

# ECONOMIC SECURITY ACT

TUESDAY, FEBRUARY 12, 1935

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
*Washington, D. C.*

The committee met at 2 p. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will be in order. Last week, subsequent to the time we had decided to close the hearings on the economic-security bill, a request came to the chairman of the committee that another witness be heard, and it was said that this was essential to the completion of the testimony concerning the Townsend plan; that it had not been found possible to present this witness during the hearings. This request was made, I believe, by Mr. Hudson and a later request was made by two Members of the House, Mr. Mott and Mr. Costello.

In view of that rather extraordinary situation, the matter was brought to the attention of the committee this morning, and on the basis of those requests and a written request from Dr. Townsend that another witness be heard, the committee voted to hear Dr. Robert R. Doane, an economist, of New York City. That is the purpose of the meeting this afternoon.

Without objection, the correspondence between Dr. Townsend and the chairman of the committee on this subject will be made a part of the record at this point.

(The correspondence referred to is as follows:)

OLD AGE REVOLVING PENSIONS, LTD.,  
(THE TOWNSEND PLAN),  
*Los Angeles, Calif., February 12, 1935.*

HON. ROBERT L. DOUGHTON,  
*Chairman Ways and Means Committee,  
House of Representatives, Washington, D. C.*

HONORABLE SIR: This is to make formal request to you and your honorable committee to permit Dr. Robert R. Doane, New York City, to appear before you as an economist and statistician in reference to the feasibility of the transaction tax as proposed in the Townsend Plan of Old Age Revolving Pensions.

I realize that this is an unusual request, and I will greatly appreciate your hearing Mr. Doane, who unquestionably is capable of presenting the facts from the standpoint of an economist and statistician.

Respectfully yours,

OLD AGE REVOLVING PENSIONS, LTD.,  
By DR. F. E. TOWNSEND, *President.*

FEBRUARY 12, 1935.

Dr. F. E. TOWNSEND,  
*Ambassador Hotel, Washington, D. C.*

MY DEAR DOCTOR TOWNSEND: Your communication requesting that Dr. Robert R. Doane, of New York City, be given a hearing before the Ways and Means Committee has been received and submitted to the committee.

It will be the pleasure of the committee to hear Dr. Doane this afternoon at 2 o'clock.

Very sincerely yours,

R. L. DOUGHTON, *Chairman.*

The CHAIRMAN. If Dr. Doane will please come forward, give his name and address, and the capacity in which he appears, and such other information as is pertinent to his appearance before the committee we shall be glad to hear him at this time.

**STATEMENT OF DR. ROBERT R. DOANE, DIRECTOR OF RESEARCH, AMERICAN BUSINESS SURVEYS, 52 WALL STREET, NEW YORK CITY**

Dr. DOANE. Mr. Chairman and gentlemen. My name is Robert R. Doane, and I reside at 101 West Eighty-first Street, New York City.

I am at present director of research of American Business Surveys, 52 Wall Street, New York City.

Do you want any further qualifications?

Mr. FULLER. I believe we ought to have them.

The CHAIRMAN. It has been suggested that you have other qualifications, Dr. Doane.

Dr. DOANE. I have a statement setting forth my education and experience, and so forth. May I just file that for the record?

The CHAIRMAN. Without objection, that may be done.

(The statement referred to is as follows:)

Name: Robert R. Doane.

Address: 101 West Eighty-first Street, New York, N. Y.

Age: Forty-six years, born March 10, 1889; Wilmington, Ohio.

Married: January 25, 1914.

Education: Public schools, Wilmington, Ohio, 1895-1905, Wilmington College, Wilmington, Ohio, 1905-9; Ohio Wesleyan University, Delaware, Ohio, 1909, 1911; Georgetown University, District of Columbia, 1911-12; Columbia University, New York, N. Y., 1915-17; New York University, New York, N. Y., 1917-18; School of Public Administration, New York, N. Y., 1918-20; American Institute of Banking, New York, N. Y., 1918-20. Postgraduate work under instruction of Professor Seligman, Columbia University; Graham Wallace, London School of Economics; Gustav Cassel, University of Bonn; David Friday, University of Michigan; Walter W. Stewart, Chief Economist, Federal Reserve Board; (1924), Carl Snyder, chief economic, Federal Reserve Bank of New York.

Experience: Staff member financial department, New York Times, 1917-18; staff member editorial department, New York Times Annalist, 1918; staff member American City Bureau, New York, 1918-19; executive director, War Camp Community Service, New York, 1919-20; director-general, The Hall of States, New York City, 1920; organizing executive, Interchurch World Movement, 1920; executive, Lee, Higginson & Co., New York, 1920-21; organization chairman, Grand Central National Bank Committee, 1922; new business department, Pacific Bank of New York, 1924; director of research, Mid-Manhattan Survey New York, 1926-27; managing editor, The Bank Director, New York, 1928; financial editor, McGraw-Hill Publishing Co., 1929-30; member staff, National Bureau of Economic Research, New York, 1931; member editorial staff, The Business Week, New York, 1931-32; Statistical Advisory Consultant, United States Department of Commerce, 1932; member intergovernmental Debt Settlement Conference, 1932; Advisory Consultant, United States Department of Labor, 1933; director of research, National Survey of Potential Product Capacity, 1934; director of Research American Business Survey, New York, 1935.

Published studies: A Half-Century of Banking in the U. S., Financier Publishing Co., 1928; The Economics of Aviation, McGraw-Hill Publishing Co., 1930; Marketing Educational Supplies, Geyer Business Publishing Co., 1928; The American Consumer Market, McGraw-Hill Publishing Co., 1932; How Poor is America, New Outlook Publishing Co., 1933; A Short History of Debt, New Outlook Publishing Co., 1933; Technocracy's Maturity of the Chances, Business Bourse, 1933; The Measurement of American Wealth, Harper & Bros., New York and London, 1933.

The CHAIRMAN. Doctor, if you prefer to make your main statement without interruption, you may do so; and the custom of the committee has been, after the witness has completed his main statement, to ask the witness such questions as members of the committee may desire to propound. If you desire to proceed in that way, you may be recognized for 30 minutes.

Dr. DOANE. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, it has been my understanding that the object of these hearings has been, among other pressing matters, to permit the fullest discussion of the various proposals relating to the program of social legislation now up for your consideration. And also that those who appear before you are here for the purpose of lending such assistance as may be possible, to the end that your committee may adequately ascertain not only the degree of desirability surrounding these proposals but the element and extent of practicality which may be inherent in them.

In all such matters not only must we know what we want, but we must know what we can expect to get, by way of possible revenue contributory to their satisfactory fulfillment, and not alone through the selection of some vehicle of taxation, but also in relation to what our economy can afford to make effectively and efficiently available. It is, therefore, upon the side of a measurement of these expectations and the possibility of a practical fulfillment within the limits of our economic structure that I desire, primarily, to deal.

