1933 ★ 1959

From the New Deal to the Cold War

The New Deal brought major changes to the Committee on Ways and Means. Legislative tariff rate-making was replaced by reciprocity agreements negotiated by the executive branch under the Reciprocal Trade Agreements Act of 1934. The committee also drafted the Social Security Act of 1935, creating the old age and unemployment insurance programs and greatly expanding government assistance to the needy. The income tax was extended through New Deal and World War II revenue legislation, becoming, along with Social Security, a basic fact of life for most American citizens. For most of this period, a conservative coalition of Republicans and Southern Democrats dominated the committee, often frustrating the revenue proposals of Democratic Presidents Roosevelt and Truman. Even during the Republican administration of Eisenhower, Cold War defense spending, the need to balance the budget, and fears of inflation prevented any major postwar revenue reduction.

"Our taxes must follow the intricacies of business and not attempt to bend business to the pattern of simplicity we should all like to see in taxation." (Robert L. Doughton, 1940)[1]

The New Deal marked the beginning of the modern federal government, and it refocused attention upon the Presidency due to Franklin D. Roosevelt's charisma and energy. The executive branch increased in size and complexity as the President centralized decision-making. For example, the Bureau of the Budget was placed more firmly under presidential control by its transfer from the Treasury Department to the Executive Office of the President. The entire federal bureaucracy expanded as Roosevelt's Democratic administrations created program after program in an attempt to stimulate the economy. New agencies were created whose initials, such as the WPA, NRA, and CCC, were likened to alphabet soup, and the number of civilian government employees in the capital doubled between 1929 and 1940.

As the role of the government in promoting economic recovery, growth, and the welfare of its citizens expanded, the federal bureaucracy also grew. Government efforts to regulate corporations, financial institutions, and the stock market intensified. The modern welfare system also had its origins in several programs, especially the Social Security Act of 1935. Although the New Deal was not governed by any consistent philosophy other than pragmatic experimentation, the

Roosevelt Administration expanded federal expenditures in an effort to promote economic growth. The Republican administration of Herbert Hoover spent 3.1 billion dollars in 1930; by 1939, the federal budget was triple that amount. World War II magnified the growth of federal spending to levels approaching 100 billion dollars a year. Expenditures declined in the postwar period, but the federal budget never returned to prewar levels.

The growth of the federal budget and the acceptance of the government's responsibility to manage the economy and to promote social welfare had important implications for the history of the Committee on Ways and Means. As Chairman Doughton's observation on the complexity of tax bills indicated, on one level the committee's duties became much more technical. They also remained as political as ever before. The controversial issue of tariffs was largely resolved by embracing the concept of reciprocity, but taxes and Social Security became even more politically contentious in this period because they came to affect ever larger percentages of the population.

The Committee and the House, 1933–1958

Following Franklin D. Roosevelt's election to the Presidency in 1932, the Democratic Party maintained an almost unbroken control of Congress and the White House. Between 1933 and the election of Dwight D. Eisenhower in 1952, the Republican Party controlled Congress only in the Eightieth Congress (1947–1949). During Eisenhower's two terms as President (1953–1961) his party controlled Congress only in the Eighty-third Congress (1953–1955).

This prolonged period of one-party rule imparted a sense of continuity and stability to the Committee on Ways and Means. The seniority system was firmly entrenched, and one chairman, Robert L. Doughton of North Carolina, led the committee from 1933 to 1953, with the exception of the Republican Eightieth Congress, making his the lengthiest chairmanship in the history of the committee. During the Seventy-fourth and Seventy-fifth Congresses, at the height of Democratic control, the 25-member committee had a majority-minority ratio of 18 Democrats to 7 Republicans. In all other Congresses the ratio was 15–10.

The existence of one-party control of Congress, the committee, and the executive branch did not mean automatic harmony. During the early years of the New Deal, the Committee on Ways and Means cooperated closely with FDR in crafting recovery revenue legislation; however, over the years the committee came to hold independent and more conservative views than those represented by either Roosevelt's or Truman's domestic spending programs. Beginning in 1937, a Rules Committee coalition of conservative Democrats and minority Republi-

In 1933, at age 69, Robert Doughton of North Carolina began his tenure as Ways and Means chairman. When he ended his 42-year congressional career in 1953, he had chaired Ways and Means longer than any other member, 18 years. He disliked budget deficits and espoused pay-as-you-go financing. When President Roosevelt vetoed a 1944 tax increase, stating it was insufficient, Doughton, who urged greater economy in spending, joined lawmakers in overriding the President's veto. As chairman, he participated in a fiscal revolution that entailed the financing of New Deal relief programs, Social Security, U.S. mobilization in World War II and the Korean War, and foreign aid programs of the early Cold War years.

cans began to block New Deal legislation. By the following year, a similar conservative alignment was evident in the Committee on Ways and Means. This conservative coalition had distinct historical origins. During the years of Republican ascendancy in the 1920s, Southerners had made up a large proportion of congressional Democrats. When their party regained the majority in the 1930s, these Southern Democrats, because of their seniority, came to hold the key leadership positions, especially the Speakership and major committee chairmanships. The Democratic Speakers of the House between 1935 and 1961 were all conservative Southerners: Joseph W. Byrns (TN), William B. Bankhead (AL), and Sam Rayburn (TX). Conservative chairmen, such as Robert Doughton, often opposed the administration. Doughton's independence on tax measures, in fact, prompted the first presidential veto of a revenue bill in American history, when Roosevelt vetoed the Revenue Act of 1943, subsequently enacted when the veto was overridden by both the House and the Senate.[2]

The convergence of the seniority system, strong committee chairmen, and the conservative coalition motivated a movement for legislative reform, one compounded by the vastly enlarged powers and organizational complexity of the executive branch during World War II. In 1945, the American Political Science Association urged: "Congress must modernize its machinery if it is to keep pace with a greatly enlarged and active Executive Branch." [3] The House and Senate created

Washington news reporters take notes (left) as Ways and Means Chairman James Collier announces that the committee will consider a tax on beer. The Great Depression necessitated immediate government revenues. When the repeal of Prohibition legalized beer, Ways and Means members put aside party differences and backed a tax. Arguing against a beer tax, Bishop James Cannon, Jr., (right) tries to sway members of Ways and Means. He failed, and the Beer and Wine Revenue bill became law in 1933.

a Joint Committee on the Organization of Congress in 1945, whose report formed the basis for the Legislative Reorganization Act of 1946. The number of standing committees was reduced from 33 to 15 in the Senate and from 48 to 19 in the House. The number of standing committee assignments were limited to one for most House members and to two for most Senators. Standing committees were required to maintain records of all committee votes and to open all meetings to the public "except executive sessions for marking up bills or for voting, or where the committee by a majority vote orders an executive session." [4]

The two provisions of the Legislative Reorganization Act that most affected the Committee on Ways and Means concerned preparation of the annual legislative budget and the area of committee staffing. The Committee on Ways and Means, the Senate Committee on Finance, and both Appropriations Committees were instructed to act as a Joint Budget Committee to prepare an annual legislative budget. Each standing committee was also authorized to hire four professional and six clerical staff members, except that no limitations were placed on the number of staff for the Appropriations Committees. The act also strengthened the Legislative Reference Service, making it a separate department within the Library of Congress.

Although legislative reorganization was not designed to enhance the powers of committee chairmen, the enlarged committee staffs, which were under the control of the chairmen, provided them with an added tool. The staff of the Committee on Ways and Means grew from the 10 authorized in 1946 to 21 by 1957. In the years of 1951, 1952, and 1953, the staff reached highs of 24, 36, and 30—when the

committee participated in the first thorough revision of the Internal Revenue Code since 1913.[5] The committee needed an enlarged staff in the post-World War II era because of the increased technical complexity of the revenue, trade, and Social Security issues within its jurisdiction.

The Committee on Ways and Means and the New Deal, 1933–1939

The United States was experiencing the darkest days of the Great Depression when Franklin D. Roosevelt took office on March 4, 1933, promising "a new deal for the American people." Unemployment had reached 14 million, and banks were failing throughout the nation. The new President requested broad executive powers to cope with the economic crisis. On the day after his inauguration, Roosevelt called a special session of Congress. For the next three-and-a-half months, known as the Hundred Days, the House and the Senate cooperated with the President to produce an extraordinary legislative record.

Although the early spirit of legislative-executive cooperation was later dissipated by Supreme Court decisions striking down some key

CHAIRMEN OF THE COMMITTEE ON WAYS AND MEANS 1933–1959	
Robert L. Doughton (D-NC)	Seventy-third–Seventy-ninth Congresses, 1933–1947
Harold Knutson (R-MN)	Eightieth Congress, 1947–1949
Robert L. Doughton (D-NC)	Eighty-first–Eighty-second Congresses, 1949–1953
Daniel A. Reed (R-NY)	Eighty-third Congress, 1953–1955
Jere Cooper (D-TN)[1]	Eighty-fourth–Eighty-fifth Congresses, 1955–1957
Wilbur D. Mills (D-AR)	Eighty-fifth Congress, 1957–1959

[1] Cooper died December 18, 1957, shortly after the beginning of the first session of the Eighty-fifth Congress.

acts, and by fierce public criticism of certain New Deal measures, there was a revival of legislative activity in the Second New Deal in the Seventy-fourth Congress (1935–1937). The Committee on Ways and Means tended to cooperate with the Roosevelt Administration to pass early key revenue and Social Security legislation. Yet under the leadership of Robert L. Doughton (D-NC), the committee modified most executive proposals after 1938 in order to achieve compromises acceptable to a growing conservative coalition.

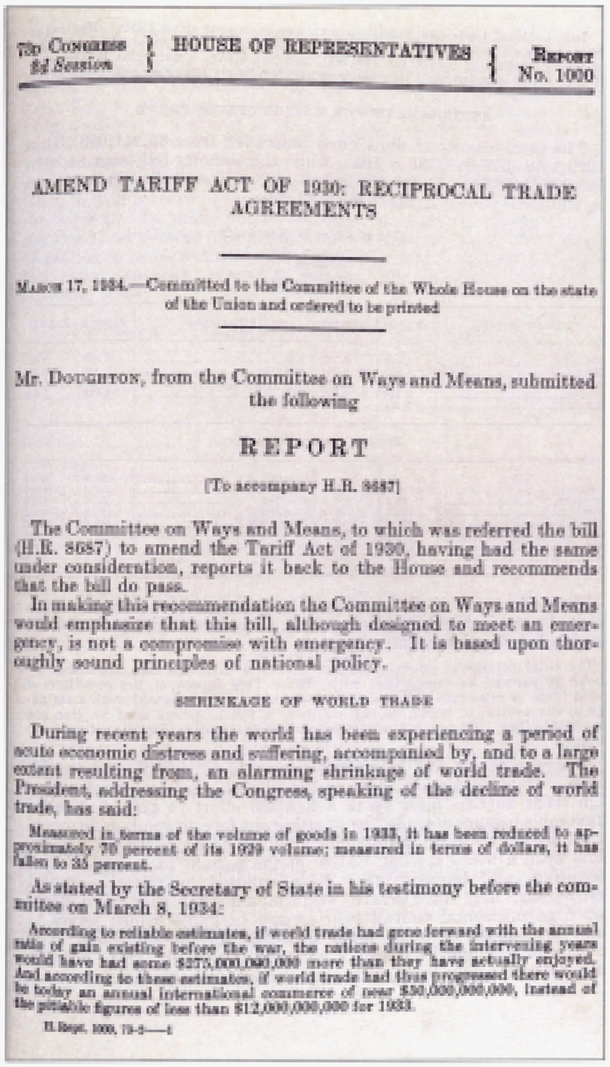
The Seventy-third Congress that convened on March 9, 1933, was composed of a 310–117 Democratic majority. Henry T. Rainey of Illinois was elected Speaker, and Joseph W. Byrns was elected House majority leader by the Democratic caucus. Robert Doughton, the chairman of the Committee on Ways and Means, had served on the committee since 1927, and he remained chairman, with one two-year interruption, until 1952. The North Carolinian affected a homespun country philosophy, often reminding colleagues that "the science of levying and collecting taxes is the science of getting the most feathers with the least squawking of the geese." As chairman, he earned a reputation as the New Deal's man on taxes in the House, yet Doughton was more conservative and less willing to experiment than was the President. His nickname, "Muley," reflected an image of backwoods stubbornness that conveniently cloaked a shrewd ability to compromise without alienating either New Deal liberals or their conservative critics.[6]

Soon after the first session of the Seventy-third Congress began in 1933, the Democrats created a Steering Committee to set party

A frequent visitor to Ways and Means during the Roosevelt Administration, Secretary of the Treasury Henry Morgenthau, Jr., left, in 1935 discusses refunding of the Second Liberty Loan of World War I with Chairman Doughton. The gathering also includes Democrats Fred Vinson, second from left, of Kentucky and Wesley Disney of Oklahoma. (Vinson was later named Chief Justice of the Supreme Court.) In the 1930s, the committee's agenda quickly expanded as New Deal programs made the federal government an integral part of everyday America.

policy and floor strategy; the committee was composed of the Speaker of the House, the floor leader, the party whip, the chairmen of the Ways and Means, Appropriations, and Rules Committees, and 15 other congressmen. Although this Steering Committee was active during the early years of the New Deal, the most powerful instrument of majority party government in the House was the Rules Committee. Chaired by William B. Bankhead of Alabama, this committee assisted the President by bringing various measures to the floor under closed rules that restricted debate and amendment.

