 outline the conditions which roughly determine the specific needs, as against the general need, and accordingly imply certain broad limitations on the combinations of taxes that will serve the basic objectives.

One set of limitations is essentially 'mechanical,' and reflects the direct conflict of one type of tax with another. Any one tax measure might yield large revenue and absorb much purchasing power if it alone were adopted, but might lose much of this effect if certain other measures also were adopted. The one tax might largely absorb or remove the income selected as the base for the other tax.

The other chief limiting factors fall into two categories. The more significant, from the viewpoint of this book, includes limitations imposed on the official choice of tax meas-

ures by the danger of impairing private incentives essential to the most effective war effort. Almost any tax measure may damage private incentives, although some are far less detrimental than others or affect incentives less essential than others to the war effort. Wise formulation of tax policy requires the appraisal, however difficult, of the effects various measures separately and in combination will have on incentives, and a choice of measures that will minimize the total damage and distribute it in a manner least likely to impede the war effort.

The second category of limitations covers all resistances to the imposition of specific taxes that reflect purely private interests—of groups of citizens or enterprises, and also of legislators and other government officials responsible for tax policy. These two categories, of the psychological or political sort, have large influence in framing tax policy. The psychological limitations are discussed at various points in ensuing chapters, where they have special pertinence; but, for reasons set forth in the Preface, the political limitations are not discussed specifically in this book.

3 POSSIBLE COMBINED TAX PLANS

The significant elements out of which a tax plan designed to raise additional revenue and contribute to other wartime economic objectives can be developed are discussed in Chapters 8-12. We do not try to establish the wisdom of applying any one element with maximum, or any other degree of severity. Instead we undertake to show the main economic implications of each major tax device, and to suggest the revenue to be realized if it is applied in a specified way and with specified severity. Both the revenue and the other economic effects of applying any one tax device are conditioned by the degree of application of some of or all the other devices. The structure of the tax program as a whole becomes in a sense the key to the revenue potentiality and the economic effects of any one element.

The authority preparing a tax program must therefore

consider various combinations of the elements, each element applied with various degrees of severity. The total revenue from any one such program must be calculated with an eye to the effects of one tax device on the revenue yield of others. The economic effects of the combination, especially in terms of the diversion of resources from civilian to military use and of preventing inflation, must be considered as a whole, with attention to the extent to which various elements of the combination supplement or conflict with one another. Moreover, the taxing authority will consider the various combinations in terms of the policy aspects, mainly psychological or political, that in the main do not admit of analysis on the basis of statistical or other economic facts. It will in fact select among the possible combinations, and the official tax program so selected will be determined by considerations partly of the revenue and other economic effects and partly of the policy issues mentioned above.

We do not present here any combination of tax devices to be regarded as a suggested tax program. We exhibit instead in Table 16 three combinations selected to illustrate possibilities. Comparison among them is intended to show that more severe application of one tax device may require less severe application of another. We emphasize that many other combinations could be drawn up, that several others might conceivably meet more satisfactorily the needs of the situation, and that policy and other considerations may easily lead the government to adopt a program differing significantly from any combination here shown.

The first combination differs from the others in that it includes no sales tax and applies a heavier tax on individual income. The third combination differs from the others in that it applies less heavy corporate taxes and includes a fairly heavy general sales tax.

To combat inflation currently, such a stoppage-at-the-source device as is described in Chapter 11 may be a suitable part of all three combinations; but it would probably be less urgently

needed or would not have to be used so drastically in the third, which includes a heavy sales tax, than in the first, which includes no sales tax.

Each combination presented shows an *additional* revenue, based upon our somewhat rough estimates, of not over \$12 billion. Accordingly, any of these combinations, when superimposed upon the tax structure existing under the Act of

TABLE 16

Estimated Additional Revenues, for a Full Year,
from Selected Combinations of Changes in the Act of 1941

	<i>Combination 1</i>	BILLIONS OF DOLLARS
a) Very severe advances in corporate tax rates (average rates: normal, 24; surtax, 31; excess profits, 75)		3.2
b) Higher rates & wider commodity list, for selective excises, but no general sales tax		1.6
c) Severe advances in rate (up to a level of 30% for lowest bracket), & reductions in personal allowances & in other ameliorations of the individual income tax		4.5
d) Higher rates & extension in coverage of social security taxes		2.0
e) Higher rates & lower exemptions, for estate & gift taxes		.5
Total		11.8
	<i>Combination 2</i>	
a) Corporations as in (1)		3.2
b) Selective excises as in (1), but a moderate (3%) general (with few exclusions, such as food & low-priced clothing) sales tax		2.8
c) Less severe advances in rates (up to a level of 20% for lowest bracket); other changes in individual income tax as in (1)		3.5
d) Social security taxes as in (1)		2.0
e) Estate & gift taxes as in (1)		.5
Total		12.0
	<i>Combination 3</i>	
a) Less severe advances in corporate rates (average rates: normal, 24; surtax, 21; excess profits, 70)		2.1
b) Selective excises as in (1), but a more severe (5%) sales tax than in (2)		3.5
c) Rate advances & other changes as in (2), for individual income tax (with allowance for greater dividend payments)		3.7
d) Social security taxes as in (1)		2.0
e) Estate & gift taxes as in (1)		.5
Total		11.8

1941, would bring total revenues only to about \$30 billion. This is \$10 billion short of the tax goal of \$40 billion indicated earlier in this chapter as a rough minimum if borrowing is to be kept within such bounds that serious risks of inflationary consequences will not be incurred. Any combination of new taxes which would cut down this dangerous gap of \$10 billion would necessarily comprise even more severe rates than those illustrated in Table 16.

NOTES

¹ A similar arrangement delays the payment of taxes by individuals and corporations operating on a fiscal year (other than the calendar year) basis. Few individuals, but many corporations, use the fiscal year in reporting for taxes.

² The federal-state arrangement whereby state unemployment insurance taxes are levied and, through the medium of a trust fund, contribute money for current federal expenditures is described in Ch. 12.

³ Some tax payments are made with idle money, which, being unused otherwise, does not add to the demand for goods while in private possession, although the holders may at any time put the money into active use in the markets. Transferred to the Treasury, however, money from this source may function on the demand side of the market and therefore as a price-raising influence.