

facts & figures

on

WAR FINANCE



1942

THE TAX FOUNDATION

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Foreword

To the task of victory, this nation, its people, their enterprise and industry have dedicated themselves. The price will not be cheap. Victory will be bought with blood and tears which are beyond valuation. It will also be bought with dollars—more billions of dollars than have ever been spent by any nation on earth—more billions than any people have ever found themselves called upon to provide—so may billions as to be beyond the comprehension of all but a few.

Nothing must detract from our concentration on the job ahead. At the same time we must not for an instant forget, or lose sight of the fact, that a great part of the battle must be fought not with guns and planes and tanks on foreign soil but with common sense, vision and courage right here at home.

The Nation must find the dollars to pay for the war without destroying or seriously impairing the very economy by which it has been free. To do this job on the home front, the American people must not only accept, but must rather see to it, that the Nation adopts several fundamental policies:

1. The saving of every possible dollar not necessary to the war and not absolutely essential to the needs of the people. This means immediate and rigid economy on the part of government, federal, state and local.
2. The imposition of maximum necessary taxes upon all of the people and their industry without working inequitable or unbearable hardship on any part and without destroying or stifling the system of free enterprise which produces the nation's income through which it has achieved the highest standard of living ever known and only through which, after victory, it can advance to new frontiers.
3. Along with a broadly based, realistic system of taxation — one of the most equitable and effective bars to inflation — to adopt all other practical anti-inflationary measures.
4. To conserve all national resources, human, natural, financial and, while winning the victory for Democracy, to also preserve and prepare Democracy for peace.

Lewis H. Brown, President of the Johns-Manville Corporation has said, "The methods by which we finance this war will, to a greater extent than ever before in the history of the world, affect the economic situation in the post-war period."

To contribute in small part to needed debate and consideration and to clarify the problem and the facts which relate to it, this brief summary, **FACTS & FIGURES ON WAR FINANCE**, has been compiled by Tax Foundation.



CHARLES C. BAUER
Executive Director

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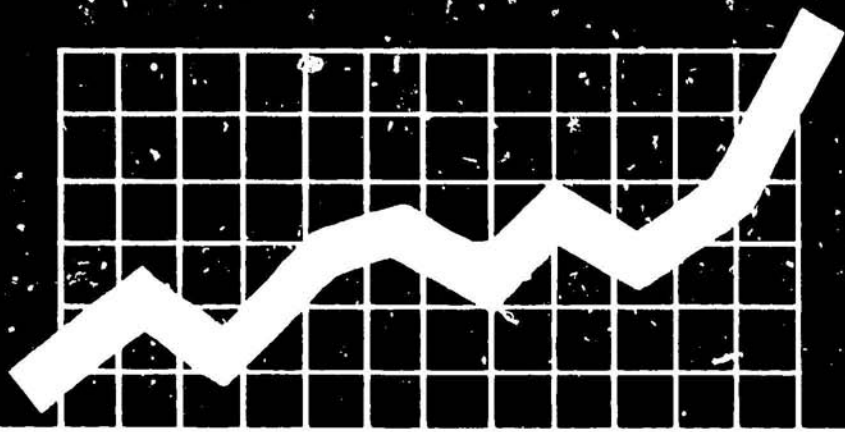
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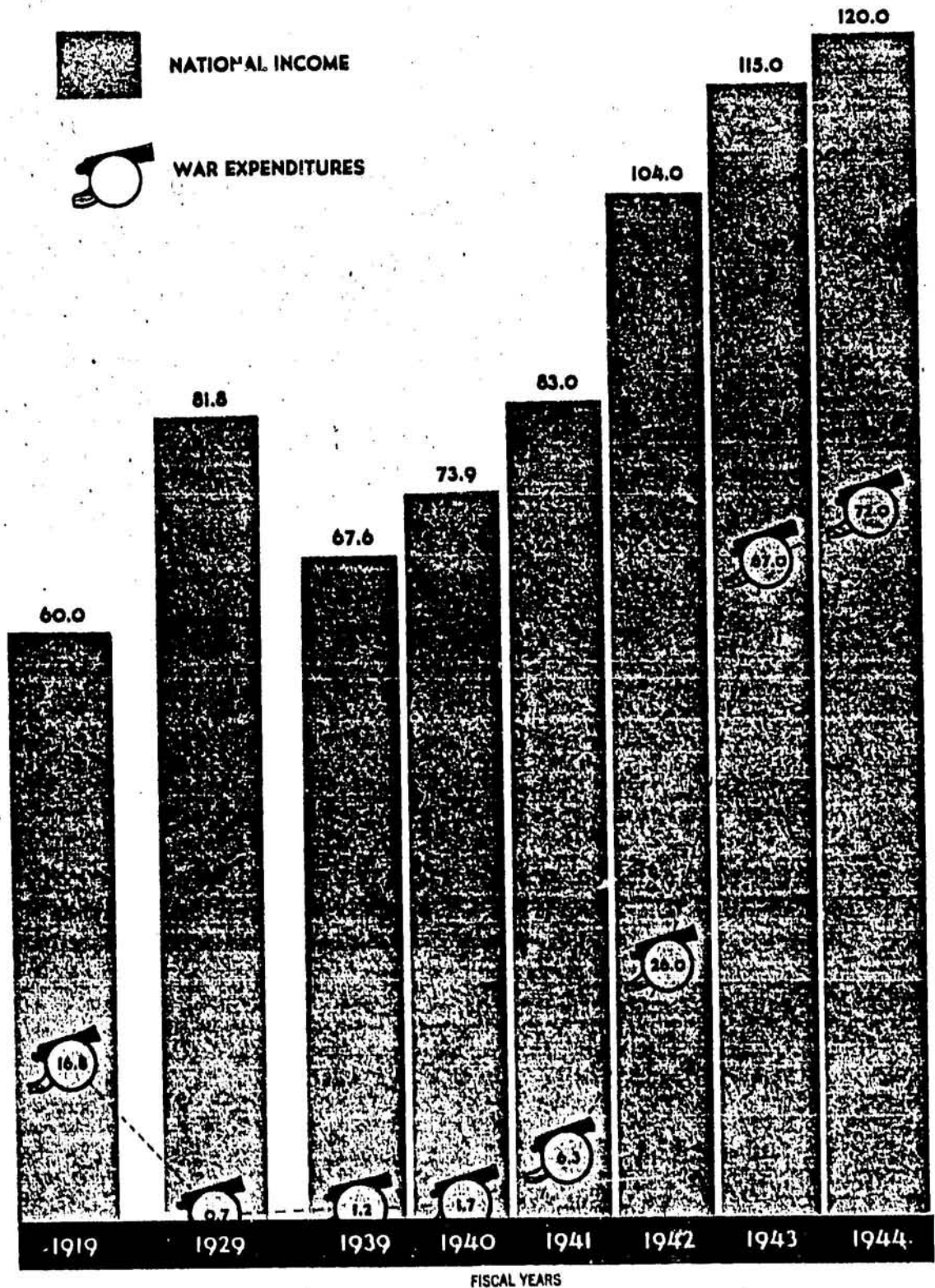
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charts

