Taxes, Taxes, Taxes!

by JAY FRANKLIN

TWO YEARS ago, when it was still good politics to pretend that taxes need not be increased and when our business leaders insisted that a cheerful whistle was all we needed to see us through the economic graveyard, one of our younger political economists wrote a paragraph which deserves to be written in letters of fire upon the brow of every American Secretary of the Treasury and every investor in government, state, and municipal bonds — and which will be so written unless the advice is heeded:

> The greatest challenge to scientific American government and to political engineers, great and small, is the orderly organization and simplification of our tax system. As matters stand, government simply sets up a set of toll gates at the points where money passes — estates, customs, ticket offices and the like — and takes a crack at cash in passing. We have customs duties, income taxes, excise taxes, sales and luxury taxes, entertainment taxes, inheritance taxes, poll taxes and general property taxes — all writhing together in a matted mass of conflicting jurisdictions and governmental cross-purposes.

To-day we find the American tax system in chaos. Great cities like Chicago are bankrupt. State taxes are rising. The government at Washington is down on all fours scrambling for pennies, and billions of funds are being pumped into our anæmic banking system, while hundreds of millions more are being appropriated for relief and reconstruction: relief for the victims of our own economic stupidity, reconstruction of the very system which created the victims which we are now required to relieve. Andrew Mellon had scarcely headed in the direction of the Court of St. James and the statutory satin knee-breeches, when Ogden Mills coarsely remarked that the government deficit for 1932–33 would be about half a billion dollars greater than had been expected. Mr. Mills followed up that statement with a proposal to raid the traditional source of state revenues by imposing a federal gasoline tax and to tax electric light and gas bills at the handsome rate of 7%, gross, which is considerably more than the malevolent "Power Trust" squeezes out of the helpless consumers.

A crisis in American taxation is rapidly approaching. Every governmental agency has power to tax everything within its borders, excepting imports, while the only things which the government can't tax are exports and real estate. The states and the Federal Government wrestle for the income tax and the inheritance tax, the government is going after the gasoline tax, and in the ensuing struggle for solvency the underlying cause of the disorder — the extravagant cost of American government — will be lost to sight. Congress, dragooned by fear lest the United States be forced to abandon the Gold Standard, which, together with the Holy Ghost, is the greatest mystery of modern life, is rushing through bills to attach the banking system to the tank of inflative laughing gas at the same time that it votes down measures to relieve the destitute. This is the stuff of which little revolutions are made, and when high taxes are added to the formula the Treasury experts will have their work cut out for them.

In the last thirty years the cost of American government has been multiplying out of all proportion to the growth of American wealth. Since 1900, our wealth has increased from about ninety billion dollars to about three hundred and sixty billion, an increase of 300%. In the same period the cost of Federal Government has increased from a little over half a billion to over four billion dollars, an increase of 700%. State levies on general property have increased from $725,000,000 to nearly four billion dollars, an increase of nearly 500%, and municipal taxation for all cities over 30,000 in population now amounts to well over three billion dollars. The cost of government in the United States to-day is around twelve billion dollars and is still rising.

The debts of government are also rising steadily. In 1902, all governmental debts amounted to less than three billion dollars. To-day they are well over thirty billions, an increase of 900%. The state debts alone increased from $235,000,000, or $2.99 per capita, in 1902, to $1,850,000,000, or $15.38 per capita, in 1929. In the twenty years from 1902 to 1922, the combined debts of all state and local governments increased from less than two billion to nearly nine billion dollars, and then they really began borrowing in a big way. Since the war, the expenditures of our cities have exceeded their revenues by at least a quarter of a billion dollars a year. In 1929, out of seventy-four cities which had a population of 100,000 and over, only nineteen had balanced their budgets. In that year, which was one of the most prosperous on record, Chicago had a deficit of $150,000,000. Here is what has been happening to the urban taxpayer, while his eyes were focused on "Coolidge economy":

CITY	PER CAPITA REVENUE		PER CAPITA COST OF ADMINISTRATION	
	1922	1929	1922	1929
New York City	$69.94	$97.07	$57.31	$73.85
Chicago	54.20	30.43	39.92	51.93
Milwaukee *	59.50	83.48	40.07	56.89
Washington **	57.27	88.12	42.03	63.19
Philadelphia	47.55	68.59	43.34	60.91
Detroit	65.53	106.24	50.10	75.94
Los Angeles	79.81	136.62	48.30	81.26
St. Louis	44.88	61.79	34.05	46.46
New Orleans	44.46	55.52	35.63	43.38

