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# WITHHOLDING TAX

## HEARING

BEFORE A

*U.S. Congress*  
SUBCOMMITTEE OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

ON

DATA RELATIVE TO WITHHOLDING PROVISIONS  
OF THE 1942 REVENUE ACT

AUGUST 21 AND 22, 1942

Printed for the use of the Committee on Finance



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# DATA RELATIVE TO WITHHOLDING PROVISIONS OF 1942 REVENUE ACT

FRIDAY, AUGUST 21, 1942

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON FINANCE,  
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10 a. m., in room 312 Senate Office Building, Senator Bennett Champ Clark presiding.

Present: Senators Clark (presiding) and Danaher.

Senator CLARK. Dr. Jacobstein, will you identify yourself for the record, please.

## STATEMENT OF MEYER JACOBSTEIN, OF BROOKINGS INSTITUTION

Mr. JACOBSTEIN. Meyer Jacobstein. On the staff of the Brookings Institution.

Senator CLARK. All right, Doctor, you may proceed.

Mr. JACOBSTEIN. Mr. Chairman, neither Dr. Hardy nor I have a written or prepared statement this morning.

Senator CLARK. We would be very glad indeed to have your oral statement.

Mr. JACOBSTEIN. We were called into this situation rather suddenly, as Senator Danaher knows, only yesterday for the first time. As the result of our very informal discussion yesterday it occurred to the Senator that such observations as we have made in connection with our other studies might be helpful to this committee, and I am very glad to be here to present those views. I would rather Dr. Hardy would discuss the technical aspects of the question raised by Senator Danaher, that is, the advisability of using the coupon system as a means of mopping up purchasing power. That is, I think, Senator, a correct statement, the use of the coupon system based upon purchases made by the consuming public. I would like to make a general statement and then turn the matter over to Dr. Hardy who is a tax expert, and I am not. I have studied the question in a general way.

It is obvious that it is necessary to mop up the excess purchasing power of the community, not only because of its effect on the price situation but because the Treasury needs the money and needs it quickly. Obviously if the Treasury can collect from the consumers as the purchases are made the Treasury has the use of those funds long before it would obtain them by the income-tax method.

Now, there are many ways, of course, of mopping up this surplus purchasing power. The income tax, unfortunately, does not reach

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large groups of people: It does not reach the farming group, it does not reach the low-income group, and in many instance it does not reach even well-to-do people who live on capital and annuities of various kinds who do not come within certain income brackets.

Then, there is, of course, the sales tax as a method. We will not discuss that this morning, since apparently that is out of the picture for the moment, but that, from my standpoint, is a very effective way of mopping up some of this excess purchasing power.

Then, there is the withholding tax at the source based on pay rolls. Unfortunately, there again there are many people in this country who are not on pay rolls. The farmers are not on pay rolls. There are a great many people who get income from investments that are not on pay rolls, annuities, and what not. So, the pay roll as a means of reaching this excess purchasing power is not all-inclusive, it does not cover everybody.

If you want to mop up purchasing power the thing to do is to go after purchasing power. When a man buys anything that is the time to collect the money. In other words, consumption, as I see it, is a basis of reaching the widest number of people. In the Senator's memorandum, which I saw, consumption is advocated by the Senator as a basis of reaching the widest number of people in all groups, and it reaches everybody alike. That is, it reaches the farmer as well as the workingman who escape the payment of taxes today. That is, they earn too little to be reached by the income brackets, and in the case of the farmer, in most cases they are not reached at all.

Senator CLARK. Doctor, what this plan is, it is essentially a compulsory savings plan based on sales tax methods, is it not?

Mr. JACOBSTEIN. I should say that is a fair description of it, yes. It is the use of a sales tax method without being a tax.

Senator CLARK. So far as the impact on the public is concerned, it is precisely the same as a sales tax, except you give the money back sometimes.

Mr. JACOBSTEIN. That is right. That is a very fair statement, I think. Senator Danaher used the word "self-assessment." If I buy a dollar necktie I pay \$1.10 under his plan.

Senator CLARK. Of course, you do that with the sales tax, too.

