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BUSINESS INCENTIVES AND THE POSTWAR TAX PROGRAM*

Napoleon's historic epigram that each soldier's knapsack contains a marshal's baton has, as its modern counterpart, the observation that every member of America's armed forces has a postwar plan. Today, on every continent, Americans are looking beyond the end of the war. They are certain that victory will be ours. But many are apprehensive about the economic front which must next be encountered,—apprehensive for jobs, for sales, for business, after this war is won. Americans in factories and in foxholes, in offices and in wardrooms, all are united in asking: "Can we have peace *and* prosperity?"

Each epoch puts its seal upon human beings, and upon their institutions. After World War I the main interest of the Nation as expressed by The Congress lay in the restoration of what was heralded as the benevolent conditions interrupted by that struggle. Experiment was regarded as a peril. In response to the mood of the period, President Harding called for a "return to normalcy." The tendency was to look backward. Today, however, no such haze of unrealistic nostalgia palliates the conditions of the pre-war period of 1929 to 1941. There is little that is enticing in the economic history of the generation immediately preceding America's entry into World War II, except perhaps, the determined spirit of experiment. Consequently, the tendency today is to look forward and plan for better conditions after the bombings and barrages are history.

The discussions of servicemen after "lights out," or in those other rare moments when a man's intimate thoughts can be expressed, evidence a desire for an effective democ-

*The opinions expressed in this article are the personal views of the author and are not to be taken as in any way representing the official views of the War Department or any of its constituent services, or of any Federal agency.

racy with opportunities to maintain high levels of production, employment and prosperity. Such discussions indicate a groping for the keys to new opportunities, new jobs and stability in the postwar period. Undoubtedly, one key is a postwar tax program designed to encourage production which will not hamper consumption.

America's experience with a military economy has taught us important lessons that have a direct bearing on the solution of our postwar problems. We have learned that American economy has remarkable adaptive powers; there is no need to be alarmed at the physical task of reconstruction. War has taught us the amazing potential capacity of our economy; our production is more than 70% greater than in any peacetime year. When unfettered by lack of sales, American industry performs miracles; the advantages of surplus purchasing power have been encountered.

One problem which will demand our attention will be to prevent a recurrence of the long postwar downswing in prices which has characterized the postwar depressions that occurred within two years after the War of 1812,¹ the War between the States,² and World War I.³ To help meet this problem we will have a dammed-up purchasing potential of more than one hundred billion dollars. During no other war have we accumulated such a pent-up reservoir of purchasing power and consumer demand.

"The postwar world will be built within the four walls of the tax structure" according to Senator Walter F. George, Chairman of the Senate Finance Committee. The opportunity is presented either to demonstrate again that "the power to tax is the power to destroy," or to recognize that the tax structure as a dynamic instrument can provide stimuli to business.⁴

¹ Downswing of 1815 to 1848.

² Downswing of 1865 to 1895.

³ Price downswing which began in 1920.

⁴ Most postwar planning bodies have predicated their recommendations upon this premise. The Twin Cities Plan, the Ruml Recommendations and the Tax Re-

This is not to suggest that the tax laws redrafted will prove a panacea for the nation's economic disorders. Nor is it recommended that special advantages, taxwise, be made available to favored groups. Fairness must be retained and cherished. What is proposed is merely that recognition be accorded the very sobering consideration that taxes can retard or encourage.

Quite apart from our desires in the premises, taxation does influence production. In the past it has frequently discouraged initiative.⁵ But its postwar role should be to energize self-reliant undertakings. Our task is to make it a buoyant force. There will be a need for the venturing of savings, earnings and abilities. Trade will flourish only if each man can be induced to bear a fair measure of uncertainty.⁶ The postwar tax program should encourage the taking of risks. It should be geared to an expanding economy.

