

- 34-35 Shed politics and the politician. Turn to Social Service. Join four Clubs and three Movements. Boost the Feminists and Suffragists. Talk, and listen to talk. Begin to suspect Movements. Suspect all Human Nature. Get more tired.
- 35-36 A great weariness. Sick of Action. Sick of Words. Sick of Humanity. No illusions left. Shed everything. Do nothing. Turn to Art.
- 36-37 Believe in Art. Recover Temperament, but don't mention it. Fall in love with an artist. Believe in love. Believe in the artist. Get married.
- 37 Have a child, who will begin it all over again.

JANE MANDER.

A National Inheritance Tax

THE preparedness campaign and the consequent need of increasing the revenue of the national government have brought forward a fiscal problem more important than any which has hitherto confronted the nation. We have gone through three stages in our fiscal history. Apart from the short-lived experiment made almost at the outset by the Federalists, the national government depended for its support for over half a century, and with only a slight interlude during the war with Great Britain, well nigh exclusively upon one form of indirect taxation—the customs revenue. The Civil War taught the country the inadequacy of this primitive system, and added as a permanent feature the other side of indirect taxation known as the internal revenue. After almost half a century's experimenting with this second phase, the country reverted in 1909 to Hamilton's original idea, and decided to draw a part of its fiscal support from direct as well as indirect taxation. Beginning with the corporation or excise tax, it soon added an income tax, and is now seriously considering the imposition of an inheritance tax.

This transition from indirect to direct taxation is an interesting phenomenon. Regarded as a democratic movement, it represents a world-wide tendency to bring existing systems of taxation into harmony with the principle of ability to pay and the endeavor to lighten the load which rests upon the less wealthy classes. In the United States, the particular form which the movement is assuming is in no small degree influenced by the consideration that, although the direct taxes levied by the states and localities do not bear with special hardship upon the poor, it is precisely the larger fortunes that are escaping their fair share of the public burdens. It is natural,

therefore, to witness, in this third stage of our fiscal history, a movement which attempts at the same time to diminish the burden on the poor by a reduction of the indirect taxes, and to augment the burden on the rich by federal direct taxes.

That this movement may be pushed too far is probable. More direct taxes are indeed needed; but an exclusive, or even a preponderant, reliance on direct taxes is both hazardous and unnecessary. It is hazardous because the history of every nation has taught that the narrower the base of taxation, the greater are the difficulties. The fiscal objections to a single tax apply to a single system of any kind. Exclusive reliance for local, state, and federal revenues on any combination of direct taxes alone would necessitate such high rates as greatly to multiply the inherent difficulties in any system. It is a significant fact that even the most democratic countries like England, Australia and Switzerland continue to rely in large part upon indirect taxation, and that in Canada, as well as in Great Britain, the recently added war burdens have been divided between indirect and direct taxes. Those who enthusiastically contemplate a total abandonment by the national government of its indirect taxes are living in a fool's paradise.

Furthermore, such an abandonment is as unnecessary as it is hazardous. Many think of indirect taxation as being virtually taxation on the consumption of the poor. That this has been in large measure true in the past is undoubted; but that it is necessarily true is incorrect. For, in the first place, it is possible to apply to indirect taxation the graduated or progressive principle which is now becoming so popular in the case of direct taxation. Why should not taxation on consumption be so graded as to fall with heavier impact on the consumption of the wealthier classes? Why should not the whisky tax be imposed at a higher rate on the better grades? Why should not the tobacco tax be so arranged as to increase progressively with the price of the cigar? If we apply graduated taxation to incomes, inheritances and property, why should we not utilize the same principle as far as practicable in the case of articles of consumption? And, in the second place, indirect taxes are by no means limited to consumable commodities. In the shape of certain stamp taxes they can be applied to transactions so as to combine with great revenue a relatively slight burden on business, and a still slighter burden on the small business man. If the necessities of the national revenue should one day become really urgent, it will be found that we shall not only be unable to dispense with indirect taxes, but that it will be possible to frame a system of indirect taxation which will be in large measure free from the objections that are usually advanced.

