

# Wealthy Men Willing to Pay Higher Taxes

## Victor Morawetz Says the Government Must Remember It Cannot Get Funds of People Twice, by Taxation and Bonds

**R**EVISED schedules of the new war taxes to produce approximately \$1,800,000,000 annually have been tentatively agreed upon by the House Ways and Means Committee, which is drafting the Revenue bill. Important among the changes is a practical agreement to lower the exemption of the income to \$1,000 for unmarried men, and to \$2,000 for men who are married. The committee is also working on a revision of the excess-profits tax which was first imposed at the last Congress to meet the expenditures of the preparedness program. It is expected that the committee will also impose on large incomes heavy supertaxes.

This whole subject is treated in the following interview with Victor Morawetz, the well-known New York lawyer, who is an authority on the taxation problem. For years Mr. Morawetz has been engaged as counsel by large corporations. He is a Director and member of the Executive and Finance Committees of the Norfolk & Western Railway and the author of "Morawetz on the Law of Corporations" and of "The Banking and Currency Problem in the United States."

Mr. Morawetz was asked whether in his opinion it was not a fact that the wealthy men of New York were quite ready and willing to pay heavily increased taxes on account of the war, but that their principal anxiety was lest taxes should be made so heavy as to cause serious depression in various kinds of business, a large fall in security values, and possibly financial troubles, besides further increasing the cost of living.

The point was suggested that under these circumstances the rich probably would be able to take care of themselves and perhaps even to profit by purchasing securities at low prices, while the principal losers would be all those persons engaged in kinds of business that would not be benefited by the war, as well as many laboring men and women who would be thrown out of employment and who could not easily find other work for which they are fitted. It was suggested, also, that any serious depression of security values and of business might imperil the success of the proposed bond issue and might cause popular discontent during the war.

"I quite agree with that view," said Mr. Morawetz. "I think there is a great deal in it. There is no problem requiring more earnest and careful consideration than that of war taxation and war finance. The adoption of a mistaken policy may not only interfere with the successful conduct of the war, but it may cause widespread suffering among the people and be prejudicial to the welfare of the nation for a generation to come."

Mr. Morawetz pointed out that for more than two years thoughtful men throughout the country, including most of the wealthy men of New York, Boston, and other Eastern cities, have urged the need of preparedness against possible hostile aggression. Since the sinking of the Lusitania many of these men have favored intervention by the United States in the European war. They believed that we were confronted by an issue far more important than the vindication of our rights upon the high seas against German aggression—an issue more far-reaching even than the preservation of our dignity and respect among nations and our self-respect as a people. They believed that the triumph of Germany and the destruction of the prosperity and power of England and France would be fatal to the future peace and security of the United States and to the cause of democracy throughout the world.

They realized that so long as Germany was dominated by its present militaristic Government Germany could not be trusted to keep her treaties and pledges, or to observe the international laws and usages of civilized nations, or to respect the rights and liberties of weaker or more peaceful nations. The President's noble war message to Congress brought profound relief to those who held these views,

and called forth a prompt and sympathetic response from the hearts and minds of the great majority of the people throughout the United States.

"Those who urged the need of preparedness and who favored war against Germany appreciated that they would have to pay the price in the form of heavy taxation and increased costs of living," said Mr. Morawetz. "They are ready now to bear cheerfully their share

funds of the seller would be counterbalanced by an equal reduction of the available funds of the purchaser, and in case of a loan from a bank the credit power of the bank would be diminished to an equal extent. In neither case would the aggregate funds obtainable by the Government be increased.

"It is obvious, also, that the Government cannot obtain the available funds of the people twice over. It can—the



Victor Morawetz, Corporation Lawyer, Whose Experience with the Captains of Industry Qualifies Him to Discuss Their Attitude.

of this burden; but, undoubtedly, there exists among business men and men familiar with financial affairs a feeling of apprehension lest the prosperity of the country and its ability to carry on the war successfully may be imperilled by unwise schemes of taxation that have been proposed.

"Proposals have been made to impose confiscatory income taxes that would cripple the country financially and would impair its power to carry on the war effectively, and these proposals have been supported by catch phrases, such as 'conscription of wealth as well as of men,' and by attempts to apply economic theories without due regard for fundamental facts and conditions. Unfortunately, many of the members of the national Legislature and many of our Government officials are not familiar with large problems of finance, and some of them seem unwilling to consult those who are familiar with such problems or to give patient and candid consideration to their advice.