A spirit of harmony and bipartisanship prevailed on the Committee on Ways and Means in 1933. Party differences were set aside in order to deal with the current economic emergency. To provide immediate revenues for the government, the committee reported the Beer and Wine Revenue bill. This measure, which was made possible by the repeal of Prohibition, legalized the manufacture and sale of beer and light wine and also levied a five-dollar tax on 31-gallon containers of beer, wine, lager beer, ale, and porter. One member of the committee considered passage of this bill "by far the finest demonstration of nonpartisan politics that has been presented during my more than twenty years' service." [7] Two weeks later the House considered the National Industrial Recovery Act legislation, which levied a 5 percent tax on dividends and restored a modest excess profits tax, and which established the Public Works Administration and the National Industrial Recovery Administration. The committee had endorsed the bill with only one dissenting vote. The committee's ranking Republican member, Allen T. Treadway of Massachusetts, echoed



73D CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. 1000

AMEND TARIFF ACT OF 1930: RECIPROCAL TRADE AGREEMENTS

MARCH 17, 1934.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 8687]

The Committee on Ways and Means, to which was referred the bill (H.R. 8687) to amend the Tariff Act of 1930, having had the same under consideration, reports it back to the House and recommends that the bill do pass.

In making this recommendation the Committee on Ways and Means would emphasize that this bill, although designed to meet an emergency, is not a compromise with emergency. It is based upon thoroughly sound principles of national policy.

SHRINKAGE OF WORLD TRADE

During recent years the world has been experiencing a period of acute economic distress and suffering, accompanied by, and to a large extent resulting from, an alarming shrinkage of world trade. The President, addressing the Congress, speaking of the decline of world trade, has said:

Measured in terms of the volume of goods in 1933, it has been reduced to approximately 70 percent of its 1929 volume; measured in terms of dollars, it has fallen to 35 percent.

As stated by the Secretary of State in his testimony before the committee on March 8, 1934:

According to reliable estimates, if world trade had gone forward with the annual ratio of gain existing before the war, the nations during the intervening years would have had some $275,000,000,000 more than they have actually enjoyed. And according to these estimates, if world trade had thus progressed there would be today an annual international commerce of near $50,000,000,000, instead of the pitiable figures of less than $12,000,000,000 for 1933.

H. Rept. 1000, 73-2——1

The historic squabbling in Congress over writing tariff schedules changed course with the proposal for reciprocal trade agreements, the subject of this 1934 Ways and Means report. As Secretary of State, former Ways and Means member Cordell Hull suggested that Congress entrust the responsibility for setting tariffs to the President, who would reduce tariffs on imports from those countries reducing tariffs on their imports of U.S. goods. The idea set off intense partisan debate. The Republican minority argued that reciprocity was unconstitutional. Critics also said the plan set no time limit upon the President's authority. A series of compromises addressed these concerns, and the amended bill was passed into law as the Reciprocal Trade Agreements Act of 1934. It provided the means to lower the ruinous Smoot-Hawley Tariff Act of 1930 and marked a turning point in tariff history. After 150 years of presiding over tariff legislation, Congress had granted responsibility for rate-setting to the executive branch.

the prevailing bipartisanship when he stated: "We have tried various expediencies without success. Here is a new notion. Try it. Try anything." [8]

The Reciprocal Trade Agreements Act of 1934

The previous year's harmony disintegrated in 1934 as partisan differences on the committee began to surface. The first partisan clash occurred during deliberations on the Reciprocal Trade Agreements Act of 1934. The Roosevelt Administration's trade policy evolved slowly. The President's choice for Secretary of State was Cordell Hull, a former member of the Committee on Ways and Means who had consistently advocated free trade and tariff reduction. In the winter of 1933–1934, the President asked Hull to prepare a trade bill for submission to Congress. The Secretary of State was guided by foreign policy considerations as well as by economic concerns. "To me it seemed virtually impossible to develop friendly relations with other nations in the political sphere so long as we provoked their animosity in the economic sphere," he recalled. "How could we promote peace with them while waging war on them commercially?" [9]

The most effective remedy for international trade barriers would have been for the United States to unilaterally lower tariff rates. Hull's congressional experience, however, had convinced him that once tariff revision began, special interests would take over and the result would be much the same as the Smoot-Hawley Tariff of 1930. Therefore, he recommended that Congress entrust the responsibility for tariff reduction to the executive branch. Hull's bill proposed that Congress authorize the President to negotiate bilateral trade agreements incorporating both reciprocity and the most-favored-nation status, which meant that, as Hull put it: "any reduced duties were to apply to all foreign countries alike. If any country, however, discriminated against our commerce, the lowered duties need not apply." [10]

The administration unveiled Hull's draft at the White House on February 28, 1934, before a group of congressional leaders that included Chairman Doughton of the Committee on Ways and Means. The President, according to Hull, stressed the importance of reviving American exports and international trade in order to promote "a full and permanent domestic recovery." A bill was sent to Congress in early March. Secretary Hull testified before both House and Senate committees. In stark contrast to the protracted hearings on the Smoot-Hawley bill, the Committee on Ways and Means heard only 17 witnesses in just one week. The executive mark-up session included both majority and minority party members, unlike the case in 1930 when the minority had been excluded. The majority report voted out of committee on March 19 adopted the administration plan virtually unchanged. The Republican members, however, issued a strong minority report criticizing the bill because it set no time limit upon the President's authority to negotiate trade agreements and because in their opinion it violated the Constitution. According to the bill's critics, it delegated to the President the authority of Congress to tax and the Senate's power of treaty ratification. Hull had anticipated the latter objection. The administration had decided that trade agreements would not be considered as treaties but rather as executive agreements that did not require congressional approval. The administration had similarly rejected any legislative veto of trade agreements that would have interfered with the executive's ability to negotiate.

The criticism of the trade bill carried over to floor debate, where House Democrats accepted a series of compromise amendments. The most important amendment limited the President's negotiating authority to three years. Another amendment provided that any agree-

Great Depression victims: A jobless father holds tight to his child as police lead him from the scene of a demonstration in Washington, DC. Hundreds of out-of-work protestors seeking government relief clashed with police in a melee known as the Unemployment Riot of 1933. Earlier, in the December cold of 1932, hunger marchers (right) line up outside the U.S. Capitol. They waited under the watchful glare of armed police as delegates presented their demands for aid to Speaker John N. Garner and Vice President Charles Curtis. Provisions of the Social Security Act, such as unemployment insurance, directly addressed the concerns of these workers.

ment could be terminated after three years. The bill passed the House on March 29 by a 274–111 vote. The Senate passed the bill on June 4, and President Roosevelt signed it on June 12, 1934.

The Reciprocal Trade Agreements Act of 1934 was actually an amendment to the existing Smoot-Hawley Tariff Act. The new law authorized the President to negotiate bilateral trade agreements to raise or lower the existing tariff rates by as much as 50 percent. However, as Hull observed, "it was obvious we would reduce them, since no other country would sign an agreement to increase our tariffs." [11] The law marked a turning point in tariff history—one tariff scholar referred to it at the time as "a revolution in tariff making." [12] Congress delegated to the executive branch the authority over rate-setting that it had jealously guarded for 150 years. The Democratic majority on the Committee on Ways and Means, as well as that in Congress, recognized that trade in the interdependent 20th-century economy was a foreign policy issue even more than a domestic consideration.

The Revenue Act of 1934 and the Wealth Tax of 1935

The trade act, while closely adhering to the proposal drawn up by the administration, also revealed the crumbling bipartisan coalition on the committee. The revival of partisanship continued during consideration of the Revenue Act of 1934, which resulted more from the commit-

tee's initiative than that of the administration. A subcommittee of the Committee on Ways and Means had undertaken a study of tax evasion the previous year. The subcommittee's recommendations were mainly concerned with technical adjustments to revenue administration, designed to plug some loopholes in the existing law. The Secretary of the Treasury, Henry Morgenthau, Jr., objected to most of the committee's proposals. The House, however, passed the committee bill unamended. Under the Revenue Act of 1934, a single rate of 4 percent was established for the normal tax, and surtax rates were revised in a slightly progressive manner. The most controversial provision was a 35 percent tax on the undistributed profits of personal holding companies—companies established to accumulate earnings as a means to avoid the income tax surtax rates. (The committee called these companies "incorporated pocketbooks.")[13]

After the 1934 congressional elections, the Democrats commanded a 319–103 majority, and the committee's membership shifted to 18–7 to reflect the larger House majority. During the Seventy-fourth Congress, the Committee on Ways and Means reported five major bills, drafted by a caucus of the majority members, which excluded the Republican minority. In fact, for the next four years the Committee on Ways and Means was dominated by the Democratic majority. Committee Democrats ignored the Republican members. "We do not want their advice," one Democrat observed in 1938, "because we know they are going to stick a knife in our Democratic backs every time they can on everything we propose."[14] Republican members were outraged, charging that the majority developed bills in caucus and then simply informed the minority of their actions. Republican members were literally locked out of the committee's proceedings. Ranking minority member Treadway made it a practice to knock every morning on the committee door, "only to find it locked and to hear the buzz of voices in heated argument within."[15] Only after the Democratic members had reached agreement were the Republicans asked in to be notified of the committee's decisions.

The most serious controversy engendered by a committee bill during this Congress occurred over the Wealth Tax of 1935. In response to criticism that the New Deal was not doing enough to redistribute wealth in the United States, FDR unveiled a comprehensive tax reform plan. In a message to Congress in June 1935, the President criticized the existing revenue system and proposed reforms to increase taxes on upper income taxpayers. The President surprised Congress by charging that the revenue system had "done little to prevent an unjust concentration of wealth and economic power."[16] His solution was the so-called Wealth Tax. As written by the Committee on Ways and Means and reported by Chairman Doughton, the bill proposed to create a more equitable tax system through progressive corporate, inheritance, and income taxes. The final bill, approved by Congress on August 30, 1935, increased surtax rates on individual incomes exceeding $50,000 and individual estates of over $40,000. In addition, it imposed a 59 percent rate on individual incomes above one million dollars, graduated to a maximum rate of 75 percent on incomes exceeding five million dollars. The act also raised estate and gift taxes, while rates on all corporate incomes were raised to 15 percent. Finally, an excess profits tax was levied on profits exceeding 10 percent. This tax was graduated to a maximum rate of 12 percent on corporate profits in excess of the 15 percent nontaxable profits rate allowed by the statute.[17]

The Republicans on the Committee on Ways and Means strenuously opposed the Wealth Tax Act. Treadway called it a "monstrosity." The statute also alienated many conservative House Democrats, who were disturbed by the implications of the bill but who reluctantly supported it because of the heavy pressure applied by the White House and the House majority leadership.

The Social Security Act of 1935

In spite of the growing congressional opposition to the New Deal, Chairman Doughton managed to maintain party discipline within the Committee on Ways and Means on measures requested by the Roosevelt Administration. The most important committee legislation during

Minutes of a Ways and Means executive session on April 5, 1935, record the committee's deliberations over a proposed Social Security bill. President Roosevelt in the summer of 1934 had called for legislation that would provide "security against several of the great disturbing factors in life—especially those which relate to unemployment and old age." Interestingly, this Ways and Means document shows that seven committee members supported a motion to strike Title II of the proposed bill, dealing with old-age benefits. A majority, including Chairman Doughton, rejected the motion. A second motion to favorably report H.R. 7260 found members in the same camps, and the motion was adopted.

April 5, 1935

81

Pursuant to the call of the Chairman the Committee met this day at 10 a. m.

Absent: Messrs. McCormack, Fuller, Lamneck and Crowther.

The Committee had under consideration H. R. 7260, the Economic Security bill as redrafted and re-introduced.

Mr. Cooper moved that H. R. 7260 be favorably reported and that the Chairman be authorized to use all parliamentary means to expedite its passage in the House.

Mr. Jenkins moved, as an amendment to Mr. Cooper's motion to strike Titles II and VIII from the bill.