NATIONAL INCOME AND WAR EXPENDITURES

(Billions of Dollars)



1. *What is the over-all size of our present war program?*

The program of war funds expended, authorized and requested to date amounts to \$222 billion, more than the total of all the ordinary expenditures of the Federal Government, including all past wars, from 1789 through 1940.

2. *How much has been spent to date?*

In the fiscal year 1941 (the year ending June 30, 1941), nearly \$6½ billion was spent; in the fiscal year 1942 this sum increased to \$26 billion, a total, since the beginning of the defense program, of nearly \$35 billion up to July 1, 1942. According to present plans, this leaves over \$187 billion still unexpended.

3. *How much are we spending now?*

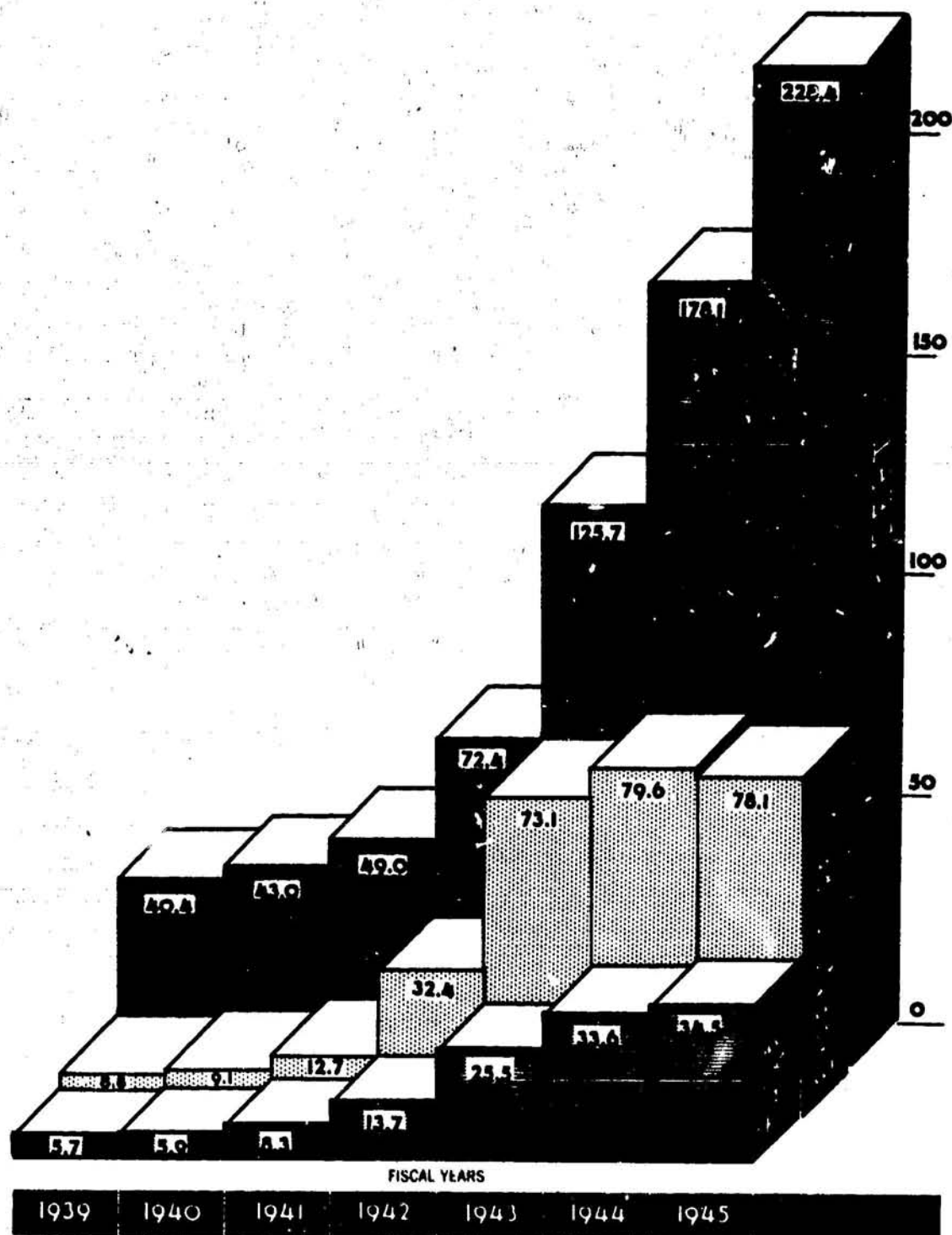
In July, war expenditures were at the rate of about \$4½ billion a month, and this is expected to increase to \$5 or \$6 billion a month by the end of the year. The estimated war expenditures for the fiscal year ending June 30, 1943, have been placed at \$67 to \$71 billion. This is four times the amount spent in the war year 1918-1919, and is practically equal to our entire national income in the year 1940.

4. *Is this all we will have to spend?*

Probably not. Expenditures totaling over \$100 billion have already been authorized for the period *beyond* June 30, 1943. Expenditures for war purposes alone will probably amount to \$72 billion between July 1, 1943, and June 30, 1944. How much will be needed beyond that point depends on how long the war lasts. Other considerations are the changing needs of our fighting forces and those of our allies, and the control of prices so that the nation will not suffer a major inflation. Naturally, if prices go up, a great many more dollars will be needed to buy the same quantity of war goods. Another most important consideration is the problem of how much we can produce—the limitations of raw materials and man power on the quantity of goods and services we can turn out for war purposes.

ESTIMATES OF FEDERAL TAXES, EXPENDITURES AND DEBT

(Billions of Dollars)



5. *What is the maximum we can produce?*

Our total production is most easily measured by relating it to the figure which we call the "national income." This is the total income received for all the goods and services produced by all the people of the country during any year, after certain allowances and deductions. The size of this national income depends primarily on our man power — the number of people we can put to work — and the availability of materials. In the year ending June 30, 1942, our national income reached a net figure of approximately \$104 billion — nearly one fourth more than the previous greatest year, 1929. Probably by the time the peak of our production is reached this figure will rise to \$120 billion. Thus, a glance at the expenditure estimates given above will show that we are planning to devote about 60% of the total production of the country to winning the war. This compares with 25% at the peak of the war effort during the first World War.

6. *What about "normal" government expenditures?*

During the next fiscal year the Federal Government will spend a little over \$6 billion for nonwar purposes. Some economies have already been made in these appropriations, but, obviously, every dollar saved in nonwar spending is a dollar which can be spent to help win the war. In addition, it must be remembered that our state and local governments are spending about \$10 billion a year, and these expenditures must be met through state and local taxes.