I have been made familiar in a general way with some of the proposals that have been presented for your consideration, including the proposal known as "the Townsend old-age pension plan." I am cognizant of the fact that any attempt to analyze fully, and especially to attempt any complete synthesis, whereby the final resulting influences upon our economy of this, or any other group of proposals, contain the elements of a hazardous undertaking. It is, therefore, my wish that my purpose in appearing here be clearly understood. I am in no way attempting to advocate any particular form of social or economic legislation, or to propose or advocate any selected type of taxation as the most desirable instrumentality through which these proposals may be made reasonably effective. But rather would I prefer to present to the committee a brief series of relevant data which may be of some value as aids in determining certain potentials relating to those elements of practicability and impracticability inherent, in part, in all such proposals now enjoying a more or less wide popular attention.

Toward this end I have prepared a résumé of material bearing upon the national income, the volume of total trading transactions, the volume of consumer expenditures, the total normal and present number of income recipients, their aggregate current monthly spending, the distribution of income and of expenditures among the various income classes, and the distribution of wealth. And also some estimates involving the incidence of general sales and turn-over taxes insofar as they relate to the tested experience of other nations of the world who have recently employed them. And also estimates as to the possible amounts that might be realized were this form of taxation uniformly employed in this country.

In this connection I should like to introduce the following tabulations together with notations as to their sources and methods of computation.

(The tabulations referred to are as follows:)

TABLE I.—Normal annual per-capita consumer expenditures (basis 1931), by income classes

[1914 dollars]

Income classes (thousands)	Food	Shelter	Transportation	Personal	Clothing	Recreation	Total
1,000 and over.....	\$2, 835	\$27, 933	\$4, 066	\$4, 000	\$1, 340	\$12, 000	\$52, 174
500-1,000.....	2, 550	23, 346	4, 066	3, 500	1, 117	11, 700	46, 279
300-500.....	2, 235	19, 760	4, 032	3, 300	1, 006	11, 400	41, 733
150-300.....	1, 327	18, 760	4, 011	3, 200	884	11, 000	39, 182
100-150.....	1, 227	16, 966	3, 838	3, 000	838	9, 000	34, 869
50-100.....	1, 117	14, 001	2, 560	2, 650	558	6, 704	27, 590
25-50.....	1, 019	5, 586	2, 049	2, 235	503	4, 470	15, 862
10-25.....	898	2, 922	1, 117	1, 975	447	1, 605	8, 964
5-10.....	581	1, 584	575	1, 295	391	691	5, 117
3-5.....	449	708	407	434	273	330	2, 601
2-3.....	353	335	203	275	223	136	1, 525
1-2.....	272	149	145	58	98	22	740
1 and under.....	164	104	91	56	56	19	490

In the above table all health, social, educational, and death and burial expenditures have been omitted.

Source of above data: "The American Consumer Market" by Virgil Jordan, president of the National Industrial Conference Board, and Robert R. Doane. McGraw-Hill Pub. Co., 1932, New York.

TABLE II.—Average monthly per-capita consumer expenditure, by income group

[1935 basis]

Income groups	Per-capita present prices	Estimated tax, 2 percent	Expected total revenue (000 omitted)	Plus 12 percent	Estimated tax, 2 percent	Expected total revenue (000 omitted)
1.....	\$5, 956	\$119. 12	\$9	\$6, 670	\$133. 40	\$10
2.....	5, 283	105. 66	16	5, 917	118. 34	17
3.....	4, 764	95. 28	25	5, 335	106. 70	28
4.....	4, 473	89. 46	94	5, 009	100. 18	105
5.....	3, 981	79. 62	130	4, 458	89. 16	145
6.....	3, 149	62. 98	493	3, 527	70. 54	552
7.....	1, 811	36. 22	880	2, 028	40. 56	985
8.....	1, 023	20. 46	2, 818	1, 146	22. 92	3, 157
9.....	584	11. 68	4, 878	654	13. 08	5, 462
10.....	297	5. 94	5, 421	333	6. 66	6, 078
11.....	165	3. 30	15, 424	185	3. 70	17, 294
12.....	85	1. 70	27, 678	95	1. 90	30, 934
13.....	56	1. 12	16, 902	63	1. 26	19, 014
			74, 768			83, 781

TABLE III.—Total estimated monthly consumer expenditures, by income classes

[1935 price level]

Income classes (thousands)	Income recipients	Monthly spending	Income classes (thousands)	Income recipients	Monthly spending
1,000 and over.....	77	\$481	5-10.....	417, 655	256, 022
500-1,000.....	149	826	3-5.....	912, 030	283, 828
300-500.....	268	1, 340	2-3.....	4, 674, 100	808, 619
150-300.....	1, 056	4, 969	1-2.....	16, 281, 430	1, 449, 047
100-150.....	1, 634	6, 830	1 and under.....	15, 091, 109	875, 284
50-100.....	7, 830	25, 886			
25-50.....	24, 308	46, 209	Totals.....	37, 550, 000	3, 907, 289
10-25.....	137, 754	147, 948			

TABLE IV.—Estimated accumulative effect of turnover tax at 2-percent rate on physical-goods transactions (monthly basis) <sup>1</sup>

[Millions of current dollars]

Classes	Value	Tax	Estimated increase in costs due to 2-percent tax
<b>1. Raw materials:</b>			
Farm products.....	\$484.0		
Forest products.....	20.0		
Fisheries.....	11.0		
Mines, quarries.....	235.0		
Total.....	750.0	15.0	
<b>2. Manufacturing:</b>			
Cost of materials.....	1,820.0		
Plus added tax.....	15.0		
Total cost.....	1,835.0		
First turnover (tax).....	36.7		
Second turnover (tax).....	37.4		
Third turnover (tax).....	38.1		
Total tax.....	112.2	112.2	
Original cost.....	1,835.0		
Total cost.....	1,947.2		6.9
Value added.....	1,680.0		
Selling value.....	3,627.2		
Plus 2-percent tax.....	72.5	72.5	
Total paid.....	3,699.7		
<b>3. Wholesale:</b>			
Sales.....	2,663.8		
Plus 2-percent tax.....	53.3	53.3	
Value goods sold.....	2,717.1		8.7
<b>4. Retail:</b>			
Sales (present value).....	2,173.7		
Plus 2-percent tax.....	43.5	43.5	
Value goods sold.....	2,217.2		10.6
Original aggregate.....	8,750.0		
Total expected taxes.....		296.5	
Consumer collections in addition.....		40.3	
Grand total collections.....		336.8	
At annual rate of.....		4,041.8	

<sup>1</sup> Computed on 1931 basis. All figures from official census and Government bureau reports.

TABLE V.—Maximum theoretical possibilities under 2-percent turnover tax

	Selected items as given in table I <sup>1</sup>	All producer and consumer expenditures <sup>2</sup>	All expenditures including Government and institutions <sup>2</sup>	All gross transactions and transfers <sup>2</sup>
Estimated annual 1935 collections.....	\$4,000,000,000	\$6,000,000,000	\$6,300,000,000	\$9,600,000,000
Estimated annual collections on a 1929 basis.....	7,500,000,000	12,000,000,000	12,600,000,000	18,700,000,000
Estimated expected increase in prices <sup>1</sup> ..... percent	12	18	20	24
Annual volume of transactions:				
1935.....		224,000,000,000	242,000,000,000	481,000,000,000
1929.....		358,000,000,000	376,000,000,000	935,000,000,000

<sup>1</sup> See table IV.

<sup>2</sup> See table XI, p. 39, Measurement of American Wealth.