The motion of Mr. Jenkins was put and rejected, seven Ayes to sixteen Noes, as follows:

Ayes	Noes	
Treadway	Hill	Boehne
Bacharach	Cullen	*Fuller
*Crowther	Sullivan	Buck
Knutson	Sanders	Duncan
Reed	*McCormack	Thompson
Woodruff	Lewis	Brooks
Jenkins	Vinson	Dingell
	Cooper	Doughton

* By Proxy

Mr. Dingell moved that voluntary annuities as outlined in the first redraft of H. R. 4120 be reinstated in the bill.

Mr. Dingell withdrew his motion.

Mr. Cooper's motion to favorably report H. R. 7260 was put and adopted, seventeen Ayes; Noes, none; with seven voting Present, as follows:

Ayes		Noes	Present
Hill	*Fuller	None	Treadway
Cullen	*Disney		Bacharach
Sullivan	Buck		*Crowther
Sanders	Duncan		Knutson
*McCormack	Thompson		Reed
Lewis	Brooks		Woodruff
Vinson	Dingell		Jenkins
Cooper	Doughton		
Boehne			

* By Proxy

The Committee discussed the advisability of making an adverse report on H. R. 3977, the McGroarty bill, being the bill providing for the Townsend Old Age Revolving Fund. No action was taken in this matter.

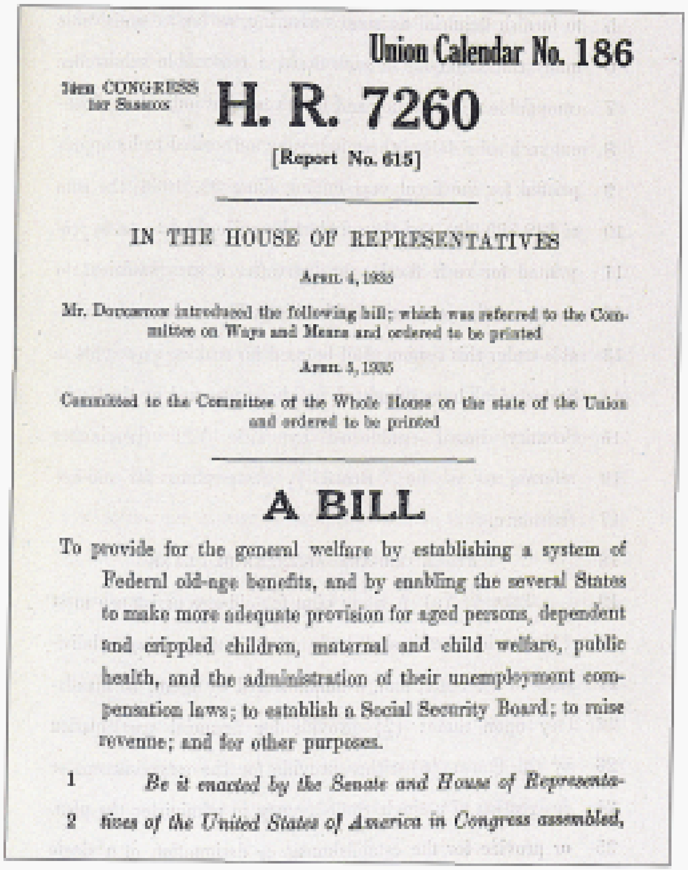
Mr. Vinson moved that the Chairman be authorized to ask the Committee on Rules for 20 hours general debate on H. R. 7260.

The motion was adopted.

Thereupon, upon motion of Mr. Vinson, the Committee adjourned at 11 a. m., to meet again upon the call of the Chairman.

E. W. L. Huffman

Clerk.



Union Calendar No. 186

74th CONGRESS
1st Session

H. R. 7260

[Report No. 615]

IN THE HOUSE OF REPRESENTATIVES

April 4, 1935

Mr. Doughton introduced the following bill; which was referred to the Committee on Ways and Means and ordered to be printed

April 5, 1935

Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

A BILL

To provide for the general welfare by establishing a system of Federal old-age benefits, and by enabling the several States to make more adequate provision for aged persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws; to establish a Social Security Board; to raise revenue; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

H.R. 7260 cleared the House without amendment on April 19, 1935, and by early August the House and Senate reached a compromise on the measure. With Chairman Doughton at his side, President Roosevelt (right) signs the Social Security Act into law on August 14. At rear, directly behind the President, is committee member John D. Dingle (D–MI). The measure, originally entitled the Economic Security Act, transferred to the federal government functions that had once been the responsibility of families and of state and local governments. In addition to the retirement program, now known as Social Security, the act also created unemployment and welfare programs to assist workers and children in need.

the Seventy-fourth Congress was the Social Security Act of 1935, even though the principal impetus for the legislation came from sources outside the committee.

The Social Security Act developed from several sources. By the 1930s, every major European nation had adopted the concept of social insurance in some form. Private pension plans in the United States had proved inadequate in the face of the Depression; some 45 plans were discontinued between 1929 and 1932. Moreover, several utopian social welfare schemes had captured the public's imagination. Socialist Upton Sinclair had campaigned for governor of California on a platform of a $50 pension for all state residents. Senator Huey P. "Kingfish" Long of Louisiana advocated a radical Share-Our-Wealth Plan to redistribute income by confiscatory taxes upon the surplus wealth of the richest Americans. Dr. Francis E. Townsend, an elderly California physician, became extremely popular with his plan to provide $200 monthly pensions to all persons over 60 provided that the money was spent within 30 days.[18]

In 1934, Senator Robert F. Wagner (D-NY) and Representative David J. Lewis (D-MD), a member of the committee, introduced a bill to provide unemployment insurance financed by a 5 percent payroll tax. The bill was endorsed by administration officials in hearings

before a subcommittee of the Committee on Ways and Means, but the subcommittee reported the bill to the full committee with no recommendations for action. Although FDR wrote to Doughton requesting that the measure be passed, the Wagner-Lewis bill died in committee.

Impressed by arguments that a more comprehensive measure incorporating both old age assistance and unemployment insurance was needed, the President delivered a Special Message on Reconstruction and Recovery on June 8, 1934, in which he stated:

> Next winter we may well undertake the great task of furthering the security of the citizen and his family through social insurance. . . . The various types of social insurance are interrelated; and I think it is difficult to attempt to solve them piecemeal. Hence, I am looking for a sound means which I can recommend to provide at once security against several of the great disturbing factors in life—especially those which relate to unemployment and old age.[19]

Three weeks later the President appointed a Cabinet-level Committee on Economic Security (CES) to report recommendations on social insurance. The committee's report of January 15, 1935, formed the basis for the Social Security Act of 1935.

Although the Committee on Economic Security's report was accompanied by a draft bill, the question of who would introduce the bill in Congress caused some concern. Senator Wagner was given the privilege in the Senate, but the President was advised by Speaker Byrns that Chairman Doughton wanted the honor of introducing the bill in the House. The bill was introduced in such haste that Doughton had to procure a copy of Wagner's Senate bill to place before the House. The Committee on Ways and Means then scheduled hearings to begin on January 21, one day before the Senate Finance Committee's hearings.[20]

The hearings began with testimony from the executive director and members of the CES, including Labor Secretary Frances Perkins. After the government witnesses had explained and defended the provisions of their draft bill, the committee heard critics of the plan, including Dr. Townsend and his supporters. The Townsendites received by far the greatest public attention as they tried to offer their plan as an alternative to the administration's recommendations on old age security. Doughton accorded the witnesses ample courtesy, but the committee subjected them to piercing cross examination to discredit Townsend's fanciful scheme.[21]

The committee began consideration of the bill in earnest after the hearings ended on February 12. In some 20 executive sessions of the entire committee, the bill was considered word-by-word. Part of the reason for the committee's deliberate approach was the need to redraft the bill's language. The CES had originally written sections into the bill that made appropriations for various purposes, rather than authorizing appropriations. Consequently, Chairman Doughton instructed the chief draftsman of the House to rewrite the bill, which he did in a typically thorough, diligent, and tedious bureaucratic manner. More serious, however, was the fact that many members of the committee were opposed to, or uncertain about, the old age provisions. President Roosevelt declined to actively intervene, making it necessary for the chairman to slowly build support for the bill. Doughton utilized his popularity and fairness to postpone action, finally making a compromise possible. The original draft had provided for both voluntary and compulsory old age annuities. By agreeing to drop the voluntary provision, the bill's supporters were able to obtain support for the passage of the compulsory insurance title.

The bill that emerged from the committee was significantly rearranged and rewritten. Previously known as the Economic Security Act, it was now renamed the Social Security Act. The committee's favorable report was made on April 5, and House debate began six days later under an open rule. The committee had requested the usual closed rule to limit debate and amendment, but the Rules Committee refused in order to maintain the appearance that members favorable to the Townsend plan would be free to amend the bill. Behind the scenes, however, the House Democratic leadership had moved to insure that the bill would not be amended. Although approximately

The Ways and Means Committee holds new hearings on Social Security in March 1939. Expert witnesses testified before the committee on the merits of extending benefits beyond those provided in the original act. Ways and Means reported a bill favoring an amendment of Title II to include protection for survivors upon the death of the wage earner and to certain dependents. President Roosevelt signed the new law on August 10, 1939.

50 amendments were offered, none were adopted. The bill passed the House on April 19. Differences between the House and Senate were ironed out in early August, and President Roosevelt signed the Social Security Act on August 14, 1935.

The Social Security Act transferred to the federal government functions that once had been the responsibility of families and of state and local governments. The two major provisions of the law were designed to protect older Americans. Under Title I of the act, Congress appropriated nearly 50 million dollars to enable the states "to furnish financial assistance . . . to aged needy individuals." Title II created an Old-Age Reserve Fund to finance old age insurance through a one-percent payroll tax on employers and employees. Farmers, domestic workers, the self-employed, teachers, some professionals, and government employees were excluded from coverage. Over 9 million workers were not covered by the initial provisions of Social Security. Several other titles addressed the problems confronting other age groups, such as unemployment compensation (Titles III and IX), aid to families with dependent children (Title IV), relief for the blind (Title X), and grants for state maternal and child welfare programs (Title V).

On signing the bill, President Roosevelt was cautiously optimistic—perhaps more cautious than optimistic. He reminded the public that "We can never insure one hundred percent of the population

Ida Fuller of Ludlow, Vermont, was Social Security's first retirement beneficiary. She received her first check, numbered 000–00–001 and payable for $22.54, on January 31, 1940. She is shown here at age 76, in October 1950, with a check that reflects the first-ever increase in monthly benefits, which resulted from the Social Security Amendments of 1950. Her increase was $18.75. In all, she received benefits for 35 years, living to age 100.

against one hundred percent of the hazards and vicissitudes of life." Social Security, he believed, was "too precious to be jeopardized now by extravagant action." [22]

The Revenue Acts of 1936–1939

After passage of the Social Security Act of 1935, the committee focused once more on tax issues. When the Seventy-fifth Congress convened, the Democrats had commanding majorities in the House (331–89) and the Senate (76–16). Party representation on the Committee on Ways and Means remained at 18–7. FDR was dealt a severe blow in January 1936 when the Supreme Court declared the Agricultural Adjustment Act of 1933 unconstitutional. One of the provisions of the act had been to subsidize farm production through excise taxes levied on the processors of specified farm products. The court's action deprived the government of 500 million dollars in revenue. On March 3, 1936, Roosevelt called for new taxes to produce over one billion dollars in additional revenues through the imposition of three new taxes: 1) a windfall profits tax, 2) a temporary agricultural products processing tax, and 3) a graduated tax upon undistributed corporate income.

FDR's proposals were immediately attacked by business leaders, by Republicans, and by conservative congressional Democrats. On March 26, 1936, the Internal Revenue Subcommittee of the Committee on Ways and Means began public hearings and later submitted a report closely patterned on President Roosevelt's requests. The document contained a proposal for a graduated undistributed corporate profits tax at a maximum rate of 42.5 percent for corporations whose net incomes exceeded $70,000. On March 30 the full committee began hearings on the subcommittee report. After hearing testimony from the Treasury Department and the Internal Revenue Service, the committee majority reported a bill containing the undistributed profits tax and a windfall profits tax. The opinion of the majority was countered by a minority report listing its objections, but the House accepted the bill with little debate.

The House revenue bill of 1936 ran into trouble in the Senate. After holding its own hearings, the Senate Finance Committee issued a majority report opposing the House measure on the grounds that it would limit the growth of new corporations, cause unemployment, and diminish the confidence of the business community in the federal government. The Finance Committee proposed a substitute tax plan increasing the standard corporate tax rate while lowering the undistributed profits tax to a maximum rate of 7 percent. After three days of discussion, the Senate approved the Finance Committee's version of the House bill by a vote of 38–24. The conference committee's compromise reflected the House's desire to tax undistributed profits and the Senate's wish to retain a graduated corporate earnings tax. The Revenue Act of 1936, approved on June 22, levied the undistributed profits tax and imposed surtaxes ranging from 7 to 27 percent on corporate incomes. [23]

After creating the new tax system, the Committee on Ways and Means considered how best to enforce it. On June 1, 1937, the President sent a message to Congress citing the imperative problem of tax evasion and requesting legislation to make "the present tax structure evasion-proof." [24] Shortly thereafter Congress created a Joint Committee on Tax Evasion and Avoidance, which held hearings until July 28, and submitted a report explaining the loopholes that wealthy Americans used to avoid paying taxes. On August 26, the President signed the Revenue Act of 1937. Written as an amendment to the 1936 law, the new measure closed several loopholes that had permitted corporate and individual evasion. Meanwhile, the Committee on Ways and Means' Subcommittee on Internal Revenue Taxation, chaired by Fred M. Vinson (D-KY), was considering additional substantive changes in the internal revenue system.