What will be suggested in the paragraphs that follow is not a tax organism born full-grown like Athena. It recognizes merely a coming-of-age, i.e.: that our tax structure must henceforth shoulder social responsibilities. Whether we like it or not, taxes are an economic instrument and produce

port of the Committee for Economic Development (to mention but a few of those which have received nationwide notice) are in agreement on this important fundamental. Economist Robert R. Nathan has reached the same opinion. (See: "Mobilizing for Abundance"; McGraw-Hill, 1944). Each of the named reports, and many others, have been drawn upon in the preparation of this article, and concurrence with the recommendations of such studies in many particulars is acknowledged. The very splendid research study for the Committee for Economic Development by Professor Harold M. Groves of the University of Wisconsin entitled "Production, Jobs and Taxes" (McGraw-Hill, 1944) was most inspiring and admission is made of the assistance received from this authoritative source.

⁵ The thesis advanced is that there be eliminated from our present tax structure those features which impede the flow of capital to business ventures. The primary aim of the recommendations contained herein is to achieve equality in taxation rather than to either penalize or subsidize any group of individuals who bear the economic impact of taxes.

⁶ The term "uncertainty" comprehends all business possibilities which cannot be determined in advance statistically or minimized through insurance. Such uncertainty is the "unknown" of economic activity with respect to which business men must exercise judgment. See: "Risk, Uncertainty and Profit" by Frank H. Knight (1921). Throughout the balance of this article all business uncertainties will be referred to as "risks," because the latter term is the one used by most business men and lawyers.

economic results. It appraises taxing devices which have already passed through infancy and adolescence. This is the function of the lawyer.⁷ The business community and the public generally will turn to the lawyer for guidance in evaluating the impact of the tax structure on risk-taking. The law profession should prepare to meet this challenge of tomorrow by recommending exactions which will maintain a healthy economic environment while providing government with revenues to finance its operations.⁸ Such an undertaking will not be easy. This article will attempt to define what is desirable, taxwise, within the scheme of that which is possible. This is another way of saying that our eyes must be idealistic and our feet realistic.

To partake of reality a tax program must be based on the following premises:

- I. There must be neither idle men nor idle money.
- II. The establishment of a high, stable level of employment will require a maintenance of production of at least 40% above the 1939 level.
- III. Americans favor the preservation of the market economy. They realize that public spending fails as an economic stimulant when carried on by use of revenue derived from high taxes which stifle the normal incentives toward expansion. Therefore, the tax system should give Business the elbow-room it needs for a fully constructive job. This means it must remove the factors which militate against the assumption of risk.

Investment, the seed of employment, production and trade expansion, results from an analysis of what may reasonably

⁷ The lawyer as a legislator, as a tax administrator, as an advisor to business, as a draftsman of proposed legislation and of business plans, and as a leader in the community is frequently called upon to analyze laws, to evaluate their performance, to suggest revisions thereof or to propose a better set of rules for future use.

⁸ It should be understood at the outset that very few impediments to trade attendant upon taxation are the consequence of the intention of the draftsmen of the statute, rather they are largely the product of ineptitude.

be expected of the future. In the nature of this process the dread of loss exerts a more potent influence than the hope for large gains. To shun loss is the common denominator of all commerce since all trade is governed by potential investors. It is significant that in our day special circumstances render this fear an especially active force because much management is divorced from ownership, as is the case of many large corporate producers. A fact which we must recognize is that much investment depends upon the judgment of management. That this is true is not surprising: management is considered successful if it avoids loss and if its direction yields company earnings, regardless of the amount the stockholders retain net after taxes.

Stimulation of investment arises from the promise that loss can be avoided and profit gained and also from a ready market for the goods and services which business is geared to produce. To grow and prosper, then, we must tailor taxes to encourage investment by (a) minimizing fear of losses, (b) by removing the tax burdens which eat up company earnings, and (c) by avoiding consumer taxes which engender resistance to purchasing.

On the Federal Level.

The tax policy in the postwar era should be shaped by the overall economic implications of the exactions. No institution is ever merely what the statute makes it. It accumulates about itself conventions and ways of behavior which are not less formidable than the law itself. For example, present Federal tax laws reward the possessor of resources if he does *not* use such funds to create employment, since (a) profits from common stock investments are taxed more heavily than interest,⁹ and (b) the present laws greatly increase the prospect of loss from a new venture. Such barnacles must be removed. To do so, the following adjustments are recommended.

⁹ Interest is a deductible item in computing taxable corporate income.

