

Part II

Taxes and the Federal Budget

PROBLEMS AND ALTERNATIVES

By J. B. Kohlmeyer

Our subcommittee was assigned the job of preparing subject matter material suitable for a policy meeting with farm people, on the subject of taxes and the federal budget.

Since no member of our subcommittee had ever participated in a meeting on this subject, we had to start from scratch. For that reason we believe extension specialists, county agents, and others might be interested in some of the things that were taken into account as we tried to figure out what subject matter material should be included and what methods should be employed in conducting a meeting of this kind.

KINDS OF DECISIONS THAT NEED TO BE MADE

Do you want to pay \$25 a year more in taxes and have the mail delivered to your door twice a day, or would you prefer to have the mail delivered once a day and spend the \$25 for something else? What if it cost you only \$1 extra per year? Would you rather spend \$100 on a fishing trip or contribute \$100 for the construction of flood control dams in the Missouri Valley? In order to protect ourselves against Russia, how much should be spent in building up an air force as compared with aid for underdeveloped countries? How much should be spent on highways as compared with hospitals? Should the federal government extend grants-in-aid to the states for elementary and secondary schools? How much does a taxpayer suffer when he is taxed \$60 extra for increased payments to recipients of old age assistance, and how much additional satisfaction does the recipient derive from that extra \$5 per month? Is the federal government spending too much for soil conservation as compared with agricultural research? Which activities of the federal government should be reduced, expanded, or eliminated? What new activities should be undertaken?

Should taxes be raised to balance the federal budget? If so, what should be taxed more? Or should expenditures be reduced? If so, where should the reductions be made? Or should the fed-

eral government spend more than it takes in, and make up the difference by borrowing? If so, should the money be borrowed from individuals or from banks?

These are the kind of questions that people have on their minds. They can be avoided or tackled head on.

It has been our experience that farm people, and others, too, enjoy participating in discussion meetings where the heart of controversial issues is reached in a hurry; if too much time is spent with descriptive materials, it may be necessary to line up a different crowd next year, provided the county agent invites you back.

INFORMATION NEEDED

How do you arrive at a satisfactory answer to questions like these? Can you prove to the person that differs with you that you are right and he is wrong? Can some criteria or yardsticks be set up to evaluate the desirability or undesirability of any particular governmental activity? If so, let us apply them to the question of that second mail delivery.

Most of you will agree that we need to know at least two things in order to decide; they are the cost estimates (they can be readily obtained) of the second delivery and the worth or value of the second delivery. The second step is to insert the cost estimates and values into the equation and calculate the answer. The dollar cost was given. Now when it comes to the worth or value side of the equation we run into difficulty. What is it worth to get that magazine, or maybe that letter with a thousand dollar check in it, a half day earlier, or have a chance of getting a job as a mail carrier, or to live in and be a part of a society where communication is speeded up as much as possible? Every individual uses a different set of values.

You can readily see the futility of trying to set up criteria or yardsticks that should be used in arriving at an answer to the question of what government ought or ought not do because every person applies his own yardstick. Differences of opinion, where they exist, can be resolved only by the political processes.

How then do you help individuals arrive at an answer to questions like those listed when no one answer can either be proved or disproved?

You do it by supplying them with facts that will increase their knowledge of the costs, or estimates of costs, or consequences of different lines of action. Each individual is then in a position to apply his own set of values and arrive at a decision as to whether he wants more, less, or the same amount of any particular governmental service.

The total cost of a particular governmental function does not give an individual all the facts he needs to make up his mind; he wants to know what it will cost him. For example, if all the increase in taxes to pay for another billion dollars worth of atomic energy construction is to come from personal income taxes—and if this raises his taxes 3 percent and his tax was \$300 last year—it costs him \$9 extra. On the other hand, if the tax is put on whiskey, the whiskey drinkers will have to pay it. A man's decision will depend at least partly upon the extra tax he will have to pay.

The amount of taxes to be paid by individuals or groups of individuals is determined by the political process—in the same way that we determine how much is to be spent. For example, we can decide not to collect as much money as we spend; this is merely a way to shift the cost to somebody else, namely, people with savings, white collar workers, etc.