7. *How can the nation meet the costs of this tremendous war effort?*

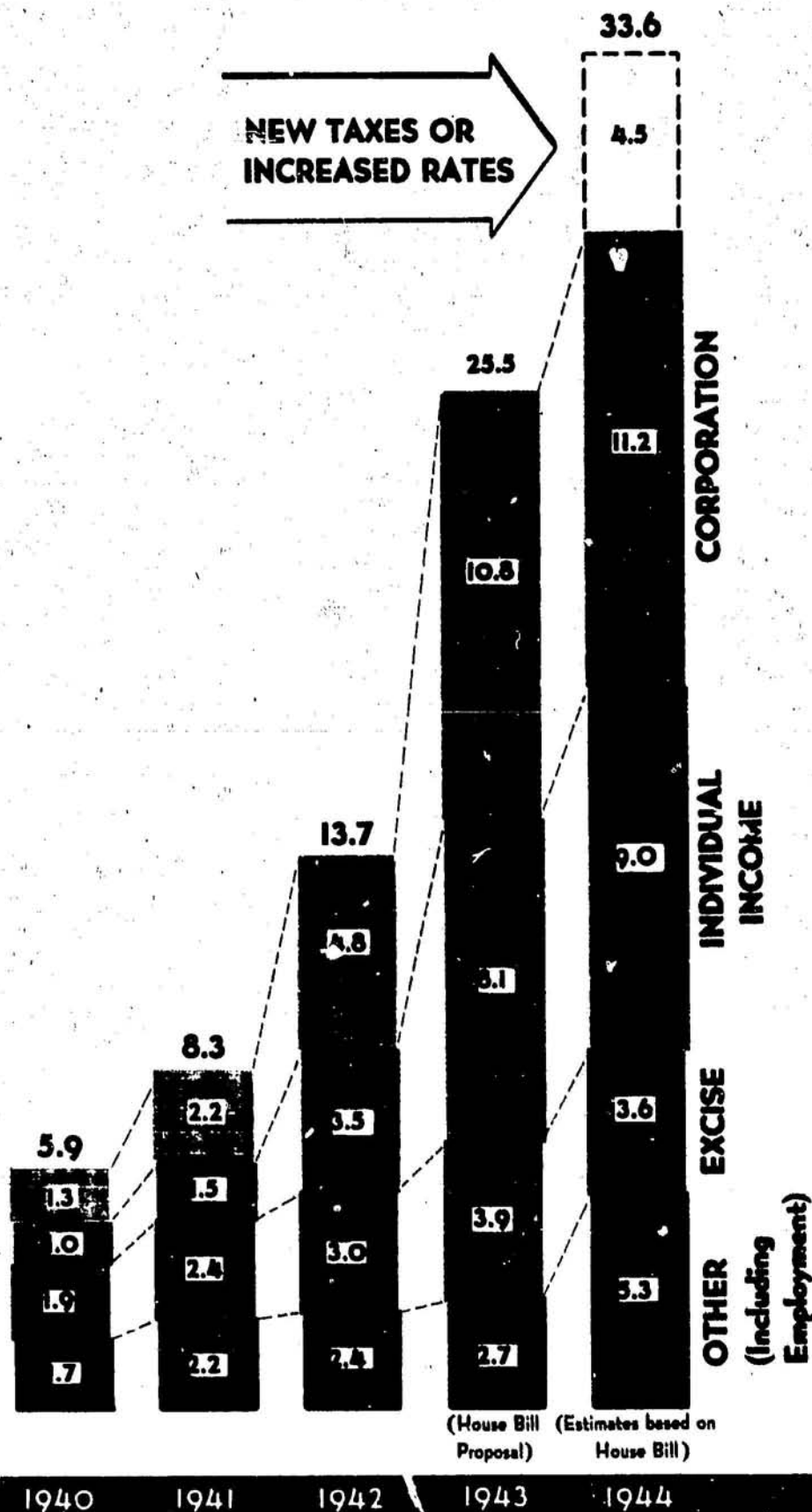
By taxes and by borrowing. Of course the safest way would be through taxes, but it is usually not possible to raise such tremendous sums by taxation alone and the war burden must always be spread over future years by borrowing.