Mr. JACOBSTEIN. You do that with the sales tax. I might say now, as I suggested yesterday, this suggested method lends itself to a combination of both, so when I pay 10 cents on the dollar for the necktie, I might get the 10 cents back at some future time by means of a coupon which is redeemable and exchangeable for some Government stamp or bond, or I might get back not the 10 cents but 5 cents, 5 cents being permanently held by the Treasury. So that this coupon method, as I see it, can be used as a withholding tax based on consumption, and may be combined along with a sales tax. You can do both things. The only difference here is that you are using consumption rather than the pay roll as the basis of collecting the tax, as distinguished from the withholding tax as generally and conventionally understood. A withholding tax is usually withheld at the source. Here you withhold it not at the manufacturer's end but at the retailer's end. You are using the retailer instead of the manufacturer to siphon off several billions of dollars, depending upon the rate of the assessment of a tax.

I think this coupon method ought to be discussed not as against any other system. It may be that several systems can be used. Any one of them might be very useful to the Treasury in accomplishing this purpose. But looking at the coupon system by and of itself, it seems to me that it is a workable method of reaching the largest number of people quickly, for siphoning off purchasing power into the Treasury from day to day, or week to week, or month to month; and it has that advantage.

Now, there is an aspect to this question which was not brought out in the original memorandum which would make the scheme perhaps a little more palatable if certain deductions were made by any method, either by the withholding tax method or direct sales tax method or by Senator Danaher's proposal, and that aspect of the question I will leave to Dr. Hardy to discuss. It is his original contribution.

I think that covers the general statement that I wish to make this morning, Mr. Chairman.

Now, I would like to ask Dr. Hardy to present his views, unless you want to ask some questions, Senator.

Senator DANAHER. Just one. It is a fair summary that as the result of such consideration as you and your colleague have given to the coupon method, it is a workable proposal irrespective of the question of policy involved?

Mr. JACOBSTEIN. That is right.

Senator DANAHER. All right.

Senator CLARK. Dr. Hardy, the committee would be very glad to hear from you.

#### STATEMENT OF CHARLES O. HARDY, OF BROOKINGS INSTITUTION

Mr. HARDY. First, just to avoid confusion, I notice that Dr. Jacobstein has used the word "coupon" where Senator Danaher has used the word "stamp." I prefer to use the word "stamp," because I am using the word "coupon" for another thing in the plan that I have been working on, namely, for the purpose of providing an exemption from the tax or forced loan, either one.

Now, as has been stated a moment ago, this is a forced loan, using the mechanism of the sales tax both for distributing the burden and for the mechanics of collection: It should be pointed out, I think, that you can do the same thing with the mechanics of any other tax; that is, under the income tax you can give out bonds or coupons redeemable in bonds instead of giving receipts for the income tax. You can do that, as far as I can see, with any tax, for the whole schedule of taxes.

I would like to say just a word on the result of doing it this way as compared with making it a tax and calling it a day. The basic necessity of running this system, either out of taxes or forced loans, one or the other, is simply, in effect, that we have to bring about a readjustment of consumption in the country to the amount of consumers' goods and services that we can spare the resources to produce under war conditions. First, we have got to devote our productive energies to the war. If we do not devote a large part of the purchasing power correspondingly to the war, then we have got the choice of either making the adjustment by an inflationary rise of prices, which is also a form of sales tax only it is paid to the dealer and producer

instead of being paid to the Government, or you can use the mechanism of the sales tax, as far as I can see, by mopping up the increased purchasing power that is created by the rising amount they receive in their pay checks.

If you do not do that, the only other alternative, as far as I can see, is the plan that the O. P. A. is working on now, holding down the prices while the incomes go up, and depending upon people to make a quasi-voluntary saving, because they haven't anything to spend the money on. The thing that bothers me about this program is the objection to carrying this principle too far in your fiscal system, the principle in Senator Danaher's statement. That is, when you do that either by forced savings, by the issue of stamps in lieu of tax receipts, or do it by the O. P. A. method of setting on a price lid and letting the incomes go out of alignment, you are just deferring the problem. You are saying at this time, "We can give our people as much purchasing power as they could spend in the absence of the present fiscal conditions, and although there is nothing to spend it on we are letting them store it up until some future time." If that is done in the right amount the result is, as pointed out a moment ago, either by you or Mr. Jacobstein, the result may be to provide a backlog of purchasing power at a time when, after the war, you might have a deficiency. On the other hand, if the money is stored up, whether it is in the form of these stamps or in the form where people haven't spent it because they have had no way to spend it, in either case if it is too large a proportion you are going to have the problem, whenever you do turn it loose, that you have now in the other case, namely, of having a lot more purchasing power than you have goods and services to make it good with.