Vinson's subcommittee submitted its report to the full committee on January 14, 1938. This document contained a wide variety of recommendations on corporate taxes, holding companies, capital gains and losses, excises, and estate and gift taxes, as well as suggestions for the administration of the tax system. In addition, the subcommittee proposed a substantial modification of the undistributed profits tax, the most controversial feature of the 1936 Revenue Act. In subsequent full committee hearings, the bulk of testimony delivered principally by lobbyists and by members of the business community was unfavorable to the continuation of the undistributed profits tax. The committee was unimpressed with such testimony and retained the tax in its version of the new revenue bill.

The Senate Finance Committee urged the abandonment of the tax altogether, and adopted flat corporate taxes as a substitute measure. The final conference committee bill curtailed the undistributed profits tax and also reduced capital gains taxes. The President disapproved of this tax break for large corporations, but he did not veto the conference measure. At midnight on May 28, the Revenue Act of 1938 became law without the President's signature. One year later, Congress repealed the undistributed profits tax.

The Democratic majority on the Committee on Ways and Means had been able to write revenue legislation with little regard for the Republican minority prior to 1939. But the Democrats suffered severe losses in the midterm congressional elections in 1938. One factor that hurt Democratic candidates was Roosevelt's unpopular attempt to pack the Supreme Court by adding as many as six new justices in order to alter its conservative anti-New Deal philosophy; another negative factor was a sharp economic recession that began in 1937. Republicans gained a total of 76 seats in the House and the Senate, bringing the House totals to 261 Democrats and 164 Republicans. Membership on the Committee on Ways and Means was restored to the usual 15–10 ratio. The relationship between Republicans and Democrats on the committee was relatively free from partisanship during the Seventy-sixth Congress as the conservative coalition of Southern Democrats and Republicans emerged. The committee reported three important pieces of legislation: 1) the Revenue Act of 1939, which abolished the undistributed profits tax, 2) the Public Salary Tax Act, and 3) a bill to amend the Social Security Act of 1935. These bills were hammered out in executive sessions now attended by members of both parties, and were passed by the House and the Senate without significant controversy. The Public Salary Tax Act extended the income tax to federal, state, and local judges, and to federal judges who had taken the oath of office before 1932. However, the impact of both it and the Revenue Act of 1939 were relatively minor compared to the major expansion of the Social Security system enacted in 1939.[25]

Ways and Means Chairman Doughton, right, Speaker Joseph Byrns, left, and Senate Finance Chairman Pat Harrison leave a White House meeting concerning federal revenues in February 1936. A month earlier, the Supreme Court had struck down a farm tax law, severely crippling federal revenues. In March, the President called for a controversial tax program to raise more than a billion dollars in additional revenues. The unity welded by the hard times of the early 1930s began to break apart at mid-decade. The rift between New Deal liberals and fiscal conservatives made the passage of the Revenue Act of 1936 difficult.

The Social Security Amendments of 1939

President Roosevelt believed that once the Social Security system of payroll taxes and old-age assistance had gone into operation, "no damn politician can ever scrap my social security program." [26] Public acceptance of the system seemed to reinforce the President's conclusion. In 1937, for example, a Gallup poll determined that 73 percent of those questioned supported the payroll tax. Yet Social Security was not without its critics on both the left and the right. Dr. Townsend's scheme continued to attract millions of supporters. In California, some 80 different old age welfare plans were developed between 1936 and 1938. During the 1936 presidential campaign, Republican candidate Alfred Landon attacked Social Security as a "cruel hoax." To Republican critics, Roosevelt's New Deal programs not only aggrandized federal power, but they also mortgaged the nation's economic future. Social Security was particularly unsound, "unjust, unworkable, stupidly drafted and wastefully financed." Landon warned: "If the present compulsory insurance program remains in force, our old people are only too apt to find the cupboard bare." [27]

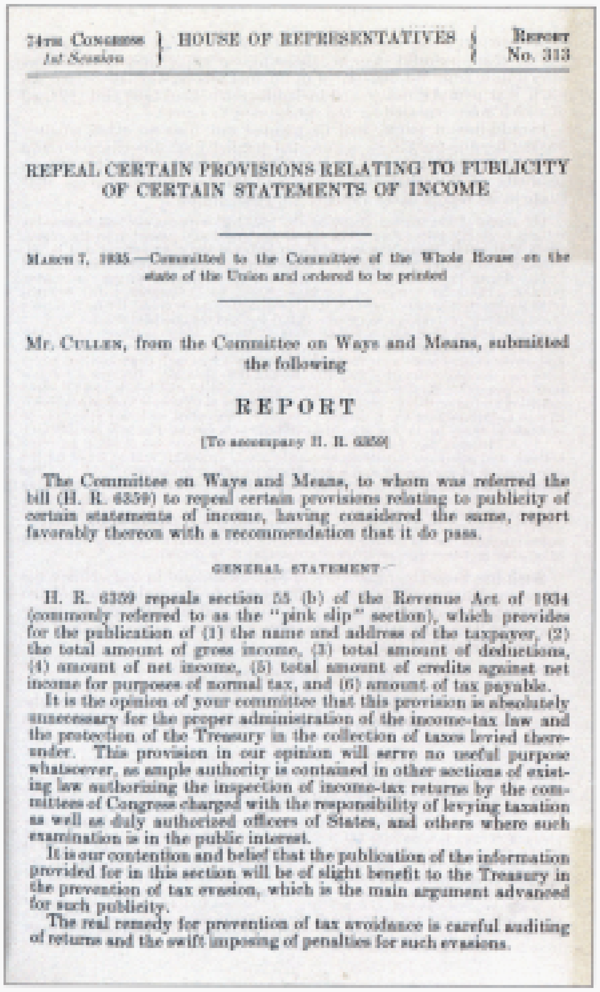
At the suggestion of Arthur J. Altmeyer, the chairman of the Social Security Board, President Roosevelt named an advisory council to recommend changes in the system as a means to defuse mounting criticism. "I think it not only possible to offset these attacks," Altmeyer wrote, ". . . but really to use them to advance a socially desira-

ble program." [28] The thrust of the advisory council's report was that benefits should be increased and that the system should expand to include the survivors and dependents of retired workers. The President's message on Social Security was transmitted to Congress on January 16, 1939. The message was referred to Doughton's Committee on Ways and Means, which held hearings from February 1 to April 2. In contrast to the haste with which the original act had been considered in 1935, the committee heard 188 witnesses and took 2,500 pages of testimony.

The bill drafted in executive session was a bipartisan product. Chairman Doughton said that, "This is the first bill of this magnitude . . . and of such controversial a nature, to be free from any evidence whatever, the least trace of partisanship." [29] The legislative process nonetheless was a slow one. The committee considered the bill for over a month in mark-up sessions attended by representatives of the Social Security Board, the Joint Committee on Internal Revenue Taxation, and the Legislative Counsel. When the committee bill was readied for introduction to the House, the minority appended only an eight-page minority report that was submitted "not in opposition to the pending bill, but supplemental to the committee report." Although the bill was not perfect in their opinion, the minority observed that "it at least makes certain improvements . . . which we believe justify us in supporting it despite its defects." [30]

With the unanimity of committee support, the bill breezed through the House. Committee members were able to defeat all but four of the 42 amendments offered on the floor. The four amendments adopted were all committee-approved changes of a clarifying nature. The House voted 364–2 on June 10 to pass the bill as amendments to the Social Security Act of 1935. The Senate passed the bill with slight changes on July 13. The conference committee report was

"Sucker-list" salesmen (left) pour over a register on a table in the Ways and Means committee room in 1936. The book contained the names of every corporate employee in the nation whose salary was $15,000 or more. Ways and Means prohibited anyone from removing the book from the room. The sensitive volume, however, was public record and was the most eagerly read book in the Capitol. Such a listing indicates Congress' focus on corporate incomes and profits during the late 1930s. Concerned about invasion of privacy, a Ways and Means report (right) recommends repeal of the section in the 1934 Revenue Act that allowed public disclosure of taxpayers' names, addresses, and annual salaries.



74th Congress, 1st Session | HOUSE OF REPRESENTATIVES | Report No. 313

REPEAL CERTAIN PROVISIONS RELATING TO PUBLICITY OF CERTAIN STATEMENTS OF INCOME

March 7, 1935.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. Cullen, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 6359]

The Committee on Ways and Means, to whom was referred the bill (H. R. 6359) to repeal certain provisions relating to publicity of certain statements of income, having considered the same, report favorably thereon with a recommendation that it do pass.

GENERAL STATEMENT

H. R. 6359 repeals section 55 (b) of the Revenue Act of 1934 (commonly referred to as the "pink slip" section), which provides for the publication of (1) the name and address of the taxpayer, (2) the total amount of gross income, (3) total amount of deductions, (4) amount of net income, (5) total amount of credits against net income for purposes of normal tax, and (6) amount of tax payable.

It is the opinion of your committee that this provision is absolutely unnecessary for the proper administration of the income-tax law and the protection of the Treasury in the collection of taxes levied thereunder. This provision in our opinion will serve no useful purpose whatsoever, as ample authority is contained in other sections of existing law authorizing the inspection of income-tax returns by the committees of Congress charged with the responsibility of levying taxation as well as duly authorized officers of States, and others where such examination is in the public interest.

It is our contention and belief that the publication of the information provided for in this section will be of slight benefit to the Treasury in the prevention of tax evasion, which is the main argument advanced for such publicity.

The real remedy for prevention of tax avoidance is careful auditing of returns and the swift imposing of penalties for such evasions.

agreed to by both Houses early in the following month, and the President signed the bill on August 10, 1939.[31]

In House debate, John W. McCormack (D-MA), a member of the Committee on Ways and Means, defended the Social Security Amendments of 1939 on the grounds of family stability. "Safeguarding the family against economic hazards is one of the major purposes of modern social legislation," he argued. The amendments stressed the insurance aspects of Social Security because so many conservative critics feared the advent of a welfare state. The payroll tax was rechristened "insurance contributions" under the Federal Insurance Contributions Act (FICA) as part of the Internal Revenue Code. The Old-Age Reserve Account became the Old-Age and Survivors Insurance (OASI) Trust Fund. The act increased benefits to be paid in the early years of the program by changing the benefit formula to average rather than total earnings. (The total earnings of workers since 1935 who were eligible for the first benefits in 1940 would, of course, have been much less than that of workers who retired in later years.) But the most notable change was the addition of monthly benefit payments for a whole set of survivors and dependents: wives, widows, widows with children, dependent children, and surviving children.[32]

The 1939 amendments accomplished the purpose of strengthening public acceptance of the Social Security system. As benefits expanded, the level of public support grew as the President had predicted. "We shall make the most orderly progress," Roosevelt believed, "if we look upon social security as a development toward a goal rather than a finished product."[33] Eleven years later, the Social Security Amendments of 1950 greatly increased the number of workers who were insured for benefits, and provided the first benefit increase in the program's history. The Disability Amendments of 1956 expanded the system by authorizing a permanent disability insurance program.[34]

Social Security was a major innovation within the jurisdiction of the Committee on Ways and Means during the New Deal. An emerging conservative coalition, however, had frustrated the administration's attempts to make major structural changes in the tax code. Both a federal inheritance tax and the undistributed profits tax failed to become permanent, leaving excise taxes and corporate and individual income taxes as the chief sources of federal revenue. Excise taxes on items such as alcoholic beverages and tobacco amounted to more total receipts between 1933–1937 than did income taxes. Only in 1938 did income taxes (2.6 billion dollars) exceed excise receipts (2.3 billion dollars).[35]

World War II Revenue Legislation

New Deal recovery and revenue measures failed to lift the nation out of the Depression. But the vastly increased government spending and economic growth during World War II not only restored prosperity, they also stimulated a major expansion of the federal income tax system. Corporate and personal income taxes emerged from the war as the dominant form of federal revenue. In 1941, personal income taxes had amounted to 1.4 billion dollars, corporate income taxes 2 billion dollars, and internal revenue (excise) taxes nearly 3 billion dollars. Receipts from customs duties were understandably low throughout the war, never rising above 431 million dollars. By 1945, as a result of increased wartime revenue acts, personal income taxes had skyrocketed to over 19 billion dollars and corporate taxes to over 16 billion dollars, far overshadowing the 6.9 billion dollars derived from increased excises.[36]

In spite of increased taxes, revenue growth failed to keep pace with the accelerated expansion of wartime spending. Total governmental expenditures rose dramatically, from 12.7 billion dollars in

PARTY RATIOS IN THE COMMITTEE AND THE HOUSE
1933–1959

CONGRESS	COMMITTEE	HOUSE	PRESIDENT
Seventy-third (1933–1935)	15 D–10 R	310 D–117 R [5]	Roosevelt, F. (D)
Seventy-fourth (1935–1937)	18 D–7 R	319 D–103 R [10]	
Seventy-fifth (1937–1939)	18 D–7 R	331 D–89 R [13]	
Seventy-sixth (1939–1941)	15 D–10 R	261 D–164 R [4]	
Seventy-seventh (1941–1943)	15 D–10 R	268 D–162 R [5]	
Seventy-eighth (1943–1945)	15 D–10 R	218 D–208 R [4]	
Seventy-ninth (1945–1947)	15 D–10 R	242 D–190 R [2]	Truman (D)
Eightieth (1947–1949)	15 R–10 D	245 R–188 D [1]	
Eighty-first (1949–1951)	15 D–10 R	263 D–171 R [1]	
Eighty-second (1951–1953)	15 D–10 R	234 D–199 R [1]	
Eighty-third (1953–1955)	15 R–10 D	221 R–211 D [1]	Eisenhower (R)
Eighty-fourth (1955–1957)	15 D–10 R	232 D–203 R	
Eighty-fifth (1957–1959)	15 D–10 R	233 D–200 R	

R—Republican D—Democrat

[Numbers in brackets refer to independents or members of third parties.]

