

try-wide constructive arrangements, and the policy of stamping out the unions and placing absolute control in the hands of the employers. What the New Jersey Chamber of Commerce says of this plan is worth quoting at length.

This militant tendency seems to make a strong appeal to many employers at this time of business depression. A movement is now on foot which, misusing the name of "Open Shop" and "American Plan" is smashing labor organizations throughout the country by locking the union out and forcibly deunionizing the workmen. Together with the abuses of unionism this movement is destroying the constructive substance of unionism and stifling the just democratic aspirations of the workmen. It is undermining the confidence of labor in employers and ruining the foundation for cooperation between them.

The policy of coercion ought to be avoided at all costs. Of the other two policies, which is preferable, direct dealings between the employers and their workmen, organized as shop unions, or dealings between industry-wide organizations on both sides? The committee refuses to pronounce a dogmatic preference. For some purposes, and under some competitive conditions, the one plan shows certain superiorities over the other. But in no circumstances is an attitude of antagonism to the union admissible.

The New Jersey Chamber of Commerce advises the installation, wherever practicable, of expert personnel departments; the encouragement of the establishment of shop representation; the admission of representatives of labor to all committees dealing with workmen's compensation, unemployment, etc.

It is unnecessary to present more details of this report to prove that the New Jersey Chamber of Commerce is many leagues in advance of those employers' associations throughout the country which assume that they are going to gain something by "going to the mat" with labor. What is it that makes a New Jersey business man behave more intelligently toward labor than men of his kind across the Pennsylvania state line? We imagine that the explanation is given in the following quotation from the report.

The practice which the State Chamber has been following of having its committees base their decisions on the investigations made by its Bureau of State Research; of maintaining the research work of the latter absolutely independent and free of all dictation from the officers or members of the Chamber as to the character of facts or conclusions to be presented; of publishing the reports of the Bureau free of all censorship; and of merely seeing that the men carrying on the research be thorough and unbiassed students, fearless in their work—this practice is sound and should be continued and further developed.

That is the secret. The New Jersey Chamber of Commerce proposes to base industrial relations on facts scientifically determined, instead of on prejudice and witchcraft. It does not merely propose this policy; it practices it. The Bureau of State Research, founded under the auspices of the Chamber and directed by Dr. Paul Studensky, turns out some of the most competent work on industrial relations known in the country. There will still be industrial conflicts in New Jersey, but the presence of such an organ of research will tend to eliminate quarrels based primarily on misunderstanding. How large a proportion of all quarrels do these represent? Nine-tenths, or only four-fifths? Anyway, it is a wide field of achievement that is opened up by this piece of New Jersey pioneering.

In Defense of the Excess Profits Tax

ELSEWHERE in this issue we publish a letter by Mr. J. W. Helburn, which challenges our position on the excess profits tax. We commend this letter to the attention of our readers, as the strongest statement we have seen of the economic argument against the tax. Our correspondent keeps himself free from the dubious speculations about the tax as a force making for higher cost of living, which more than any sound reason led Congress to repeal the tax. He takes his stand on the solid ground of equality in taxation, and the effect of discriminatory taxes upon the general trend of economic development. The excess profits tax is a bad one, he believes, because it rests with disproportionate weight upon those corporations which pursue an active policy and carry on a maximum of business with a minimum of invested capital. It passes lightly over the old, established business with large overhead and slow turnovers, and falls heavily upon the new, competitively eager concern. Whatever influence it exerts, then, is in the direction of retarding the natural drift in competitive business from the control of tradition to the control of enterprise.

There is, we agree, great force in this argument. But a similar argument applies to other forms of taxation which we nevertheless have to retain on the statute books. One man invests his capital in gilt edge securities, another in the securities of a new enterprise which may turn out to be either a success or a failure. Say that both invest a hundred thousand dollars; the first may derive an income of \$4,500, the second, if all goes well with the enterprise, may secure an income of \$10,000. The latter pays not only the tax on a larger income but has

to submit to super taxes. Is this not to discourage investments in the fields where they promise to be most fruitful? One man holds a position in an old established company, receiving a salary of \$10,000. Another of apparently equal ability goes into business for himself, and earns \$20,000. Is he not penalized by the income tax for his enterprise? Certainly he is.

Suppose, however, that we substituted, as the base of our revenue system, a sales tax, and let us assume that it works absolutely fairly, raising the price of one commodity in the same degree as the price of any other. Then everyone would be taxed in proportion to his expenditures. Those who worked energetically and maintained a high plane of living would be forced to contribute more heavily to the public treasury than those who worked fitfully and incompetently and worried along on a low plane of living. Here, too, taxation would rest with its heaviest weight on the most useful, the most dynamic elements in society. This is not a universal rule of taxation, to be sure. Some taxes, as for example special land taxes, may penalize not enterprise but lack of enterprise, not industry but sloth. But these taxes are for the most part either impracticable, administratively, or beyond the domain of the federal government. Energy and enterprise are the exuberant sources of income, and any government which is forced to raise immense sums must apply itself to taxing them. We have to reconcile ourselves to a measure of depressant influence, taking care, however, that this measure is not so excessive as to be deadly.

Has the excess profits tax been so excessive as to kill enterprise? We do not believe that. Say that a corporation was uncertain which of two policies to pursue, the one assuring modest, though fairly secure, returns of eight per cent or less, the other returns of twenty per cent. If it followed the former course it would pay no profits taxation at all. If it followed the latter course it would have to pay twenty per cent on the excess above eight per cent, or 3.6 per cent on its capital. We fail to see that this burden is heavy enough to deter a corporation from making twenty per cent if it can.

