

POLITICS AND THE SALES TAX

By ROBERT R. REED

THE practical difficulty in securing the sales tax in this country lies in the fact that men either will not take the trouble to think the matter out as a practical problem, or that they dare not support it because it is a professed consumption tax and therefore politically unpopular. It is only fair to add that this difficulty has been increased by a seemingly inspired business hostility to the sales tax, and that this hostility seems to come very largely from semi-monopolistic interests which are beneficiaries of the highly graduated profits taxation because of its destructive effect on their competitors, and are opposed to the sales tax because the sales tax cannot be so readily shifted by an industry which is able to fix its retail price without regard to cost or competition. There are, of course, sincere disbelievers. Like Professor Seligman, they discuss the proposal fairly and their opposition is (or was) relative, not absolute.

The result to date is that the farmer and workingman organizations are playing into the hands of interests which, to put it concretely, and perhaps too strongly, wish to levy their own consumption tax on the public. It is this kind of opposition which has played up the commodities sales tax as a proposal to shift the burden of taxation from the rich to the poor. Its argument rests on two assumptions. The first is that our present income taxes fall on wealth. The second is that the advocates of the sales tax want to repeal or eliminate these taxes. Each assumption is politically popular and absolutely false.

For many years we have been developing a condition, in state and nation, where exaggerated promises and panaceas

are held out to the voters, even enacted into statutes, which somehow or other rarely accomplish or do what is declared. The higher surtaxes as they now exist are a political lie. Every lawyer familiar with their actual operation knows this. I have followed the income tax from its inception, both in Congress and in the Treasury, and also in my practice for clients. I find that these highest surtaxes rest on accidents—not on real income. The man of large invested wealth may escape them entirely. If he assumes them, he commands a price for his capital that relieves him of the tax.

The average business man whose profits come from risk and personal effort, the man who has made America, pays them at the peak of his earning power according to the accident of his profits. If he is successful, he may find several profitable ventures culminating in a single year. He makes one hundred thousand dollars; the next year he makes twenty thousand dollars; the third year he loses twenty thousand dollars. On a beneficial earning of one hundred thousand dollars in three years he pays a tax predicated on one hundred thousand dollars as a beneficial one year's income. He pays for the three years much more than the nominally high rates applicable to his real income, more than twice the tax of the man with a constant income of thirty-four thousand dollars a year. After long labor and sacrifice, the business man comes to the period of life where his past efforts bear fruit, when he hopes to succeed, to reap what he has sown in toil and self-denial. He finds a thirty per cent. to fifty per cent. income tax taking more than half of his surplus over current living costs—more than half of the earnings of a lifetime—of his potential capital.

When he asks his Congressman about it, he is told that these high taxes were intended for the millionaire—for the idle rich. The Congressman is very sympathetic when he learns at first hand the practical operation of the tax, but when you appeal to him at Washington he lets you know that the average voter still thinks these taxes rest on the

rich, and if he votes to reduce them he will or may lose his job.* You may also find that the tax representative of some favored industry, opposed to the sales tax, has something to do with it.

The higher surtaxes running above thirty-two per cent. were producing less than ninety million dollars a year ago. Less than three per cent. of the total revenue came from these higher rates of incomes over sixty-six thousand dollars. Relatively few of those incomes represent great wealth.

May I add that sixty million dollars seems a high estimate for the current yield from these top rate surtaxes. This is about one and one-half per cent. of the total revenue.

In perpetuating this political lie and to secure this one and one-half per cent. of the revenue, the normal conditions of business are reversed. Great investment wealth which should and would take business risks is driven into hiding. The very rich class pretended to be taxed is protected and made exclusive—protected by being driven into safe tax-free securities, and exclusive because the rest of us are taxed to destruction if we have the ability and business opportunity and dare to take the risks necessary to make substantial profits.

It is the business and the individual, the workingman and the farmer, not investment or wealth, that suffers from the unproductive surtaxes, from the political lie which perpetuates them. Wealth is exempt; monopoly is favored by the restriction of competition and the slaughter of individual aspirants. Business halts, labor is unemployed, and farm products must be sold for less than a living profit.