8. *What are the major objectives of wartime taxation?*

First, obtaining the maximum revenues to reduce the amount of borrowing necessary; and second, avoiding inflation. As Secretary of the Treasury Morgenthau has stated, "Nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices." The Government is pouring out billions of dollars in the war effort. This income flows into the pockets of the people

TAX YIELDS 1940 - 1944

(Billions of Dollars)



at the very time when there is an increasing shortage of civilian goods, due to the requirements of the war program. This increased income creates a tremendous demand which serves to bid up the prices for these products. Higher prices lead to higher wage demands and more income, which in turn leads to higher prices and so on until we are caught in an inflationary spiral which can wreck the war effort and the financial stability of the country. Taxes are an important factor in drawing off this excess income or "purchasing power" and thus curbing inflation.

9. *How much should be raised in taxes?*

All that can be raised without dislocating our war effort. In order to maintain financial stability, probably about 40% of current expenditures should be covered by taxes. This means an annual tax bill of \$33 or \$34 billion for the Federal Government alone. There would remain an annual deficit of \$40 to \$50 billion to be financed with borrowed funds.

10. *Will borrowing these huge sums lead to inflation?*

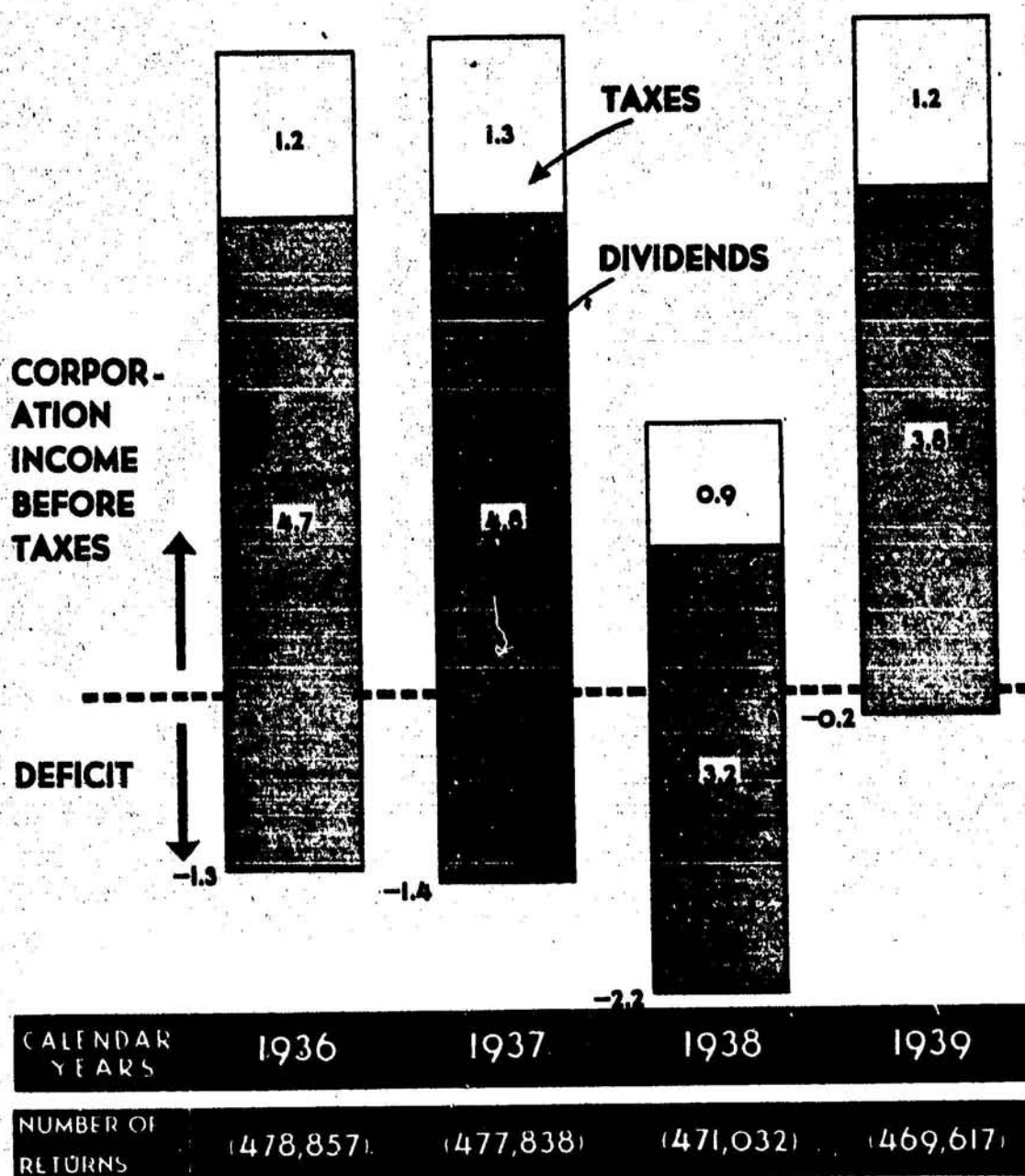
Huge borrowings involve real risks but the methods used can reduce these risks. If the Government borrows directly from the people, as, for instance, through the sale of War Savings Bonds, then the danger of inflation is averted since the current income of the people is reduced. The type of borrowing which uses the savings of the people, or of life insurance companies and savings institutions, is also not inflationary. To the extent that the Government borrows directly from the commercial banks, it makes more money available for private spending and thus increases the danger of inflation. The Federal financial program should therefore be designed so as to involve a maximum of taxation and War Bond sales and a minimum of borrowing from commercial banks.