Unlike any form of flat corporation taxes, the excess profits tax can not in any circumstances drive a corporation out of business. When times are bad the tax is automatically lightened; when times are good its yield automatically increases. That makes it a bad tax, as an essential staple in a budget. But as an incidental factor in a budget any surplus of which may be applied to debt redemption, it is a good tax. And it will not, we think, appear to our correspondent to be so unfair if he takes into ac-

count not merely the variations of earnings at a given point of time but the variations from periods of depression to periods of prosperity.

The aggregate volume of excess profits in such a year as 1918 must have been at least three or four times the volume of such profits in 1921. This variation can not be explained as a result of greater enterprise displayed in 1918. The real explanation runs in terms of circumstances over which the individual business man has no control. When prices are soaring the business man, it is true, must place himself in the way of harvesting the profits afforded by the times. But it is the times, not the business man, who creates them. They are treasure trove, and as such owe a quite special obligation to the state. And if at such a time the effect of the tax is somewhat depressant, it is by no means certain that this is a disadvantage. For the excesses of the boom have much to do with the despairs of the depression that follows.

We think that the excess profits tax ought to be restored to a permanent place in our fiscal system. If it discriminates against corporations that are modestly capitalized, or against corporations in industries characterized by incomes fluctuating from year to year, these are defects that could be mended. Hard as the times are, the tax would probably yield five hundred millions, an item of revenues by no means to be despised, especially if the bonus legislation goes through. When prosperity returns the tax will yield a billion and upwards—a sum which, if intelligently applied, ought to make great inroads upon our public debt. So fruitful, and on the whole, so little burdensome a tax, ought never to have been abandoned. And we hope that in the search for new sources of revenue, Congress will not neglect the opportunity of restoring it.

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EDITORS

HERBERT CROLY ALVIN JOHNSON
FRANCIS HACKETT PHILIP LITTELL
ROBERT MORSS LOVETT
ROBERT LITTELL, Assistant Editor

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The World Outside and The Pictures in Our Heads

[In this issue and the succeeding one we publish the introductory chapter of Mr. Walter Lippmann's forthcoming book called *Public Opinion*, copyrighted, Harcourt, Brace and Co. The first three paragraphs appeared in the *Century Magazine* for November.—THE EDITORS.]

Introduction

I

THERE is an island in the ocean where in 1914 a few Englishmen, Frenchmen, and Germans lived. No cable reaches that island, and the British mail steamer comes but once in sixty days. In September it had not yet come, and the islanders were still talking about the latest newspaper which told about the approaching trial of Madame Caillaux for the shooting of Gaston Calmette. It was, therefore, with more than usual eagerness that the whole colony assembled at the quay on a day in mid-September to hear from the captain what the verdict had been. They learned that for over six weeks now those of them who were English and those of them who were French had been fighting in behalf of the sanctity of treaties against those of them who were Germans. For six strange weeks they had acted as if they were friends, when in fact they were enemies.

But their plight was not so different from that of most of the population of Europe. They had been mistaken for six weeks, on the continent the interval may have been only six days or six hours. There was an interval. There was a moment when the picture of Europe on which men were conducting their business as usual, did not in any way correspond to the Europe which was about to make a jumble of their lives. There was a time for each man when he was still adjusted to an environment that no longer existed. All over the world as late as July 25th men were making goods that they would not be able to ship, buying goods they would not be able to import, careers were being planned, enterprises contemplated, hopes and expectations entertained, all in the belief that the world as known was the world as it was. Men were writing books describing that world. They trusted the picture in their heads. And then over four years later, on a Thursday morning, came the news of an armistice, and people gave vent

to their unutterable relief that the slaughter was over. Yet in the five days before the real armistice came, though the end of the war had been celebrated, several thousand young men died on the battlefields.

Looking back we can see how indirectly we know the environment in which nevertheless we live. We can see that the news of it comes to us now fast, now slowly; but that whatever we believe to be a true picture, we treat as if it were the environment itself. It is harder to remember that about the beliefs upon which we are now acting, but in respect to other peoples and other ages we flatter ourselves that it is easy to see when they were in deadly earnest about ludicrous pictures of the world. We insist, because of our superior hindsight, that the world as they needed to know it, and the world as they did know it, were often two quite contradictory things. We can see, too, that while they governed and fought, traded and reformed in the world as they imagined it to be, they produced results, or failed to produce any, in the world as it was. They started for the Indies and found America. They diagnosed evil and hanged old women. They thought they could grow rich by always selling and never buying. A caliph, obeying what he conceived to be the Will of Allah, burned the library at Alexandria.

Writing about the year 389, St. Ambrose stated the case for the prisoner in Plato's cave who resolutely declines to turn his head. "To discuss the nature and position of the earth does not help us in our hope of the life to come. It is enough to know what Scripture states. 'That He hung up the earth upon nothing' (Job xxvi.7). Why then argue whether He hung it up in air or upon the water, and raise a controversy as to how the thin air could sustain the earth; or why, if upon the waters, the earth does not go crashing down to the bottom? . . . Not because the earth is in the middle, as if suspended on even balance, but because the majesty of God constrains it by the law of His will, does it endure stable upon the unstable and the void."*

It does not help us in our hope of the life to

* Hexaëmeron, i. cap 6, quoted in *The Mediaeval Mind*, by Henry Osborn Taylor, Vol. I, p. 73.