

Tax Policy League
309 East 34th Street
New York

Report of Committee on
TAX POLICY TO AID ECONOMIC RECOVERY
AND PERMANENT PROSPERITY

Presented at the Annual Meeting of the
TAX POLICY LEAGUE

Held at the Palmer House, Chicago, December 28, 1934

To speed rather than impede economic recovery and permanent prosperity,
four essentials of public spending and taxation are:

I. Economy in governmental expenditures - national, state and local - must be constructive in nature, and must not add needlessly to unemployment, nor force the elimination of services essential to the public welfare.

II. On the contrary, achievement and maintenance of a high level of permanent prosperity must be promoted by adequate governmental expenditures for social security and for well-planned, well-timed and well-administered public works and community facilities and services beneficial to business and to health education, recreation and culture.

III. Balancing of revenues and expenditures - especially by the Federal Government- must be cyclical, not annual. Abnormal outlays must, therefore, be financed mainly by borrowing, with more rapid amortization than heretofore in periods of prosperity.

IV. Tax revenues for permanent prosperity must be derived as largely as practicable from community-created wealth and from income which, if privately retained, would not promptly be spent for the production or consumption of needed goods or services.

I and II

(a) If a demand for workers can be created which will keep even pace with the supply of workers, most of our economic problems will have been solved.

Depressions in a surplus economy are characterized by the existence of more workers seeking jobs than of jobs seeking workers. Prosperity will be permanent when we achieve the practically uninterrupted existence of all the opportunities for well-paid work that the labor market can absorb.

Obviously, this condition cannot prevail unless we can get rid wholly of cyclical depressions, and provide adequate cushions for seasonal and technological unemployment. And obviously the best assurance of steady, profitable employment for management and labor and capital is an economic order so rationally planned and organized that agriculture and trade and industry and professional and personal services can never quite catch up with their opportunities to create and distribute the goods and satisfactions which a surplus economy demands.

The chief essential is to stop wasting in idleness and misdirected efforts our greatest economic asset - our ability to produce.

(b) Gross inequity in the distribution of buying power and unwise use of surplus incomes were among the major causes of the protracted depression from which we ought now to be permanently emerging.

In the prosperous years preceding the crash of 1929, factories were built and farms were developed capable of producing vastly more goods than could be consumed with purchasing power as then distributed. Rationalized mass production was thus impeded by irrational wealth distribution. Curtailment of construction and of output and of employment was the inevitable result.

Instead of thus foolishly cultivating destitution, a device was needed which, while permitting the greatest possible measure of individual initiative, would prevent production from being too soon or too largely diverted from consumers' goods and services into factories, skyscrapers, hotels and other excess facilities for competitive manufacture and trade.

Such a device to reduce the probability of future cataclysms can be found in a sane application of the powers of public finance and taxation. Suppose we had had wisdom enough six or eight years ago to maintain a high and steadily rising general standard of living, partly by increased social security, and partly by expenditures on well-planned public works and services adequate to offset technological unemployment. Such a program - of great benefit to our now dormant capital goods industries - could have been easily financed from taxation, with hardship to none and happiness for all, by collecting only a fraction of the added incomes and economic rent which this policy would have produced.

(c) To maintain productive ability at its maximum, and to divert it from harmful to beneficial uses, the major alternatives appear to be an extreme measure of governmental control over the production and distribution of wealth, or a system of taxation rational enough to prevent unemployment and render much of such control unnecessary.

We the people of the United States are now embarked on a pregnant experiment involving a theoretically voluntary union of capital and labor and government, to raise wages, shorten working hours, abolish child labor, fix prices and limit profits. Some good has resulted. But to imagine that, by law or code, wages will be provided generous enough to assure for the masses of the people purchasing power adequate to prevent future "over-production", would be to anticipate a premature arrival of the millenium. Either the anticipation of better times or the fear of worse times will bring irresistible demands for the abandonment of many of the self-imposed restraints of the "New Deal". With our constantly growing power to produce, we may then have a new orgy of rugged individualism even worse than that of 1928-1929, and a subsequent collapse greater than that of 1930-1934. The possibility of such an orgy and collapse will be very much mitigated if we have the good sense, by a wise combination of income and inheritance and land-value levies, to provide public revenues adequate to employ all available brain and brawn which private business cannot profitably use.

