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HOW SHALL WE PAY FOR THE WAR?

A Constructive Criticism on the House Revenue Bill.

LOANS BETTER THAN TAXES

Five Reasons Why Excessive Taxes at the Outset of War Are Disadvantageous—Great Britain Example Worthy of Emulation—How the Taxes Should Be Apportioned.

By EDWIN R. A. SELIGMAN, McVickar Professor of Political Economy, Columbia University.

On May 23, 1917, the House of Representatives passed an act "to provide revenue to defray war expenses and for other purposes." In the original bill as presented by the Committee of Ways and Means, the additional revenue to be derived was estimated at \$1,100,000,000. The amendment to the income tax, which was tacked on to the bill during the discussion in the House, was expected to yield another \$400,000,000 or \$500,000,000.

In discussing the House bill, two problems arise:

- I. How much should be raised by taxation?
- II. In what manner should this sum be raised?

I. How Much Should Be Raised by Taxation?

How was the figure of \$1,800,000,000 arrived at? The answer is simple. When the Secretary of the Treasury came to estimate the additional war expenses for the year 1917-18, he calculated that they would amount to some \$8,000,000,000, of which \$3,000,000,000 was to be allotted to the allies, and \$3,000,000,000 was to be utilized for the domestic purposes. Thinking that it would be a fair proposition to divide this latter sum between loans and taxes, he concluded that the amount to be raised by taxes was \$1,800,000,000.

There are two extreme theories, each of which may be dismissed with scant courtesy. The one is that all war expenditures should be defrayed by loans, and the other is that all war expenditures should be defrayed by taxes. Each theory is untenable.

It is indeed true that the burden of the war should be borne by the present rather than the future generation, but this does not mean that they should be borne by this year's taxation.

Meeting all war expenses by taxation makes the taxpayers in one or two years bear the burden of benefits that ought to be distributed at least over a decade within the same generation.

In the second place, when expenditures approach the gigantic sums of present-day warfare, the tax-only policy would require more than the total surplus of social income. Were this absolutely necessary, the ensuing havoc in the economic life of the community would have to be endured. But where the disasters are so great and at the same time so unnecessary, the tax-only policy may be declared impracticable.

Secretary McAdoo had the right instinct and highly commendable courage in deciding that a substantial portion, at least, of the revenues should be derived from taxation. But when he hit upon the plan of 50-50 per cent., that is, of raising one-half of all domestic war expenditures by taxes, the question arises whether he did not go too far.

The relative proportion of loans to taxes is after all a purely business proposition. Not to rely to a large extent on loans at the outset of a war is a mistake.

Disadvantages of Excessive Taxes. The disadvantages of excessive taxes at the outset of the war are as follows:

- 1. Excessive taxes on consumption will cause popular resentment.
- 2. Excessive taxes on industry will disarrange business, damp enthusiasm and restrict the spirit of enterprise at the very time when the opposite is needed.
- 3. Excessive taxes on incomes will deplete the surplus available for investments and interfere with the placing of the enormous loans which will be necessary in any event.
- 4. Excessive taxes on wealth will cause a serious diminution of the incomes which are at present largely drawn upon for the support of educational and philanthropic enterprises. Moreover, these sources of support would be dried up precisely at the time when the need would be greatest.
- 5. Excessive taxation at the outset of the war will reduce the elasticity available for the increasing demands that are soon to come.

Great Britain's Policy.

Take Great Britain as an example. During the first year of the war she increased taxes only slightly, in order to keep industries going at top notch. During the second year she raised by new taxes only 9 per cent. of her war expenditures. During the third year she levied by additional taxes (over and above the pre-war level) only slightly more than 17 per cent. of her war expenses.

If we should attempt to do as much in the first year of the war as Great Britain did in the third year it would suffice to raise by taxation \$1,250,000,000. If, in order to be absolutely on the safe side, it seemed advisable to increase the sum to \$1,500,000,000, this should, in our opinion, be the maximum.

In considering the apportionment of the extraordinary burden of taxes in war times certain scientific principles are definitely established:

How Taxes Should Be Apportioned.

(1) The burden of taxes must be spread as far as possible over the whole community so as to cause each individual to share in the sacrifices according to his ability to pay and according to his share in the Government.

(2) Taxes on consumption, which are necessarily borne by the community at large, should be imposed as far as possible on articles of quasi-luxury rather than on those of necessity.

(3) Excises should be imposed as far as possible upon commodities in the hands of the final consumer rather than upon the articles which serve primarily as raw material for further production.