That is the answer, I think, to the question that might be raised as to why not carry this principle through and apply it to income tax, corporation tax, and everything else.

The purchasing power that we are trying to mop up now flows out of the current level of production. A lot of that income is generated out of the production of things that we cannot consume. Now, when it comes to that hoped-for period when you are going to be able to allow people to cash in these stamps, or the bonds they get for these stamps, or let them cash in the bank deposits which are piling up now because of the relative success of the O. P. A. program, you have a situation then in which the current production of 1945, let us say, is all of it matched by income which it generates, and in addition to that you have got all the income that is turned loose out of this stored-up category. I hope I have made myself clear on that. It is exactly the same problem whether you do it this way or whether you do it by the O. P. A. program, assuming the O. P. A. program is administratively enforceable over a long period. Obviously this has the advantage that this definitely sews up the purchasing power in such a way that it cannot be released until we discover the proper period to release it; whereas, the O. P. A. program does not sew it up at all, it leaves it to each individual to accumulate it in his bank balance, or his sock, in some way or another, it simply prevents him from spending it by cutting off the outlet. Do I make myself clear?

Senator DANAHER. Yes.

Mr. HARDY. Coming to the other question, it seems, as Dr. Jacobstein has said, perfectly feasible to make these stamps which a person

gets in exchange for a surcharge on his retail purchases, and make them redeemable 100 percent in Government bonds, or make them redeemable 50 percent in Government bonds if you want to store up half the purchasing power and wipe out half of it, or make it 2 percent redeemable and 98 percent held, so the 2 percent will be enough for the person as an incentive to see to it that the dealer gives him the stamps. That was the line we were working on, giving very small redemption values, simply as an aid in enforcement. But the administrative problem is just the same whether it is 5 percent redemption or 100 percent redemption in the matter of these coupons or in Government bonds. Of course, as I said a moment ago, obviously if there comes a period when purchasing power seems to be deficient in the market you have got the possibility then where a redemption of these things is putting a lot of money into circulation instead of doing it through the W. P. A. or deficient spending of any other sort.

I think it has a great advantage over the usual deficient spending program. This program just postpones the problem of administration, in deciding how much purchasing power is available to release and to what extent it will create the old wartime inflation over again.

Senator DANAHER. Let me ask you this question: Considering the withholding tax, regardless of the rate, whether it is 5 percent or 19 percent is immaterial, simply the Treasury withholds it currently and applies the proceeds against the tax due in a given year, under the proposed withholding tax plan that came from the House—

Mr. HARDY. The deduction from salaries and interest, and so on, at the source?

Senator DANAHER. Yes.

Mr. HARDY. Yes.

Senator DANAHER. That is a currently applied method of withdrawing so much of the consumer purchasing power as is represented by the tax collected or withheld.

Mr. HARDY. That is right.

Senator DANAHER. And then applied as against the tax due.

Mr. HARDY. Yes.

Senator DANAHER. Whereas, under this proposal which I had asked Dr. Jacobstein to canvass with you gentlemen, you not only are accumulating for the Treasury currently perhaps \$5,000,000,000 a year, but you are accumulating it year after year, that is, you are still withholding constantly from the market so much of the amount withheld as is not necessary to be applied in reduction of taxes currently due. Do you follow me there in that contrast?

Mr. HARDY. I do not believe I do, Senator Danaher.

Senator DANAHER. I might restate it. We are agreed on my definition of the essence of the application of the withholding tax provisions, are we not?

Mr. HARDY. The withholding tax provision has the effect of withholding purchasing power at the time the income is realized rather than a year hence through the income tax structure.

Senator DANAHER. And if it were in effect only 1 year it would apply only 1 year?

Mr. HARDY. I assume so.

Senator DANAHER. Yes. Whereas this proposal is a continuing thing.

Mr. HARDY. Well, if it were in effect only 1 year it would still apply in only 1 year.

Senator DANAHER. I was just trying to draw the curtain there.

Mr. HARDY. It seems to me the essential difference is that the withholding tax plan applies at the point of receipt of income, and this applies at the point of expenditure of income.

Senator CLARK. Of course, you withhold not only from taxpayers but nontaxpayers.