1941 to over 100 billion dollars by 1945. Revenue receipts during the war financed only 46 percent of expenditures, less than the 55 percent figure of World War I. As the case had been in earlier wars, the nation financed World War II through a combination of increased taxation and borrowing. Between November 1942 and December 1945, Congress authorized seven war-loan drives and the final Victory loan. However, the most important revenue measures were the four major tax bills reported from the Committee on Ways and Means. These revenue bills increased personal and corporate income taxes, reinstated an excess profits tax modeled on that of World War I, and authorized the withholding of income taxes through payroll deductions.

Most tax bills reported from the committee during World War II were considered on the House floor under closed rules that limited debate and amendment. This type of rule was bitterly opposed at times, but its proponents justified closed rules on the grounds of the technical nature of the bills, and on the urgency to provide revenue for the war effort. Leland M. Ford (R-CA), for example, complained of bills "conceived in speed." Committee member Wesley E. Disney (D-OK) admitted that the bills were reported from the Committee on Ways and Means "somewhat in the attitude of the sign which was placed over the piano in a dance hall in Dodge City in the roaring days, that stated, 'Don't shoot the piano player, he is doing the best he can.' " [37]

However, under Chairman Doughton's resolute leadership, the "best the committee could do" did not include blind acceptance of presidential tax proposals. Even the need for prompt action did not, in most cases, persuade the chairman to accept simple solutions for complicated tax questions. Doughton's philosophy was that, "Our taxes must follow the intricacies of business and not attempt to bend business to the pattern of simplicity we should all like to see in taxation." [38] Thus the committee did not hesitate to modify or even to reject administration proposals. The committee's independence was partially responsible for creating the first revenue bill ever to be vetoed by the President—the Revenue Act of 1943—which afterwards became the first revenue bill ever passed over a presidential veto.

The committee and the administration began their consideration of war finance policy in a spirit of cooperation. The first wartime revenue measure was adopted in 1940 as a temporary expedient to meet increased defense expenditures in the wake of Nazi Germany's alarming victories in Europe. Even though the United States would not enter the war until December 1941, the need for military preparedness led President Roosevelt to request 1.2 billion dollars for defense spending. Chairman Doughton and Senate Finance Committee Chairman Pat Harrison (D-MS) met with Secretary Morgenthau in late May and agreed to levy additional taxes and to increase the national debt authorization in order to issue war bonds. The committee bill was considered under a closed rule and passed on June 11 by an overwhelming 396–6 margin. The only opposition expressed in debate concerned increasing the public debt limit. Daniel Reed (R-NY), fourth-ranking minority member on the Committee on Ways and Means, criticized the administration's proposal as an example of the deficit financing, pump-priming scheme advocated by British economist John Maynard Keynes.[39]

Although the Senate adopted a floor amendment by Robert La-Follette of Wisconsin that provided for an excess profits tax, the con-

Members of a Ways and Means tax subcommittee gather on August 7, 1940. That year, alarming news of Nazi Germany's victories in Europe spurred Congress to increase defense expenditures. After this meeting, manufacturers got word to move ahead on federal contracts with the assurance that Congress would approve a plan to write off the cost of plant expansion over five years. Four months later, the U.S. entered World War II.

ference committee rejected the amendment in favor of a resolution stating that an excess profits tax "should be enacted as soon as possible."[40] Doughton's committee had previously concluded that preparation of an excess profits tax would have unnecessarily delayed passage of the revenue bill. The committee majority had instructed its staff and the Treasury Department to prepare plans for such a tax as quickly as possible for subsequent consideration.

Signed by the President on June 25, this first Revenue Act of 1940 raised the federal debt limit to four billion dollars in order to authorize the issuance of defense bonds. The act provided revenue to pay off these bonds over a five-year period by increasing federal surtaxes on most individual income tax brackets and by imposing a defense supertax of 10 percent on most existing internal revenue taxes. Personal exemptions for married and single persons were reduced by 60 percent. Corporate tax rates were only slightly increased, pending the consideration of an excess profits tax. The act also raised excise taxes on distilled spirits, wines, cigarettes, and playing cards—a time-honored means of raising war revenue.

In the fall of 1940, the Committee on Ways and Means reported a second revenue bill that incorporated the excess profits tax postponed from the spring. The bill followed joint hearings in August between the House committee and the Senate Finance Committee. The bill lessened the impact of excess profits taxation on defense industries by including a complex amortization provision. The committee had been advised that private capital would not be invested in defense unless corporations were allowed to amortize new facilities over a shorter period than that permitted under existing regulations. The bill permitted defense industries to write off the cost of new land, buildings, equipment, and machinery over a five-year period.

The costs of World War II hit taxpayers hard, the point of these editorial cartoons. Congress spent ten times more than it had during World War I. Forty percent of the money came from four major revenue bills passed between 1940 and 1944. The measures added more citizens to the tax rolls and increased the rates at which they had to pay. A national sales tax, depicted in the far-right cartoon, never passed. But a 5 percent "Victory Tax" on gross incomes over $624 did. FDR and Congress gradually grew at odds over tax measures. The Revenue Act of 1943 brought the conflict to a head, implied by the center drawing. FDR vetoed the bill, but Congress overrode the veto, the first such action on a revenue measure in U.S. history.

The second revenue bill of 1940 was also considered under a closed rule. Several members objected to the haste with which the bill had been prepared, but most criticism centered on the complexity of the excess profits and amortization provisions. Allen T. Treadway, ranking minority member on the Committee on Ways and Means, said that the bill was "a monumental specimen of statutory incomprehensibility." Chairman Doughton defended the bill's complexity: "A simple statute which would be adequate to tax equitably the corner grocery store simply will not work when applied to the United States Steel Corporation." [41]

Much of the complexity and much of the disagreement over the bill concerned the manner in which excess profits were to be determined. Two methods were considered: 1) the average-earnings method, which considered earnings in a given tax year above the average earnings during the period 1936–1939 to be taxable excess profits due to defense spending, and 2) the invested capital method, which defined excess profits in relation either to an arbitrary profit-to-investment ratio or to returns on capital in a base period such as 1936–1939. The House bill gave taxpayers a choice between the two methods. The conference committee version imposed an excess profits tax with graduated rates up to 50 percent. Corporations could determine

their tax credit through a complex formula of earnings, capital addition or reduction, and invested capital. Senator Arthur Vandenberg (R-MI) predicted that it would take "a Philadelphia lawyer, a certified public accountant, and an extraordinarily clever crystal gazer" to understand the bill.[42] Moreover, the bill failed to achieve its objective. According to testimony presented to the committee in 1941, one company with 1940 profits of over 3,000 percent above those of 1939 was subject to no excess profits tax.

Defense expenditures continued to mount in early 1941 when FDR signed the Lend-Lease Act to provide arms for Great Britain. In testimony before the Committee on Ways and Means in May, Secretary Morgenthau projected a deficit of 14 billion dollars. He also stated that it was the administration's goal to finance two-thirds of expenditures through taxes and only one-third through borrowing. The committee reported a bill in July that proposed to raise taxes by 3.5 billion dollars in order to bring total revenues to 13 billion dollars, or 60 percent of anticipated expenditures. The bill recommended raising all major taxes, from personal income surtaxes to excess profits taxes. The most controversial provision of the committee bill was a requirement that husbands and wives file joint returns, which was projected to raise 300 million dollars.[43] The press and the opposition had a field day with the so-called marriage tax, which seemingly made it more economical to stay single or to get divorced.

The Republican members of the committee used negative public opinion to their advantage by issuing what *Time* magazine called "a noseholding minority report." [44] The minority broadened their criticism of the marriage tax to include the entire record of New Deal revenue legislation. Democratic "wastrels," they charged, had spent in eight years as much as the government had spent during its first 130 years. The minority concluded its report by congratulating themselves on the nonpartisan manner in which the minority had cooperated with the majority to make the bill the best it could be under the circumstances.

The 1941 revenue bill was considered on the House floor under a modified closed rule that permitted an amendment to strike out the mandatory joint return provision (Section 111). The amendment to strike Section 111, proposed by Frank H. Buck (D-CA), was defended on the grounds of the sanctity of marriage and of the rights of women. Supporters of mandatory joint returns, on the other hand, argued that the provision was designed to equalize the tax differences between married couples in the 40 common law states and those in the eight community property states. Chairman Doughton grew eloquent in his defense of the marriage tax, predicting that if the Buck amendment succeeded, the problem would, "like Banquo's ghost haunt us until the righteous wrath and indignation of the intelligent people of this nation impelled the removal of this injustice."[45] The Buck amendment passed 242–160, and the mandatory joint return provision was removed from the House bill.

The Senate lowered income tax exemptions for joint returns from $2,000 to $1,500 and for individual returns from $800 to $750, which increased the number of tax returns by 30 percent. Along with the new and increased excise taxes and higher estate and gift taxes, these changes made the Revenue Act of 1941 the largest single revenue bill in the nation's history up to that time, bringing total government revenues to 13 billion dollars, or 60 percent of the 22 billion dollars in government spending.[46]

Vastly expanded government expenditures contributed to the problem of wartime inflation. The booming defense industry and the massive flow of money in the United States had brought about recovery from the Depression, but abrupt prosperity also created serious problems. From 1939 to 1942, the nation's cost of living had risen by 15 percent. Leon Henderson, the administrator of the Office of Price Administration, predicted an "inflationary gap," and estimated that the cost of living would rise by 23 percent in one year unless immediate action was taken.[47] On April 27, 1942, President Roosevelt outlined a seven-point program to curb inflation through wage and price controls. To fight inflation, he recommended the establishment of wage stabilization and rent and price ceilings. To limit purchasing power, he urged higher taxes and increased savings. The President's advisors were divided over whether savings should be encouraged or coerced. Treasury Secretary Morgenthau advocated a policy of voluntary savings, but other officials such as Henderson and Marriner Eccles, chairman of the Federal Reserve Board, argued that some sort of compulsory savings program should be adopted. Still another option, the imposition of a spending tax, was submitted by the Treas-

Ways and Means leaders disagree over a "pay-as-you-go" tax plan in 1943. Democrats John McCormack, left, Robert Doughton, and Jere Cooper, right, listen skeptically as Republican Harold Knutson expounds against the proposal. Ways and Means considered "pay-as-you-go" to be a possible solution to the problem of income tax evasion. By 1943, many citizens owed back taxes. Congress came up with a lenient remedy, a permanent system of withholding in exchange for forgiveness of a percentage of back taxes.

ury Department to the Senate Finance Committee in 1942, but the committee flatly rejected this proposal.

