

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 \$1,810,420,000. The amendment to the income tax, which was tacked on to the bill during the discussion in the House, was expected to yield another \$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 \$4,000,000,000, 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 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 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 \$332,000,000 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 unworthy 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.

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Eastern Supply Co.

Valley Fruit Expert Sent To Far East

Prof. F. C. Reimer of the Southern Oregon Experiment Station will sail for Japan and China next month, in connection with the great work this experiment station is doing with pears. He will go as a representative of the United States Department of Agriculture and the state experiment station of Oregon. These two institutions have made arrangements whereby Professor Reimer will represent both institutions, the Department of Agriculture and the state each bearing half of the expenses of the trip.

The collection of varieties and species of pears which Professor Reimer has gathered together at the Southern Oregon Experiment Station is regarded by experts as the most complete in the world. He has found in this collection several Chinese species which have proved highly resistant to pear blight, and one species which has proved absolutely immune to this disease. This is the only species of pear that has ever been found anywhere in the world that has proved immune to this disease. This pear is also the hardest in the world, enduring the cold winters of parts of Siberia where the mercury congeals in the thermometer every winter.

Blight Resistance Stock.

Another species of very great importance occurs in Central China. This species is a very vigorous grower and thrives under the most adverse conditions imaginable. It is found in swamps with its roots immersed in water, along rock mountain streams, on sterile, dry mountain sides where it endures the greatest extremes of draught. At the Southern Oregon Experiment Station this species has proved markedly resistant to pear blight and immune to the pear woolly aphid.

At the present time these pears are not in the nursery trade, and they can not be purchased anywhere. China has no nurserymen and no dealers from whom this material can be purchased. These types occur in the remote mountains and wilds of China and it is a hazardous task to collect them. There are no railroads in these sections of China, and the trip means long and difficult trips on foot and often far removed from human habitation.

Sturdy Wild Species.

Professor Reimer will collect large quantities of these seeds for use in this country. He will also make a thorough systematic study of the many wild species of pears of Japan and China. At present these species are badly involved systematically and some of them have never been named by botanists. It has been stated by some explorers that one of the most valuable of these Chinese species also occurs in the mountains of Japan. Professor Reimer will determine this fact. If this should prove to be the case it will be a matter of great importance, as arrangements can then be made with some of the large Japanese nurserymen to collect and ship to this country large quantities of seeds and trees of this important type.

Experts from the Department of Agriculture who have examined Professor Reimer's work on pears are very enthusiastic over it, and the department is pleased to be able to cooperate in this work in China and Japan.

Professor Reimer will be away for about five months. During this time the work of the experiment station will be in charge of A. C. McCormick, who has been assistant at the experiment station during the past three years.

Prof. Ruch to Teach At University

University of Oregon, Eugene — Two new instructors in education were elected by the board of regents of the university at the June meeting. G. M. Ruch of Ashland, an Oregon graduate in the class of 1914, will succeed R. W. Broecker, who has returned to Michigan and expects to teach in the middle west next year. The other instructor is Miss Callie Beck of McMinnville.

Lents—Miller-Mowrey mill to begin operations soon.

Drive Started To Round Up Slackers

Portland, June 14.—The period of grace for men of military age who failed for any reason to register on War Census day is ended.

From now on every slacker is to be hunted down without mercy. There will be no more leniency.

Governor Withycombe has received official instructions from the provost marshal general, at Washington, D. C., that the most vigorous enforcement of the penal clause of the law will be required against all who have not registered.

It is announced that the quota of men to be drafted into the military service from each state will be based on previous census estimates, not on the actual registration figures, which in Oregon were slightly lower than the estimate. Inasmuch as the men to be called are chosen by lot, the failure to register of any man who should have done so increases the chances against every other man who did his duty and registered.

For this reason, particularly, and also as a patriotic duty, every one of the 62,840 men who registered in Oregon is asked to help in the drive to round up the slackers.

Already the sheriffs, police officers and precinct registrars have been instructed by the adjutant general to report all suspicious cases. But now through the press, and in response to official orders from Washington, all men who have registered are asked to aid in this anti-slacker campaign.

Of course, there may be a few who can present legitimate excuses for not having registered. But they will have to present them in court. The time for leniency is passed, and imprisonment faces those who tried to evade their duty to their country.

Tells of War Relief Work

Mrs. Seymour Van Cleave, recently returned from London, where she has been engaged in relief work, spoke at the Presbyterian church Monday evening. H. L. Whited presided over the meeting and Mrs. Elmore sang two patriotic selections.

