

The People's Business

The Truth About Taxes

by ROBERT H. JACKSON

MR. EDWARD E. LOOMIS, who wrote on "Taxes and Labor" in the December FORUM, dislikes taxes — apparently all taxes. Emotionally, I am in sympathy with him. From childhood we hear about death and taxes as the twin evils all must face. Nearly all revolutions have been contributed to by a hatred of taxation.

Mr. Loomis especially dislikes wasted tax money. Every straight-thinking person will agree with that view. No government — federal, state, or municipal — functions without some waste. In times of extreme pressure to meet emergencies, government, like private business, experiences greater costs and greater wastes. Private business too has waste, has unreasonable salaries and extravagant bonuses and useless relatives on payrolls. These also cost the public, the consumer, and the stockholder heavily. But so far in this country indignation is directed against only governmental waste.

However, after I have sympathized with his emotional opposition to taxes and his plausible generalities about economy, I am brought face to face with the realities by Mr. Loomis' statement (the italics are mine):

While we must expect private business to pay its *fair share* toward the support of all *proper* governmental activities, still, in the interest of sound and lasting prosperity, we cannot afford anywhere to suffocate established business with taxes for the support of projects which mean little more than a *political distribution of public funds*.

This statement brings us exactly to the point that every tax discussion reaches. Argument as to taxation always becomes one of the propriety of the purpose and then of fair distribution of the burden. To these problems Mr. Loomis makes only a very indefinite contribution. His specific grievance is the railroad burden, and here he seems to have a sound case — but one of such long standing that it is not a

case against this administration, as it has been apparent for some years that the tax load of the railroads was out of proportion to their revenues.

II

THE CHALLENGING note in Mr. Loomis' article, couched in generalities, is in its undertone of big-business psychology. Its attitude is that the only people who are money-wise are big businessmen, that only government is extravagant, that taxes should never increase, and that all tax money is wasted. Mr. Loomis, to support his condemnation of the government, compares the federal outgo of 1935 with the outgo for the first 124 years of the nation's existence. Is it fair to compare the cost of a frontier government in log-cabin days with the cost of government under conditions of 1935? Is it fair to throw into a comparison the cost of administering a nation of 48 states with the cost of administering one of 13 colonies or a government of 120,000,000 people with the government of a few million?

Unless Mr. Loomis is different from the average man, his own expenditures — even for the depression year, 1935 — would have kept his grandfather in pocket money for a lifetime, and, unless his is different from most families, his children have an idea of expenditure that will make his own look conservative.

These advancing costs of individual existence are caused by a progressing standard of living. Increasing taxes result from a collective standard of living that has increased at least as rapidly as our individual standard of living.

Moreover, the government has been driven to a very large part of this increasing expenditure by demands of business. The most significant change in living conditions of this country is due to motorizing the nation's transportation. Three principal elements contributed to

this fundamental advance — the building and improvement of motorcars, providing them with fuel and lubricants, and the building of highways on which they could operate. Without the last, only a very limited and in some sections only a seasonal use of the motorcar would have been possible.

Private enterprise very properly and naturally took over the construction of the motorcars, in which there was and is good profit. Private enterprise very properly and naturally expanded the oil industry to provide fuel and lubricants, in which also there was and is good profit. Upon government — local, state, and federal — was thrust the task of building highways and then of widening them and also the burdens of maintenance, snowplowing, and patrolling. In these there can be no profit. The government's share was entirely expense. Motorizing the country created a vast debt for state, municipality, and nation, while every dollar of profit from the improvement has been absorbed by private industry. The expansion of the motor industry was possible only because of an accompanying expansion of governmental "bureaucratic" activity in road building, and many industries besides the motor industry profited thereby. But the government entered the depression under a heavy debt incurred, in large part, in providing the facilities for travel which made the sale of automobiles a possibility.

And yet, under date of July 11, 1935, in urging the stockholders of General Motors to oppose the President's proposal of a graduated tax on corporate incomes, Mr. Alfred P. Sloan, Jr. voiced the attitude so frequently found in men of business, saying:

Government does not create wealth — it dissipates wealth.

Why is it dissipation of wealth to build a highway between two cities and creation of wealth to build an automobile? Quite likely the expression was used by Mr. Sloan without due consideration. The more thoughtless its use, the more significant, as revealing the background attitude of business toward government. It is not directed against any one political party, but it is not fair to any party that assumes the responsibilities of government.