Excess Profits Tax.

There is an old saying that an actor can always give pleasure in some way: one by coming onto the stage, another by an exit. The Excess Profits Tax belongs in the latter category. The excess profits tax was tailor-made to "take the profits out of war." The tax was undoubtedly a necessity during World War II because much of the capital which generated profits was provided from the Federal Treasury, and Government war purchases were, by the very nature of the demand, freed from the normal checks established by the interplay of competition. These usual curbs were suspended by virtue of the enormous demand, and by the urgency with which goods were required. During the war period, many of the business uncertainties normally assumed by private business were openly shifted to the central government.¹⁰ At the time of the enactment of the Excess Profits Tax it was recognized as an emergency measure; however, history shows that there will be a temptation to retain this excise. The very principles which made the excess profits tax desirable in wartime, signal that it is inimical to peacetime objectives. It is patent that its continuance would very definitely penalize new investment as well as irregularity of income. If continued, this tax would promote monopoly by giving established concerns with large invested capital a clear advantage over any youthful competitor. The tax applies particularly to marginal income and there can be no doubt that it discourages both risk-taking and expansion. In normal periods it would cost, economywise, more than it could yield taxwise. The history of the tax has been studded with anomalies and the tax is incredibly complex. Manifestly, it involves an exaction against managerial efficiency. The date upon which repeal of the excess profits tax becomes effective might well be postponed until twelve to eighteen months after the cease-firing date. This would not only permit the continuance of

¹⁰ See: "War Procurement — a New Pattern in Contracts" by David Fain and Richard F. Watt, *Columbia Law Review*, March 1944, pp. 127 to 215.

the tax to skim off some of the unearned cream of the boom, as is suggested by an excellent survey of The Brookings Institution, but would encourage the use of that handmaiden of market-demand, advertising. Advertising generates future returns, and consequently future tax yields. In the immediate postwar period, advertising will have the important role of cranking the economic machine. However, it is important that business be permitted to make its surveys of risk-taking, its investments and commitments with the assurance that the excess profits tax will leave the stage as of a specified date. The best way in which such a pledge can be given is by the enactment of a statute designating the effective date of the repeal. If The Congress will enact such a law, investors can, and more importantly will, act with notably increased confidence.

*Declared Value, Capital Stock, and Excess Profits
Tax Combination.*

These complicated guessing-game levies should be repealed at the earliest date on which The Congress can reach this subject. This combination is a hangover of the Industrial Recovery Act of 1933. There is evidence that these excises hit small and newly formed businesses hardest, because in such enterprises profit fluctuations are as normal as they are sometimes violent. These exactions amount to additional levy on net income. The calculation of the taxes has little connection with practical realities. Some phrasemaker has characterized them as the *Gotterdammerung* of artless academicians.

*Integration of the Corporate Income and Personal
Income Taxes.*

There is only one thing can be said with certainty about the corporate net income tax: it is *not* borne by the corporation. The fatal fallacy of the corporate income tax from the early nineteen twenties until this date is based upon the fiction

that business entities can bear a tax in their own right. The idea had its origin in the legal fiction that a corporation is a person. However, satisfying such a doctrine may be for legal purposes; it does not face the realities of taxation. A fiction is incapable of paying a tax. The statement that a corporation is a "person" undoubtedly had its origin in the Latin root *persona*, which comprehended a mask or a part played by an actor, rather than the modern identification of the term with a human being. The Latin connotation fits. A corporation is, in reality, a character in a play, — a mask for a particular type of limited-liability business association. Now, obviously, a tax burden is not actually borne by a mask, but by the pockets or the fiscal expectancies of individuals.