Mr. HARDY. Yes. To my mind that is the great argument in favor either of this plan or of a straight sales tax, that the income tax misses, and particularly the withholding feature misses a considerable fraction of consuming power in the country. I think this point is frequently overlooked and greatly underestimated, and that is the people who are living off capital rather than off current income. It is often assumed that that consists of just a few very rich people. It is not just a few very rich people. If you are very rich you can live off the income of your capital, but then there are people who have retired, who are living off of their lifetime savings, who may show an income of \$5,000 but who are spending several hundred thousands of dollars a year because they have saved a good many years to provide for their expenditures.

Then you have the people who are living off the proceeds of insurance policies, people who are unemployed but who are well enough fixed so they do not worry about it, about being unemployed, and that group is totally exempt under any such income-tax scheme, whether it is levied at the source or levied in the usual way. That does not make a great deal of difference under ordinary peacetime conditions, but it makes a great deal of difference when we consider groups that receive half the national income, because we are reaching the point where the curtailment of somebody's consumption has to be very marked. Whether we do it by taxation, or whether we postpone the power to consume is much less important than the importance of spreading it so that no considerable group is exempt from it. I think the great advantage of this plan and the ordinary sales-tax plan over the plan we use today is that there is nobody of consumptive ability that is exempt from it. Maybe you do want to exempt a certain amount of consumptive ability, namely, that at the very bottom. That is where my coupon plan was intended to meet the objection to the sales tax.

Senator DANAHER. Will you suspend for just a minute?

I want to hear this. Senator Barkley is calling me. I will be right back.

Mr. HARDY. Yes.

(Short intermission.)

Senator CLARK. All right, Doctor, you may proceed.

Mr. HARDY. To close the point I was making in regard to the advantage of assessing the tax or loan, whatever you use, assessing it on the basis of consumption, I point out that there are certain people living off of capital. You also have to account for the fact that there are a good many people who, in a given year, show losses, capital losses that wipe out their tax liability and who, nevertheless, may be maintaining their ordinary standards of living out of capital. I made some study of the incomes of people who report losses, and it would appear that on the average people who have negative in-

come for tax purposes but have to report, with gross incomes large enough so they have to report, probably have \$20,000 or \$30,000 normal income just on the basis of the proportion of rent and dividends, and other types of income in the gross.

You also have got the case of farmers whom it is notoriously difficult to reach on income taxes, unless they are very well-to-do farmers, or the small businessman whose bookkeeping methods and the difficulties of auditing them on the part of the Treasury are such that he may be paying very much less than his income justifies, along with the notorious difficulty of reaching skilled labor if it changes jobs often enough so as not to appear in forms reported to the Treasury. You have got a big class of consumption here, I should say half of the consumption of a normal year that is not reached by income tax with an exemption of \$1,500.

The thing may be summed up in saying the purpose of your fiscal system is directly to regulate, curtail, or restrict consumption. The logic that is in favor of it relates directly to the consumers' expenditures rather than indirectly to the income which throws light on his ability to consume and not on his actual consumption. I think it is all in favor of the retail sales as a basis of assessment, whether you use it in your form or the tax form.

I will come to the objection to it, and that is that it tends to fall most heavily on very low incomes, because a higher proportion of those incomes is spent for consumption, which is the thing that I think has stood in the way of a broad use of this method of assessment in Federal taxes. That, I think, can be met by the use of coupons. This is not cashed in the sense of a stamp that you have used up, but an exemption coupon, or it could be done alternatively by a food exemption. I have made some estimates. These are based on 1941 prices, and they would be a little higher in the case of present prices. I have made some estimates on how you come out when you make an attempt on an assessment of consumptive expenditures designed to raise \$5,000,000,000 with different ways of taking care of the very low income.

If you ignore the problem entirely, just make it on all sales, exempting medical expenditures and rent and practically nothing else, housing and medical care, education—to raise \$5,000,000,000 without any exemption you get a rate of 9.4 percent. To do it with an exemption of \$200 for each single consumer and \$350 for each family—that does not mean an exemption of that amount of tax but an exemption of that amount of income, then the rate would be 12.2 percent.

Senator CLARK. How much, Doctor?

Mr. HARDY. 12.2 percent. To do it with an exemption of all food sales, in addition to all the other exemptions, you would need 15.4 percent on the rest of the expenditures.

