

direction of furtiveness, subterfuge and, if possible, suppression. It is alleged for instance that his own subordinates in the Department of Justice have illegally searched the offices of Senators whose only crime was a public attempt to expose the corruptionists. Yet the President, in spite of his tenderness for the tax records of the Mellon corporations, apparently allows these charges to remain uninvestigated and the criminals, if guilty, to go unrebuked. In this and other respects the President's own conduct and that of his associates in admitting nothing, exposing nothing and reforming nothing which they can help, is chiefly responsible for the state of mind to which he and Secretary Mellon take exception. When they denounce the investigations and do their best to sanction secrecy with a constitutional halo, a large part of the public naturally suspects that they themselves have much to conceal and much to gain by concealment.

Are Income Taxes Drying Up?

THE present tax rates are drying up the income tax revenues of the federal government," has been the burden of countless articles, editorials, and speeches by big business men during the last five months. The reform of income-tax rates, we are told, did not have as its prime purpose the relief of the large taxpayer; it was an administrative measure necessary to save the government's revenues from personal income taxes from drying up. This sort of thing was repeated by the Treasury, by business men who believed it, and by editorial writers who should have known better, until a large part of the public accepted it as true.

On the morning of March 18 the metropolitan press carried a news item to the effect that the collections of income taxes, corporate and personal, for the first quarter of 1924 would total only \$477,000,000. Last year they had amounted to \$532,000,000. So the prophecies of decline seemed to be vindicated, for the moment. One journal actually announced in its headlines that the returns for the quarter were \$90,000,000 below Treasury expectations. Upon investigation this proved to be based upon a statement shown to newspaper men at the White House by Secretary Slep. The Commissioner of Internal Revenue had reported to President Coolidge that the income-tax collections *for the first fifteen days of March* amounted to \$377,000,000 and he estimated further that about \$100,000,000 could be added to that figure to cover tax receipts to the end of the month. On the basis of these figures the writers blundered to the conclusion that the total income taxes for the three months ending March 31, 1924, would be \$477,000,000. The most boastfully accurate of the New York newspapers was

somewhat more conservative in forecasting collections for the remainder of the month, and announced in its headlines "Treasury expects final total for quarter of \$452,000,000—Got \$465,772,015 last year." All of which bore out the repeated assertion that the income tax as a source of revenue was drying up under the present high rates.

Comes now the Secretary of the Treasury with his Statement of Receipts and Expenditures for March 31, 1924. From this it appears that the income and profits taxes collected during March alone amounted to \$500,385,765.71, while for the first quarter of 1924 they amount to over \$583,000,000. This is as against total collections for the first quarter of 1923 amounting to slightly less than \$532,000,000. In short, the income taxes collected for the first quarter of this year were \$50,000,000 larger than in the same quarter last year, despite the fact that many persons who would normally have sent in their tax for the entire year made only the payment for the first quarter. This was due to the expectation that rates would be cut twenty-five percent before the close of the year.

Since April 1 income-tax collections have been much larger than they were last April. It is clear from these figures that the income-tax collections for this year, on account of incomes earned in 1923, will amount to \$2,200,000,000. According to the best information now available, \$1,000,000,000 of this represents income taxes paid by corporations. This leaves \$1,200,000,000 as collections from individuals.

The bearing of these facts upon the assertion that the income-tax receipts are drying up under the present rates is illuminating. The largest amount of personal income taxes ever levied was for the year 1919, when they amounted to \$1,269,630,104. They fell during the next two years, and amounted to only \$719,000,000 in 1921, a year of depression in business, of low profits and speculative losses. Yet for 1923 personal income taxes, even after making a liberal allowance for back taxes included in the receipts, will amount to at least \$1,100,000,000. Normal taxes have never yet amounted to \$500,000,000. Surtaxes will therefore be 50 percent larger than in 1921. The facts simply do not bear out the assertion that the present income tax rates are working a gradual reduction in the revenues of the government. They show that the small collections of 1921 were to be ascribed to the factors which affected industrial and speculative profits and not to mere tax evasion or to the shifting of property into tax-exempt securities.