The railroads, now complaining bitterly of this governmental help to the trucking indus-

try, in early days were beneficiaries of generous public bounty with which they drove the stagecoach out of business. Great transcontinental railroads were aided by vast grants of public domain. In many places in the East they were given direct financial grants raised by bond issues of the localities. The first telegraph line was built with an appropriation of \$30,000 made by Congress in 1843. Many of our industries such as shipping and now air transport, have had the aid of government subsidies. Services demanded by business from government are innumerable and range from such services as coast guard, lighthouse, and harbor improvements to regulation of railroads demanded by the shippers.

Mr. Loomis, in enumerating the taxes which he dislikes, significantly omits to mention the scheme of taxation which has taken unknown sums out of the consuming public, not for the support of government but for the avowed purpose of increasing the return to certain private industries. Yes, I mean the tariff. As industry has adjusted itself to established tariff levels, I would not advocate sudden abandonment of those levels. But the same group cannot at one time urge that it is proper to use the power of taxation to protect the owners of "infant" industries from loss of earnings and improper to use the taxing power to protect the workers in the "infant" industry from loss of earnings through unemployment and ill health. Such groups cannot be right in both positions.

III

IT IS DIFFICULT from Mr. Loomis' article to learn just what he objects to in the program of the present administration. He repeats the claim that the President's tax program is a "soak-the-rich" program. He adds to it the unique philosophy that it does not soak the rich at all but that these taxes are really paid by the "common man." Therefore, he urges the "common man" to have a grievance against the Administration. One wonders why the rich were so disturbed about these taxes if it is the "common man" who pays them.

Few persons realize the extent to which the depression caused a shift in the burden of taxation. Tax collections in 1930 were governed by the Revenue Act of 1928, enacted under a Republican administration, which has never been

accused of trying to penalize the rich. In that year, income, estate, and gift taxes contributed to the national treasury 68.2 per cent of its total internal-revenue and customs receipts, while miscellaneous taxes and customs, which bear most heavily upon the consumer, contributed only 31.8 per cent. By 1933 this ratio had been changed so that only 41.7 per cent of such revenues were from income, estate, and gift taxes, while 58.3 per cent of such federal receipts came from consumer taxes.

The difference was this: Those who are in the income-tax classes, which constitute the more affluent element of the population, largely decreased their income-tax payments. Some had reduced incomes and some took advantage of ways, more or less lawful, to reduce their reported taxable incomes. In either case, they were not contributing to the cost of carrying the government through the depression in so large a ratio as they contributed when there was no depression. That class of taxpayers was allowed partially to postpone making its contribution to the cost of the depression until such time as it had income. The taxes that bear upon the consumer, however, were collected throughout the depression. Consumer taxes indirectly bear much more heavily, in proportion to ability to pay, upon the poorer classes. The man who smoked cigarettes or bought taxed articles of any kind was not permitted to postpone his contribution to the depression; but, on the contrary, his contribution was actually increased as a result of the Revenue Act of 1932. The consumer taxes were increased. Taxes upon incomes automatically decreased. The few glimpses which the public has had at the income-tax affairs of the very rich do not indicate that it was they who got "soaked" when they made out their returns.

Mr. Loomis does not clearly distinguish between activities of the government which he considers proper and those which he condemns. The specific measure of which he is critical is the social-security legislation, and he complains generally of the government's being in business.

In England, where prudence is the better part of conservatism, the Conservative Prime Minister, Stanley Baldwin, at Leeds recently summarized English experience in social security as follows:

We have in this country and have had for a number of years a system of social service — unemploy-

ment insurance, health insurance, old-age pensions, widows' pensions, and so forth — which is the envy or the admiration of the rest of the whole world. It is very costly and can be maintained so long as the general condition of the country is satisfactory and there is the necessary ability to bear those burdens. Its advantages are admitted on all sides, and we are all of us proud of the way in which we have been able to build up that system as we now have it.

Social security, like relief work, is indeed costly. But who can tell the cost of not doing it?

Eliminating human feeling from the argument and putting it in terms of property, we are probably agreed that it is not prudent to let men go hungry or unclad or unsheltered. Therefore, we must take account of the means by which men in their unproductive years may obtain food, raiment, and housing. There is only one answer — to be self-sustaining, each man must earn a lifetime of support during his working years. The fewer the working years, the more each must produce above outgo to provide for old age. In agriculture, useful life is long; one almost never ceases to be able to do "chores" and light work, to be "worth his salt." But industry has become so deadly competitive that it can use only one's best years, and, after 45 years of age, one becomes more and more an industrial untouchable. Those long later years must be provided for. It must be done by wages or taxes. You cannot hold down both ends of the seesaw.

An orthodox method of providing savings for age would be to pay wages substantially above cost of living during the productive years. But many workers do not have the will to save. If one were given wages enough to provide surplus for old age, business would send out a horde of high-pressure salesmen to make him and his wife want things they might not need, to overcome his "sales resistance" and get him signed up on an installment contract.