Revenue legislation in 1942 confronted both the problem of inflation and the need to finance the American war effort following the Japanese attack on Pearl Harbor. In January, President Roosevelt called for a massive effort to produce ships, planes, and tanks. The budget he presented for fiscal year 1943 called for 56 billion dollars for defense out of the total 59 billion dollars. Secretary Morgenthau delivered the administration's revenue proposals to a packed room of the Committee on Ways and Means on March 3, 1942. The program was designed both to raise revenue and to stop inflation. "War is never cheap," the Treasury Secretary concluded, "but . . . it is a million times cheaper to win than to lose." [48] To raise taxes a total of 7.6 billion dollars (later revised to 8.7 billion dollars), Morgenthau recommended a three-billion-dollar increase in individual income taxes, three billion dollars in added corporation taxes, and another 1.3 billion dollars in excise taxes. Randolph Paul, the Treasury's top tax expert, suggested several provisions to mitigate the impact of increased taxation upon lower- and middle-income groups, including deductions for medical expenses and special tax credits for child care.[49]

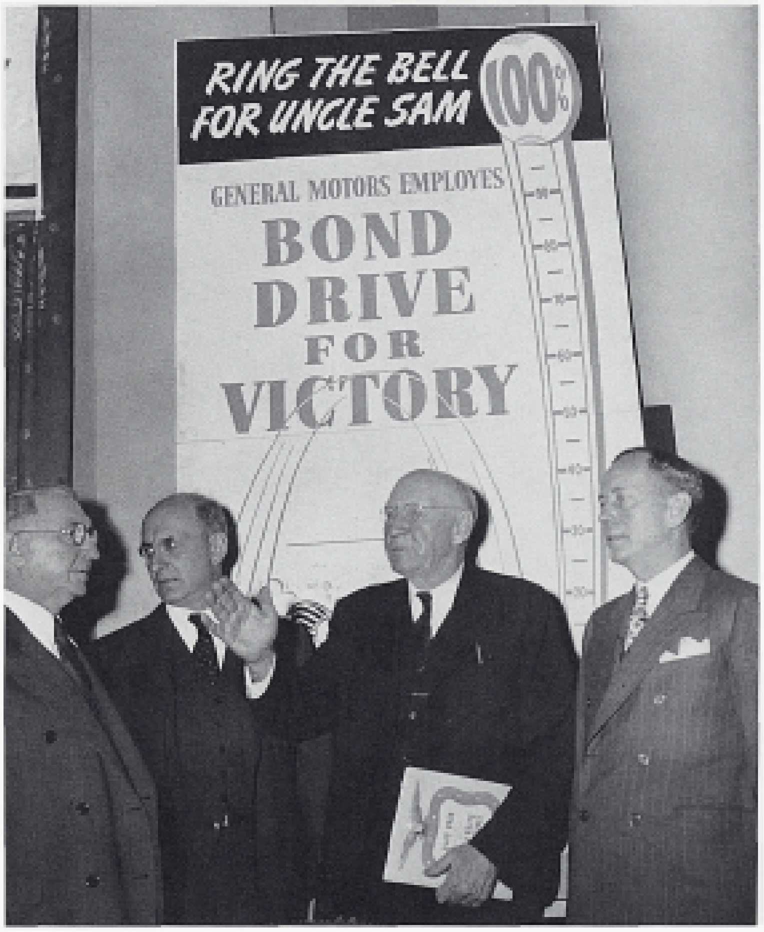
Several groups suggested the imposition of a national sales tax during the committee's hearings. The United States Chamber of Commerce, for example, claimed that the sales tax alone would provide 5.8 billion dollars in revenue and would also lower inflation in the process. The committee also received a flood of postcards opposing the sales tax. Mrs. Eve Chase of West New York, New Jersey, for example, wrote: "As a patriotic American, keenly devoted to the task of

The threat of the enemy looms behind this poster's emotional appeal in World War II. More than a year before the U.S. declared war on Japan and Germany, Ways and Means Chairman Doughton sought an increase in the national debt ceiling to underwrite the sale of defense bonds. In all, Congress approved seven war-loan drives and a final Victory Loan. Businessmen fell in step with the promotion. In the picture at right, General Motors vice president H.W. Anderson, right, shows what his company did to persuade workers to buy bonds. The officials on hand to commend GM employees are, from left, William George, Senate Finance chairman; Henry Morgenthau, Treasury Secretary; and Robert Doughton. Between December 1942 and December 1945, Americans bought 156 billion dollars in war bonds.

winning this war, I am profoundly disturbed by talk of a Federal Sales Tax. Such a tax would take milk and bread out of the mouths of American children; it would injure the health and morale of American families."[50] Although some Republican members of the committee favored the sales tax, it was not included in the committee bill.

The committee bill, providing only for six billion of the requested 8.7 billion dollars, was, at 320 pages, "the largest tax bill ever undertaken in the history of our Government," in Chairman Doughton's words.[51] The bill increased the normal tax from 4 to 6 percent, raised the range of surtax rates from 6–77 percent to 13–82 percent, and increased the excess profits tax rates from 60 to 90 percent. The Senate added an additional 5 percent "Victory Tax" to be collected from anyone with a gross income over $624. This tax was designed to reduce spending, with a provision that at least part of it would be refunded at the end of the war.

The final revenue bill of 1942, completed in conference committee, was even more complex than the previous war revenue acts. Roosevelt joked about the bill at a Cabinet meeting prior to signing it. Morgenthau recorded that FDR said, "The bill might as well have



been written in a foreign language." The President signed the bill without reading it when told that a one-day delay would cost 60 million dollars in lost revenue. The Revenue Act of 1942 broadened the U.S. tax base by over 100 percent. It increased the number of taxpayers from about 13 million to 28 million in regular taxes and to a total of 50 million including those who paid the Victory Tax. Prior to the passage of this act, Congress had also passed an anti-inflation law. On October 3, 1942, FDR issued an executive order to implement the new measure. This order directed the National War Labor Board to limit salaries, and empowered the Department of Agriculture and the Office of Price Administration to hold down prices for farm and consumer goods. The order also created the Office of Economic Stabilization to control the nation's living costs.

In the 1942 elections the Democrats maintained slim majorities in both Houses of Congress. The Democratic majority in the House of Representatives, so commanding during the mid-1930s, was reduced to ten (218–208). During the Seventy-seventh Congress the coalition of conservative Democrats and Republicans asserted vigorous control over legislation. In 1943, Congress abolished many New Deal agencies

A House victory to slash taxes in 1947 pleases newly appointed Ways and Means Chairman Harold Knutson, who led the tax-reduction fight. In the late 1940s, Republicans held a majority in Congress for the first time in 20 years. Three of their goals in the Eightieth Congress were to cut the high levels of New Deal taxes, spending, and national debt. Democratic President Harry Truman responded by vetoing the proposed tax cuts. Sparks flew between Truman and the legislature, which he called the "Do-Nothing Congress."

and quarreled with the President over tax collection and enforcement. Nearly 50 million new taxpayers had been added, and the new tax burden had prompted widespread evasion. The administration favored a strict policy of tax enforcement, yet during the winter and spring of 1943, Congress discussed the possibility of forgiving past liabilities. It also considered putting future payments on the "pay-as-you-go" basis first recommended by Beardsley Ruml, treasurer of R. H. Macy and Company and chairman of the Federal Reserve Board in New York. In February and March of 1943, the Committee on Ways and Means submitted two reports on the subject and presented a plan establishing a withholding system that credited amounts withheld in the current year against prior-year liabilities. The final act approved by Congress was even more lenient. The Current Tax Payment Act of 1943 provided a permanent system of withholding in exchange for forgiveness of 75 percent of the lesser of 1942 or 1943 tax liabilities.[52]

The House engaged in open conflict with the President over tax reform. In October, Roosevelt had asked Congress for yet another tax increase of 10.4 billion dollars to help control inflation and to finance the war effort. Congress delayed action on the President's request. Even Chairman Doughton thought that FDR had gone too far. Calling the administration's proposal "utterly indefensible," the chairman had neither the votes nor the desire to significantly increase the public's tax burden. The committee's own report on its revenue bill in November concluded that inflation could be more properly controlled by greater economy in government expenditures, more effective price controls, rationing, and wage controls. The bill, which passed the House 200–27, did not change existing individual tax rates or exemptions. Over half of the projected two billion dollars in increased revenues was attributable to increased excise taxes. This far from satisfied the administration's request.[53]

After the Senate passed the revenue bill in January 1944, President Roosevelt vetoed it on February 22. In the first veto message of a revenue bill in American history, Roosevelt referred to the bill as "not a tax bill but a tax relief bill, providing relief not for the needy but for the greedy." [54] Congress reacted to the President's veto message with outrage. Chairman Doughton said that his self-respect dictated that he vote to override the veto. The committee's second-ranking Republican, Harold Knutson of Minnesota, argued that Congress had been correct in rejecting the administration's tax program, "because it would have wiped out the middle class and jeopardized the solvency of all business." [55] The most impassioned opposition came from Senate Majority Leader Alben Barkley of Kentucky, who resigned his leadership post in protest. The President's veto of a revenue bill, he believed, was an "assault upon the legislative integrity of every member of Congress." [56] Roosevelt sent Barkley a telegram expressing both his regret and his hope that Senate Democrats would reelect him as majority leader, which they did. Both Houses overrode the veto, the House by 299–95 and the Senate by 72–14, on February 24 and 25, respectively. The Revenue Act of 1943 thus became the first revenue bill to become law over a presidential veto.

Although Congress enacted a simplification of the tax code in 1944, the Revenue Act of 1943 was the last substantive wartime tax legislation. World War II revenue laws created two major permanent changes in federal tax policy. First, these statutes greatly expanded the number and percentage of taxpayers. During World War I as much as 13 percent of the labor force had paid income taxes. By the time World War II began, the percentage of taxpayers had fallen to 7.1 percent, but it mushroomed to 64.1 percent by the end of the war, and the figure has continued to stay above 60 percent with but one minor variation in the immediate postwar period. Thus, with such a large percentage of the population affected, the income tax became a major political issue. Second, the progressivity of the income tax was also greatly increased during the war by expanding the number of tax brackets.[57]

Postwar Revenue and Trade Legislation, 1945–1952

The post-World War II period in public finance was unlike the aftermath of any of the nation's previous wars. After the Civil War and World War I, for example, Congress and the administration moved to repeal or reduce heavy wartime tax burdens. Although Congress enacted some tax relief in 1945, subsequent acts reversed the historic

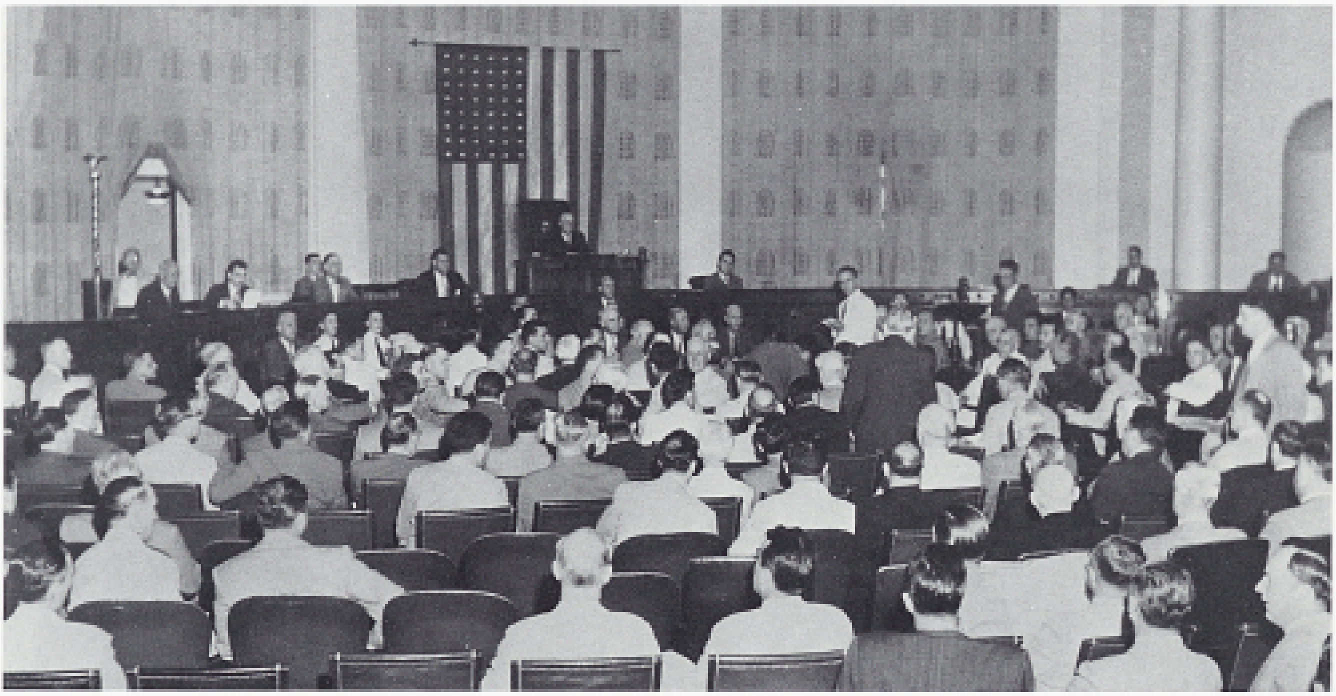
Renovation of the House Wing of the Capitol in 1940, 1949, and 1950 caused the House to meet in the Ways and Means main committee room, the first period in over 100 years that the House had not met in the Capitol. At left, Speaker Sam Rayburn, flanked by Parliamentarian Lewis Deschler, gavels the House to order in the Ways and Means committee room. At right, the full House is shown in the committee room.

trend of postwar tax reduction. Moreover, the wartime expansion of the federal income tax remained a permanent part of the federal revenue system.