Senator CLARK. Your first suggestion was to have a flat exemption of \$200 on all purchases?

Mr. HARDY. That was the second. That is the one that gets 12.2 percent. If you have no exemption whatever you would require 9.4 percent.

Senator DANAHER. That is on 1941 prices?

Mr. HARDY. Yes.

Senator DANAHER. Thank you.

Mr. HARDY. The mechanics of giving that exemption I will come back to in just a moment. The principal difference it makes is to the

incomes under \$500, out of which we estimated that the current consumption in 1941 amounted to between a billion and a quarter and a billion and a half dollars. Without any exemption and with a 9.4 rate that group would pay \$123,000,000, or 9.1 percent of its income. The difference between 9.4 and 9.1 is the housing expenditure chiefly.

Of course, we have to assume that these people spend more than their incomes on the average. It assumes that a lot of people are living off of capital and living off of creditors.

With the exemption of \$350 for each family you would only throw a burden of \$21,000,000 instead of \$123,000,000 on the group below \$500, and you would really make very little difference to the rest of the groups. The rise in the rate about offsets the reduction in the expenditure. For certain groups it works out a little bit one way and other groups it works out a little bit the other way.

For the people with over \$10,000, it is the difference between \$655,000,000 and \$663,000,000. That is all the difference it makes, but it does make a considerable saving in relative terms below \$500, and that spreads the saving over the rest of the community as a slight addition.

The third method, the exemption of food, works out as an intermediate, \$81,000,000 as compared to \$123,000,000 on the very low-income group. As a matter of fact when you come above the \$500 income it does not make very much difference. For instance, \$500 to \$1,000 income, as we estimate it, would pay, without any exemption, \$494,000,000, and with the \$350 exemption it would pay \$398,000,000, and with the food exemption it would pay \$383,000,000. That is not a very big difference when it is spread over the number of incomes that there are in that group from \$500 to \$1,000. It is a difference between the 4.8 income tax, 5.6 income tax and 7.2 income tax. As you get up further in the scale it makes less and less difference.

The mechanics of the food exemption, of course, is obvious enough. It does create a problem for stores that handle both food and other things, the problem of having to classify sales. It makes more of a problem for auditing than you get where all the retail sales are subject to it. You cannot get away entirely from it. You are bound to have some expenditures made at stores that would not be classified as being retail, and you have difficulty where concerns do both wholesale and retail business, and so on.

The mechanics of the thing, as I visualize it, to give the flat exemption is simply to have issued to everybody coupons representing the tax on \$350 for the family or \$200 for an unattached individual, which he would have to get by applying for it, just as he would have to get by applying for it, just as he would have to get in the matter of the ration card on gasoline, sugar, and anything else. It would give an opportunity for complete registration of the population, which could be used for a great many purposes. The plan here attempted to be worked out did not involve asking a man to relate it to his income at all. It is just like the basic exemption on the income tax, it is irrespective of income. Give him these coupons and let him use them in payment for the stamps at the retail store, and use the stamps just the same, whether he pays for them with coupons or with cash. It really amounts to giving him a very small amount of cash. If you have a \$200 exemption the 12 percent rate is about \$24 for the single individual and with the \$350 exemption it is about \$42

per family. I think it is just as well to let people have coupons to pay the income tax. If you pay an income tax you can turn the whole batch of coupons in rather than bother with them at the store.

Some people that I talked to about this plan, Federal Reserve people, have been rather favorable to the idea. They thought it was necessary to make them nontransferable. It seems to me that the labor involved in trying to enforce the nontransfer requirement would be beyond all proportion to the benefits. If a southern sharecropper had such small expenditures that he could not use that amount of coupons and sold them to somebody at 50 cents on the dollar, he is ahead that much. It is only a \$10 or \$12 subsidy. I would say it is not worth bothering about trying to prevent transfers of that sort. If you do not give a bigger subsidy at the expense of the higher income group than that amounts to you get off pretty well. That, you see, could be applied just as well to Senator Danaher's plan as it could to any professor's plan, or the sales-tax plan. It is totally irrespective of whether you give receipts that are not worth anything or receipts that some day may be worth something if you have the national production that would validate it. It is really what a savings certificate or a Government bond is based on.

That is as far as I want to go, unless you have some questions.