Considerable conjecture has been indulged in with reference to the incidence of the corporate income tax. No matter which school of economic theory one may embrace as to what group of individuals bear the burden of corporate income taxes, it is patent that the present corporate income tax is difficult to defend from an economic point of view. It has been suggested that its bite is deflected to those who purchase goods or services from the corporation, or to employees of the concern. Now, should the final exaction reach either consumers or wage earners such incidence is unfair and arbitrary and may retard the ready market for goods and services. But the ready market is an essential element of the economic health necessary for the achievement of the primary purpose of all taxes, that is, the production of revenue. Be that as it may, it is important to observe that the proposition which has gained widest acceptance is that the tax is paid by the stockholders of the corporation. This results in double taxation of the same profits, one tax at the corporate level and another at the personal level. Further, to tax at the impersonal corporate level fails to take into account the varying economic circumstances of the stockholders. Consequently, the corporate income tax is definitely prejudicial to the interests of small stockholders. There seems to be no

real reason why two income taxes are imposed on the income to stockholders whereas only one is imposed on all other incomes.

But, equitable considerations aside, the unfortunate thing about the present system of corporate income taxation is that it places a penalty upon risk-taking. The integration of corporate and personal income levies will remove such penalties.

Repeal of the tax on the corporate body itself can be a boon in the immediate postwar era because not all risk-taking by corporations is determined upon by stockholders. Many of the most important decisions in this field are made by managers who are not stockholders (or whose stockholdings are not sufficient to make stockholding itself the motivating factor in the reinvestment decisions). Management is generally interested in the record and the standing of the concern itself, rather than in the size of the return which is available to stockholders. The criterion by which management is judged is usually corporate net earnings. Obviously, the company's earning record will be better if it is relieved of the present tax burden. Management can be induced to reinvest if the absence of tax holds forth greater probability that the management will be acclaimed as successful.

As a Nation, we must guard against investors viewing risks through morose-colored glasses. In the years which lie immediately ahead, the presence or absence of the repressive effects of the corporate income tax upon corporate reinvestments may be crucial. The repressive effects of taxation at both the corporate and individual levels should be removed in the interests of the national safety. The Nation can well afford to extend first attention to the active business man as such because here the tax policy touches the power to achieve public good by providing an incentive for risk-taking ventures.

The integration of corporate and personal taxes offers an opportunity to achieve unity in Governmental policy with reference to corporate financing. For a number of years the

Federal Securities and Exchange Commission and the state utility commissions have issued directives designed to reduce corporate bonded debt. During the same period corporations were forced to live in a tax structure which produced the opposite result: corporations are encouraged to issue bonds instead of stock. Payments are made to bondholders prior to Federal taxes. If a corporation finances itself by the issuance of bonds, it can effect savings of half the corporate tax that would be due if financing had been through the issuance of stock. As Doctor Harold M. Groves, Professor of Economics at the University of Wisconsin has pointed out, the profit dollar that is earmarked for the stockholder is, in effect, cut to sixty cents.¹¹ Excessive bond financing, or heavy fixed debt, is undesirable since it has a tendency to require corporations to resort to practices which may prove disastrous, and in a downswing may prove contagious, in order to meet current interest payment and bond maturities. The difference between stock and bond financing in a general recession may easily mean the difference between a slight decline and run away deflation. The proposed integration of personal and corporate income taxes would achieve equality of treatment among corporations whether financed with stocks or with bonds, because in such circumstances, corporate earnings would be subjected to only one exaction.

Critics may view this proposal with alarm as involving special favors to corporations. This suggestion is only one to eliminate the corporate income tax in form, — actually its goal is the reduction of personal taxes to the extent that they now overlap corporation taxes.

In view of the foregoing, it is suggested that we can best go forward by turning back. The key to the elimination of the duplication of income taxes was contained in the first Federal Income Tax Law of 1913 wherein the corporation

¹¹ See: "Production, Jobs and Taxes" by Prof. Harold M. Groves, (a research study of the Committee for Economic Development), McGraw-Hill Book Company (1944).

income tax was primarily a withholding level. The rate applicable to corporate income and personal income was the same in that early statute. Corporate dividends were exempted from the normal personal tax. Consequently, double taxation did not attend its operations. Many have forgotten this early beginning and that tax laws down through World War I recognized the advisability of subjecting dividends to tax only once. The disadvantages which have been noted heretofore made their appearance in the early twenties.