So much for the higher surtaxes. If it is true that advo-

*There is in Congress, as elsewhere, a failure to fully appreciate the destructive incidence of the higher surtaxes on varying business profits. Members of Congress, reputed to be men of wealth whose properties are incorporated, urge the higher surtaxes with a splendid gesture, failing to appreciate their effects because in their own businesses they pay them only if, as, and when they distribute their income as dividends. Others, honestly obsessed with the excess profits fallacy, wish to limit the corporation tax on profits under eight per cent., not realizing that this discriminates heavily in favor of the incorporated investment of the "idle rich" and the constant secure income of the semi-monopoly as compared with the rising and falling profits of the average business corporation.

cates of the sales tax hope to see these highest taxes removed, it is not for the purpose of being relieved from their money cost, which few of us pay and the total of which is negligible, but to relieve business from their arbitrary effects from which all of us, and especially the workingman and farmer, are now suffering.

Manifestly, it is not a question of shifting the burden. In approaching the sales tax, we are considering, first, the need of more revenue, and, second, the source from which it may be obtained. There is only one way that adequate revenue may be obtained from the income tax, and that is by raising the normal rate and the so-called lower brackets. That is desired by no one, least of all by the Congressman who is studying taxation in terms of the next election.

A study of the actual revenue situation shows two things: one, that the income and excess profits tax is producing less than one billion five hundred million dollars for the taxable year 1921 instead of three billion and over which was produced by the same rates out of the income of 1919; the other, that, as the large revenue still derived from war salvage and back taxes disappears, we face a revenue deficit of approximately five hundred million a year. How is this revenue to be obtained? One of the leaders of the group of business opponents of the sales tax has voiced the following:

"We are going to come to a time when there will be a fluctuation in the revenue requirements of the government, and when that time comes if we shall have established a permanent system of taxation—and, incidentally, I believe the income tax is the real foundation of our revenue system, and it should always be considered as such and perfected as we may perfect it in the next few years—and then when we come to this point where we can stand a cut in revenue, all that will be necessary will be to shave down our rates."

In other words, the incomes of the country fall from heaven in a fixed amount and their distribution is ordained by nature. Our only concern is with the rate of tax to produce a needed revenue.

What we are facing today is a drop in the revenue yield of a tax on incomes far exceeding the decline in revenue requirements. This drop is induced not only by business depression, but by the fifty-seven varieties of avoidance under a tax system of accidents.

As against the kind of tax economics which I have quoted, if we can call it such, the advocates of the commodities sales tax propose a dependable base or foundation for Federal revenue. They suggest that there should be a low rate productive tax on a dependable source, and the source they have indicated is commodity sales. These constitute the most constant class of necessary transactions, transactions which vary least with industrial changes, which can be least readily avoided or fabricated, and the taxation of which will least disturb the normal freedom of industry. We do not propose this as an exclusive tax or as a substitute for anything except economic heresy and political cowardice. We do say that, given this dependable base tax, Congress can and should continue the income tax, and, as conditions permit, endeavor to make the whole tax system rest according to ability on the expenditures and income of the country.

With this base tax on all and the added taxes on incomes as they rise, we have at least in principle the ideal of taxation according to ability.

We have called the sales tax the honest consumption tax, to emphasize the political dishonesty of a tax nominally on wealth, which, in its necessary effects, throws not only its cost, but an added burden on consumption.

The kind of a sales tax is almost as important as the sales tax itself. We now have a system of so-called concentrated sales taxes, comprising a number of excise sales taxes on particular commodities, including tobacco, automobiles, cameras, jewelry, candy, carpets, and other quasi-sales taxes on motion pictures and other occupations. It is also proposed to tax sales of gasoline and sugar, and possibly electric light bulbs, etc. These special sales taxes may be likened to a large number of variegated little wagons, some of them

little go-carts, all of them carrying the tax paid by the consumer to the Federal government. In this procession of tax vehicles there is one which all of us recognize, the old reliable tobacco tax. There was another equally substantial one which is perhaps missed even more by the consumer than by the Treasury—the old alcoholic beverage tax. The advocates of the general sales tax desire to keep the tobacco tax, but instead of increasing the miscellaneous go-carts and dog-wagons known as special sales taxes, with their varying systems of administration, they wish to present to both the consumer and Uncle Sam a new motor truck that will carry the desired load in one trip and with one driver. They do not necessarily want to increase the load, but they wish to use one general and sufficient vehicle instead of a variety of little ones.