WHO SHOULD BE INVITED

It is our judgment that a meeting of this kind, at this stage of the game, should be a special interest meeting. For that reason it should be an invitational affair with preference given to individuals interested in, and with some knowledge of this particular subject. The size of the group may range from 50 to 80 individuals. They should be recognized leaders.

An audience of this size is sufficiently large to insure differences of opinion on the extent of the government's activities. They will also have some definite opinions about such things as balancing the budget, increasing taxes, etc. County agents know that farmers are hesitant to accept new ideas that conflict with their existing beliefs and values, especially when presented by a stranger. They are, however, more friendly to new ideas obtained from their peers or from neighbors in whom they have confidence.

PROCEDURE

A discussion leader capitalizes upon (1) those different beliefs and values and (2) mutual respect for one another, by getting individuals to express them. He plays one point of view against another and feeds in facts that add to a better understanding of the problem. The success of a meeting depends upon asking the *right* questions and feeding in the *right* facts. What they are has to be learned by the trial and error process, but they hinge around the basic problems and their alternative solutions. These alternatives should encompass every possible point of view. Stated in another way, instead of a yardstick, it is a hatrack that is needed, one with enough pegs or room on it to hang up everybody's hat.

The basic problems and alternative solutions are listed in Exhibit A. These are not presented but developed with the group through discussion. A good sized blackboard and plenty of chalk are needed. The discussion leader should act as a catalyst and not make a speech. He should ask questions and write the answers on the blackboard. In order to keep the discussion moving briskly, he will need to abbreviate, write rapidly, etc. The discussion leader has to probe and pry, encourage the timid and shut off the monopolists; but he must be careful not to offend anyone. He should not edit; let the audience do the editing later. He should write down everybody's ideas, even those he thinks are terrible. Above all, don't try to pose as an expert. Don't commit yourself. You are trying to get their opinions and should not be interested in expressing yours. We believe the following questions will stimulate discussion, and also bring out differences in beliefs and value judgments.

First List of Questions

WHAT ARE SOME OF THE FUNCTIONS THE FEDERAL GOVERNMENT SHOULD PERFORM? Keep probing and asking, stating that you will keep writing until someone objects. If no objections are raised, it is the discussion leader's job to mention functions to which the audience will object. Then ask the audience to make a list of things the federal government ought not do. You are trying to bring out differences in points of view. At this particular place it might be well to introduce some facts that provide perspective and also show the changing scope of federal

activity over the years. Raise a question regarding the reason for such variation in expenditures. The trick is to let them discover a few things for themselves, let them tell you. They should discover several historical facts: (1) most of the expenditures have been for wars and past wars; (2) the federal government was small up to Civil War time; (3) during World War II, expenditures were double those during World War I (in terms of percent of national income); and (4) the federal government is getting bigger (Table 1). Direct attention to the relationship of expenditures and receipts during war years, particularly in 1862.

Spend five to ten minutes on the first question. It should be an easy one and one that will get them to participate. If they fail to get the points you are trying to bring out, pass them up; if you bring them out, they will grow suspicious.

Second List of Questions

HOW DOES THE FEDERAL GOVERNMENT GO ABOUT GETTING SOLDIERS FOR AN ARMY? List their answers on the blackboard. Ask them why it doesn't hire soldiers instead of conscripting them (the cost would be too high, and you would not be able to raise a big army). Have them estimate how much you would have to pay soldiers, sailors, etc., a month, to get an armed force of five million men. Would it cost more in wartime than during periods of peace? They will get a kick out of answering questions like these; even the timid will be enticed. Ask them how the government gets camp sites, steel, hams, etc. How did General Sherman get food for his army on his march to the sea?

The fact you want to bring out is that whenever government engages in any activity it has to get hold of resources such as manpower, steel, electricity, hams, clothing, etc., in order to do the job. Ask them why not draft workers to make planes, ships, clothing, produce food, etc. Why not put everybody in the army? Ask how roads were built and improved in his father's or grandfather's time (able bodied voters had to work so many days or pay a special tax in lieu of working). Why not build flood control projects in the Missouri Valley? Give them an alternative of paying a tax of \$50 in lieu of working; ask for a show of hands on how many are willing to work five days and how many would

rather pay \$50 in lieu of working (this is the modern name for a tax).

