Who Pays Excess Profits Tax?

AT first glance this looks like a silly question. Who pays the tax? Who squeals? Not the widow nor orphan, not the laborer nor salaried drudge, not the farmer nor small shopkeeper, but the trust magnate, the banker, the New York Times and Nicholas Murray Butler. But let us not trust to easy inferences. In economic and finance first appearances are often deceptive. There may be reason for believing that the great ones who are squealing about the excess profits tax are doing so not because it pinches them but because it pinches the lesser ones like ourselves. Perhaps they are squealing out of brotherly love and public spirit. There is reason for believing this, for the great ones themselves declare that it is our distress that stirs their anguish. The excess profits tax does not hurt them a bit. Quite the contrary; it increases the net profit income left in their hands when all the books are balanced. It hurts us, because the tax is added to the cost of living, not once, but over and over. And therefore in our interest they would abolish the excess profits tax and put in its place a stamp on retail sales. Every purchase of a dollar or more, it is proposed, shall be plastered with stamps of one per cent to five per cent, according to the need of revenue. The consumer would pay that tax, of course, but he would pay it just once, not expanded by a series of successive profits.

Behind this doctrine there lies a theory of finance and economics that is worth examining. It is the more interesting because it is brand new, made to order for the express purpose of the attack on the excess profits tax. In all the array of professional treatises on finance one would search in vain for an anticipation of this theory. The President of the American Bankers Association would have a perfect right to a patent on the theory and a royalty on the results, if it can be successfully sold to the American people.

It is orthodox finance to believe that taxes falling upon the general elements in cost are paid by the consumer with additional profits attached to them. Suppose we levied a tax of twenty-five cents a pound on raw wool. The spinner would add that amount and something more to the price of yarn, and justifiably. For it would cost more, in interest, to carry a stock of raw wool, enhanced in price by the tax. The weaver, having taken over the tax, with interest, from the spinner, would pass it on to the wholesaler, with his own additional charge for carrying taxed stock. And so on down to the final consumer, who would pay the original tax together with the whole succession of intermediate interest charges. He would certainly pay more than the original twenty-five cents on each pound of wool that found its way to him. Very likely he would pay fifty cents. Plainly it would be to his interest to substitute for the tax on raw wool a tax on the finished product, not loaded with interest charges all along the line. That is one of the most cogent arguments against revenues raised by a tariff on raw materials.

The orthodox theorists had no difficulty in showing just how the spinner was able to throw the tax on wool forward to the weaver. The price of yarn had to be sufficient to pay the spinner's costs. It had to cover the cost of labor, interest on all capital used and the tax on material. If it did not, the spinning industry was bound to shrink, the supply of yarn to be reduced, until the price was forced up to a cost paying level. What was implied in the argument was that competition operated effectively enough to keep prices near a cost paying level—including in costs what we frequently call reasonable profits, non excess profits. In so far as the premise of effective competition was invalid, and the spinners were enjoying excess profits, the whole *theory of the shifting forward of the tax to the* consumer was invalidated. The tax would be absorbed, wholly or in part, by the spinner's profits.

Now, the originality of the doctrine of President Hawes and the New York Times consists precisely in this, that they lift the theory of the taxation of elements of cost, under the premise of competition, and apply it to the taxation of excess profits, under the premise of non-competition. In the concrete their argument runs as follows: The spinner was making profits that, besides covering costs and the exempted normal profits of eight per cent, yielded an excess profit of twelve dollars on the hundred of capital invested. The government takes two dollars and forty cents out of that twelve. The spinner is discontented: what shall he do about it? Go out of business, as the competitive spinner might have been compelled to do? That would be a preposterous policy, since the spinner is still getting 17.60 per cent on his investment. Nobody abandons such a gold mine as that. No; according to the new theory the spinner just puts prices up until he gets his net twenty dollars per hundred of investment. The weaver has to stand it, and has his own excess profits tax to pay. But the weaver likewise puts up prices until he gets what profits he considers fair; probably he puts them up a little more for good measure. And so these profits taxes, with additions for good measure, accumulate until they tumble with crushing weight upon the ultimate consumer.

That is the argument; if it runs in terms of abstract theory, that is not our fault; we take it as we find it. Those who propose it might offer proof that prices in America stand at a higher level than they would stand if we had recognized the sacrosanct character of excess profits. They do not; they do not even argue that prices have risen more inordinately in industries paying heavy excess profits taxes than in industries like agriculture paying practically none. They might offer instances of excess profiteers, disgruntled because they find it difficult to recoup themselves by raising prices, retiring from business. They do not. They rely exclusively on the common sense principle that a man who has been taking twenty per cent will keep on taking twenty per cent, if he can, and on the further assumption that he can do it if he wishes.

That assumption is interesting. If a man can take twenty per cent if he wants to do so, and by his control over prices can defy any attempt of the government to abate his takings, why can he not take thirty per cent, or fifty, or one hundred? Of course he can. No doubt he has some sense of moderation, which may restrain him, for a time. But just the same, the argument implies that the profiteers have us by the throat. They can take from us exactly what they please. The Socialists have often asserted this, but not before now have we found chambers of commerce and bankers and orthodox capitalistic journalists trying to prove it.

The proof is as feeble as the self interest behind it is powerful. The profiteers dislike the excess profits tax because it exposes them and takes part of the plunder they would otherwise keep for themselves. If they were really solicitous of the consumer's welfare, and believed that there are profiteers who proceed ruthlessly to raise prices until their net takings are as they would be without the tax, they would propose an altogether different remedy. Take one hundred per cent of the profit, above an adequate minimum—say, ten per cent, or even fifteen. Then there would be no difficulty at all with the gentlemen who want to recoup themselves at the consumer's expense.