* *Socialist Administration* ***Administered by Congress*

And here is the trend of the cost of state and federal government:

	PER CAPITA REVENUE		PER CAPITA COST OF ADMINISTRATION	
	1922	1927	1922	1927
States	$10.71	$14.99	$8.50	$10.30
	1922	1929	1922	1929
Federal	$38.04	$33.61	$35.13	$32.06

In other words, in a period during which the cost of the national government to the individual was being reduced by about ten per cent, and at a time when the general cost of living was substantially decreased, the cost of state government to the individual was increasing by twenty per cent and the cost of city government was mounting by approximately fifty per cent. Or, stated differently: the cost of city government, to the inhabitants of a city, was greater than the combined cost of state and national government to the same individual. For every penny saved in taxes at Washington, five cents were added to his taxes at the City Hall and State House.

Sources of Revenue

In the meantime, the government at Washington has been whoring after strange sources of revenue. At the beginning of the twentieth century, half of the government's income was derived from the tariff and half from the tax on liquor and tobacco. The same proportion continued up to 1913, when the Income Tax Amendment was adopted and gave to Washington the money which later encouraged it to fight a World War. In 1919, the government burned its bridges and threw away the liquor revenue by adopting the Eighteenth Amendment. To-day, half of our revenue comes from the income tax and the other half from customs, tobacco taxes, and other miscellaneous sources dear to the statistician.

The new Mellon-Mills tax proposals recommend increases of the income tax, of the surtax, and lowering of exemptions; taxes on entertainments costing more than ten cents, on automobiles and trucks, on automobile accessories, radios, telephone and telegraph service, gas, electricity, and gasoline, with other little increases all along the line, which are calculated to take the heart out of the municipal tax collector and to infuriate the individual taxpayer. At the same time, the government has thrown the burden of unemployment relief — and there are over eight million unemployed at this writing — onto local agencies, which means, in practice, that the governments of our states and cities are given a burden thrice as great as that which drove the British Government off the Gold Standard.

All of this is absolutely necessary under our system of government. Three successive budgets show a gross federal deficit of over four and a half billion dollars for the period 1930–33. This means that the government must borrow money and that its credit will not be good unless it makes an honest effort to meet its obligations and avoid unnecessary expenditures. The military defense of the United States costs close to a billion a year and cannot be reduced at a time when Japan is making *banzai* in the Far East. The interest and sinking fund of the public debt costs about a billion dollars more, and that cannot be abandoned. The Veterans cost another billion a year, and that leaves only a billion more with which to relieve the farmer, subsidize shipping, pay the Post Office to operate at a loss, and conduct the dignified and more or less expensive operations of the government in behalf of the business men, the labor unions, and the enforcement of prohibition.

A side-splitting burlesque of responsible government was recently staged at Washington when the Ways and Means Committee of the House of Representatives voted to reduce the appropriations of every single one of the executive departments, which perform the real as opposed to the socialistic purposes of government in a democracy, and even slashed the vital State Department Emergency Fund, and then refused to remove a dollar from the millions required to enforce the prohibition law, which is a measure standing between the government and a revenue which has been estimated up to a billion dollars a year in taxes on liquor. If there were ever any justification in tax resistance, it lies in such acts as this.

And it will go on and on and on. The Democrats will be glad to compel the Republicans to raise direct taxes on the eve of a Presidential election. The Republicans will try to put the black spot on the Democrats. Neither party will muster the moral courage to say "No!" to the farmers, the bankers, the railroads, the shipping interests, the veterans, the manufacturers, or the prohibitionists, each with its own special brand of the "gimmes," each out for itself and shouting "dole!" at the other fellow. The poor and the unemployed must be fed at the expense of the states and cities. Debts must be paid and credit maintained, and everybody will engage in a mad scramble for cash with which to pay taxes, while every official agency in the nation will wrestle with the others to get first cut at the tax register. Income taxes will mount higher and higher and popular discontent will become sullen and stupefied by the constant demands for money and the difficulty of getting it, while Moscow will have its first hearty laugh since Lenin died.

Here is an opportunity for a financial Hercules with authority. It is, rather, a task for a Presidential Commission, to study, analyze, compare, and make binding recommendations — recommendations to which the Administration and both Parties are pledged in advance — for the reform of our tax system. Its recommendations when enacted must have the force of a Constitutional Amendment and must clarify and simplify this revolting mess to which we have been reduced by our national desire to let George do it when it comes to laying or paying the taxes.