The main tax on corporate income should be a combination withholding tax and an advance payment of taxes for stockholders. The rate should be equivalent to the average or standard rate applicable to personal income. A credit should be extended to individuals for taxes paid by the corporation upon any distributed earnings. A tax should also be paid by the corporate entity on those earnings which are not distributed; this should be treated as an advance payment for stockholders and should apply against their personal tax liability at such times as dividends may subsequently be declared and paid, or a capital gain is actually realized.

One of the disastrous results of corporate income taxation has been that it has given all of us a severe case of astigmatism: it has focused attention upon the yield anticipated from the taxable net income of the corporation itself, rather than that such net income is not as important, revenue-wise, as the gross receipts of the corporation. The gross receipts represent amounts which are expended for materials and for labor, as well as the relatively small residuum which represents taxable net income. The great tax yield potential, from a national standpoint, is contained in the gross receipts of the corporate entity. With the present broadened tax base, the gross receipts generate tax revenue since each wage earner contributes a portion of the amount received from the corporation to the national revenues. True, these individual payments are small but they aggregate a convincing figure. Then the worker spends the balance for goods and services.

Those who furnish such services and commodities pay taxes, and so it goes. The amounts expended for materials also represent amounts which generate additional revenues to the Federal Government.¹²

In integrating corporate and personal income taxes we will be displaying the kind of business prudence which controls the avarice of the present for the sake of the avarice of the future.

New Ventures Designed to Increase Employment.

One of the immediate goals of the postwar years will be to induce investors to organize and carry forward new independent enterprises. Such ventures will, of necessity, have small beginnings because they have yet to prove their mettle. In the primary stages of growth such ventures will encounter difficulty in the procurement of bank loans or equity capital. It will be found advisable to permit such enterprises to have a reasonable period, of say six to ten years, in which to perfect the organization and take their place in the competition of the market place. To encourage such concerns, new manufacturing enterprises of a limited size might well be permitted to reinvest all of the corporate earnings without being subjected to the advance payment feature of the plan outlined in the preceding paragraph. If this is done, the small amount of taxes which are the subject of this forbearance will be eventually paid into the fisc, and the reinvestment of earnings in the formative years of growth may ultimately yield a tax return which will prove that the privilege accorded was, from the Treasury's viewpoint, not only good policy but good business.

The Carry-Forward of Net Business Losses.

One of the difficulties which has always attended the imposition of income taxes on business enterprises has had as

¹² For a somewhat similar discussion see: "Mobilizing for Abundance" by Robert R. Nathan, (McGraw-Hill Book Company, 1944).

its source the attempt to confine arbitrarily the net income of the business within the corset of the calendar. Actually, of course, net income should be determined with reference to the life of an operation. Few business operations, indeed, are such that they naturally adjust themselves to the Gregorian calendar or the fiscal year. Generally speaking, the income tax allows business loss in a specific year to be offset against corresponding gains. A graduated *annual* income tax exacts a greater volume of tax from income yields that fluctuate than it does from the same amount of actual profit derived as stable income over the same span of years. In other words, it hits the peaks heavily. An attack upon this problem was made in a carry-over provision which appeared in The Revenue Act of 1919 and was carried over until the Industrial Recovery Act of 1933. The provision reappeared in the Revenue Act of 1939, and 1942 a carry-back of two years was added. Undoubtedly, some period in excess of twelve months and less than ten years should be allowed within which businesses will be permitted to take full credit for losses. Orderly administration of the tax laws necessitates that there be established a definite period of time within which business losses can be carried forward. Those who have made exhaustive surveys of this problem recommend a six-year carry-forward.

The privilege of carry-forward business losses will be a buoyant force in the postwar era. Losses, or at best fluctuating income, are the normal expectancy of new projects. The knowledge that business losses can be carried forward for a period of six years would provide venturers with courage.

Accelerated Amortization.