11. *What will be the size of the Federal debt under such a program?*

It is already officially estimated that the Federal debt will total about \$125 billion by June, 1943. Assuming that a United Nations victory may not come until the end of 1944, the Federal debt may well reach \$225 or \$250 billion by June 1945. This would be more than five times the largest Federal debt ever encountered in the history of the nation before this war broke out.

CORPORATION OPERATING INCOME BEFORE FEDERAL TAXES

All Corporations
(Billions of Dollars)



12. *What are the sources of Federal taxation?*

Under our tax structure, there are three primary sources for Federal tax moneys — corporation income, individual income and excise taxes. A fourth source, social security taxes, is not really a source of revenue, since the Federal Government's bookkeeping system transfers a large part of this to the social security reserve funds, though of course the cash income is available to the Government. Gift, estate, customs and miscellaneous taxes now play a decreasing role in our tax structure.

13. *How much have these tax sources yielded in recent years?*

As late as 1940 the total Federal tax bill was less than \$6 billion. In 1941 this increased to \$8½ billion. In 1942 (for the fiscal year which ended June 30) the Federal tax bill was \$13.7 billion. Under current proposals the tax bill for the 1943 fiscal year (the year ending June 30, 1943) will be over \$25 billion. New or additional taxes, and increased rates will be necessary if the goal of \$33 billion in taxes is to be achieved.

14. *What is the maximum that can be obtained from business corporations?*

All profits except what is necessary to maintain the enterprise system and keep the industrial structure capable of meeting maximum war production requirements and postwar adjustment needs.

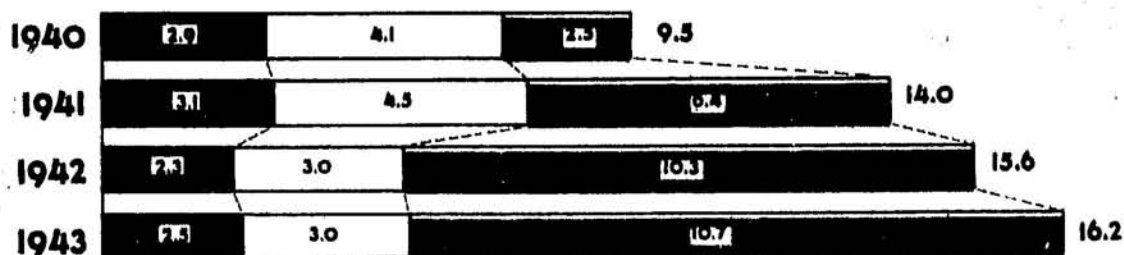
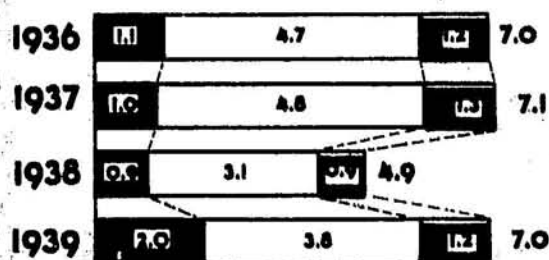
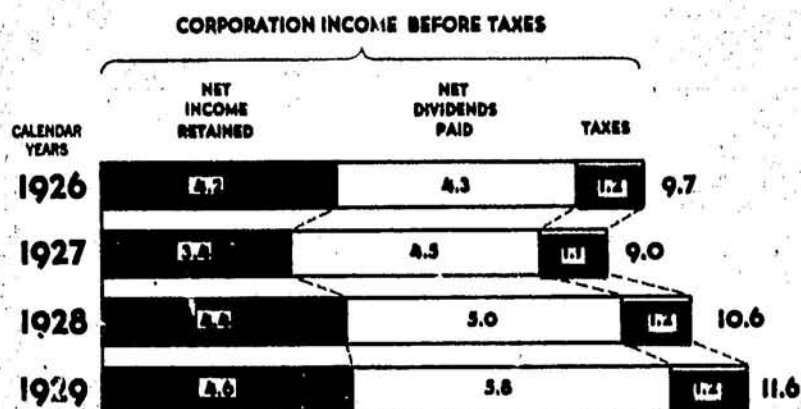
15. *What has been the income before taxes of business corporations in recent years?*

The 470,000 business corporations of the country, as a whole, lost money every year between 1930 and 1939. In the past few years, only about 200,000 of these corporations, or less than half, have shown any profits at all as a result of their operations.