As matters stand, no one man, however great, can hope to amass, let alone understand, the multiplicity of data which is involved in this problem. Much of it is not even available to the Federal Government. The most expert of our actuaries and statisticians will have to work hard and long if they are going to make any appreciable improvement upon the present system. However, one major set of principles should underlie all their work: the elimination of the present conflict of tax jurisdictions and the imposition of taxes which will be subtracted from the national income rather than utilized to swell the cost of living.

Order from Chaos

So far as a layman may enter this field with suggestions, the following division of sources of revenue appears just and reasonable:

1. Federal Revenues: Income tax, estate tax, customs duties, tobacco tax, liquor tax, tax on corporations and goods in interstate commerce.

2. State Revenues: Gasoline and other consumption taxes, licenses (automobiles), and, if necessary, a definite *pro rata* share of the income and estate taxes collected by the Federal Government.

3. County, Municipal, and Township Revenues: Poll tax, general property tax, direct assessments for improvements, school taxes, *etc.*

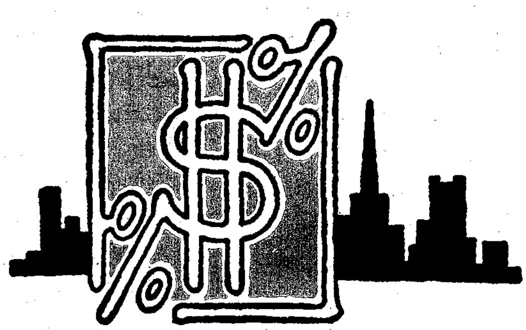
So far as the character of taxation is involved, it is evident that the graduated income tax, which now operates as a piece of class legislation (only 2,411,000 individuals were liable to the tax out of the 45,000,000 gainfully employed Americans in 1930) and which has failed in its purpose of transferring wealth from the classes to the masses (the concentration of wealth in a few hands has been accelerated during the operation of this law) should be applied to *all incomes at the source*, through the imposition of appropriate pay-roll, dividend, and other taxes. The present system of individual and corporate returns, if retained as a social weapon, should be regarded as a surtax pure and simple, and used to retire the public debt.

Taxation should, so far as possible, be kept direct and open, a plain advertisement of the cost of government to the individual. The index of the cost of living and the wage scale is useless so far as the mass of our people are concerned. They must be directly reminded that cost of government is part, over 10%, of the cost of living.

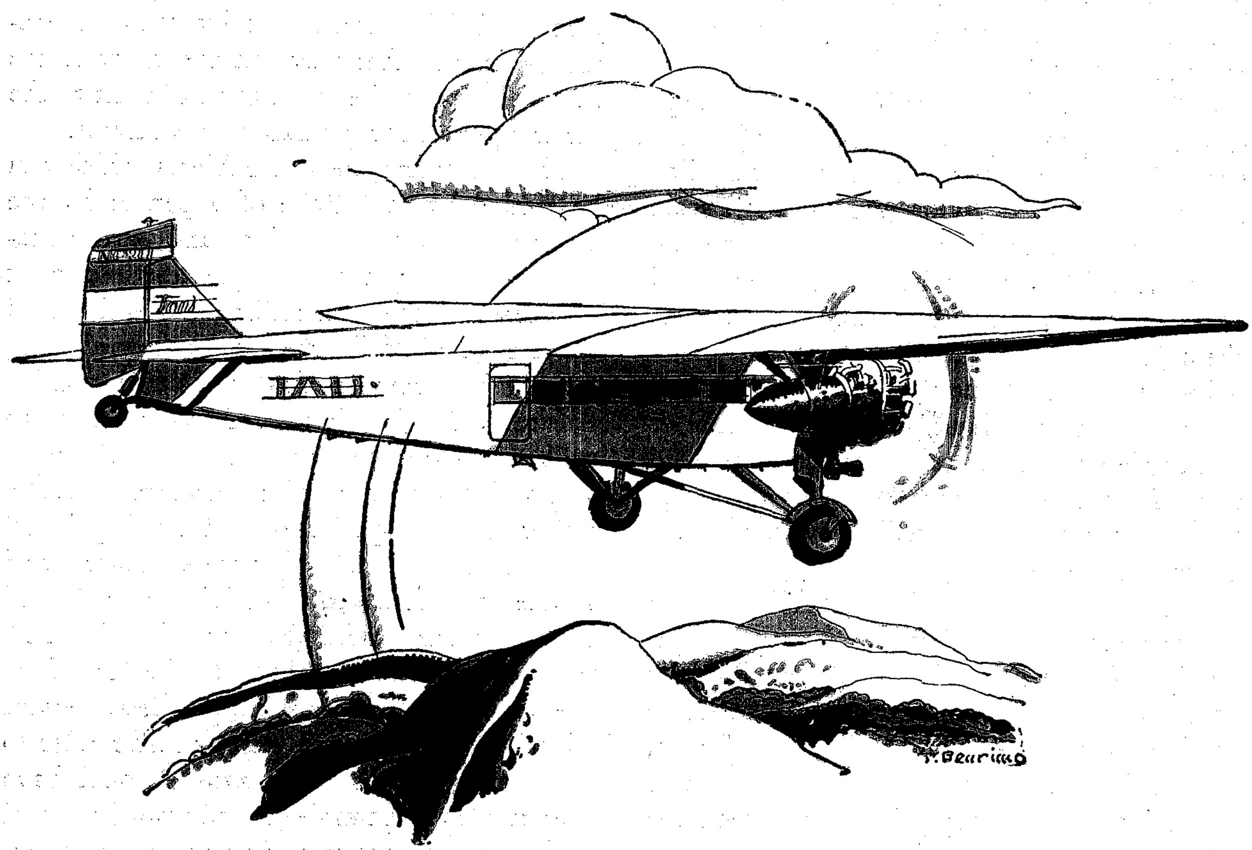
In the third place, no appropriation over and above the budget should be constitutional or valid unless the measure prescribes in detailed and adequate terms the source of the additional revenue which will serve that appropriation.