Third List of Questions

HOW DID THE FEDERAL GOVERNMENT GET THE MONEY IT NEEDED DURING THE EARLY DAYS? When was the income tax introduced? Did the government ever print money? When? What is the difference between printing money and borrowing from the banks? (These are tougher questions, but someone in the audience will know the answers.) By this time the audience should not be suspicious of your having anything up your sleeve that you are trying to put over. If you get half a chance, explain to them how borrowing through banks increases the supply of money and credit. Ask them who benefits by inflation, who suffers, etc. Why not have the federal government operate the post office for profit, why not operate filling stations? Why not sell TVA? (Refer to Table 2.)

Fourth List of Questions

WHAT SHOULD BE TAXED TO OBTAIN REVENUE? WHY NOT PUT A STILL HIGHER TAX ON WHISKEY AND CIGARETTES? Probe to determine what they know about shifting taxes; go as far as you can along this line so long as their contributions are productive. In order to keep the ball rolling the discussion leader needs to be reasonably well informed in this area. Ask what income groups have the greatest reservoir of untaxed funds (refer to Table 3). Refer to Table 4 to show them where the tax money came from in 1952.

Fifty to sixty minutes might be devoted to a discussion of this type. You have to keep it moving. Much depends upon the care used in the selection of the audience. Statistical tables should not be handed out in advance; a demand for factual information has to be developed.

By this time the audience should understand some of the problems of taxation and finance better than they did at the start of the meeting. Some individuals should have a few more facts and some members should doubt the validity of some of their previous beliefs.

The last step in our procedure is to acquaint them with the way the political processes work. This can be done by setting up a miniature demonstration. Divide the audience into groups of fifteen to twenty and ask each group to make certain decisions. We suggest those listed in Exhibit B. Go over this with them. Give each person a sheet explaining the assignment thoroughly; also supply each individual with copies of Tables 5 and 6.

Then have the audience report back to explain and compare their decisions. They should then be given an opportunity to ask the discussion leader questions.

EXHIBIT A

BASIC PROBLEMS AND ALTERNATIVES

- A. WHAT FUNCTIONS SHOULD BE PERFORMED BY THE FEDERAL GOVERNMENT?
1. None.
 2. All: Have the federal government in complete charge of everything.
 3. Any proposed gradation between 1 and 2 that will get a majority vote: If we accept this alternative one person's idea of what the federal government ought to do would carry as much weight as any other person's idea. The functions to be performed by the federal government would then be determined from time to time by the regular political processes.
- B. WHAT PROCESSES SHOULD THE FEDERAL GOVERNMENT EMPLOY IN ACQUIRING THE RESOURCES NEEDED TO CARRY OUT THE FUNCTIONS ASSIGNED TO IT?
1. Confiscation: Under this alternative the government would merely lay its hands upon what was needed. No money would be required.
 2. Non-competitive biddings: Under this alternative the government would not compete in the market place, but would employ such methods as: Commandeering, set aside orders, conscription, condemnation, priorities, allocations, price controls, etc. The price may be at or below the market.
 3. Competitive biddings: Under this alternative the government would simply go into the market place and bid whatever price was necessary to obtain the goods and services needed.
 4. Any combination of the above methods.
- C. HOW SHOULD THE FEDERAL GOVERNMENT OBTAIN THE MONEY IT NEEDS TO OPERATE?
1. Tax its citizens and businesses
 2. Borrow from individuals and business firms (excluding banks)

3. Increase the supply of money
 - (a) By printing
 - (b) By borrowing from banks, unless offset by corresponding government restrictions on the expansion of bank credit.
4. Operate business and service enterprises for profit
5. Sell the property it owns
6. Any combination of the above methods

D. WHAT SHOULD THE FEDERAL GOVERNMENT TAX?

1. Property
2. Imports
3. Liquor
4. Tobacco
5. Amusements
6. Inheritance
7. Corporation incomes and profits
8. Individual incomes
9. Other selected manufactured products
10. Other selected retail products
11. General sales
12. Any other source
13. Any combination of the above