But, if a man of unusual will power does save, how shall he make his savings safe? In the bank where his employer was a director? How many did this and found that the "closed" sign on the factory soon meant a "closed" sign on the bank? Or should he buy stocks or bonds of leading enterprises sold by leading businessmen?

Social-security plans are partly the outgrowth of the insecurity with which our business methods have threatened savings.

Mr. Loomis is fearful lest the social-security law "discourage initiative and the habit of thrift," and he commends the "effective system of individual effort as the best means of promoting national progress."

Of the objections which might be urged to the social-security legislation, this is the least meritorious. Does it encourage one's habits of thrift to have his savings swept away by an illness that he cannot avoid? Is one encouraged to develop initiative and self-denial by having his home foreclosed upon when he has lost his job through no fault of his own? In America the worst blow that was ever struck at thrift and individual initiative was the depression, which swept away lifetime savings in banks, in homes, and in securities. The President's effort to protect savings through deposit insurance, home loans, and enforced honesty among security dealers is a distinct encouragement of initiative and thrift. A man must undergo some self-denial in order to save. To convince him it is worth while, his savings must be secure against fraud, against bank failure, and against the assaults of unemployment and ill health.

Those who talk rugged individualism seem always to be those who live softly themselves. These same persons who advocate life in the raw, to make people sturdy, take none of the rugged individualism to themselves. They are terrified at the suggestion of inheritance taxes, the effect of which at the worst would be to give their own sons a chance to be rugged individualists.

IV

THE COMPLAINT about the government's being in business is strange doctrine in the mouths of most of those who utter it. I wish it were possible for the government to stay out of business, but business in March, 1933, dumped its prostrate self and all its problems upon the incoming administration. The only unimpaired credit was that of the government — political credit was good after business credit was gone. To that source all turned, and it did not fail them.

As of August 23, 1935, the Reconstruction Finance Corporation had made 6,304 disbursements on account of preferred stock and capital debentures to banks. The government having restored banks' impaired capital, the bank-

ers now demand that it get out of business. Had the banks been able to handle their problems themselves, the government would never have been in this branch of business. In addition, railroads, insurance companies, and many industrial concerns resumed operations through government aid.

By August 22, 1935, the Home Owners' Loan Corporation had closed 904,795 loans involving advances of \$2,732,312,342. A large amount of this money went to municipalities to pay arrears of taxes. A great deal of it went to banks to relieve them of frozen mortgage loans. All of it went to protect families in the enjoyment of their own firesides, which were threatened by causes in which they had no part. Isn't it fair that Mr. Loomis should stand up and say whether he is for or against this sort of thing?

The last suggestion of Mr. Loomis is challenging. He says he will use the ballot to put different men on guard, from which I gather that he will vote the Republican ticket.

I don't think Mr. Loomis knows yet what its platform will be or what type of candidate it will choose. Every measure of the present administration that he opposes has received many Republican Congressional votes. Will he support a candidate who has voted for New Deal measures or will he weed them out of his party?

By the way, what was the policy of the last Republican administration in dealing with the depression problems? Did anyone ever find out? Did any measure ever have the support of more than a fraction of that party? Did the last Republican president have support from a working majority of his own party in Congress? Has the Republican party gained, out of power, the cohesion which it lacked, in power? Is it now a party united on any major issue before the country?

Its old leaders who were turned out for lack of a coherent policy now come back and say, "There has come to us, out of office, wisdom we did not have while in. We can reveal it only after election. But if you only knew what our secrets are you would want us back."

I believe in a strong party of opposition and believe that an unwieldy majority for any governing party is a blow to its prudence. But a party which has failed pathetically in every function of opposition cannot be prepared to

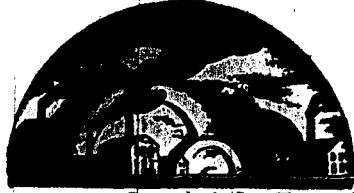
assume the responsibility of governing under a coherent and clear alternative program.

Mr. Loomis says, "What everyone desires is a return to normal conditions." How reminiscent of the yearning for "normalcy" which was made manifest in the election of the late Warren G. Harding!

Another Republican business leader, Edward F. Hutton, has expressed the same yearning, which he proposes to implement by rougher

tactics. He advised the utility men, "So I say, let's gang up." They responded with wholesale defiance of the government.

I wonder if this slogan does express the real methods and purposes of the opposition to Mr. Roosevelt, if it is the true measure of their sportsmanship and devotion to the democratic principle of majority rule, and if free government in America does not face the Fascist cry "*Let's gang up!*"



Decoration by Slow Wengenroth