Senator DANAHER. Yes, please. I would like to take an individual family of five people, a husband, a wife, one adult child, and two minors. I am assuming they have a reasonable family income of \$3,600 or \$4,000. Does each of the five, under this plan, get the \$200 worth of coupons?

Mr. HARDY. No. Under this plan, the one adult child, if independent, would get the \$200, and the family would get the \$350.

I might say these figures do not rest on any very careful analysis of what the figure ought to be. Obviously that is a detail that would need a good deal of careful work if the plan was made public and advocated. That is the reason it is still in the confidential stage. I would not want to defend those figures. I think we could reach figures that we could defend, and that would be the idea that the people who are independent economic units, who presumably would file separate income-tax returns, would be the people who would be entitled to a separate coupon. The people who are part of the family group, on a single income, we would put them at \$350. You could, of course, readily say that for a family with more than four you would give \$50 additional for each additional member. That might be justified. I would want to canvass that certainly with the Treasury people.

Mr. JACOBSTEIN. But if the children were all minors the family is the unit.

Mr. HARDY. The family is the unit just as it is for income-tax purposes.

Senator DANAHER. So that whatever the income-tax status is, that would determine the actual people who got the allowances?

Mr. HARDY. Well, it would be based in the same way as the income tax. Take the case of a person who has no income, for instance, a retired person, you see you would have handled the consumptive expenditure on whether they were in fact a family or were in fact separate individuals. I suspect you would have to make some special provision, for example, for people in institutions. It would be rather absurd to give each individual in the poorhouse the same amount of

coupons as an individual supporting himself independently. Each individual in a prison would hardly be taken care of in the same way. There are a lot of things of that sort that would need to be ironed out before the stage of writing a bill.

Senator DANAHER. But the mechanics of making some exemption for low income groups would practically be automatic?

Mr. HARDY. I do now see where it is any more difficult than rationing sugar.

Senator DANAHER. It is a most interesting suggestion.

Senator CLARK. Doctor, have you made any examination of the point that was raised here by the Treasury the other day as to the question of administrative difficulty in counting these multitudinous stamps or coupons, from the purely administrative standpoint?

Mr. HARDY. I did not see these points raised.

Senator CLARK. They were raised during some discussion the other day.

Mr. HARDY. I do not know that I can speak about it, but in general that objection—this is perhaps not very nice to say, but, as far as I have heard, that objection is raised to every new fiscal device that is ever suggested. That does not say it is not valid in this case and is valid in some other cases.

I have been influenced, frankly, on the administrative side, very heavily by one of my colleagues who worked with me on this, who has much more expert knowledge and is much more of an expert in this field than I, but unfortunately, or fortunately, he is in the armed services of the country and I cannot refer the question to him. I think basically the answer is that more than half of the States in the Union are doing it, and apparently are doing it pretty successfully. Mr. Dan Selko, through the Brookings Institution, has made a considerable study of the thing.

Mr. JACOBSTEIN. Don't you want to add that Mr. Selko pointed out that such difficulties as are encountered in the States are, partially at least, overcome when you have a uniform Federal tax? Within a State, for instance, if you have a stamp tax you have to exempt interstate commerce. There are a lot of problems that arise where you have a State sales tax or a State stamp tax. Where you have a uniform tax all over the country by one administration, the Federal Government, it is easier to administer than a sum total of 48 States. Now, that was Mr. Selko's conclusion.

Senator CLARK. How many States have stamp taxes?

Mr. JACOBSTEIN. I think he mentioned 25.

Senator CLARK. In our State we have these little tokens.

Mr. JACOBSTEIN. I think he said there were 26.

Mr. HARDY. How many of them use stamps sold to the consumer and how many of them report the direct returns I cannot say offhand.

Senator CLARK. It is not important.

Mr. HARDY. I think I have an answer to it.

Senator CLARK. In Missouri we have these little metal tokens.

Mr. HARDY. Mr. Selko is very much impressed by the Ohio plan in which they made a step toward what you are suggesting in that they gave these stamps and made them redeemable if they were contributed to churches, hospitals, or charitable organizations for a percentage of their value, enough so that people would ask for them. I am afraid I do not have the figures here, but there is a considerable number.

Mr. JACOBSTEIN. May I interject here in order to give you just one more item?

Senator CLARK. Certainly.