TABLE 1
TRENDS IN FEDERAL EXPENDITURES

Year	Expenditures*		Percentage of Private Production or National Income**	Percentage Distribution*		
	Total (Millions)	Per \$100 Receipts		Military	Interest	Other
1789-91	\$ 4	\$ 97		17	55	28
1792	5	138		22	63	15
1795	8	123		39	43	18
1798	8	97		45	39	16
1799	10	128	1	55	45	12
1809	10	132	1	56	28	16
1812	20	206		78	12	10
1813	32	220		82	11	7
1815	35	208		72	18	10
1816	33	64		65	23	12
1819	22	87	3	48	24	28
1829	15	61	2	53	16	31
1835	18	85		55		45
1837	38	147		55		45
1839	27	85	2	57	1	42
1847	58	216				
1849	45	145	2	55	8	37
1859	65	129	2	55	4	41
1862	475	913		92	3	5
1863	715	633		93	3	4

TABLE 1—Continued
TRENDS IN FEDERAL EXPENDITURES

Year	Expenditures*		Percentage of Private Production or National Income**	Percentage Distribution*		
	Total (Millions)	Per \$100 Receipts		Military	Interest	Other
1864	865	326		90	6	4
1865	1,296	389		89	6	5
1866	521	93		22	38	40
1867	358	73		22	40	38
1869	323	87	5	63	25	12
1879	267	97	4	21	39	40
1881	261	72		21	32	47
1889	299	77	3	22	14	65
1899	605	117	4	49	6	45
1905	565	104		43	4	53
1910	690	103	2	45	3	52
1918	12,697	340	21	48	2	50
1919	18,515	359	22	59	4	37
1920	6,403	96	9	38	16	46
1925	3,063	81	4	23	29	48
1930	3,440	83	5	24	20	56
1935	6,521	175	10	14	12	74
1940	9,183	174	10	35	13	52
1941	13,387	185	13	20	11	69
1942	34,186	269	11	47	8	45
1943	79,622	362	47	67	4	29
1944	95,315	217	54	80	2	18
1945	98,703	221	53	80	2	18
1946	60,703	152	34	82	3	15
1947	39,288	98	20	71	8	21
1948	33,791	80	15	37	13	50
1949	40,057	105	19	36	15	49
1950	40,167	108	17	34	14	52

Source: *Annual Report of the Secretary of the Treasury on the State of the Finances—1951, page 682.

**Historical Statistics of the United States—1789-45, Bureau of the Census, page 14, for realized private production.

Supplement to the Survey of Current Business—1951 Edition, U. S. Department of Commerce, page 150.

TABLE 2
TRENDS IN FEDERAL RECEIPTS AND INDEBTEDNESS

Year	Receipts from Various Sources				National Debt	
	Total (Millions)	Customs (Percent)	Internal Revenue (Percent)	Other (Percent)	Total (Millions)	Per Capita
1789-91	\$ 4	99		1	\$ 75	
1792	4	93	6	1	80	
1795	6	91	6	3	84	
1798	8	89	8	3	78	
1799	7	88	10	2	83	
1809	11	94		6	53	
1812	10	91	1	8	56	
1813	14	92	1	7	81	
1815	16	46	30	24	127	
1816	48	76	11	13	123	
1819	25	82	2	16	91	
1829	25	91		9	49	
1835	35	55	5	45		
1837	25	45	5	55	3	
1839	31	73	1	26	4	
1847	26	89		11	39	
1849	31	91		9	60	
1859	53	93		7	58	\$ 2
1862	52	94		6	524	16
1863	113	61	34	5	1,120	33
1864	265	38	42	20	1,816	52
1865	334	25	63	12	2,678	75
1866	558	32	56	12	2,756	75
1867	490	36	54	10	2,650	71
1869	371	49	42	9	2,545	65
1879	274	50	42	8	2,299	47
1881	393	55	37	8	2,019	39
1889	387	58	34	8	1,249	20
1899	516	40	33	7	1,437	19
1905	544				1,132	16
1910	675	49	43	8	1,147	12
1918	3,665	5	87	8	12,244	117
1919	5,152	3	84	13	25,482	242
1920	6,695	5	81	14	24,299	228
1925	3,780	15	68	17	20,516	167
1930	4,178	14	73	13	16,185	132
1935	3,730	9	87	4	28,701	226
1940	5,265	5	91	4	42,968	325
1941	7,227	5	92	3	48,961	367
1942	12,696	3	95	2	72,422	537