With the end of World War II in sight in late 1944, Roosevelt was reelected on November 7 to an unprecedented fourth term. Although the Democrats gained a few seats in the election, the Seventy-ninth Congress faced a rocky start. During the campaign, Roosevelt had committed his administration to the enactment of more progressive social and economic legislation. However, the President died shortly after Congress convened. The new President, Harry S. Truman of Missouri, was a former senator and a close friend of Speaker Sam Rayburn and other powerful congressional leaders. For the first two years of his administration, Truman maintained a cordial relationship with Congress and garnered the support necessary to conclude the war and to begin conversion to a peacetime economy.[58]

In October 1945, shortly after V-J Day brought the war to an end, the administration presented a proposed tax reduction plan to the Committee on Ways and Means. The principle of reduction met with widespread approval, but Congress slightly altered the specifics of the administration's proposal. The excess profits tax was repealed effective January 1, 1946, as the administration had requested, but Congress increased the reduction in individual income taxes from the recommended levels. Congress also refused to repeal most of the wartime excise taxes.[59]

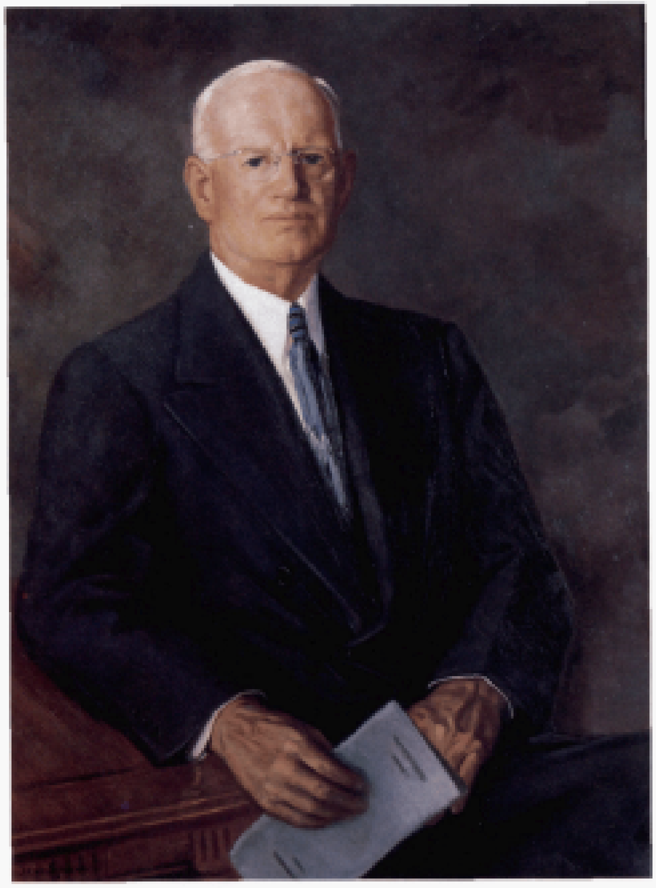
Proponents justified the reductions proposed in the Revenue Act of 1945 by citing the need to promote economic expansion. The fears of postwar unemployment, recession, and inflation accelerated between 1945 and 1947, and Truman's relations with Congress steadily



deteriorated. In September 1945, the President had submitted an ambitious 21-point program that formed the basis for his "Fair Deal." Among the points included in the plan were a national health insurance program, higher minimum wages, federal aid to education, expansion of federal employment projects, and the establishment of a permanent Fair Employment Practices Committee (FEPC). Truman lobbied hard for his program, but the mood of the country and of the Congress had turned away from the liberalism of the New Deal and the Fair Deal. A Republican majority was elected to Congress for the first time in 20 years in 1946 (245–188 in the House, 51–45 in the Senate).

In 1947, the Republican Eightieth Congress had three goals: 1) to cut taxes, 2) to cut spending, and 3) to cut the national debt. Many Democrats, including President Truman, agreed with these policies in principle, but favored balancing the budget and paying off the federal debt before instituting an inflationary tax cut.[60] The first measure of this Congress was a bill reported by the Committee on Ways and Means, now chaired by Harold Knutson of Minnesota. The bill (H.R. 1) reduced taxes by 30 percent in the lowest income brackets, by 20 percent for citizens with incomes between $1,000 and $302,000, and by 10 percent for those with incomes over $302,000.

In a partisan role-reversal from the 1930s, the committee's ranking Democratic minority member, former Chairman Robert Doughton, complained to the House that the minority had been unfairly excluded from committee deliberations on the bill. Representa-



Daniel Reed of New York, who became chairman of Ways and Means after the Republicans won control of the House in 1952, liked to boast that he had voted against more New Deal measures during the Roosevelt years than any other congressman. In the 1950s, Reed led a push for fiscal reform that bucked Eisenhower on tax and trade policies. The chairman's adamant views on fiscal matters came directly from the theories of the 1920s, when tax cuts had helped generate a balanced budget. Reed could work himself up into a rage when defending his conservative position on the House floor. His detractors, claiming his views were 25 years behind the times, referred to the likeable curmudgeon as the "Neanderthal man."

tive Walter Lynch (D-NY) agreed with Doughton, stating: "The tax reduction plan embodied in this bill was conceived in political expediency, nurtured by political demagoguery, and is delivered to you today in political desperation." [61] After Doughton's motion to recommit failed, H.R. 1 passed the House.

The Republican rationale for another tax cut was that it would both stimulate the economy and compel Truman to reduce spending on Fair Deal domestic programs. Chairman Knutson argued that a policy of retrenchment was necessary to reverse what he believed was the ominous trend of New Deal Democratic policies. "For years we Republicans have been warning that the short-haired women and long-haired men of alien minds in the administrative branch of government were trying to wreck the American way of life and install a hybrid oligarchy at Washington through confiscatory taxation," Knutson explained.[62]

After the bill had made its way through the House, Senate, and conference committee with only minor modifications, President Truman vetoed it on June 6, 1947. Arguing that this bill was "the wrong tax reduction at the wrong time," the President stated that, "the time for tax reduction will come when inflationary pressures have ceased."[63] Truman not only believed that the income tax acted as a brake on inflation, but he also thought that the Republican tax reduction was inequitable. Under the original Ways and Means bill, for example, 38.3 percent of the total proposed reduction would have affected the wealthiest 3.5 percent of taxpayers.

A House motion to override the veto failed by only two votes. A new bill was then passed that simply delayed the tax cuts from July 1, 1947, to January 1, 1948. Truman vetoed this bill as well. The House overrode the veto by two votes, but the Senate sustained the veto by the same slim margin.

Congress and the President again clashed in 1948 over fiscal matters when the Republicans engineered the passage of another tax cut. Through Representative John D. Dingell (D-MI), Truman proposed an alternative measure that would take over ten million citizens off the tax rolls and would allot a tax credit to each taxpayer and his dependents.[64] The Dingell plan proposed to offset this loss in revenues by raising corporate taxes. Congress ignored the Dingell plan in favor of a bill reported by Chairman Knutson, one that was designed to create an irresistible momentum for tax reduction by providing added benefits for a broader base of the taxpaying public. The bill provided tax cuts for all income brackets and added exemptions for the elderly and the blind, as well as allowing income splitting on joint returns. Ranking minority member Doughton supported the bill, which easily passed the House 297–120. The Senate lowered the percentage of reductions and passed the bill 78–11. Truman for the third time vetoed a revenue bill, but this time the House and the Senate both overrode the veto. The Revenue Act of 1948 became law on April 2, the second revenue bill in history to be enacted over a presidential veto.[65]

The Republican majority on the Committee on Ways and Means also crafted a major trade bill that differed substantially from the administration's program. In 1946, the United States invited representatives of 22 other nations to begin multilateral trade negotiations in Geneva. The resulting General Agreement on Tariffs and Trade (GATT) contained a code of trade practices and tariff reductions on over 45,000 items accounting for one-half of world trade.[66] In 1948, in what was by now a routine request, President Truman asked Congress for a three-year extension of the Reciprocal Trade Agreements Act. The Committee on Ways and Means, however, drafted a new trade bill that overhauled the system of tariff administration in existence since 1934. The Gearhart bill, named after committee member Bertrand W. Gearhart (R-CA), renewed the Trade Agreements Act, but only for one year. It also added a controversial "peril-point" provision, which required the Tariff Commission to determine rates that would not harm domestic industries in advance of negotiations. Although the President's supporters attacked the bill by raising the protectionist specter of the Smoot-Hawley Tariff, a measure to recommit submitted by Doughton failed. After the Democrats regained the majority in the Eighty-first Congress (1949–1951), they immediately reversed the changes in tariff administration initiated by the Republicans by repealing the peril-point provision and by extending the Trade Agreements Act for three years, retroactive to 1948.[67]

Even though President Truman now had a Democratic Congress, his request for tax increases in 1949 fell on deaf ears. The administration proposed four billion dollars in higher corporate and estate taxes, and increased rates for upper and middle income tax brackets in order to finance defense spending as well as domestic housing, public works, and health care programs. Congress only made minor technical revisions in the tax code. When the Cold War turned hot in Korea the following year, Congress was forced to comply with higher taxes.

The Committee on Ways and Means had just completed work on a revenue bill in 1950 when South Korea was invaded. The need for greater revenue to finance what developed into a costly and bloody military conflict revived the idea of an excess profits tax. Because this tax remained controversial, Congress initially raised corporate and individual tax rates, postponing the excess profits tax until after the November elections. Truman requested that the Committee on Ways and Means raise an additional four billion dollars principally through an excess profits tax. Business leaders testified before the committee that an excess profits tax was unnecessary given the rise in corporate tax rates. Ranking minority member Daniel Reed (R-NY) recommended that business be given a choice of either an excess profits tax or a 10 percent rate increase in corporate taxation. The committee rejected Reed's proposal by a straight 15–10 party vote. The committee bill passed the House by a wide 378–20 margin, as was usual with wartime revenue measures. The conference committee version was approved on December 22 by the Senate and on January 1 by the House. President Truman signed the Excess Profits Tax Act on January 3, 1951, although he warned that even more taxes would be needed.[68]

Truman's Economic Report of January 1951 recommended ten billion dollars in additional taxes to combat both inflation and an anticipated deficit, as well as increased defense spending. The administration specifically requested four billion dollars in higher personal income taxes, three billion dollars from corporate taxes, and another three billion dollars from excises.

Although Chairman Doughton expressed support for the need to raise revenues and to prevent inflation, his Committee on Ways and Means moved slowly on the administration's request. The committee held full hearings on the proposed increases, allowing all interested groups the opportunity to testify. Labor groups approved of higher corporate taxes, but opposed increased excises. Business, on the other hand, again recommended some form of a sales tax as an alternative

Ike's feisty foe, Chairman Reed irritates the President in this 1953 editorial cartoon. When Republicans took control of Congress under Eisenhower, Reed envisioned a dismantling of the Democrats' post-Korean-conflict tax increases. He quickly introduced a tax reform bill. Ike, however, effectively killed the measure when he announced that he intended to maintain tax levels in order to balance the budget.

to increased corporate taxes. Doughton, who strongly opposed a sales tax, found the testimony of all groups to be self-serving and useless to the committee. The chairman observed with veiled sarcasm:

> Witnesses . . . while all for preparedness, would preface their statements by saying that while those who they represented or spoke for wanted to do their full part in producing the revenue necessary to finance emergency expenditures, they usually, with few exceptions, claimed that any additional revenue should be raised from some other source. We were not given much help as far as the other sources were concerned, except a few I believe did recommend a general sales tax.[69]

The committee bill lowered the increases requested by the administration from ten billion dollars to 7.2 billion dollars. Doughton argued that the bill provided "as large an amount as can be safely collected from the economy under present conditions." Ranking minority member Reed and other Republicans once again attacked the spending programs of "Socialist planners within the Truman Administration."[70] Minority Leader Joseph Martin of Massachusetts argued that Truman's contention that tax increases would curb inflation amounted to "economic voodoo talk."[71]

The Senate reduced the tax yield of the revenue bill of 1951 even further, to 6.7 billion dollars. The final bill raised individual tax liabilities between 11 and 11.75 percent. Corporate rates were raised to 30–52 percent, but less than one-third of the increased excises requested were passed. The bill also contained numerous special tax benefits, including deductions for medical expenses for the elderly, mine exploration expenses, unharvested crops, and depletion allowances for clam and oyster shells.[72] The House first rejected the conference committee report, then accepted an only slightly different version two days later. Truman signed the Revenue Act on October 20, 1951, because of the urgent need for revenue, even though he considered the bill inadequate and unfair.