One of the more popular features of the present income tax structure is that which permits the amortization of certain capital investments over a sixty (60) month period. Under certain circumstances, this amortization period can be

accelerated even more rapidly. This is a technique of encouraging expansion. It has been used successfully throughout World War II. It can be adapted to a peacetime economy. Management is inclined to embark on programs to replace equipment and to expand productive capacity only when the existing assets have been subjected to substantial depreciation. During World War II it has been learned that rapid depreciation can be an effective stimulus to expansion since insecurity is avoided by recovering the capital cost of new facilities during the anticipated years of certain use. Similarly, provisions relating to deductions for obsolescence and depreciation should be liberalized and freed from a too rigorous approach. In this connection it should be noted, aside from special wartime amortization, that the present attitude with reference to depreciation is the result of getting used to certain practices. There would appear to be substantial evidence that it is almost impossible to determine with accuracy what depreciation should be used. At best, it is determined by someone's guess. In the past, those entrusted with the duty of collecting revenue have forced industry to depreciate capital investments over the longest period of time for which any defense could be conjured up because that method secured the largest revenue yield in the current year. Such policies may win the battle but lose the campaign. Accelerated amortization of capital should be accorded a place in the tax structure for the reason that it effectively encourages expansion.

Personal Taxes.

The tax therapy herein proposed cannot be painless as long as the need for revenue continues to be as great as it is now. A concomitant of the suggestions to rescind overlapping taxes and those which hinder investment or reinvestment, is that the personal income tax on a pay-as-you-go basis provides the bulk of the Federal yield. The present broad base should be retained. On the whole, present rates

and exemptions applicable to low-brackets will have to be continued to service and reduce the national debt and to finance such temporary public works as become necessary, — at least for several years.

It is proposed that the present high rates on personal incomes be continued through the period necessary to determine the extent of the dwindling of revenues resulting from the integration of the corporate and individual income tax levies. Accurate statistical data with reference to this matter should be available within twelve to sixteen months after the close of hostilities. At that time it may be found that rates applicable to individuals, especially those in the lower brackets, can be materially reduced. If this is the case, reduction of individual tax rates can be made to coincide roughly with the period in which the present retarded hundred billion dollar purchasing potential has been substantially expended. The reduction in the rate applicable to individual incomes would, therefore, have the effect of increasing purchasing power at the period when most needed. Thus, the continuation of high rates applicable to individual incomes for several years will serve (a) as an anti-inflationary measure in the period of excess purchasing power; (b) as a safeguard to the Treasury until the effects of the elimination of the duplication of corporate and individual incomes are apparent; and (c) will release additional potential purchasing power at approximately the time that supplies of available goods have caught up with demand.

A study should be instituted to ascertain the practicability of providing some balm to the individual through an option of permitting adjustments designed to make the average tax paid over a series of years equal the tax at average rates on his mean income. The taxpayer might be permitted to average the income for a span of five successive years, provided that no year could be incorporated in more than one such span, and provided further that no refunds or credits would be available unless the payments exceeded by ten percent

(10%) the tax finally found to be due. Such a plan would be complicated (and apparently mistimed in a period wherein the public has been clamoring for simplification). Consequently, this averaging might be used only where there are wide variations in individual income over the years. The plan is not new: both Britain and the State of Wisconsin have experimented with it and then abandoned the field. However, there exists a need for some redress applicable to taxpayers with widely fluctuating incomes, and this remedy might prove the humble beginning from which tax therapy worthy of the name might ensue.

In view of the urgent need for Federal revenues, the present abuses of the inter-vivos trust device should be eliminated. Also, in view of the dictates of the fisc the Estate and the Gift taxes should be integrated and strengthened. Experience may prove that the basic exemption applicable to these taxes should be lowered and the rate increased. In this connection, it will be noted that neither the Estate nor the Gift tax bear any substantial relationship to business incentives. These taxes, therefore, provide a medium whereby additional revenues can be gained for the socially desirable purpose of reducing income surtax rates.

There is an imperative need of a campaign to acquaint the individual taxpayer that the cost of Government must be met either (a) through a continuation of high taxes, or (b) enlarging the public debt, or (c) issuance of fiat currency. Note that in any event it is the public that pays. The only difference is that the public will pay much less if it can be convinced of the wisdom of the payment of relatively high taxes. When the other alternatives are duly weighed, that plan will be adjudged a genuine bargain.

Special Excise Taxes.