We are not proposing any such drastic remedy, because we do not believe in the existence of the disease. Our position is easily defined. In principle the excess profits tax is excellent. We see no clear logic in the existing rates—20 per cent on the margin between profits of twenty per cent and profits of eight per cent—with abatement of $3,000 —and 40 per cent on profits above twenty per cent. That looks like rough workmanship. There is more rough workmanship in the discrimination between corporations and non-corporate enterprises, in the definition of costs to be deducted before profits are measured. We believe that the time has come for a thorough revision of the tax, primarily in the interest of fairness, but secondarily in the interest of an increased revenue from it.

But revised or not, the excess profits tax is essential to any sane and conservative economic and financial policy. Before the adoption of this tax we were helpless in the face of the growing power of monopoly. Our Department of Justice went forth with great clatter of drums and trumpets and busted a trust. We waited for lower prices or any other evidence of diminished monopoly power; waited like white-robed millennial sectaries for the Day of Judgment. Our government girded itself to fix prices and punish the profiteers. What happened? The government claims that it produced a tendency toward lower prices; a tendency as big as a man's hand, on the horizon. For our part, we confess, we have seen nothing.

But with the principle of profits taxation in operation there is hope of an abatement of monopoly as a factor in distribution. The steel trust and the coal and lumber barons, the monopolists great and small may still extort high prices, but we can divert more and more of the proceeds to the public treasury. That, we believe, will produce moderation in price policies far sooner than exemption from profits taxation. When we have worked out the tax effectively the directors of monopolistic enterprises will ask themselves: Shall we extort another million from the consumers, chiefly for the benefit of the government, or shall we leave it where it belongs, in the consumers' pockets? We believe that they will often choose the latter alternative, since contented and prosperous consumers insure a stable market. And that is an asset which is valued by wise business men only next after profits secure in the stock holders' bank balances.

Excess profits taxes offer one solution of the problem of monopoly. There is one other solution compatible with democracy. That is nationalization. Everything else has failed.

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What About Armenia?

IT was last December that Lloyd George summed up the position of Armenia from the European point of view:

"Anatolia, Armenia and the Christian communities in Asia Minor have to be protected," he said. "Much depends on whether America, which has no great burdens, but has gigantic resources, will be prepared to take her share in this great task of civilization." The tenor of the remainder of the British Premier's speech was calculated to leave the impression that the United States has evaded a responsibility in Armenia. Editorial comment in British and French newspapers has reflected this same view. I have talked with a prominent English Armenian who has just given a large sum to found an Armenian college at Adana. He expressed the same sentiment. The locum tenens of the Armenian prelacy in Smyrna has the same idea. It is a feeling which is being sedulously cultivated throughout Europe and the Near East. It is even being subtly propagated among the Armenians themselves.

Just what is the truth of the matter?

There are something like a million people in the United States who have given generously and repeatedly to various relief funds for expenditure in Armenia. They at least have a right to know what the situation in respect of Armenia really is.

What was worrying Mr. Lloyd George and the other international politicians of Europe last December was whether the United States would "accept a mandate for Armenia," as it was customarily put—whatever that may mean. But the strange part of the matter then—and it is no different at this writing—was that though fourteen months had passed since the war ceased in the Near East, no one yet knew what this independent Armenia, to which European statesmen periodically pledged their support in resounding phrases, was to consist of. No one knows, even now.

Yet there has always been an Armenia of sorts, and once Armenia was an independent kingdom. Since the days of Ghenghiz Khan, however, the Armenians, Christians, have been under the Moslem domination of Persians, Turks or Tartars. But even on any modern map of the Near East, ARMENIA is written in capital letters across the country between Sivas, in Turkey, and Lake Sevanga, in Russian Transcaucasia. No boundaries appear, for obviously Armenia is not a political entity. But it is clear enough that there is, or ought to be, such a thing as an Armenia in that part of the world somewhere.

Presumably, of course, Armenia is where the Armenians live—or rather where they did live, before some 800,000 of those in Turkey were massacred during 1915. In the Ottoman Empire, this is generally conceded to be the six vilayets or provinces of Erzeroum, Van, Bitlis, Kharput, Diarbekir and Sivas, with an Armenian pre-war population of some 1,018,000 out of a total population of about 2,615,000. In Russian Transcaucasia, just north of the Russian frontier with Turkey and Persia, some 1,293,000 Armenians inhabit the "governments" or provinces of Kars and Erivan and part of that of Elisabethpol, out of a total population in the same territory of 2,160,000.

Until 1917, as Russia was an ally, the promises of European statesmen to erect an independent Armenia, put the soft pedal on that part of Russia inhabited predominantly by Armenians. In the first two and a half years of the war, any Armenia to be created in the event of an Allied victory was to be carved wholly out of Turkey, and to consist of the six Armenian vilayets above mentioned. It was expected that the vilayet of Adana [Cilicia] would be added, to give this Armenia an outlet on the Mediterranean, at Alexandretta.

In 1917, however, the situation changed. The first revolution broke out in Russia and, in March, the Grand Duke Nikolai Nikolaivitch abandoned the Turkish front, accompanied by all the Russian functionaries and officials who had hitherto exercised in the vice-royalty of Transcaucasia that paternal authority at once the strength and the weakness of the Tsarist government. The Armenians, not only in Eastern Turkey but even those in the Armenian provinces of Russia, were left to shift for themselves, while chaos succeeded the rigors of martial law in Russian Transcaucasia.

The Armenian National Committee appealed to the Allied governments for protection. But things were going badly with the Allies on the west front, and the Armenians were told that the Allied Powers were powerless to aid, and were advised to make what arrangements they could to escape extermination at the hands of the advancing Turks. Though the Russian Caucasus army, deserted by its high command, had gone to pieces, certain purely Armenian units remained intact—