In 1936 and 1937 the operating income of this latter group of corporations was about \$7 billion and this figure also held for 1939. In 1938 the figure dropped to \$4.9 billion. This compares with the 1929 figure for these "profit-making" corporations of \$11.6 billion. In 1940 it is estimated that the operating income before Federal income taxes of "profit-making" corporations was about \$9½ billion, and in 1941 this income is estimated at about \$14 billion. It can be estimated further that due to the stimulus of war production, corporation income may exceed \$16 billion at the peak point.

CORPORATION OPERATING INCOME BEFORE FEDERAL TAXES

Only Corporations Reporting Profits
(Billions of Dollars)



16. *What are the purposes for which industry must provide if it is to maintain its schedule of maximum war production?*

Chiefly, there is the problem of working capital, that is, the money needed from day to day to keep the business going, to enable it to buy materials and supplies and to meet its pay roll and pay its bills currently as they come due. Naturally, when a plant is operating at its top production, more money is needed for these purposes. In addition, money is needed to provide for expansion of the plant or for replacements of machinery which is being used up very rapidly. The corporation must also set aside some funds which it can use to repay its debts or to provide for periods of readjustment or emergency. Then there is the need for payments in the form of dividends to the investors who supply and must continue to supply the capital to make the industrial structure possible.

17. *Under all-out war production schedules, how much must corporations retain for all purposes other than dividends?*

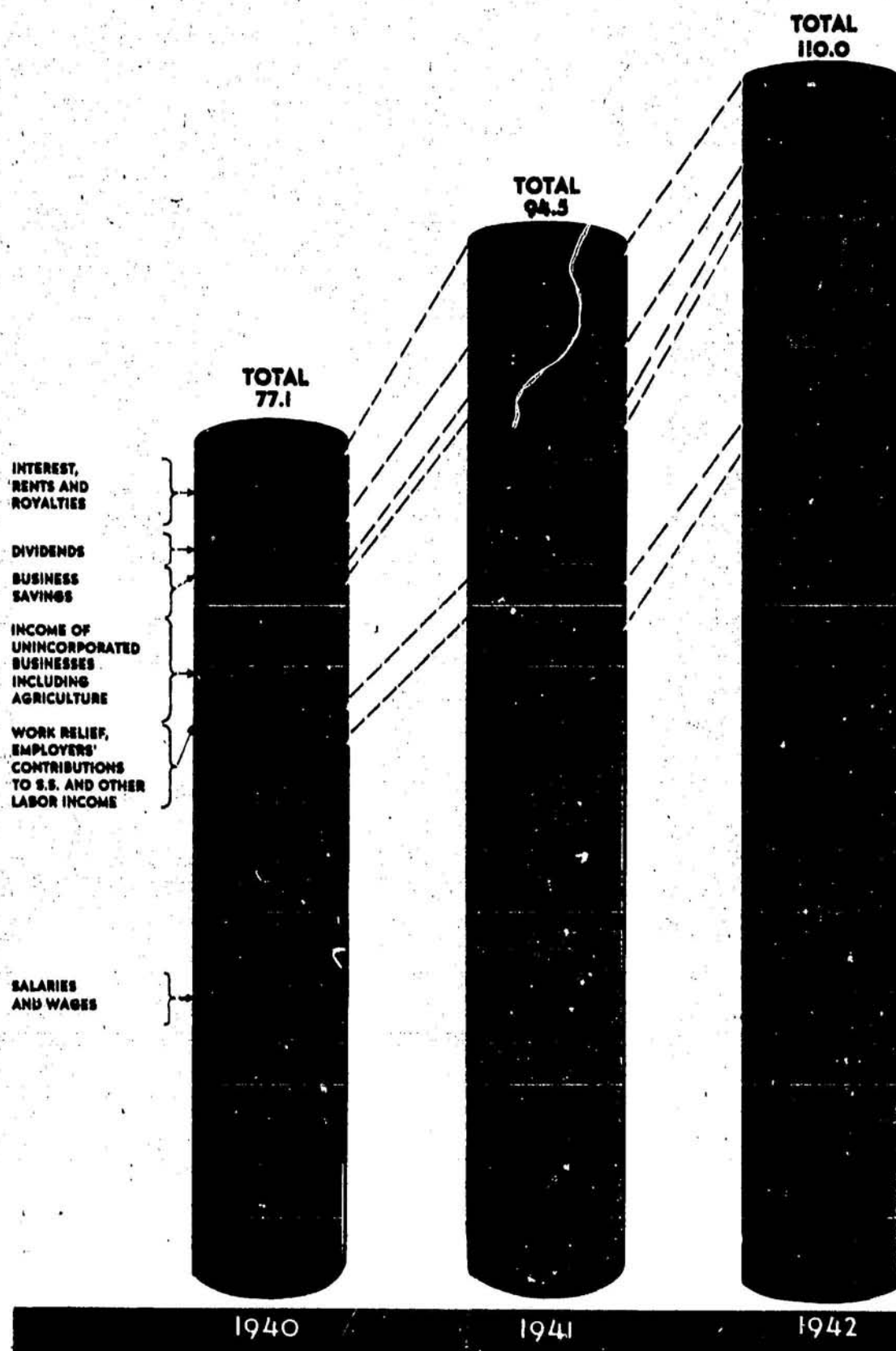
In the years 1926 through 1929 corporations retained, on the average, over \$4 billion a year. These funds enabled many businesses to carry on during the depression years. Production is now at a much higher level than it was even in those prosperous years, but taking into consideration the fact that exceptional risks must be taken in wartime, it can be estimated that a minimum of about \$2½ to 3 billion may be sufficient to keep the industrial structure producing the weapons which will win the war for us.