To stop our economic panic we must stop our economy panic. There is no virtue in a planned scarcity. Unless wealth abolishes poverty, poverty may abolish wealth. Economic salvation by taxation may avert our being stampeded into attempts to attain economic salvation by fascism or communism.

(d) When productive capacity remains idle, society loses in wealth much more than it saves in wages and taxes.

The range of profitable public spending is wide and inexhaustible. Everywhere are communities that can become more convenient, safe, sanitary and beautiful; in every state are regions that can be made more usable and accessible for production and pleasure; areas denuded of forests or subject to soil erosion or to devastation by flood that need reclamation or protection; grade crossings to be eliminated; roads that should become parkways; institutions that need modernizing; rivers that ought to be freed from the pollution of sewage and factory wastes; slums to be abolished and housing and sanitary conditions to be bettered; educational, cultural and recreational facilities and services that require enlarging and improving to meet the needs of an era which is demanding less toil of children and is providing more generous measures of voluntary leisure for adults than the world has ever known.

Through these and other betterments will government - national, state and local - enable its constituents to contribute to and enjoy a steadily rising standard of American life. For the nation as a whole, the net cost of these public works and services would be nothing, or less than nothing, if financed through the employment of productive ability that would otherwise be unused.

(e) Social security for every citizen, financed as far as necessary through the power of taxation, could be made an important factor in assuring nationwide sustained purchasing power.

Adequate social security - including old-age pensions, health insurance, unemployment compensation, and widows' and orphans' pensions - should be provided.

The idea of security for the aged has taken hold to such an extent during the last few years that some form of old-age pension legislation has been enacted in more than half of the forty-eight states. What is now needed is an extension of this prosperity-spreading device to cover the entire Union, and the generous application of its benefits to all dependent citizens over a specified age.

The reason why most social security laws hitherto enacted have furnished inadequate relief has been the seeming need for economy. But beneficial spending, rather than short-sighted thrift, is the need of the present age; for we must find an avenue through which, without doing damage, we can pour into consumption sums sufficient to provide stabilized nationwide prosperity. The amount of the payments, if comparatively small at the start, should be increased and maintained at steadily higher levels as conditions improve through the fuller use of our productive capacity.

Such a system of social security would have the double advantage of removing from the masses of the people their dread of dependence on private charity, and of making it safe for the average family to contribute to the general welfare by spending liberally for current needs and satisfactions.

III and IV

(f) A major factor in causing and continuing the depression of 1930-1934 has been the assumption that there is an essential relationship between a balanced budget and a fiscal year.

During the prosperous period preceding 1930, the Federal budget was unwisely limited on the income side. A scientific system of taxation would not have reduced the levies on surplus incomes, but would have used such readily available funds to retire more rapidly the public debt and to provide public employment wherever private unemployment became ominous.

Similarly, when the depression drift occurred and private initiative was unable to stem the tide, a speedy and courageous unbalancing of the Federal budget on the expenditure side could have substituted distribution for destruction of wealth.

In the present crisis and until widespread prosperity is restored, chief reliance must be had on public borrowing, rather than on increased taxes, as sources of emergency revenues. There must be avoidance, on the one hand, of unsound and ruinous tax-limitation laws in the various states, and of recourse to general sales taxes and other levies which hamper business recovery. Unwise taxes in time of depression increase the need for relief and aggravate the very conditions which wise public spending might remedy.

A properly coordinated system of state and national financing would provide adequate sums for normal and emergency expenditures without undue burden on any group, and would enable all to contribute their fair share to the general welfare.

(g) Income and estate taxes, greater in aggregate amount but inflicting less hardship than at present, should become the main sources of national and state revenues when prosperity is restored.