<sup>3</sup> See table XIII, p. 43, Measurement of American Wealth.

TABLE VI.—Sales tax, per capita, comparisons <sup>1</sup>

	Tax	Income	Ratio
France .....	\$6.75	\$201	3.2
Belgium .....	7.92	171	4.6
Canada .....	8.67	579	1.5
United States <sup>2</sup> .....	6.24	412	1.5

<sup>1</sup> From Prof. Alfred D. Buehler, *General Sales Taxation, its History and Development*, ch. XVIII, pp. 235-246.

<sup>2</sup> Estimated on basis of proposed items as given in tables I and IV.

Referring to table 1, dealing with the normal annual per capita consumer expenditures by income classes, that deals in terms of the deflated dollar of 1914.

The income groups range from those receiving annually \$1,000 a year and less and up to \$1,000,000 a year and over, the 13 major groups as given by the Internal Revenue Commissioner in *Statistics of Income*.

Under expenditures, I have listed food; shelter, which includes all forms of household utensils, furnishings, and so forth; new building of residential construction annually; transportation, which includes expenditures of consumers on motor cars, gasoline, and so forth; personal expenditures, which include the spendings of people for such things as cigarettes, trinkets, and so forth; clothing; and recreational expenditures.

The basis of these figures has been the biennial census of manufactures and the census of wholesale and retail distribution.

The original study was prepared by myself in collaboration with Dr. Virgil Jordan, who was at that time economist of the McGraw-Hill Publishing Co., and editor of *Business Week*, and is now president of the National Industrial Conference Board, in New York.

In table 1 the monetary amounts are in actual sums.

We found that in the year 1929 those individuals in the respective income classes were spending these various sums, which you will find in the last column under the totals.

In other words, the millionaire class, those receiving \$1,000,000 and over, spent some \$52,174 in the aggregate for these six major divisions of the family budget.

I would now like to take up table 2, dealing with the average monthly per capita consumer expenditures by the same income groups.

The distinguishing feature between table 2 and table 1 is that this is on a monthly basis, whereas the other gives the annual totals.

Mr. VINSON. Referring to table 1, I do not see anything on it to indicate for what period these sums are taken. The only figure I see is the 1914 dollar. What year did you use?

Dr. DOANE. This is on a 1931 basis. That should be written in there.

Mr. VINSON. It does not say that.

Dr. DOANE. No. I am sorry. We used the year 1931 as probably corresponding fairly well with the current volume of production and spending.

Mr. VINSON. I do not see any totals on there?

Dr. DOANE. I have the totals on other tables.

Mr. VINSON. The only table I have here is this one, to which I am now referring, and it does not have any totals.

Dr. DOANE. That is the total for each income class.

Mr. VINSON. But you have not any total for all the classes.

Dr. DOANE. I will introduce that later in another table.

Mr. COOPER. In order that we may be clear on this, may I ask if I am correct in understanding that these figures—and I have not seen any of these tables—are on the basis of the dollar in the year 1914?

Dr. DOANE. The total estimated spending is based upon the production of the country as reported in the biennial census of manufactures for 1931 and the wholesale and retail census of distribution for 1931 and have then been reconverted to a 1914 base by dividing the current sum by the general price level; that is, the general price level of the Federal Reserve Bank of New York.

Mr. COOPER. Does that mean that for the purpose of this analysis that which you have reflected on this table as the 1931 volume of business of the country is measured in the so-called "1914 dollar"?

Dr. DOANE. Yes; I had to do that first so that later we can talk about the mark-up in the cost of living, don't you see?

Mr. COOPER. I am just trying to get it clear as we go along. We must understand it, or we do not get the significance of these figures.

Dr. DOANE. That is converted to dollars of constant purchasing power, provided there had been no increase.

Mr. VINSON. What fraction did you use?

Dr. DOANE. I used the index as developed by Dr. Carl Snyder, of the Federal Reserve Bank.

Mr. VINSON. What is that index?

Dr. DOANE. It was 100 in 1914, and in 1931 it stood at around 150, I think. So naturally we divided by 150.

Table 2, which is entitled "The Average Monthly Per Capita Consumer Expenditure by Income Groups", is brought up to a 1935 basis as distinguished from the 1914 dollar, using the average level of prices existing in December 1934, which was the latest figure available. We have not the index of the cost of living, or of the general price level for January at this time.

In this table we come for the first time in this presentation to the possibilities of a 2-percent sales tax. And here I want to say that in all of these per capita tables it is really a per capita basis per income recipient and is not to be understood as per capita per total inhabitants of the United States, but per capita per income recipient.

Mr. BUCK. May I ask a question right there? What is the source of your information as to these per capita expenditures by classes?

Dr. DOANE. I have taken the same division as reported in Statistics of Income, the annual publication of the Internal Revenue Bureau of the Treasury Department.

Mr. BUCK. Does that report also indicate the expenditures of these various classes?

Dr. DOANE. No; just their income.

Mr. BUCK. How have you broken them down to the various columns as they are shown on these tables? How did you determine, for instance, in table 1 that your first class with income of a million dollars and over spent \$2,835,000 for food?

Dr. DOANE. For food?

Mr. BUCK. Or for any other thing that you might want to take as an example. I was merely giving that as an example.

Dr. DOANE. That, of course, would call for a long discussion. That is the study that Dr. Jordan and myself developed. That is taken from the American Consumer Market Study made by Dr. Virgil Jordan and myself in the year 1932 and brought up to date last year by myself for Harper Bros., publishers, in New York, based upon the reports of the biennial census of manufactures and the census of wholesale and retail distribution, after adjustment for the aggregate total of those goods exported outside the borders of the United States. That then gave us a grand total of all consumer and producer goods.

We next compiled a list of the total producer goods and subtracted that from the remaining totals, assuming that the remainder would be consumer goods, or representative of consumer goods.

Mr. BUCK. I can understand how you got your grand total of consumer and producer goods, but how did you break them down into the classes of those who had an income of over \$1,000,000 a year and those who had \$500,000 income?

Dr. DOANE. We resorted there to various studies, one study made back—well, the original American consumer market study covered the years 1919 to 1930, inclusive, and that has since been brought down to date, to 1934, as I have said.

Mr. VINSON. Will the gentleman yield to me?

Mr. BUCK. Yes.

Mr. VINSON. I have table 2 before me. Seemingly this is an average monthly per capita consumer expenditure table, is that right?

Dr. DOANE. That is right.

Mr. VINSON. Your expected total revenue is in the last column on the right?

Dr. DOANE. That is right.

Mr. VINSON. And it totals \$83,781,000, is that correct?

Dr. DOANE. That is right.

Mr. VINSON. As I understand it, that figure, \$83,781,000 is what you have concluded a 2 per cent tax would yield monthly?

Dr. DOANE. That is right.

Mr. VINSON. Then, as I understand it, a 2 percent tax would yield approximately \$1,008,000,000 annually?

Dr. DOANE. From the consumer; that is correct.

Mr. VINSON. That is 12 times \$84,000,000 approximately.

Dr. DOANE. It would be more than that if we were going up and business were expanding. I have not attempted to bring that out on this chart.