(4) Taxes upon business should be imposed as far as possible upon net earnings rather than upon gross receipts or capital invested.

(5) Taxes upon income which will necessarily be severe should be both

differentiated and graduated. That is, there should be a distinction between earned and unearned incomes and there should be a higher rate upon the larger incomes. It is essential, however, not to make the income rate so excessive as to lead to evasion, administrative difficulties, or to the more fundamental objections which have been urged above.

(6) The excess profits which are due to the war constitute the most obvious and reasonable source of revenue during war times. But the principle upon which these war-profit taxes are laid must be equitable in theory and easily calculable in practice.

The Proposed Income Tax.

The additional income tax as passed by the House runs up to a rate of 60 per cent. This is a sum unheard of in the history of civilized society. It must be remembered that it was only after the first year of the war that Great Britain increased her income tax to the maximum of 34 per cent., and that even now in the fourth year of the war the income tax does not exceed 42 1/2 per cent.

It could easily be shown that a tax with rates on moderate incomes substantially less than in Great Britain, and on the larger incomes about as high, would yield only slightly less than the \$532,000,000 originally estimated in the House bill.

It is to be hoped that the Senate will reduce the total rate on the highest incomes to 34 per cent. or at most to 40 per cent., and that at the same time it will reduce the rate on the smaller incomes derived from personal or professional earnings.

If the war continues we shall have to depend more and more upon the income tax. By imposing excessive rates now we are not only endangering the future, but are inviting all manner of difficulties which even Great Britain has been able to escape.

Conclusion. The House bill contains other fundamental defects which may be summed up as follows:

- (1) It pursues an erroneous principle in imposing retroactive taxes.
- (2) It selects an unjust and unworkable criterion for the excess-profits tax.
- (3) It proceeds to an unheard-of height in the income tax.
- (4) It imposes unwarranted burdens upon the consumption of the community.
- (5) It is calculated to throw business into confusion by levying taxes on gross receipts instead of upon commodities.
- (6) It fails to make a proper use of stamp taxes.
- (7) It follows an unscientific system in its flat rate on imports.
- (8) It includes a multiplicity of petty and unproductive taxes, the vexatiousness of which is out of all proportion to the revenue they produce.

The fundamental lines on which the House bill should be modified are summed up herewith:

- (1) The amount of new taxation should be limited to \$1,250,000,000—or at the outset to \$1,500,000,000. To do more than this would be as unwise as it is unnecessary. To do even this would be to do more than has ever been done by any civilized Government in time of stress.
- (2) The excess-profits tax based upon a sound system ought to yield about \$500,000,000.
- (3) The income-tax schedule ought to be revised with a lowering of the rates on earned incomes below \$10,000, and with an analogous lowering of the rates on the higher incomes, so as not to exceed 34 per cent. A careful calculation shows that an income tax of this kind would yield some \$450,000,000 additional.
- (4) The tax on whisky and tobacco ought to remain approximately as it is, with a yield of about \$230,000,000.

These three taxes, together with the stamp tax at even the low rate of the House bill, and with an improved automobile tax, will yield over \$1,250,000,000, which is the amount of money thought desirable.

The above program would be in harmony with an approved scientific system. It will do away with almost all of the complaints that are being urged against the present. It will refrain from taxing the consumption of the poor.

It will throw a far heavier burden upon the rich, but will not go to the extremes of confiscation. It will obviate interference with business and will keep unimpaired the social productivity of the community.

It will establish a just balance between loans and taxes and will not succumb to the danger of approaching either the tax-only policy or the loan-only policy. Above all, it will keep an undisturbed elastic margin, which must be more and more heavily drawn upon as the war proceeds.

Announcements

SEAT SALE STARTS TOMORROW

Tomorrow the seats will go on sale for D. W. Griffith's latest spectacle, "Intolerance," the attraction for Saturday and Sunday at the Arcade. None of the seats for the matinee will be reserved but all the seats for each evening performance will be reserved.