The individual income tax offers the best medium through which urgently needed readjustments of the nation's economic structure can be attained. In addition to being broader in base, perhaps, and more steeply graded, the income tax should be more scientifically assessed and collected, to avoid the loopholes through which much tax-paying ability is escaping the levies intended.

No approximation to a dead level of net incomes would be either necessary or desirable to accomplish the purpose proposed. Enough of a spread between minimum and maximum earning and saving power should be left to provide incentive for the mental and physical efforts which are still necessary, even with all our technological advance, to meet the needs and supply the joys of modern civilization. Under conditions of widespread and sustained prosperity, the burdens of such taxes would be vastly less than their benefits.

Advocacy of high rates in the upper brackets of income taxes is not to be justified on any "soak the rich" theory, nor solely on the "ability to pay" theory. The proposal is based primarily on the importance of obviating the evils of an otherwise constantly mounting burden of public and private debt. It is essential that saving in excess of the needs for new capital be discouraged.

Larger revenues from inheritance taxes should be used to supplement the income tax in this vital task of spreading prosperity and correcting the maldistribution of wealth. Under such a system, the repeal of general sales and "nuisance" levies and other regressive forms of taxation could be speedily accomplished.

(h) Burdens on tenants and small home owners should be lessened by deriving a larger percentage of the real estate tax from the maintenance and increase of land values resulting from public improvements and community growth, and by an increased share for local governments of state collected taxes.

The whole system of real estate taxation, which provides the bulk of local revenues, should be thoroughly examined. Assessment and collection procedure should be perfected. Land and improvements should be separately assessed, and consideration should be given to the proposal for the partial or complete exemption of improvements with a corresponding increase in the taxation of land values. Such a policy, coupled with efficient zoning regulations, would have a tendency to stimulate desirable construction and would reduce land speculation.

In a rational system of taxation, the principle of ability to pay would be combined in just proportion with the principle of payment for benefits received. Land values and resulting rents afford a striking illustration of the diversion of naturally or socially created wealth to the enrichment of private individuals or to the encouragement of speculation. Under prevailing systems of real estate and property taxation, local governments collect from holders of land much less than the benefits which public expenditures and the growth of population confer upon such landowners. At the same time we handicap home building, local industry and trade by imposing needless taxes on improvements, machinery and personal property.

(A) There must be much more scientific and mutually helpful coordination than now exists among the tax systems of the Federal, state and local governments.

Overlapping taxation results in needless costs of collection. Some taxes cannot be efficiently administered on a local, or even state-wide basis. Variations in state policies with respect to corporate income, gasoline, liquor and inheritance taxes have brought chaotic conditions of interstate competition, tax evasion, bootlegging (of liquor and gasoline) and other evils. The situation with respect to inheritance taxes has been much improved as a result of the Federal provision which permits inheritance taxes paid to the state to be credited to the taxpayer up to 80% of the Federal estate tax. This provision speedily brought about substantial uniformity in state inheritance tax laws. Unfortunately, this desirable effect has been largely nullified by the Revenue Act of 1932, which substituted for Federal rates of 1 to 20%, rates of 1 to 45% without permitting a credit on state taxes on the additional levy.

A coordinated Federal and state liquor taxation program should be adopted, under which all taxes on manufacture would be administered by the Federal Government, with distribution of part of the yield to the states. Taxes on distribution should be levied by the states, with part of the yield shared with the localities. Consideration should be given to the proposal for making the gasoline tax a Federally collected producers tax. The major portion of the yield therefrom should be returned to the states. The states should distribute enough of their share of the tax to the local governments to finance a substantial part of the local highway and street construction and maintenance costs. The corporation income tax should be administered by the Federal Government and the proceeds should be shared with the states.

State and Federal aids for certain functions should be provided on a sound equalization basis. Real estate taxes should be administered by units no smaller than a county, and there should be state supervision of assessment and collection procedure. Personal property, general sales and poll taxes (except possibly as a filing fee in connection with personal net income taxes) should be abolished. Tax limits and uniformity clauses should likewise be abolished. A number of state-collected taxes should be shared with local governments.