Mr. VINSON. But using the figures on the chart as a base—

Dr. DOANE. Yes.

Mr. VINSON. It would be around \$1,000,000,000 annual receipts with a 2 percent sales tax.

Dr. DOANE. Very close to that; that is correct.

Mr. BUCK. If you will pardon me, Mr. Vinson, I do not feel that I have had an answer to the question that I asked, yet.

Dr. DOANE. No; I had not quite finished.

Mr. BUCK. I did not know that you were going off on another subject, Mr. Vinson.

Mr. VINSON. I beg your pardon. I thought I would mention this while I had it in mind.



Dr. DOANE. After we arrived at the grand total, and the aggregate of all consumption goods, we then resorted to the study made by the United States Department of Labor covering the year 1918, which covered budget expenditures of the various working class families and farm families of the United States. That was the most exhaustive study that we have ever had in this country. I think it covered more than 12,000 families.

Since that time there have been more recent studies, one made in 1924 in the State of California, I believe, a civil-service study covering executive classes, business men, school teachers, and the lower wage-earning groups.

We also had available to us the work of Dr. Wilford King, of the National Bureau of Economic Research, in New York, covering expenditures by income groups up as high as \$50,000 a year.

Mr. BUCK. Pardon me just a moment. I do not want to take up your time unnecessarily to ask you to recite all these sources of your information. Will you put those in the record, the sources from which these tables were made up?

Dr. DOANE. I have here a copy of the American Consumer Market—I think it is about 28 pages. You do not want all of that?

Mr. BUCK. Just a reference to them, so that those who want to study the matter can look into it.

Dr. DOANE. It cannot be very brief because it is a rather complicated subject. I will make it as brief as I can.

Mr. CROWTHER. Mr. Chairman, as I understand it, the gentleman wants merely the references and not the subject matter itself.

Dr. DOANE. The references, yes. I will put those in the record.

(References: See The Measurement of American Wealth, by Robert R. Doane, pp. 66-75 and pp. 213-219, for full list of consumer budget studies by income classes in the United States covering the years 1918-30, inclusive. Also see The American Consumer Market, by Robert R. Doane and Virgil Jordan, McGraw-Hill Publishing Co., New York. Both of these studies are available in the Congressional Library.)

Dr. DOANE. Referred again to table 2 we give the per capita consumer expenditures by those same income groups based on the present price level, and the estimated 2-percent tax that might result providing the spending would continue at the same volume.

Mr. VINSON. Is this on the basis of the recipients spending all of their income?

Dr. DOANE. No; this is not on that basis. It just covers these six items of the budget, the major items of the budget.

I should have explained in table 1 that I have excluded all expenditures for health purposes, medical attention, hospitalization, and so forth, by private individuals; social expenditures, which would include donations to churches and auxiliary religious organizations, charitable organizations, and fraternal orders, and other club memberships. I have also excluded all educational expenditures on the part of individuals, death and burial expenses, and, of course, savings.

Mr. VINSON. What percentage of the income is expended according to your estimate on these six items?

Dr. DOANE. That would be a very rough estimate, but I should say about 75 percent. It is the major part.

Mr. VINSON. Then according to your judgment, and very roughly estimated, a 2-percent tax levied upon 75 percent of the incomes of

these income groups would yield the revenue which you have indicated on this table?

Dr. DOANE. Of their expenditures, levied upon 75 percent of their current monthly spending.

Now, I find in trying to attempt to arrive at a reasonable expectation in the increase in the cost of living due to the imposition of a 2-percent tax, that we could expect, based on the past experience of France and Germany and other nations that have utilized the general sales tax, and a turn-over tax of a like rate, 2 percent, that we may expect a mark-up —

The CHAIRMAN (interposing). The time of the witness has expired. If there is no objection, the witness will be recognized for an additional 30 minutes.

Dr. DOANE. Thank you. As I was saying, we can expect a mark-up of potentially 10 percent in the cost of living. Mathematically it works out 10.6 percent. However, in the third column, in table 2, I have added 12 percent as an additional increase in the price level that we might expect as the result of this form of tax, which would bring the total tax payments approximately up to the amounts on a monthly basis as indicated in column 5 of table 2.

I have here another table dealing with the total estimated monthly consumer expenditures by income classes adjusted to the same 1935 price level basis. That is table 3, where I have listed by income groups the total number of income recipients in each class and their aggregate monthly spendings by classes and the total, that Mr. Vinson spoke of.

There we find that on a monthly basis the consumers of the United States are now spending approximately some \$3,907,289,000 per month.

In table 4, which is also on a monthly basis, I present the estimated cumulative effect of a turn-over tax at a 2-percent rate if levied on the total physical goods transactions. The figures there given are based on the Biennial Census of Manufacturers and the census of distribution and of wholesale distribution, with raw material totals as estimated by the Bureau of Agricultural Economics of the Department of Agriculture. This includes the cash-selling value of all farm products, forest products, fisheries, mines, and quarries. Of course, the fisheries estimate did not come from the Bureau of Agricultural Economics, or the mines or quarries. I obtained the latter from the last Statistical Abstract of the United States, and from the Bureau of Mines, Department of the Interior. These figures indicate that materials are moving now into markets in this country at an approximate rate, in current monetary value, of some \$750,000,000 per month.

Our manufacturing, which includes the cost of materials and the value to be added, is moving into market at a monthly rate of approximately  $3\frac{1}{2}$  to 3% billions of dollars.

Wholesale trade approximates  $2\frac{1}{2}$  to 2% billions of dollars; and retail trade  $2\frac{1}{2}$  billions of dollars.

This makes a total aggregate monetary value, including all of the duplications, of about \$8,750,000,000 monthly. When I talk about including all of the duplications, I mean all that we might expect to secure a tax upon.

Mr. VINSON. What is it that you expect the tax to be collected on under the McGroarty bill?

Dr. DOANE. Under what?

Mr. VINSON. Under the McGroarty bill, the Townsend plan as stated in the McGroarty bill.

Dr. DOANE. I am not referring to the McGroarty bill or to the Townsend plan, but have just suggested here that if a 2-percent tax were levied on these values as they come into market monthly, we could expect so much to be collected. That has nothing to do with the Townsend plan or the McGroarty bill, at least not yet.

Mr. HILL. Is that \$8,750,000,000 the base upon which you calculate this 2 percent?

Dr. DOANE. That would be the possible maximum base; yes, that we might expect to collect taxes upon.

Mr. VINSON. Would that be \$100,000,000 annually as the base?

Dr. DOANE. Oh, no; it would be 12 times that, approximately. Yes, yes; that is right; a little better than \$100,000,000,000.

Mr. VINSON. We could follow it better, I believe, if we would say roughly \$100,000,000,000.

Dr. DOANE. Roughly, \$100,000,000,000. It includes duplications, you understand.

Mr. VINSON. Yes; I understand that is transactions.

Dr. DOANE. Total transactions involved in the production of these materials.

Mr. BOEHNE. Do I understand you to say that that is the maximum?

Dr. DOANE. Insofar as it deals with these specific items it is, in my estimation.

Mr. VINSON. That would be 2 percent, and that would be \$2,000,000,000.