And finally, financial responsibility for government should devolve upon the individual. If the Federal Government defaults an obligation, it should automatically become an obligation of the several states of the Union, pro rated on the basis of their contributions to the Federal Treasury in federal tax collections; if the states default, the obligation should automatically devolve upon the counties and municipalities on the basis of their general property valuations; if counties or municipalities default, the obligation should devolve on the individual residents of those sub-divisions of government, and it should be made legal and mandatory for the state or, if necessary, the Federal Government to levy proportional taxes, on a general property basis, to recover the funds necessary to meet the obligation. In no other way can the individual American citizens be compelled to scrutinize expenditures and debts contracted by their governments. In no other way can the unity of the national credit be maintained during the coming period of repudiation and default.

These matters are not subjects which can be settled by the stroke of a pen or by the assembly of a few succulent and partial statistics. It is a job for the greatest and most disinterested of social reformers and financial experts. It is a full time job for several years for our best men in this specialized and intricate field. What is needed is a man of the caliber of a Baruch, or a Holmes, or a Turgot, who will bring order and reason into a chaotic welter of cross-purposes and rival political authorities. We shall want the testimony and advice of billionaires, of social economists, of radical reformers, of plain practical business men, and of experienced tax collectors. It is the greatest, if the most thankless, service which any President or party could render to this country. Two years ago it would have been utterly impossible. To-day, with the real crisis upon us, it is an urgent necessity. Otherwise, the authority and stability of government in the United States will go by default in the face of a wild clamor for funds for the farmer, funds for the veteran, funds for the unemployed, funds for nice new courthouses, and municipal henchmen. If the present trend of disorganization and irresponsibility is not reversed, the sooner we scrap our entire form of government the better for us all.



Safety in Air Transport



by **CASEY JONES**

I HAVE flown more than half a million miles. During the past fifteen years I have served as a pilot with the military forces at home and in France, have trained hundreds of students, operated commercial flying in all its branches, tested new planes, flown in races, and ridden on most of the country's air lines. I am familiar with the problems and dangers of flying and am not easily disturbed. In fact I can qualify, as they say in court, as an "expert" air traveler.

Recently I was making a flight from Chicago to Cleveland on a line operated by one of the transport companies. I had heard, at that time, about an article published in the February FORUM ("Death by Air Transport," by Lloyd S. Graham) which was causing comment in the aviation industry. I purchased a copy before boarding the plane and stuck it in my pocket to read en route. There it remained while the pilot revved up each of his three motors to see tnat they were functioning properly and, on signal from the flagman, gave her the gun and we were off. After that I became interested in noting the route the pilot would follow, spied an incoming air liner traveling fast and low with a tail wind, and spent some time explaining to a lady seated ahead of me that we were climbing to an altitude of more than 8000 feet to take advantage of a tail wind there instead of bucking the head wind that was blowing near the ground. Consequently we were two miles up over the tip of Lake Michigan when I got out my FORUM and turned to Mr. Graham's article.

The first page was good reading, describing the start of an air journey — in fact, it might have been an account of our own departure from Chicago fifteen minutes earlier. Reading on, however, I found my hair literally standing on end. After a series of unwise decisions, breath-taking escapes, and lugubrious regrets