Nothing comparable to this production in size, novelty and entertaining qualities ever has been shown upon any stage, it is said. Amazing magnitude and even more amazing detail, a revolutionary method of presenting four stories almost simultaneously, and the most gigantic settings ever erected for a theatrical production, are some of the most impressive features of this spectacle. So interesting and important is its theme, love's

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Men's Sport Shirts, all colors	49c, 59c, 98c, \$1.49
Men's Work Pants	\$1.69, \$1.98, \$2.49, \$2.98
Men's Dress Shoes	\$2.98, \$3.50, \$4.50, \$4.98, \$5.50
Men's Dress Shirts	98c, 1.49, \$1.98, \$2.98
Men's Summer Unions	49c, 98c, \$1.25, \$1.49, \$1.98
Men's Summer Cloth Hats	39c, 49c, 69c
Men's Summer Hose	15c, 25c, 49c
Men's Dress Suspenders	25c, 49c
Men's Work Gloves	98c, \$1.25, \$1.49, \$1.98

New Arrival of Straw Hats 19c, 25c, 49c, 98c, \$1.49, \$1.98

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Teachers' Examinations.

Notice is hereby given that the County Superintendent of Union County, Oregon, will hold the regular examination of applicants for State Certificates at La Grande High School as follows:

Commencing Wednesday, June 27, 1917, at 9:00 a. m., and continuing until Saturday, June 30, 1917, at 4:00 o'clock p. m.

Wednesday Forenoon.

U. S. History, Writing, (Penmanship), Music, Drawing.

Wednesday Afternoon.

Physiology, Reading, Manual Training, Composition, Domestic Science, Methods in Reading, Course of Study for Drawing, Methods in Arithmetic.

Thursday Forenoon.

Arithmetic, History of Education, Psychology, Methods in Geography, Mechanical Drawing, Domestic Art, Course of Study for Domestic Art.

Thursday Afternoon.

Grammar, Geography, Stenography, American Literature, Physics, Typewriting, Methods in Language, Thesis for Primary Certificate.

Friday Forenoon.

Theory and Practice, Orthography, (Spelling), Physical Geography, English Literature, Chemistry, Physical Culture.

Friday Afternoon.

School Law, Geology, Algebra, Civil Government.

Saturday Forenoon.

Geometry, Botany.

Saturday Afternoon.

General History, Bookkeeping. Very truly yours, J. A. CHURCHILL, Superintendent of Public Instruction. —Adv. June 11-10t.

Funeral Notice.

The funeral of Mrs. March will be held from the Henry chapel tomorrow afternoon at 2 o'clock, Rev. J. W. Oliver officiating.

NEW TODAY

FOR SALE—Farm.

FOR SALE—440 acre stock and timothy ranch, one of the best ranches in Eastern Oregon. Brand new house, barn, chicken house and machine shed; finest spring water piped to house and barn. One mile from store and schoolhouse. Railroad runs along the east line of place. Will pay 10 per cent on \$30,000. Will consider part trade, balance at your own time at 7 per cent, unlimited outside range at least \$10,000 worth of wood and saw timber on place. For price particulars see Chas. O. Braham, next to Curry press or write Box 657, La Grande, Oregon.—Adv. 6-19-17.

LOST—A baby's tatted hood. Return to Observer.—Adv. 6-19-2t

COMPANY M BOYS GOING TO DANCE AT UNION

The Union Livestock association is giving a banquet and dance to Company M tomorrow night and are coming over for them in autos. The soldier boys will be guests. The public is invited. There will be a charge for the latter the proceeds going to the Red Cross.

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WATCH THIS SPACE

ELGIN CREAMERY

Forest Rangers Meet.

Portland, Ore., June 19.—(Special)—State forest rangers, in session here today, are discussing fire prevention methods. Similar meetings will be held at Newport tomorrow and Marcus June 21.

FOR SALE OR TRADE—Horses.

FOR SALE OR TRADE—Horses, 1707 Jefferson Ave.—Adv. 6-19-3t.

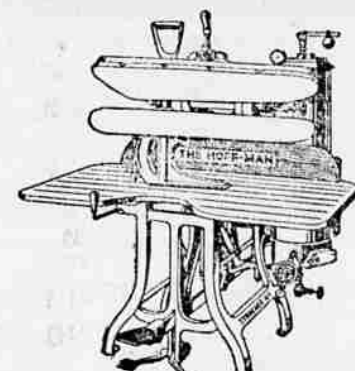
Hose Company Meets Tonight.

Regular meeting Rescue Hose Co. tonight.

P. A. FOLEY, Captain.

The Observer Wild Animal Prize Contest.

To the Wild Animal Editor: I hereby certify I am not over 15 years of age and I submit names of wild animals in your prize contest for free tickets to the Al G. Barnes Big Four Ring Wild Animal Circus, exhibiting in La Grande, June 26. Name Address (Pin one of these coupons on your list)



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