When the war broke out Mrs. Van Cleave and her daughter were in London. They threw themselves into relief work and also did much to assist Americans to get out of Europe and back to America. Later they did hospital work and started a knitting factory in their London home. This has grown into three large factories giving employment to many women and supplying socks for the men at the front. Her daughter is still in charge of the work. Mrs. Van Cleave came back to America and has told many audiences of the war as she saw it. She is not an orator, but a motherly woman who speaks straight from the heart. She has spent the winter in Honolulu and will remain with her son in New York until ocean travel is safe for her to rejoin her daughter.

Mrs. Seymour Van Cleave and her sister-in-law, Mrs. Hall, were guests the past week at the home of Mrs. Emily I. Bingham on Laurel street, while en route from Honolulu to the east. The three ladies were friends in Minneapolis some years ago. Mrs. Van Cleave now lives in New York city and Mrs. Hall in Honolulu.

Crater Lake Road Work to Continue

Crater Lake park improvements will continue this season. United States engineers of the first rivers and harbors district at Portland received word from Washington, D. C., Saturday that included in the civil sundry bill, approved June 12, is an item of \$50,000 for carrying on the work in the park. It will be used for road grading and it is expected to be ample for completing the most of that kind of work.

Phone Job orders to the Tidings.

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FRUIT and FARM

Spotted Beetle Injures Beans.

Young bean plants just beginning to grow well are being attacked by a small, spotted beetle. This beetle is about the size and general appearance of a lady bird beetle, greenish-yellow in color, with twelve black spots on the wing covers. They usually appear in considerable numbers and feed voraciously on the foliage, soon ragging the plant so thoroughly as to devitalize or even kill it. In addition to beans, practically all garden and truck crops are subject to injury by this beetle, particularly squash, cucumbers, corn and egg plant.

The usual recommendation of applying some poison to the foliage as practiced for most leaf-chewing insect pests will not serve in the case of this beetle unless supplemented by what is known as the trap-crop system. A spray of dust applied to the plant acts as more or less of a repellent and it is somewhat difficult to get the beetle to feed on treated foliage. Therefore in order to avoid their going down below ground and eating off the stems of the plants, it is advisable to leave a few plants here and there, known as a trap crop for the beetles to feed upon, and treat the rest of the field. The most practical method is, in cases where beans are to constitute the main crop, to plant here and there through the bean field a few hills of squash. The beans should then be dusted with a powder consisting of sulphur 85 parts, powdered arsenate of lead 15 parts, and the squash vines should be left untreated. The beetles will then collect on the untreated plants and may be killed by mechanical means here. Where no other crop is available, as a trap, a few hills of beans here and there through the field should be sacrificed to the cause and the others treated. Generally speaking, a dust application is preferable to a liquid spray, although the liquid arsenate of lead spray is also very effective in preventing injury by the beetles where a trap crop is present.

—A. L. Lovett, Entomology Dept., O. A. C.

A Sweet Poison for Currant and Gooseberry Maggot.

The fruit of currants and gooseberries is frequently found infested with a small white maggot. This is the larvae of a delicate little fly which deposits eggs under the skin of the developing fruit. These flies are present in the field when the average berry is about the size of a BB shot. They spend a period of several days in the field before beginning egg deposition. Should the weather remain settled without the frequent showers of the past, it will be possible to almost entirely prevent the injury by this maggot by the application of a sweetened poison bait for the adult fly. The following formula is recommended: Sodium arsenite 1 ounce, syrup 1 quart, water 3 gallons. These materials should be mixed and applied as a fine, misty spray of the consistency of dew, allowing only a few droplets to fall on each of the upper leaves of the bushes. A pint of spray should cover several bushes, as only a few drops are necessary on any one bush. The adult flies will lap up this poison and be killed before depositing eggs. Clear, settled weather is necessary for the successful use of this poisoned bait.—A. L. Love, Entomology Department at O. A. C.

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Oregon Schoolboy Soldiers 1,121

Oregon schools have responded nobly to the call to arms.

Statistics gathered by J. A. Churchill, state superintendent of public instruction, show that up to the time of the closing of schools a total of 1,121 students have enlisted either in the National Guard, the regular army or the navy out of the high schools, colleges and universities of the state.

Of this number 736 were from the high schools and 385 from the universities and colleges. Of the 736 going from the high schools 438 were below the senior grade, and of the 385 going from the universities and colleges 273 were below the senior grade.

The reports were received from 220 high schools of the state, and of that number 94 reported no enlistments.

A glance through the reports indicates the preponderance of enlistments were from rural communities, rather than from industrial centers, indicating that the volunteer enlistments have drawn most heavily on the young men who could be used for farm work during the coming season.

"The public schools have been put to the test and are found not wanting," stated Superintendent Churchill in commenting upon the reports received.

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