For the immediate future, however, it may be conceded that a relatively larger proportion of national revenues should be derived from direct taxation; and the question before the country now is as to what form it should take. This has brought into the forefront of discussion a matter which has hitherto engaged the attention of only a few students of public finance: the relations of national, state, and local fiscal systems. As long as the revenue needs were few and simple, it was possible to live, as it were, in water-tight compartments, with a strict division between the national and state systems. But as soon as revenue needs became important, we were bound to witness the emergence of the same difficulties that have confronted the older federal states. As soon as the national corporation excise tax was introduced, careful thinkers began to ask what should be its relation to the state tax on corporations. As soon as the national income tax was enforced, it affected the problem of the possible reform of our state and local systems through a state income tax. And now, when we hear mutterings of a national inheritance tax, we are met by the insistent demand of the states that they should be left in complete possession of a field which some of them have already begun to cultivate.

The complex problem of the relations of national and state taxation of corporations and of individual incomes cannot be disposed of in a few words. It is a subject that will require careful thinking and statesmanlike action in the not distant future. But even with the restoration of the sugar tax, and the doubling of the yield of the income tax, it is more than likely that additional revenues will have to be provided in the immediate future for the national government. The question at once arises, why should not this additional revenue come from an inheritance tax?

It is obvious that we have here an almost untapped source of income. In 1913, the year of the latest census report, inheritance taxes were levied by thirty-five states with a total yield of a little over twenty-six million dollars. In the same year Great Britain raised over one hundred and thirty-five million dollars from its inheritance tax. Yet the national wealth of Great Britain at present is only between seventy or eighty billions, as compared with between one hundred and eighty and two hundred billions in the United States. It would be entirely safe to assert that if inheritances in the United States at the present time were to be taxed at the same rate and with the same effectiveness as in England before the war, we could easily raise three hundred and fifty millions from this source alone. Compared with this, twenty-six millions that we are now receiving is a beggarly pittance. The yield with us is so insignificant not only because our rates

are low, but also because the well known complexities of interstate taxation facilitate an evasion of the tax which would be altogether impossible under a national law.

The fact remains, however, that the states now need and will continue to need a revenue from the inheritance tax. How then, can this three-pronged problem be solved? How, in other words, can we dispose once and for all of, first, the need of increasing revenue on the part of the national government; second, of the retention or increase of such revenue for the state government; and third, of the present undertaxation of some inheritances and double taxation of others, due to our interstate complexities?

The solution, I venture to assert, is a simple one: the taxation at a progressive but comparatively low rate of all inheritances by national law and the distribution of a part of the proceeds back to the states. If the national government were to levy both a direct and a collateral inheritance tax at even one-half the rates found in England before the war, and if it were to return forty per cent to the states, not only would the national government have an additional hundred millions of revenue, but the states would receive two or three times as much as they are now able to secure from this source. In other words, a national inheritance tax, with an equitable division of the yield, would benefit state and nation alike and would go far to solve our most pressing fiscal problem.

The question will at once arise, is such a project constitutional? When the present writer first advanced this scheme several years ago, some of our prominent lawyers shook their heads in grave doubt. The last few years, however, have seen a great change in sentiment and it is now reasonably certain that the plan can be worked out either directly or indirectly.

The Constitution gives the national government the power to levy taxes, but does not restrict the government in its power to dispose of the proceeds. In 1836 the national government distributed to the separate states twenty-seven millions of its surplus. Time and time again the national government has turned over to the states its property consisting of lands, and has apportioned to the states all manner of aid or contributions from the national treasury. There are not a few ways in which the projected scheme could be realized. The national government might for instance utilize the machinery of administration of the inheritance tax as practised by the several states, and might distribute to them a certain share of the proceeds as compensation therefor. Or the government might retain the entire proceeds of the inheritance tax and then by a separate measure provide for a periodical deposit

among the states of certain sums. The execution of the plan presents no insuperable difficulties; the important thing is a realization of its need and its justice.