The total revenue receipts of the government this fiscal year have run well ahead of those for last year. What has the Treasury done with the money? It has not been wasted in governmental

extravagance as one might be led to believe from reading the Jeremiads which were issued during this "National Tax Reduction" week. Of the \$3,005,000,000 which has been collected during the nine months of this fiscal year, almost exactly \$800,000,000, has been used to reduce the national debt; and \$643,000,000 has been paid as interest on that debt. During the last twelve months that debt has been reduced by \$1,098,826,000. Of this amount \$1,013,222,000 came from receipts and the remaining \$85,604,000 was taken from the cash balance on hand March 31, 1923. Interest has amounted to one billion. These taxes do not represent waste and extravagance but rather national income saved and used to reduce the interest charge for the future. This is sound national economy. Nor are these funds withdrawn from productive enterprise and activity. The Treasury pays them to the holders of government bonds, who do not, in the normal case, spend the money they receive, but reinvest it in industry.

Muscle Shoals: A Scandal in the Making?

THE Senate of the United States is now considering a bill which many intelligent people believe will, if made a law, ultimately create a national scandal beside which the affair of the naval oil leases will seem a very teapot tempest indeed. We refer to the McKenzie bill, which has already passed the House, accepting the offer of Henry Ford for Muscle Shoals.

Mr. Ford, as everyone knows, has now become little less than a demi-god in the eyes of many of his countrymen—a sort of combination of the northwoodsmen's Paul Bunyan and Thor of the Hammer. The large part that luck has played in his career is quite overlooked; and to him are attributed not only supernatural powers but a supernatural benigance which is not demonstrated by the major facts of his business history. This legend never stood the gentleman from Detroit in better stead than at the present moment. Indeed, without the huge Ford prestige behind it, his Muscle Shoals offer would probably have been characterized by everyone as a monumental piece of effrontery. Even the Ford name does not prevent such a plain-spoken liberal as Senator Norris of Nebraska from declaring the plan to be the worst bargain for the government anyone has ever sought. With this opinion the minority report of the House Committee on Military Affairs agrees: "In our opinion [the Ford proposal] amounts to a gift of enormous property and industrial advantage to a private citizen from the resources of the United States."

The essential facts in the matter are simple. At Muscle Shoals in Alabama, the Tennessee

River, sixth in size in the United States, falls 136 feet in thirty-seven miles. At this point, during and since the war, the United States government has spent some \$83,900,000 in the partial creation of two dams for hydro-electric power and two plants for the fixation of nitrogen from the atmosphere. This unfinished project still belongs to the government, with the exception of the Gorgas Steam Plant, which was sold to the Alabama Power Company. It is a condition of the Ford offer that the government must replace this and must complete "Wilson dam No. 3." The government must also operate all dams in the future and keep them in repair.

For the physical property which has already cost nearly \$84,000,000, Ford offers \$5,000,000, payable in installments. For his leases on the hydro-electric power plants he is to pay a total of \$219,000,000 during the period of one hundred years, which is the shortest period of time to which he will consent. He also agrees to manufacture each year 40,000 tons of fixed nitrogen for fertilizer. Apparently millions of farmers have received the impression that this fertilizer is to be sold them at a fabulously low price, but in fact Ford has made no such promise. He only agrees that it shall be sold at cost plus not more than eight percent profit. Even this promise is not made in any legal form. Mr. Ford has told the Secretary of War that if he could not make fertilizer profitably he "would quit." All the evidence of the experts is that the cyanamid process of nitrogen fixation, such as is employed in Plant No. 2, is impossibly expensive and is now obsolete as far as the manufacture of fertilizer is concerned.

Perhaps chief of the numerous objections to the Ford proposal is the hundred-year lease. On this he insists, although no provision is made for efficient operation after his death, and he obviously has not a great many more years to live. The United States has an excellent Federal Water Power Law which specifically forbids leases of hydro-electric power sites for longer than fifty years. Even that period is probably too long, from the social point of view. Yet Ford demands a law giving him twice this period and special priority in the renewal of the leases even after that. He also requires exemption from the state laws of Alabama governing public utility corporations. This is of importance because the Muscle Shoals project will generate 850,000 horsepower, of which Ford's nitrate operations will consume not more than 100,000. The other 750,000, which will probably cost him only about one-fifth of the average price of power to large consumers in the South, could and should be utilized for industrial purposes in cities and towns within a radius of 300 miles. What it would mean in the development of that section it is almost impos-