Historically, we as a nation are inclined to inaugurate special excises during each war and to eliminate them soon after the coming peace. There is reason to believe that this

familiar pattern will be followed at the end of the present conflict, at least in part.¹³ It is suggested, however, that the excise taxes on alcohol, tobacco, and petroleum products should be continued.¹⁴ Further, the repeal date of the other excises be delayed for a period from two to four years after the end of the war with Japan. This will permit Treasury officials to gain experience with the integration of the corporate and income taxes and will serve to drain off the excess purchasing power prevalent immediately after the end of the war. However, these consumption taxes, should, with the exception of those noted above, be repealed at the earliest date consistent with the requirements of the budget.

On the State Level.

State governments are impeded in the development of their taxing system by constitutional considerations, by the Commerce Clause, and by considerations of competition between the states taxwise. However, the state governments can make an important contribution to postwar prosperity by eliminating tax conflicts which unduly arrest investment, production and consumption. Many state levies, like Topsy, just grew up, and their points of difference from similar taxes of other states render no particular benefit to the state. An excellent example of this may be found in the various state sales and use taxes. With the possible exception of Illinois Retailers' Occupation tax, most of the variations contained in state sales and use taxes are the product of legislative whim. A uniform state sales and use tax should be drafted and its adoption recommended by the National Association of Tax Administrators. Such a uniform bill should achieve uniformity with respect to the treatment of the following

¹³ Taxes measured either by physical volume of goods flowing into consumer hands, or by consumers' money outlay, fall more heavily upon the economic process of consumption than excises upon production, property or income.

¹⁴ Taxes on alcohol and tobacco have social claims in addition to their revenue yields. Taxes on gasoline and lubricating oils benefit the class who bear their economic impact through the use of their yield to construct roads, — and perhaps in the future, airports.

items: (1) discounts; (2) refunds; (3) installation and service charges; (4) trade-in allowances; (5) interest, finance or carrying charges; (6) transportation charges; (7) credit or installment sales; (8) casual or isolated sales; (9) sales of machinery to manufacturers; (10) sales of fixtures to retailers; (11) sales of containers, labels, and packaging materials; (12) sales to processors and manufacturers; (13) sales to servicemen, professional men, artists and service industries; (14) whether the tax must be passed on to the consumer; (15) whether the retailer must collect the tax as a distinct item; (16) whether retailers should be prohibited from advertising that they absorb the sales tax; and (17) whether in a given transaction a use tax exemption or credit will be accorded sales or use taxes paid to another jurisdiction upon the acquisition of the subject property. In addition, sales and use taxes should be completely integrated, — perhaps to the extent of making the taxable event the first use in the state and including the traditional concept of sale in the definition of the term “use.”

Another field for the achievement of uniformity is to be found in the state corporate franchise tax laws.

The state governments can make a real contribution to the National economy by integrating their corporate and individual income taxes in the manner outlined herein.

Under the leadership of the Council of the State Governments an effort should be made by the states to evaluate the impact of their tax programs upon industry and to provide whatever tax therapy is possible in view of the various constitutional restrictions and economic environment in which the respective jurisdictions operate.

It would be impractical to attempt by this medium to propose a tax program complete in scope and detail. Many phases of the problem, which though important and ripe for reform, have been omitted because they are of a less fundamental nature or because, for intrinsic reasons, they seem

now to be unattainable. Tax programs must of necessity be flexible so that they may be tailored to fit varying economic conditions. As has been shown, the plan presented here has been made large enough at the outset to be useful through two foreseeable stages of our economic growth. Briefly these are: (a) the period of surplus consumer purchasing power in which investment must be fostered so that we may attain full production and employment; and (b) the period which will follow the expenditure of our reservoir of purchasing power wherein production will catch up with demand and there will be a need to swell consumer purchasing power by lowering individual taxes. The plan's rationale is, briefly, that a farsighted and well-balanced tax policy is essential to the full and constructive use of all of our economic and human resources; and, in turn, the full employment of those resources will diminish the burdens of taxation to a readily tolerable point. To paraphrase the sage advice of Benjamin Franklin,¹⁵ idleness taxes with a heavier hand than Government, so that if we can rid ourselves of the former we may easily bear the latter.

Major Joseph P. McNamara, U.S.A.

¹⁵ See: Letter on The Stamp Act.