As I have pointed out in another place, the old doctrine of separation of source, as between federal and state revenues, needs to be supplemented by the newer doctrine of division of yield. Until our statesmen realize that the fiscal problem of the United States must be envisaged as a whole, and that neither state jealousy nor national usurpation can be allowed to dominate—not until then can the

problem be solved. Whether the inheritance tax bill is introduced as a separate measure, or whether inheritances are to be included as income within the new income tax bill, it is important to realize that we are standing on the threshold of an entirely new system. Upon the wisdom with which the inheritance tax issue is treated in the present Congress will depend in large measure the precise character of the impending reforms in American state as well as national finance. It is time that the discussion be put upon the high plane which it deserves.

EDWIN R. A. SELIGMAN.

CORRESPONDENCE

Integrated America—Service or Self Interest?

SIR: Granted that to integrate America it is necessary to have an economic constructive program such as that suggested by Mr. Walter Lippmann. Granted that the program which he suggests is sound. It seems to me that he has failed to express the most fundamental present need of this country. His program lacks soul. Would Tom Jones, or Michael O'Flaherty, or Simeon Gabrilowitch be more inclined to go out, leave his family, and defend his country because the paternal government through an agency with an office three blocks away was dealing out pensions to his aged relatives; or would he feel more nearly in harmony with the statesmen who preside over our destinies at Washington because the conductor on the railway train had an eagle instead of a "P. R. R." on his coat buttons; or because every time he had to send an express package, or check a trunk, or turn in a bill of lading he had to deal with a federal officer rather than the representative of a "soulless corporation"? Probably not. Yet in its essence this would seem to be what Mr. Lippmann suggests.

Some of those who believe in universal service will object strenuously to Mr. Lippmann's suggestions as being socialistic and dangerous to the state.

Personally, I believe in federal incorporation, in an increase of federal authority all along the line, old age pensions and all that sort of thing (although I don't understand it very well, it sounds good to me). The nationalization of the railways, the telegraph wires and telephone may all be necessary. I don't think these things half as dangerous as some would have us believe. Before this great war came Germany, France and England were pretty efficient, property rights were respected, the bankers made almost as much money as they were entitled to, individual initiative was not entirely suppressed. All this despite the fact that in Germany the government owned the railways, while in all three countries the telegraph and telephone are under national control. All these things make for nationalization in that they make for a better national organization. They are economic means to a national political end.

But Mr. Walter Lippmann proposes his economic program as better calculated to integrate the people of this country, as more likely to give them a national consciousness, than would universal military service.

Admitting that we do not for military reasons need universal service, there are still other reasons which would

make it desirable. Mr. Lippmann does not believe in military training. He says so. But I wonder if he really understands it. He says that to follow a dull schooling by a still duller period of military training would not help much. Service in the army for the enlisted man may not be very inspiring. Why should it be? He is a hireling. He gets so much a month in return for running a chance of going out and getting shot in the interest of those who are too proud to fight and too mean to pass sufficient appropriations to make the army an effective military instrument. We don't care much for compulsory education because when we have to undergo this process we are too young to understand. A wise state is endeavoring to prepare us for the duties of citizenship, but nobody ever explains it that way. Yet in after life, the man who has been through a public school has a good deal better understanding of the point of view of his fellow citizens than has he who went off to some private institution and associated with other boys of the same class. Mr. Lippmann's program may be a supplement to but not a substitute for universal service. Both an economic program along the lines he suggests and a program for service of some sort—and military service is that most easily understood—are desirable from the point of view of national organization. Widow's pensions and government railways and telephones are not going to give the various elements in our population the close contact of common duty. There is an inspiration of common service in wearing a common uniform and for a certain period in each year for a certain number of years working side by side in the open air. Under the right system every man stands on his own feet on a basis of equality. He is judged by his performance and not by his position. The natural leader emerges and real merit is recognized. It is an inspiring thing to serve with hundreds and thousands of others, all of whom are fulfilling universal obligations of manhood citizenship. It is worth while to feel that one is training to defend ideals which we believe to be our national aspiration. To be ordered to do this by a government in which he had no part would defeat its own end. To vote for it and impose it upon ourselves makes it not compulsory service but in reality a task which we undertake of our own volition. If every young man were given an opportunity to serve in such an atmosphere—and such an atmosphere could be created—he would be a better citizen. We all of us receive benefits from the state. We receive police protection, fire protection, we get city water, but can we tolerate the suggestion that in time of national crisis we