TABLE 2—Continued
TRENDS IN FEDERAL RECEIPTS AND INDEBTEDNESS

Year	Receipts from Various Sources				National Debt	
	Total (Millions)	Customs (Percent)	Internal Revenue (Percent)	Other (Percent)	Total (Millions)	Per Capita
1943	22,202	1	95	4	136,696	1,000
1944	43,892	1	92	7	201,003	1,452
1945	44,762	1	92	7	258,682	1,848
1946	40,027	1	91	8	269,422	1,905
1947	40,043	1	92	7	258,286	1,792
1948	42,211	1	91	8	252,292	1,720
1949	38,246	1	94	5	252,770	1,695
1950	37,045	1	95	4	257,357	1,697

Source: Annual Report of the Secretary of the Treasury on the State of the Finances—1951, pages 682, 731.

TABLE 3
ESTIMATED DISTRIBUTION OF TAXABLE INDIVIDUAL INCOME RETURNS,
INCOME AND TAX LIABILITY REVENUE ACT OF 1950
APPLICABLE TO 1951 INCOMES
(In Millions of Dollars)

Adjusted Gross Income Class	Adjusted Gross Reported Taxable Individual Income	Tax Liability Under 1950 Law	Excess Reported Individual Income Over Tax Liability
Under \$5,000	100,520	8,276	92,244
\$5,000 to \$10,000	41,253	5,005	36,248
\$10,000 to \$25,000	21,847	3,992	17,855
\$25,000 to \$50,000	8,170	2,308	5,862
\$50,000 to \$100,000	4,871	1,941	2,930
\$100,000 and above	4,534	2,449	2,085
Total	181,195	23,971	157,224

Source: Revenue Act of 1951. Hearings Before Committee on Finance, U. S. Senate, Part I, page 135.

TABLE 4
FEDERAL GOVERNMENT TAX REVENUE
1952 FISCAL YEAR

Source	Amount (Millions)	Percent
<i>Direct taxes on individuals:</i>		
Income tax	\$29,324	
Estate tax	675	
Gift tax	<u>65</u>	
Total direct taxes on individuals	\$30,064	43.6
<i>Direct taxes on corporations</i>	22,900	33.2
<i>Excise taxes:</i>		
Liquor	\$2,612	
Tobacco	1,590	
Stamp	92	
Manufacturers	2,272	
Retailers	486	
Miscellaneous	<u>1,994</u>	
Total excise taxes	9,046	13.1
<i>Employment taxes:</i>		
Federal Insurance Contri- bution Act	\$3,850	
Other	<u>1,007</u>	
Total employment taxes	4,857	7.0
<i>Customs</i>	575	.8
<i>Miscellaneous</i>	<u>1,598</u>	<u>2.3</u>
Total receipts	\$69,040	100.0
<i>Deduct:</i>		
Appropriation to Old Age and Survivors Insurance Fund	\$3,850	
Refunds of receipts	<u>2,510</u>	
Total deductions	<u>6,360</u>	
Net receipts	\$62,680	

Source: The Budget of U. S. Government for Fiscal Year Ending June 30, 1953. Wash-
 ington, D. C., 1952.