Dr. DOANE. If we would take 2 percent of that grand total, it would approximate \$2,000,000,000 annually. But these taxes, of course, are cumulative, and we find in the third column of table 4 we might expect \$15,000,000 to be realized off of a value of some \$750,000,000 of raw materials moving into the market. Past studies of the findings of the Biennial Census of Manufacturers indicate a combined turnover of approximately three times, once the raw materials get into the manufacturing process. Of course, it varies. Sometimes it may be 12 to 16 times, and in other cases only once, but on the whole the average is about 3 times. The tax under the first turnover is some \$36,700,000; the second, \$37,400,000, and the third, \$38,100,000, making an additional tax of \$112,000,000. Then when these goods are finally sold, there is another 2-percent tax of \$72,500,000 to be added, and after they have left the wholesalers, another \$53,000,000. You understand that there is always a volume of goods being held back on the shelves, and so forth, and in process of distribution to the consumer. Then there is a retail tax of \$43,000,000. This makes a total expectancy in tax collection of some \$296,000,000 monthly.

In referring back to table 2, we found it was possible to collect some \$83,781,000 from the total spending of the consumer for these items.

After deducting the 43½ millions from the retailer's value, we get an additional 40 millions, which the consumer has spent for certain kinds of services. This gives us a grand total of \$336,000,000 monthly. On an annual basis that is approximately 4 billions of dollars.

The 1931 values, as I previously stated, have been employed in the manufacturing field, the complete 1933 census not yet being available. The estimated percentage increase in prices as shown, was due to the added cost factor of the turn-over tax, and is in close agreement with results in other countries where such taxes have been applied for a number of years.

The French observers, Allix and Lececle, have estimated the French turn-over tax to add approximately three to four times the amount of the tax rate to the general level of prices at retail.

Mr. VINSON. It would be safe to say, would it not, doctor, that you might have an article which started out as raw material and had the tax applied as many as 50 times?

Dr. DOANE. I could not answer that. I do not know. I have just dealt with the aggregate here.

Mr. VINSON. I know, but I am asking you now——

Dr. DOANE. It is quite possible.

Mr. VINSON. It is quite possible.

Dr. DOANE. Ex-Minister of Industry Hirsch has estimated the German turn-over tax to have added substantially the same amount to consumers' prices in Germany.

This citation is made because of the common or popular practice to attribute an expected increase of prices from 50 to 100 percent to follow the imposition of a 2-percent sales tax. The actual attested experience has rarely disclosed an increase in excess of 18 percent, and usually the increase has stood nearer 8 to 10 percent.

I give as my authorities here, Prof. Alfred D. Buehler, in his *General Sales Taxation, Its History and Development*, and Allix and Lecercle, in their study of the French general turn-over tax, pages 326 and pages 331 and 332. Here they have estimated the French turn-over tax to have added 6 to 8 percent to retail prices, disregarding the long run effects. They also cite the chief cause of rising prices in France after the war as due to monetary depreciation rather than the tax.

I also cite you to the League of Nations Memorandum on Public Finance, covering the years 1922 to 1926.

Mr. HILL. What was the relationship, if any, between the tax and the monetary depreciation in France?

Dr. DOANE. That would be very difficult to measure, because the depreciation was rather rapid, as you know. It would be almost impossible to get an accurate measurement. I could not answer that question.

Mr. HILL. Was there a cause separate from the tax for monetary depreciation in France?

Dr. DOANE. Oh, no, no. The total volume of taxes collected by France was relatively small in relation to the total revenues. It was rather a small tax, so small that I should not think it had any significant influence at all on the rise in prices.

Mr. HILL. Monetary depreciation does result in increased commodity prices? That is a general proposition?

Dr. DOANE. I do not know that it does.

Mr. HILL. The lower the purchasing value of the dollar, the higher the commodity prices. Is not that correct?

Dr. DOANE. Will you please state that again?

Mr. HILL. The lower the purchasing value of the dollar, the higher the commodity prices?

Dr. DOANE. Oh, yes; of course.

Mr. HILL. So that depreciation of monetary value results in higher commodity prices.

Dr. DOANE. In higher prices, yes; but it may be and it may not be due to taxation.

Mr. HILL. Yes; I understand that.

Dr. DOANE. It must be borne in mind that in computing the 2-percent tax upon aggregate annual totals, the resulting total is apt to be quite misleading. As an illustration, when we take the aggregate gross totals of raw material values, manufactured produces, wholesale and retail total sales volume for the year 1931, as disclosed in table 4, we find that 2 percent of this grand total would net only 174 millions of dollars. But this does not take into consideration the various times these goods turn over during the annual period, with each turnover containing the accumulated addition of the tax as in itself a cost factor which—see table IV—brings the actual final total up to 336 millions rather than the lower figure of 174. It is almost twice what we would expect, if we were dealing with annual aggregate totals only.

Mr. HILL. How many turn-overs do you estimate for the purposes of the computation of the amount of that tax?

Dr. DOANE. Six.

Mr. HILL. Six turn-overs for each commodity?

Dr. DOANE. Of course, I know that there are more turn-overs than that, but six in the aggregate.

Mr. HILL. Why do you take 6, the number "6"?

Dr. DOANE. I had to base these estimates upon the report of authoritative data, and the Biennial Census of Manufacturers would indicate by the mark-up in the value of goods and the relation of that value to the raw-material value as given by other governmental bureaus that the turn-over has been that many times in the aggregate.

Mr. HILL. That many times? That is an average, is that right?

Dr. DOANE. That is an average; yes.

Mr. HILL. You get that figure from the official statistical data as to the average turn-over of a commodity?

Dr. DOANE. Yes; we produce in this country over 325,000 individual items. It would be impossible for me to present a table showing how many times each one of those 325,000 items turned over.

Mr. HILL. Yes; I wanted to get some authoritative information for the use of the number "6" that you have employed.

Dr. DOANE. Yes. In table V, I have given the maximum theoretical possibilities under a 2-percent turn-over tax, based upon 1935 estimated collections as indicated in these previous tables, and also an estimated annual amount based upon a 1929 basis; that is, assuming that we get back to the 1929 levels again. I have taken the total expected tax collections covering the same items that I have just listed in these tables, and in column 2 I have based the expectations

if all producer and consumer expenditures were taxed, in column 3 the expectations if all expenditures of producers and consumers, plus governmental and institutional expenditures were taxed; and in the last column, the total expectation if all gross transactions and property transfers were taxed.

In column 1 it would indicate, on present levels, the maximum expected would be \$4,000,000,000 if we limit it to this restricted group as shown in table 4. If we included all possible consumer and producer expenditures, we could expect there would be approximately \$6,000,000,000 at these levels. And in the third column, the maximum expectation would be around 9½ billion; 9.6 billion.

Mr. HILL. That is per year?

Dr. DOANE. Per year.

Mr. LAMNECK. Would it be well at this point to refer to the testimony that we received before, to show the gross revenue of about 8 billion; is not that right?

The CHAIRMAN. According to my recollection.

Mr. LAMNECK. And you say it will be about 9 billion; is that right?

Dr. DOANE. Yes; on all transactions and transfers.

Mr. HILL. May I ask, Doctor, are you including financial transactions such as payment of salaries?