Mr. JACOBSTEIN. I assume, Senator Danaher, if the stamp plan that you are advocating were in use the stamps would be affixed by the retailer in a stamp book, so that the stamps could not be resold in the market, or to the retailer and used over again.

Senator CLARK. That is the next thing I was going to ask about, the problem of lost coupons, or the possibility of people selling them at a discount to sharpers.

Mr. JACOBSTEIN. That is right. As you purchase an item you would have to submit your book and affix the stamp in that book, so it would be impossible to tear it out and sell it again or use it over again by the retailer.

Mr. HARDY. The stamp is perforated across, so the retailer tears the stamp across and gives half of it to the purchaser and turns in the other half with the report, so the half is not usable again.

Senator DANAHER. There are several ways in which that non-negotiability of the stamps can be guarded. For example, as to all income earners who have a social security status the album could carry not only their signature but their social security number, and it would be useless unless the album thus identified would be turned back.

Mr. HARDY. My only feeling is that if a fellow spends less than that amount he can only invest it in a bond or savings stamps, and even if he does sell it to somebody else, he has to invest it in a savings stamp, so it is not worth while worrying about anyway.

Senator DANAHER. That is the point that I think most worried the Treasury. They feared there would be created a black market, as they described it, in stamps being negotiated. I share your judgment that if you negotiated all the stamps that could be obtained at any one time it would be infinitesimal in comparison with the gain of getting, say, \$5,000,000,000 a year into the Treasury currently.

Mr. HARDY. That does not defeat the purpose. If the fellow who buys it cannot do anything but buy bonds anyway, the saving is made by somebody, and there is a greater saving and the Treasury is making a profit that is far more to the benefit of the Treasury than the harm that it does.

Mr. JACOBSTEIN. You are mopping up the purchasing power whether it is sold again or not.

Senator DANAHER. Precisely.

Mr. JACOBSTEIN. Don't you think, however, for the record we ought to add here—and maybe the Senator will accept this thought—that if the stamp tax were made universal and compulsory, to that extent a great number of employees who are now buying on a voluntary plan would surrender the voluntary plan; that is, they would not carry both. If I am earning \$2,000 a year and paying 10 percent of my earnings for war bonds, that is \$200. Now, I am compelled to save 10 percent again, and I will go to my employer and say, "I cannot carry both."

Senator CLARK. That, of course, applies to the withholding tax and any other tax. We have been considering the effect of a withholding tax on voluntary sales.

Mr. JACOBSTEIN. The point I make is in computing what you would mop up you cannot add the total \$5,000,000,000 to what the Treasury now takes in.

Senator CLARK. You would have to deduct the amount in voluntary savings.

Mr. JACOBSTEIN. That is right.

Mr. HARDY. That is true in the other scales. As you raise your corporate taxes, you are going to reduce the amount of subscriptions to the other unit bonds. In other words, if you have got a compulsory and voluntary system side by side, as you increase the scope of the compulsory system you are going to narrow the field of the voluntary system.

Senator DANAHER. Do you feel, sir, that we may properly conclude that you believe this proposal to be workable?

Mr. HARDY. Oh, yes; I think it is perfectly workable.

Mr. JACOBSTEIN. That is not saying that something else is not also workable.

Senator DANAHER. I understand. The question of policy is not involved; it is just the feasibility and practicability of it.

Mr. HARDY. Yes. I never regarded one tax plan to be properly appraised by comparing it with another, unless there is some reason for it. You cannot have both, anyway.

Senator DANAHER. It is a substantial problem that the committee has dropped in our laps, and whatever help we can get from any source is most welcome.

Senator CLARK. We are very thankful to you gentlemen for coming up here and giving us your views.

Senator DANAHER. If any additional thoughts occur to either of you that you would like to submit we would most happily receive them.

Mr. HARDY. The only thing I want to say, it might be worth while to send you these tables containing the estimates.

Senator CLARK. Will you give me those figures again, Doctor? That is the figures to raise the \$5,000,000,000?

Mr. HARDY. Yes, sir. I can send you the whole tabulation. That gives the figures for every income group.

Senator CLARK. I would like to have it.

Senator DANAHER. Thank you, gentlemen.

Senator CLARK. The committee will recess until 10:30 tomorrow morning.

(Whereupon, at the hour of 11:15 a. m., a recess was taken until 10 a. m. of the following day, Saturday, August 22, 1942.)