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French Dry Cleaning, Party Dresses and the
finer fabrics our Specialty.**FINE TAILORING — SUITS MADE TO
MEASURE FROM \$20.00 UP.****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 Disadvantage-
ous—Great Britain Example Worthy
of Emulation—How the Taxes Should
Be Apportioned.By EDWIN R. A. SELIGMAN,
McVickar Professor of Political Econ-
omy, Columbia University.On May 23, 1917, the House of Rep-
resentatives 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,
\$10,420,000. The amendment to the in-
come tax, which was tacked on to the
bill during the discussion in the House,
was expected to yield another \$40,000,
000 or \$50,000,000.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 \$6,000,
000,000, of which \$5,000,000,000 was to
be allotted to the allies, and \$1,000,
000,000 was to be utilized for the do-
mestic 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 ex-
penditures should be defrayed by loans,
and the other is that all war expendi-
tures should be defrayed by taxes.
Each theory is untenable.It is indubitable that the burdens 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 expendi-
tures approach the gigantic sums of
present-day warfare, the tax-only pol-
icy would require more than the total
surplus of social income. Were this
absolutely necessary, the ensuing hav-
oc in the economic life of the commu-
nity 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 im-
practicable.Secretary McAdoo had the right in-
stinct and highly commendable cou-
rage in deciding that a substantial por-
tion, 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 do-
mestic 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 ex-
tent 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 enthusiasms
and restrict the spirit of enterprise at
the very time when the opposite is
needed.3. Excessive taxes on incomes will de-
plete the surplus available for invest-
ments and interfere with the placing of
the enormous loans which will be neces-
sary in any event.4. Excessive taxes on wealth will
cause a serious diminution of the in-
comes which are at present largely
drawn upon for the support of educa-
tional 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 avail-
able 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 maxi-
mum.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 ac-
cording to his ability to pay and ac-
cording 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 pos-
sible 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 pri-
marily as raw material for further
production.(4) Taxes upon business should be
imposed as far as possible upon net
earnings rather than upon gross re-
ceipts 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 dur-
ing 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 42½
per cent.It could easily be shown that a tax
with rates on moderate incomes sub-
stantially 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 in-
comes 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 in-
comes derived from personal or profes-
sional earnings.If the war continues we shall have to
depend more and more upon the in-
come 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 funda-
mental defects which may be summed
up as follows:(1) It pursues an erroneous principle
in imposing retroactive taxes.(2) It selects an unjust and unwork-
able 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 commu-
nity.(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 unwholesome taxes, the vexatious-
ness of which is out of all proportion to
the revenue they produce.The fundamental lines on which the
House bill should be modified are sum-
med 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 Govern-
ment 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 cal-
culation 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 au-
tomobile tax, will yield over \$1,250,
000,000, which is the amount of money
thought desirable.The above program would be in har-
mony with an approved scientific sys-
tem. 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 ob-
viate interference with business and
will keep unimpaired the social pro-
ductivity of the community.It will establish a just balance be-
tween 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.**Detroit Vapor Oil Stove
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