Dr. DOANE. Yes, That is the total gross, of everything. You understand I am not recommending that all these transactions be taxed, I am just stating here what it would be if they were all taxed.

Mr. HILL. Do you have any data as to the total amount of salaries paid monthly or annually?

Dr. DOANE. I have the data, of course, supplied by the study published in Senate Document 124, made by Dr. Simon Kuznets, for the Department of Commerce.

Mr. HILL. Have you that data?

Dr. DOANE. I do not have it with me right now.

Mr. HILL. Roughly, what is it?

Dr. DOANE. The total wages and salaries paid in the United States over a long number of years have averaged very close to 60 percent of the total national income.

Mr. HILL. Sixty percent of the total national income?

Dr. DOANE. That would be relative, of course, as the income goes up and down. I think it has not varied more than a fraction of 1 percent in probably 25 years.

Mr. HILL. What was the total national income in 1934?

Dr. DOANE. I do not know. There have been no estimates, to my knowledge, published yet of the total.

Mr. HILL. What is the latest publication on the national income that you have?

Dr. DOANE. For the year 1933, around 45 billions, I think.

Mr. HILL. What was it in 1929, if you recall?

Dr. DOANE. Eighty-one billion.

Mr. HILL. Sixty percent of the national income, roughly speaking, is—

Dr. DOANE. Wage and salary payments. Of course, the salaries are a smaller figure, but economically speaking, we call it all wages.

Mr. HILL. You have included wages and salaries, or wages, in this total figure here; you have calculated this tax and got the figure 9 billion plus annually?

Dr. DOANE. Yes.

Mr. HILL. If you excluded salaries from the tax, then you would have to deduct from the base about 60 percent, would you not, and calculate the tax upon the remainder?

Dr. DOANE. No; since those total payments would amount to about 48 billion dollars in 1929, we will say 60 percent of the total; and at these levels now it is my judgment that they amount to probably 24 billion dollars annually. That would just be 24 billion to deduct from the total gross transactions, or 2 percent of the 24 billion, which would give you some 480 million dollars to deduct, which would still leave you 9 billion and a fraction. It is a relatively small amount, compared to the total gross volume of all transactions.

The CHAIRMAN. I believe you stated that you were not recommending that all these transactions be taxed.

Dr. DOANE. That is right.

The CHAIRMAN. Are you recommending any of them be taxed? If so, which ones, and how much will the tax yield on the ones you do recommend?

Dr. DOANE. If the chairman please, I would rather not go on record at this time as recommending any in particular.

The CHAIRMAN. You said you would not recommend that all be taxed. That implied to my mind that you did recommend that some of them be taxed. If I am wrong in that, I would be glad to be corrected.

Dr. DOANE. I have not recommended that any of this be done. I am just showing you what the possibilities might be.

The CHAIRMAN. That is what I wanted to get cleared up.

Dr. DOANE. In table 6, I have listed some comparisons of the sales tax on a per capita basis per inhabitant per total population, and I want to state here that in table 6 these comparisons are not completely down to date. There is a lag of 2 or 3 years.

France had a sales tax of \$6.75 per capita; Belgium, \$7.92; and \$8.67. My estimates of the 2-percent tax as contained in tables 1, 2, and 4 would mean a total per capita tax of \$6.24 for the United States.

Mr. HILL. How much did you say was the per capita tax in the United States?

Dr. DOANE. \$6.24.

Mr. HILL. That is annually?

Dr. DOANE. Annually; yes.

In table 2 I have given what it would cost per income recipient per income class, which ranges from a low of \$1.26 per month up to \$133 per month for the highest class. But when put as a total for the entire population, it is only \$6.24 per capita.

I would like to call your attention to how the national income comes into being, in order that we can have a clearer understanding of this whole problem. All of these payments that I have been talking about accrue naturally in the form of wages, interest, rents, labor and material costs, taxes, and capital outlays, which again includes materials and wages. The continuous consumption requirements indispensable to the maintenance of society incurs these unending

current obligations by way of expenditures. In an advancing economy, both the meeting of these demands combined with the creation of additional means of production cause a constant increase in the total economic activities required for this purpose. As the sum of all these demands can only work themselves out through the complex structure of expenditures, it is then in this field that the real formulation of wealth and income takes place.

Therefore, any imposition of a tax of any kind becomes an element in the cost factor.

I would like to say that if a 2-percent tax were added, it is cumulative, and if you were able under the Townsend plan or as a result of the bill to collect three hundred and some odd millions of dollars based on these physical values only, rather than total transactions, you could expect an increase, month after month, because the recipients of this redistributed income resulting from the tax would be spending and paying a tax also, as I understand it.

Mr. HILL. What ratio would that increase?

Dr. DOANE. It figures out over the first few months—I did not carry it out, of course, to a long interminable number of months, but it increases the total tax collections on a maximum basis of 20 to 25 percent per month. It is cumulative.

Mr. HILL. Would that continue indefinitely, 20 to 25 percent per month, so long as the tax applied?

Dr. DOANE. From a purely statistical basis, a mathematical basis, it will be possible, all other things remaining equal.

Mr. VINSON. What about the human basis?

Dr. DOANE. That is not always accurately predictable.

Mr. VINSON. Do you think that your mathematical basis would be anything in the region of possibility, that it would continue to go on and on and on ad infinitum? There would be a break some place, would there not?

Dr. DOANE. It has not in the past industrial history of this country and other countries. The average annual rate of increase of physical production and of the total national income generated as a result of that production has shown a rather steady and constant rate. Dr. Snyder's studies bearing on the physical production of the country indicate an average rate of increase annually of about 3.8 percent, which I think is the highest in the world. The national income and the national bank deposits—that is, the deposits of all banks in the Nation—have increased at an average annual rate approximating 7 percent per annum. But that is over a 50-year span. It evens out. Of course, there are dips down, as we know.

Mr. HILL. I understood you to say, doctor, that the increase in the amount of revenue from this 2 percent tax would amount to 20 to 25 percent per month.

Dr. DOANE. If the stimulated additional production due to the increased buying of the new income recipients could be maintained.

Mr. HILL. Would it ultimately reach a point of stabilization, or would it just continue to increase for all time to come?

Dr. DOANE. Oh, no, no; that would be just in the earlier stages, while they are replenishing what they require.

Mr. HILL. What we are trying to get at is, when would it reach its peak and what is the peak? What would be the peak in your estimation?



Dr. DOANE. As soon as the consumption requirements of goods of a durable character, such as new housing, if they wanted to engage in the building of new housing, household utensils, automobiles, and so forth, would be satiated, which might expire in probably 24 months; it may take them 2 years to get all these things.

Mr. HILL. Suppose they spent all this money, after being satiated with durable goods, all for consumption goods; what would be the situation there as to whether there would be any increase or stabilization of the amount of revenue from taxes?

Dr. DOANE. Of course, the wants of mankind seem to be insatiable. We go ahead and purchase one thing, then somebody will get out a new style of the old thing and we have to buy that, or think we do. I could not put a limitation on that. I do not know.

Mr. HILL. You could not make an estimate as to what the probable peak of the revenue would be?