EXHIBIT B

THE 1953 PROBLEMS AND ALTERNATIVES

A. HOW MUCH SHOULD THE FEDERAL GOVERNMENT SPEND IN 1953?

1. \$85 billion (as proposed by the President)
2. More than \$85 billion
3. Less than \$85 billion

\$ _____
Your Decision

B. HOW SHOULD THE FEDERAL GOVERNMENT RAISE THE MONEY THAT IS TO BE SPENT IN 1953?

	1953 Proposed	Your Decision
1. Tax	\$71	\$ _____
2. Borrow*	14	_____
3. Print		_____

* (or additional taxes)

C. IN CASE YOU DECIDE TO BORROW, HOW MUCH WILL YOU BORROW FROM:

	Your Decision
1. Banks	\$ _____
2. Non-bank sources	_____

D. HOW MUCH WOULD YOU TAX EACH OF THE FOLLOWING?

	1953 Proposed (Billions)	Your Decision
1. Individual incomes	\$32.2	\$ _____
2. Corporation incomes	27.8	_____
3. Excise taxes	9.7	_____
4. Employment taxes	5.0	_____
5. Estates and gifts	.8	_____
6. Customs	.6	_____
7. Miscellaneous	1.6	_____
8. General sales		_____
9. _____		_____
TOTAL GROSS RECEIPTS	\$77.7	_____
Less: Tax refunds	2.7	_____
Appropriations to Federal Old Age and Survivors Trust Fund	4.0	_____
NET RECEIPTS	\$71.0	_____

E. IN CASE YOU DECIDE TO REDUCE THE NATIONAL DEBT — WHAT INDEBTEDNESS SHOULD BE RETIRED?

_____ That held by banks.
_____ That held by others.

TABLE 5
PROPOSED 1953 FEDERAL BUDGET AND
EXPENDITURES FOR SELECTED YEARS*
(In Billions of Dollars)

Program	Expenditures		Proposed 1953	Expenditures for Previous Years				
	1950	1952		1939	1943	1945	1948	1949
GRAND TOTAL	\$41	\$71	\$85	\$ 9	\$80	\$99	\$34	\$40
Military services	12	40	51	11	70	85	11	12
International security and foreign relations	4.80	7.20	10.80	.02	.20	.70	4.80	6.50
Finance, commerce, and industry	.23	.75	.83	.05	.30	.20	.09	.12
Transportation and communication	1.75	2.15	1.64	.50	3.60	3.40	1.10	1.50
Natural resources	1.60	3.10	3.20	.23	.41	.24	1.10	1.50
Agriculture and agricultural resources	2.80	1.40	1.50	1.20	.60	1.60	.60	2.50
Labor	.26	.24	.25	.70	.24	.20	1.50	1.20
Housing and community development	.26	.88	.68	.15	.30	.19	.08	.28
Education and general research	.11	.24	.62	.04	.05	.15	.06	.57
Social security, welfare, and health	2.21	2.68	2.62	3.90	1.20	1.04	1.90	1.90
Veterans' services and benefits	6.63	5.17	4.20	.56	.60	2.10	6.60	6.70
General government	1.10	1.30	1.40	.56	.35	.78	1.50	1.20
Interest	5.80	5.90	6.20	.94	1.80	3.60	5.20	5.40

*An itemized budget breakdown, with supplementary informative notes is included as an appendix.

TABLE 6
FEDERAL BUDGET RECEIPTS FOR SELECTED YEARS
(In Billions of Dollars)

Source	1949	1950	1952	1953
<hr/>				
Direct taxes on individuals				
Individual income taxes	17.9	18.0	29.3	32.2
Estate and gift taxes	.8	.7	.7	.8
Direct taxes on corporations	11.5	11.1	22.9	27.8
Excise taxes	7.5	7.6	9.0	9.7
Customs	.4	.4	.6	.6
Employment taxes	.8	.8	4.9	5.0
Miscellaneous receipts (including proposed legislation)	2.1	1.3	1.6	1.6
<hr/>				
Total receipts	41.0	39.9	69.0	77.7
 Deduct:				
Refunds of receipts	- 2.8	- 2.2	- 2.5	- 2.7
Appropriation to Federal Old Age and Survivors Trust Fund			- 3.8	- 4.0
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Net receipts	38.2	37.7	62.7	71.0
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Source: Summary of the President's 1953 Budget prepared by the Staff of the Joint Committee on International Revenue Taxation U. S.

Annual Report of the Secretary of the Treasury on the State of the Finances—1951.

The Federal Budget in Brief, Fiscal Year 1953, Bureau of the Budget.