18. *How much is required for dividends?*

On the average, during the past seven years corporation dividend payments have amounted to between \$3½ and \$4½ billion annually. If corporations are to pay their investors as little as was paid in any of these years, a minimum of \$3 billion would be required for this purpose. This would be approximately half the \$5.9 billion paid in 1929.

NATIONAL INCOME

(Billions of Dollars)



19. *What is the effect of reducing dividend payments?*

Reports of the Treasury Department for 1940 (the latest year available) show that in that year 47% of the total dividend payments went to people whose net income was *under* \$5,000, to charitable institutions such as hospitals, schools and churches, and to those who did not file returns. It is estimated that altogether there are between 8 and 9 million stockholders in the country. A reduction in dividends below a minimum figure would not only result in a loss to the Government in the amount it collects from individuals in income taxes, but would also work serious hardships upon many institutions and the millions of low and middle income people who are dependent upon dividends as a major source of their income.

20. *How much does this leave for corporation taxes?*

A maximum total of \$10 to \$11 billion, representing every dollar of corporation profits above the minimum requirements just listed. Under these estimates business corporations would give up every dollar of profits beyond the amounts necessary to prevent crippling our war production or the industrial structure of the nation.

21. *How does this compare with previous corporation taxes?*

In the period from 1926 to 1939, the largest Federal tax bill on corporations was about \$1¼ billion. In 1940 this increased to \$2½ billion. In 1941 corporation taxes jumped to a total of nearly \$6½ billion and it is estimated that the taxes to be paid by corporations under the new 1942 tax bill will reach a total of over \$10 billion, practically the maximum obtainable.

22. *Do corporation taxes help to curb inflation?*

Corporation taxes have almost no influence on consumer spending, especially under our priority system, and therefore are not effective in controlling inflation.

IF WE TOOK AWAY ALL NET INCOME OVER



\$100,000

THERE WOULD BE ENOUGH
TO PAY FOR THE WAR FOR ONLY:



4 DAYS

1942 JULY 1942						
SUN	MON	TUE	WED	THU	FRI	SAT
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

25,000

13 $\frac{3}{8}$ DAYS

1942 JULY 1942						
SUN	MON	TUE	WED	THU	FRI	SAT
			X	X	X	X
X	X	X	X	X	X	X
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

10,000

28 $\frac{7}{8}$ DAYS

1942 JULY 1942						
SUN	MON	TUE	WED	THU	FRI	SAT
			X	X	X	X
X	X	X	X	X	X	X
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

5,000

47 $\frac{5}{8}$ DAYS

1942 JULY 1942						
SUN	MON	TUE	WED	THU	FRI	SAT
			X	X	X	X
X	X	X	X	X	X	X
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

1942 AUGUST 1942						
SUN	MON	TUE	WED	THU	FRI	SAT
						X
X	X	X	X	X	X	X
X	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

BASED ON RECENT WAR EXPENDITURES OF APPROXIMATELY
\$140,000,000 PER DAY AND ESTIMATES BASED ON 1941 INCOMES