The Revenue Act of 1951 was the last major tax bill of Truman's Presidency. Although Congress had insisted upon tax reduction after World War II, the need for revenue to finance Cold War and Korean conflict military spending, along with the fears of inflation, recession, and unbalanced budgets, prevented the repudiation of the World War II expansion of the income tax system. Tax increases were politically unpopular among Republicans, who disagreed with the Truman Administration's domestic spending programs on ideological grounds. Moreover, the public's resistance to tax increases influenced both congressional Republicans and Democrats to reduce the degree of revenue increases.

Revenue Legislation During the Eisenhower Administration

Republican Dwight D. Eisenhower campaigned for the Presidency in 1952 by promising to end the Korean conflict and by attacking New Deal tax and spending policies. Eisenhower's election brought in a Republican Congress (221–211 House, 48–47 Senate) for only the second time since 1933. Although Republican leaders of the Eighty-third Congress favored tax reduction, the President attached a higher priority to balancing the budget. "Reduction of taxes," according to Eisenhower's first State of the Union Message, "will be justified only as we show we can succeed in bringing the budget under control. . . . Until we can determine the extent to which expenditures can be reduced, it would not be wise to reduce our revenues." [73]

The administration's budget-balancing priorities encountered immediate opposition from Republican Chairman Daniel Reed of the Committee on Ways and Means. At 78 years of age, Reed was a feisty old-guard Republican who had served in Congress since 1919 and on the committee since 1933. Reed liked to boast that he had voted against more New Deal measures than any other member of Congress. His zeal for tax reduction and his nostalgic reminiscences about the policies of Andrew Mellon earned him the nickname "Neanderthal

Dan Reed's log of opposition in this editorial cartoon tries to thwart Ike and Speaker Joe Martin from landing an extension of the excess profits tax. The chairman tried to block the bill in committee by refusing to report it in 1953. But Ike and Martin deftly maneuvered the bill out of committee and won its approval in the House and Senate.

Man." Reed caused the Eisenhower Administration so much trouble in trade and tax matters that some officials referred to him as "Syngman" Reed (a pun on the name of the troublesome and unpopular president of South Korea, Syngman Rhee).[74]

The income tax increases of the Revenue Act of 1951 were scheduled to expire at the end of 1953. Reed proposed moving the expiration date up to midyear. Although the chairman claimed to have broad backing for his bill, H.R. 1, Speaker Joseph Martin and Majority Leader Charles Halleck (R-IN) withheld judgment pending the administration's response. Reed stubbornly insisted that he would get the bill passed, "no matter what Eisenhower, or Humphrey [Treasury Secretary George M. Humphrey], or anyone else had to say about it."[75] The committee voted the bill out 21–4 without holding hearings. The committee report argued that tax reduction would provide an inducement for the administration to cut unnecessary spending.

Speaker Martin asked Chairman Leo Allen (R-IL) of the Rules Committee to keep the bill from reaching the floor. After Allen announced his intention to hold H.R. 1 in the Rules Committee for two months, Reed asked that it be given prompt consideration. The chairman of the Committee on Ways and Means even asked for assistance

Democratic troubleshooter for Sam Rayburn, Jere Cooper of Tennessee took over as Ways and Means chairman after the Democrats regained control of the House in 1954. Cooper fought for a three-year extension of the reciprocal trade program and reported legislation to increase presidential power in tariff regulation. He served 28 years in the House, the last three at the head of Ways and Means, before his death in 1957.

from a New York colleague on the Rules Committee, Henry J. Latham. Reed sent Latham an angry telegram when he refused to help: "It is most embarrassing to me to have you refuse to provide a hearing for a rule on H.R. No. 1. . . . Is there no reciprocity between us?" [76] Reed also failed in his attempt to obtain the 218 signatures necessary for a discharge petition to order the Rules Committee to report the bill to the floor.

Thwarted in his effort to speed up tax reduction, Reed was determined to fight Eisenhower's request for a six-month extension of the excess profits tax of 1950, which was scheduled to expire in mid-1953. When asked by reporters for his reaction to the President's proposal, Chairman Reed said, "When I fight, I fight." [77] Speaker Martin persuaded the Republican members of Reed's committee to hold hearings on the extension in spite of their recalcitrant chairman. After less that two weeks of hearings, Reed announced that the administration had failed to make its case, and he showed little eagerness to report the bill. Martin and Majority Leader Halleck therefore planned to bypass the Committee on Ways and Means by utilizing a little-known House procedure that allowed the Rules Committee to report a rule on a bill that was still in committee. After Eisenhower's personal appeals to Reed failed, the plan to bypass Reed's committee was invoked. The Rules Committee voted to grant a rule, but Martin and

Halleck, fearing a showdown with such a powerful committee chairman, withheld the rule from floor action hoping that the threat alone would force Reed to report the bill. The plan worked, and the extension of the excess profits tax was voted out of committee, 16–9, on July 8, 1953. The bill passed the House and Senate as expected.

Trade policy also raised tensions between the administration and the committee. In 1953, Eisenhower requested a three-year extension of the Reciprocal Trade Agreements Act without alterations, but the Committee on Ways and Means reported a bill with a one-year extension that made significant changes in the U.S. Tariff Commission. This bill was passed by the House as an interim measure, and in July 1953, the committee's majority reported a highly protectionist measure calling for raised tariffs and new import quotas, and for restrictions on the President's power to negotiate reciprocal trade agreements with other nations. Eisenhower compromised by agreeing to a one-year extension of the Reciprocal Trade Agreements Act and the creation of a commission to conduct an intensive study of the foreign trade issue.[78] In 1955, when Democrats had regained the majority, Congress passed a three-year extension of the reciprocal trade agreements program.

Reed proved to be more cooperative when the President recommended changes in Social Security. On January 14, 1954, Eisenhower proposed providing larger Social Security benefits and expanding coverage to more wage earners. He requested an expansion of coverage to 10.5 million more workers, increased monthly benefits, a liberalized retirement earnings provision, and an increase in the annual taxable-earnings base from $3,600 to $4,200. Three weeks later, Chairman Reed appointed a subcommittee chaired by Carl T. Curtis (R-NE) to conduct a thorough study of the issue. The committee reported a bill in May generally along the lines of the President's recommendations. The bill raised little controversy in Congress, and Eisenhower signed the Social Security Amendments of 1954 on September 1.[79]

President Eisenhower's popularity and skills in personal diplomacy soothed whatever bitterness Reed may have felt as a result of the fight over tax reduction in the first session of the Eighty-third Congress. As the second session commenced in January 1954, the Committee on Ways and Means began work on excise tax reduction. Reed was assisted by third-ranking Republican Richard Simpson of Pennsylvania, who was reputed to be the Speaker's man on taxes. The excise reductions, while retaining the surtaxes on automobiles, liquor, and tobacco, reduced the rates by half on most other items. The House and Senate both agreed to the reductions, which became law when President Eisenhower signed the Excise Tax Reduction Act on March 31, 1954.[80]

The last major tax bill of the 1950s was an overall revision of the tax code in 1954. During the tax battles of the previous year, the ad-

MILESTONES IN THE HISTORY OF THE COMMITTEE
1933–1959

1934	Reciprocal Trade Agreements Act
1935	"Wealth Tax" Act Social Security Act
1936	Revenue Act of 1936
1939	Social Security Amendments of 1939 Revenue Act of 1939
1940	Revenue Act of 1940
1942	Revenue Act of 1942
1943	Current Tax Payment Act
1944	Revenue Act of 1943
1948	Revenue Act of 1948
1950	Excess Profits Tax Act
1951	Revenue Act of 1951
1954	Social Security Amendments of 1954 Trade Agreements Extension Act Excise Tax Reduction Act Internal Revenue Code of 1954

ministration had argued that the entire Internal Revenue Code, which had not been thoroughly revised since 1913, needed revision and re-writing. The code was broken down among 50 study groups composed of three to 16 staff members of the Treasury Department, the Internal Revenue Service, the Joint Committee on Internal Revenue Taxation, and the House Legislative Counsel. The study groups remained in contact with both the Senate Finance Committee and the Committee on Ways and Means. The latter committee held public hearings on 40 specific topics of tax reform. As a result of these studies, 25 major proposals were reported to President Eisenhower, who incorporated them in his Budget Message of January 21, 1954.

The Committee on Ways and Means prepared a bill (H.R. 8300) in closed sessions that closely adhered to the administration's proposals. Chairman Reed, now reconciled with Eisenhower, argued that the bill removed inequities in the tax code. Moreover, he urged his colleagues to vote for the bill as a vote of support for the President. The bill retained the existing corporate tax rate, but provided several tax benefits for business in the form of increased depreciation allowances and reduced tax rates on unearned dividend income. Liberalized benefits for individual taxpayers included deductions for medical expenses, child care, charitable contributions, and a tax credit for fixed retirement income.

The bill passed the House and the Senate when congressional Republicans closed ranks behind their leadership. Democrats opposed the tax breaks on depreciation allowances and dividend income, and they recommended increasing the personal exemption from $600 to $700 to assist those in lower income tax brackets. The Senate deleted the dividend credit, but it was restored at a reduced level in the conference committee version that on August 16 became the Internal Revenue Code of 1954.[81]

The Democratic Party regained control of both the House and the Senate in the Eighty-fourth Congress (1955–1957). Doughton died on October 1, 1954, at the age of 90. The new chairman of the Committee on Ways and Means was Jere Cooper (D-TN), who had served in Congress since 1929 and on the committee since 1932. The Democrats made two unsuccessful attempts to lower taxes, one in 1955 and the other in 1957. In both instances the administration resisted cutting taxes. "Under conditions of peacetime prosperity that now exist," Eisenhower observed in his 1956 State of the Union Message, "we can never justify going further into debt to give ourselves a tax cut at the expense of our children." [82] Chairman Cooper died on December 18, 1957, shortly after the beginning of the Eighty-fifth Congress. The second-ranking majority member, Wilbur D. Mills of Arkansas, became chairman and ushered in a new era in the committee's history.

Conclusion

From the New Deal through the 1950s, the Committee on Ways and Means had seen: 1) its involvement in the tariff considerably reduced, 2) its revenue responsibilities made ever more complicated, and 3) its jurisdiction expanded to include Social Security. The committee had resolved one historically troublesome area within its jurisdiction—the tariff—by relegating responsibility to the executive branch. The Reciprocal Trade Agreements Act of 1934 authorized the President to negotiate import duties through reciprocity agreements with foreign nations. Subsequently extended on several occasions, this act removed the committee from the laborious task of writing tariff schedules, but it did not relieve the committee from the politically charged responsibility to protect the interests of American business. The problem for the committee shifted from one of determining the rates for various industries to the protection of domestic industries from harmful trade agreements.

Most congressmen who voted on the final major revenue bill of this period, the Internal Revenue Code of 1954, were aware of its technical intricacies, but few probably understood them all. Only a handful of the changes were discussed in debate, and most decisions were made before the bill reached the floor or after it had been sent to conference. There were several reasons for the growing technical complexity of post-World War II revenue legislation. One was the increased complexity of the United States economy. The corporations and trusts of the late 19th century had been replaced by a variety of business organizations, including corporations with overseas earnings, holding companies, closely held corporations, and tax-exempt or partially tax-exempt organizations. Chairman Doughton's observation that the tax laws reflected the complexities of business was even truer by the late 1950s than it had been in the prewar period.

Another reason for the complexity of revenue laws was the vastly expanded economic role of the federal government. Since the New Deal, the Democratic Party had embraced the responsibility of the federal government not only to regulate the economy through taxation and spending, but also to redress social and economic inequities. Although the Republican Party had opposed most New Deal and Fair Deal domestic spending programs, it had accepted the federal government's role to manage the business cycle through taxation. The military budget had also grown enormously from pre-World War II levels, and it remained high during the Cold War in the 1950s. For all of these reasons, neither the administrations of Truman or Eisenhower advocated significant tax reductions. The important policy questions now became not simply whether to raise or lower taxes, but how best to distribute the tax burden.[83]

Taxation, especially in the form of the income tax, had become an ever present reality in the lives of most Americans. The enactment of Social Security in 1935 and its subsequent expansion in 1939 and 1954 added another dimension to the committee's history. Because the system was financed through payroll taxes, the committee now exercised jurisdiction over a social program of national retirement insurance. The pragmatic problems of financing such a vast program, the political issue of extending coverage and benefits, and the suggestion that the system should also incorporate national health insurance, would continue to provide grist for the committee's legislative mill.