Dr. DOANE. I think we could expect it to go forward at the same same rate that the national income has gone forward during the past quarter of a century. It would not affect the rate of it one bit; not the average rate of increase annually. As I said a moment ago, Dr. Snyder's studies, covering the 49 series, going back to about 1850 in this country, also Dr. King's studies and the studies of Walter W. Stewart, all those indexes have disclosed an average annual rate of increase of physical production of about 3.8 percent over a long span of years, while the national income in a monetary sense and not measured in physical units has increased approximately 7 percent per annum over that same period of years. There has been no way yet devised by mankind whereby we could defeat that rate or beat it. Even the World War did not interrupt that.

Mr. HILL. You spoke a while ago of the per capita amount of the tax in France, I think, as being \$6 and something per year.

Dr. DOANE. Yes; it is in table 6.

Mr. HILL. On the basis of an 18-billion annual tax, that is, a total tax amounting in a year to \$18,000,000,000, what would be the per capita tax in the United States?

Dr. DOANE. I have not estimated that.

Mr. HILL. It would be 125,000,000 into 18 billion, would it not?

Dr. DOANE. No; you could not do it that way because that is including the individual as a consumer on one side of the equation and then the individual as a producer on the other side.

Mr. HILL. The total population of the United States is about 125 million, something like that?

Dr. DOANE. Yes; the population.

Mr. HILL. I am talking about the per capita tax.

Dr. DOANE. I think if you would divide that total by your 125 million population, you could do it and call it a per capita tax, but there is a little illusion in there.

Mr. HILL. How did you get your \$6.24 per capita?

Dr. DOANE. That is based on table 1 and table 4, the limited physical materials, that is, the limitation—

Mr. HILL. The per capita tax in the United States, taking the total population now and assuming an annual tax of \$18,000,000,000, would be \$144, would it not? That would be an increase over the present tax; I mean this particular tax.

Dr. DOANE. All these are over the present tax.

Mr. HILL. Yes.

Dr. DOANE. Yes. I want to correct that last statement.

Mr. HILL. That is, we are talking about the old-age pension tax.

Dr. DOANE. That \$6.24 applies to table 2. Correct that from table 1 to table 2.

Mr. HILL. The monthly national income in this country at the present time is approximately \$3,900,000,000, is it not?

Dr. DOANE. That is the national spending of consumers for those items.

Mr. HILL. Is not that about the monthly national income?

Dr. DOANE. At the present time?

Mr. HILL. Yes.

Dr. DOANE. A little less than that. I should think the National income at the present time is progressing at the annual rate of very close to \$52,000,000,000.

Mr. HILL. \$52,000,000,000, and one-twelfth of that would be a little over \$4,000,000,000.

Dr. DOANE. Four billion; yes.

Mr. HILL. Four billion, plus. That is the monthly income based on the annual income.

Dr. DOANE. That is the only way we can figure it.

Mr. HILL. If you have a monthly tax of \$1,600,000,000, what proportion would that be of the monthly national income?

Dr. DOANE. It would not be one-fourth.

Mr. HILL. It would be about 40 percent, would it not?

Dr. DOANE. No. You see, if you are stating this question to me in that form, a billion dollars collected, that comes out of the generating process of the whole national income. Of course, you are including there spending by producers as producers, all of your turnover, and then the spending by consumers as consumers. The total aggregate spending on the monthly basis is much higher, 4 to 5 times higher than these figures I have indicated to you.

Mr. HILL. I am not talking about the spending, I am talking about the income and about the tax.

Dr. DOANE. If you want to view it that way, it would be about one-fourth, 25 percent.

Mr. VINSON. It would be 40 percent.

Mr. HILL. No; it would be about 40 percent.

Mr. VINSON. Ratio of a billion and a half to four billion.

Dr. DOANE. The national income now is in excess of \$4,000,000,000 a month, and a billion dollars is one-fourth of four.

Mr. HILL. I am not talking about a billion dollars, I am talking about \$1,600,000,000.

Dr. DOANE. Oh, I beg your pardon. Yes; that is correct.

Mr. HILL. So that on the basis of a monthly national income of \$4,000,000,000, and using round numbers, there is levied and collected a tax of \$1,600,000,000 per month, and the tax so collected would be about 40 percent of the monthly national income.

Dr. DOANE. No; not in my estimation; but the way you put it it makes that.

Mr. HILL. As a matter of mathematics it is, is it not?

Dr. DOANE. This tax has been levied on those expenditures essential for the creation of a \$4,000,000,000 monthly income.

Mr. HILL. But it has been collected, has it not?

Dr. DOANE. That \$4,000,000,000 is the net result of probably \$20,000,000,000 worth of spending.

Mr. HILL. I am talking about the national income monthly as compared with the tax for 1 month of \$1,600,000,000; on that basis I submit that this tax for 1 month would be about 40 percent of the monthly national income.

Dr. DOANE. As you put it it would be, but it does not all come out of the pockets of the individual consumers.

Mr. HILL. Yes; but is there any other income aside from this \$4,000,000,000 a month?

Dr. DOANE. Any other income?

Mr. HILL. Yes.

Dr. DOANE. No.

Mr. HILL. Where are you going to get your money to pay the tax. You have to get it out of your income, have you not; that is, out of that or out of your reserves; so the \$1,600,000,000 comes out of the approximately \$4,000,000,000 dollars per month. It does not make any difference how many transactions you have to raise that \$1,600,000,000 taxes. The fact is the payment must be made and made in cash.

Dr. DOANE. This thing called the national income is a circular sort of thing; it is a flow. It is not a static thing.

Mr. HILL. Does have a maximum total, though?

Dr. DOANE. Yes.

Mr. HILL. That is what we are talking about.

Dr. DOANE. In the aggregate; and these annual totals sometimes are deceiving in that way. The \$1,600,000,000 you referred to, if you did collect that money, taxes are also a part of the national income of that same period. It is flowing back.

Mr. VINSON. That \$1,600,000,000 is taken out of the flow.

Dr. DOANE. It is redirected in the flow. It is not taken out, it is not thrown off.

Mr. VINSON. You are almost advocating the McGroarty bill now. At least it is taken out of the flow. This \$1,600,000,000 is taken out of that four billion monthly national income, is it not?

Dr. DOANE. It is shifted and redirected within the flow. It is not taken out.

Mr. VINSON. Oh, yes; it goes out of that flow and goes into the Treasury of the United States, does it not?

Dr. DOANE. And then from the Treasury back into the flow.

Mr. VINSON. Now you are becoming an advocate. But it is taken out of that flow and put into the Treasury of the United States.

Dr. DOANE. No more than present taxes are taken out.

Mr. VINSON. Present taxes are taken out of the flow, are they not?

Dr. DOANE. I recall a recent study made by a large institution in this country showing the development and the generation of the total national income, and it attributed some 11 or 12 percent to the Government, about \$8,000,000,000 a year. Of course, the Government does not contribute that much to the income. It collects it from the people and then redistributes it as it pays it out in wages of civil employees, and so forth. But it is not thrown off forever.

Mr. VINSON. No; nobody said anything about that. Mr. Hill's question was getting you down to a simple mathematical calculation of the ratio of \$1,600,000,000 to \$4,000,000,000.

Dr. DOANE. It is 40 percent, on a pure mathematical basis, beyond all question.