The commodity sales tax truck will stop at every door as do our other tax vehicles. Like the concentrated special taxes, it will take the tax-payer's contribution according to his own standard of ability, that of expenditure. Unlike some of the special taxes, it will carry the total contribution without mishap, evasion, overloading, or avoidance, right to the Treasury.

It is not intended that this general vehicle shall take from the consumer anything more than the tax on commodities purchased. The commodities tax would not apply to sales of real estate, to rent, or doctors' bills. These are different possible subjects of taxation. They cannot go in the commodities sales tax truck, and most of us believe that it is unwise and unnecessary to have a bunch of Fords running alongside, or to burden either the consumer or Uncle Sam with too many calls and deliveries when the desired load can be transmitted in one vehicle.

Many objections have been made and will be made to various all-inclusive tax proposals which go beyond the commodities sales tax and link it up with taxes on voluntary capital transactions and other forms of turn-over, or make it a part of a complete tax program which in their enthusi-

asm some gentlemen would present to Congress for enactment. The nearer we come and the closer we stick to the very simple proposal of a commodities sales tax, the more completely are all objections removed. This is the tax which has proved so successful in the Philippines, and, with the exclusion of retailers' sales and a number of specific exceptions, in Canada. It is not the tax which has proved less successful in other countries, such as medieval Spain, and recently in France, or in our own days of reconstruction after the Civil War. It is important, not only to the successful advocacy of the sales tax, but to its successful operation and permanence, if adopted, that we adhere to this simple principle, to the conception of the single vehicle carrying an honest load from the consumer to the Treasury. Whatever may be said for taxing things other than commodities, the fact remains that they are essentially different things and should not be included in our conception of a general commodities sales tax.

Practically all that has been said or can be said against the commodities sales tax was said most ably and effectively by a number of its opponents who appeared before the Senate Finance Committee in May, 1921. A review and discussion of all this adverse testimony has been prepared. The result is a demonstration of the inconsistency and interested character of much of the business opposition, of the sadly mis-informed character of the agricultural and labor opposition, and of the final fact that there is no objection to the sales tax other than that it is a consumption tax, which, in the opinion of Professor Seligman, is less desirable than additional specific taxes on a number of special articles, such as sugar and gasoline.

When this final fact is brought home to the farmer and the workingman, when they realize the futility and political hypocrisy of the pretended tax on wealth, we should see a definite reversal of their opposition to the most honest and least burdensome form of a consumption tax.

NEW YORK'S EDUCATIONAL SYSTEM

By HARRY B. CHAMBERS

LITTLE is known, outside of educational circles, of the Department of Education of this, the greatest city, and of the problems that confront the Board of Education, the Superintendent of Schools, and others composing our great educational system. This lack of uniform knowledge is unfortunate, and greater sympathy, support and co-operation would prevail, and more intelligent and constructive assistance would be rendered, if the facts in question were disseminated. A visiting leader in the educational world, an outsider, has recently stated that the New York schools stir wonder. The magnitude of the problems and the handling of them amazed this educational writer. There will be practically a million children enrolled in the public schools of New York City this year, and they will cover the widest conceivable range of ability and non-ability, of the homes of saints and sinners, of the homes of culture and ignorance, of one hundred per cent Americans and one hundred per cent non-Americans.

As is befitting the largest city in the world, we have the largest educational system in the world. The school population of New York City is larger than the combined school populations of the five cities next in point of population to the city of New York. We have, as stated above, one million children; we have also twenty-five thousand teachers, over six hundred schools, and more than three thousand executive employees. This supervisory and teaching staff, and the administrative executives, constitute the finest personnel available in the matter of efficiency and love of the work. They are splendid men and women who are giving their lives to this work, modestly and efficiently, while