Mr. FULLER. As I understand it, you say the gross income for 1929 was around \$81,000,000,000?

Dr. DOANE. I think so.

Mr. FULLER. That included about 60 percent of the income for salary and wages. For 1933, the gross income was approximately \$45,000,000,000. What do you mean by gross income in making these figures?

Dr. DOANE. Did I use the term "gross income"?

Mr. FULLER. Yes, sir; you used the term "gross income."

Dr. DOANE. I said "gross expenditures", not "gross income." I do not recall using that phrase.

Mr. FULLER. If you did not use the word "gross", does this 81 billion dollars mean all transactions in a business way?

Dr. DOANE. No, no. We had to spend in 1929 to generate 81 billions of individual income, over 300 or 400 billions of dollars.

Mr. FULLER. Eight-one billions did not mean the profits for the people of the United States, did it?

Dr. DOANE. That was the net result of all of our economic activities as measured in monetary terms.

Mr. FULLER. Was 81 billion dollars net profits made in the United States in 1929?

Dr. DOANE. After we had paid for all of our materials consumed in the current 12-month period of 1929 in the production of durable goods, capital goods, and consumable goods, after we had paid our taxes, after we had paid these wage and salary payments, after we had made the charges for depreciation, depletion, and obsolescence, that then represented the total current monetary expenditures required in that particular year to carry on and conduct the business of the United States. There are duplications there. You then deduct your total expenditures for materials. You deduct from this gross total your total allowances for depletion, depreciation, and obsolescence. You deduct your tax payments from that grand total; and the net result is what the economists call the national dividend, which is, of course, after adjustments for foreign trade and international settlements between individuals, the national income in the sense that it is commonly referred to as the national dividend. It would be a profit in that sense.

Mr. FULLER. As a matter of fact, do you claim that there were 45 billions of dollars of net income, of profit in the United States for 1933? Does your experience teach you that that is true, as well as your figures?

Dr. DOANE. Of course, here recently we have had two estimates of the national income published by the Department of Commerce. One deals with the total volume of income produced, the monetary value of the total income produced annually, and the monetary value of the total national income distributed annually, which are two different figures. In 1932, I show the figures that I am familiar with, the last estimate of the Department of Commerce that we produced some 38 and a fraction billions of dollars—I am just trying to remember these figures; it may be 36 billions—and we distributed about 11 billion dollars more than that.

Mr. FULLER. Just answer my question yes or no. In 1933, do you state as an economist and from your observation and experience there was a profit, a net profit in the United States of 45 billions of dollars?

Dr. DOANE. Most emphatically no.

Mr. FULLER. It was not half of that, was it?

Dr. DOANE. If we—

Mr. FULLER. Answer my question now. I do not want to argue with you. Was a half of that much made as a net profit in the United States?

Dr. DOANE. There was no net profit made at all in the United States in 1934.

Mr. FULLER. All right. Yet you take as your basis here that there was 45 billion dollars for 1933, and upon that basis you make your argument.

Dr. DOANE. I am not making an argument at all.

Mr. FULLER. Those are the figures upon which you base whatever you are stating, whether it is an argument or statement.

Dr. DOANE. I am showing these grand totals of monetary income.

Mr. FULLER. If I am a farmer and buy cattle from another farmer to feed them, that is one transaction. I sell them to a stock buyer, and that is another transaction. He ships them to the market and sells them to the packers, the men there buying cattle. That is three transactions. Then the packer sells them to the wholesaler, the wholesaler sells them to the retailer, and the retailer sells them to the consumer. There are six or seven transactions. Is that included in your figures of gross business?

Dr. DOANE. Certainly.

Mr. FULLER. That is what I thought. Now, you cannot tell anything about who made the profit? Probably nobody made any profit.

Dr. DOANE. Quite right.

Mr. FULLER. Yes. But your theory and the way you arrive at your figure is to put a 2-percent sales tax upon each and every one of those transactions.

Dr. DOANE. I have not advanced any theory at all. I am very sorry. I am just saying if you would place a 2-percent tax on these gross transactions, this is what you might expect.

Mr. FULLER. That is what you might expect?

Dr. DOANE. I have not presented anything in the nature of a theory about it.

Mr. FULLER. That is the way you arrive at the large figures you have presented to us?

Dr. DOANE. That is right.

Mr. FULLER. You have studied the Townsend bill, have you not?

Dr. DOANE. I have not. I have never read the Townsend bill.

Mr. FULLER. You know that the general purpose of it is to pay \$200 a month to every person over the age of 60?

Dr. DOANE. Yes; I know that.

Mr. FULLER. As an economist, do you think that this Government could stand that financial strain and burden?

Dr. DOANE. Not at the present level of income and the present rate of production; no.

Mr. FULLER. That is all.

Mr. WOODRUFF. Mr. Doane, under present conditions, how much money do you think you could raise according to your formula in the first year?

Dr. DOANE. Very close to 4 billion dollars.

Mr. WOODRUFF. It seems to me I had a talk with you yesterday afternoon when you told me and two other members of this committee that the first year the amount of money you would get under your formula would be something like six hundred and some millions.

Dr. DOANE. We were talking about a monthly base, and I was referring to my second table here, which showed some three hundred and thirty-six millions per month.

Mr. WOODRUFF. I understood, Mr. Doane, very distinctly that that was the yearly base that you got from that formula that you suggested to us yesterday. I may be mistaken. I am not saying that you misrepresented it.

Dr. DOANE. I may have misunderstood you, Mr. Woodruff. Based on these preceding tables, 1, 2, 3, and 4, on a limited 2-percent tax that is restricted to just those particular items there listed, it indicated that we could expect about \$336,000,000 per month, on present levels.

Mr. WOODRUFF. Per month?

Dr. DOANE. And that that would build up for the 12 months' period at about 4 billion dollars.

Mr. WOODRUFF. I see. I probably was mistaken about my understanding of your previous statement.

In the State of Michigan we have a 3-percent sales tax on every retail transaction; that is, on foodstuffs, you pay the retail tax on a loaf of bread, and on everything that is sold in the State. From that tax we get in round figures 24 million dollars a year. There is nothing exempt from that except the sales that are made on poor orders, which constitute a very small part of the transactions for the year.

Dr. DOANE. Poor orders? You mean those that are on relief?

Mr. WOODRUFF. On relief, yes.

The population of Michigan constitutes 3.9447 percent of all the population of the United States. It is reasonable to suppose that the amount of retail transactions per capita within the State of Michigan would be on a par with those of any other State. If my idea is a correct one, the 24 million dollars a year that we get from our retail tax in Michigan constitutes 3.9 percent of the amount of money that we could get in the whole country over the period of a year under a 3-percent retail sales tax. I understand, of course, that you contemplate taxing many transactions other than the transaction that puts the goods into the hands of the ultimate consumer.

Dr. DOANE. That is right. How does that work out?

Mr. WOODRUFF. How does it work out?

Dr. DOANE. Yes.

Mr. WOODRUFF. It would give to the entire United States for the year, \$608,411,300, in round figures.

Dr. DOANE. That is very interesting.

Mr. VINSON. And a 2-percent tax would net something like 400 million dollars.

Mr. WOODRUFF. A 2-percent retail tax?

Mr. VINSON. Yes.