"It is obvious that stocks, bonds, and other investments of the rich are not available for the payment of taxes or for the payment of subscriptions for Government bonds. Only bank credits are available for this purpose. It is true that under ordinary conditions a person owning stocks, bonds, or other investments can obtain money by selling them or by borrowing upon their security from the banks. The aggregate funds available for the purchase of bonds from the Government or for the payment of taxes cannot, however, be increased in this way. In case of a sale of stocks, bonds, or other investments the increase of the available

fact should be emphasized—obtain these funds either through taxation or through a bond issue, but it cannot obtain the same funds in both ways. If the Government imposes enormous taxes to pay the cost of the war, investors will be unable to subscribe freely for the proposed issue of Government bonds. If such taxation is threatened, prudent investors will husband their resources to pay the threatened taxes and to meet the business troubles and financial disturbances which such taxation would be likely to cause. To secure the success of the proposed bond issue it is, therefore, desirable that the Government's policy of taxation shall first be settled and announced

"So far as the funds required by the Government cannot be provided by the people by drawing upon their existing bank deposits, they must be provided by means of additional credits obtained through bank loans. It is essential, therefore, to avoid any scheme of taxation that will cause a restriction of bank credits, or a further depression of the market value of securities and the danger of a financial panic, or that will result in a large reduction of business profits and of incomes available for the payment of taxes and subscriptions for further bond issues.

"The American people in the aggregate, acting through their Government must pay the entire cost of the war at the present time. Taxation is the means of collecting from the individual member of the community their respective share of this cost. A bond issue supplies the means of making this collection gradually. Theoretically, it may be the same to a man whether he pays his share

the cost of the war immediately through one heavy tax or whether he pays his share in installments extending over a term of years through annual taxation for the redemption of a bond issue.

"There is, however, an immense practical difference in the results of the two methods of collecting the cost of the war. Very heavy taxation would render necessary a sudden shifting of property that would dislocate the delicately adjusted structure of business and finance, while moderate taxation sufficient to pay off a bond issue in a term of years would have no such effect. Heavy taxation would be especially burdensome during the war, as the cost of living will be high and the incomes of most of the people will be reduced. It is all important, therefore, that a conservative and consistent policy be adopted in fixing the amount of the war debt to be paid off annually by taxation.

"There is one object of temporary taxation concerning which there should be no difference of opinion. A large share of the profits in excess of the normal profits of business obtained by corporations, co-partnerships, and individuals by reason of the conditions resulting from the war should be appropriated by taxation and be applied to a reduction of the war debt. Part of the people should not be permitted to retain large profits obtained through the war at the expense of the rest of the community or of our allies. Only the balance of the cost of the war after deducting the war profits appropriated by taxation should be spread over a term of years and be represented by bonds to be paid through ordinary taxation.

"I am informed that in England business profits in excess of the average of the three years preceding the war and 8 per cent. additional on new capital invested since the beginning of the war, besides a proper allowance for depreciation and wastage, are taxed approximately 60 per cent. While the allowance of 8 per cent. for the normal profits on new capital probably would be too low in the United States, the principle adopted in England is sound and the rate of taxation of such extra war profits should be high.

"Heavy taxation of war profits in the United States would not dislocate business or destroy the necessary incentive to industry or work hardship upon individuals. Such taxation of extra profits due to the war would inure to the benefit of the entire community, and would be much fairer than the practice which has been resorted to of requiring certain manufacturers to sell supplies to the Government at less than their market price, while individuals and our allies are compelled to pay war prices, producing enormous profits.

"We entered upon the war not for present advantage, but to insure the future safety and welfare of the people of the United States and of all humanity. It would be equitable, therefore, to spread the payment of the cost of the war over a generation, or about thirty years, by requiring the people to contribute annually, through the payment of taxes, one-thirtieth of the aggregate principal and interest of the war debt. Of course it would be desirable to pay off the war debt in a shorter time if this can be done without unduly burdensome taxation. It should be borne in mind in this connection that the revenue derived from taxes will increase as the country grows in wealth and prosperity. War taxes which would produce only one-thirtieth of the aggregate principal and interest of the war debt this year probably would be sufficient, if kept in force, to pay off the entire debt in about twenty years.

"The sums which will be advanced to the Allies need not be raised by taxation, as the principal and interest of the bonds issued for this purpose will be repaid by the Allies. Assuming, however, that the war will cost us \$5,000,000,000 over and above the sums advanced to the Allies and the sums raised by spe-



cial taxation of war profits, the repayment of the principal of the \$5,000,000,000, together with interest at 3½ per cent. per annum, in thirty equal annual installments, would require additional taxation amounting approximately to \$250,000,000 a year.

"That sum could easily be raised by a moderate increase of the income tax and of the present internal revenue taxes and by imposing a stamp tax on checks. Twice that sum could probably be raised by taxation without dislocating business or causing injustice and suffering among the people.

"The argument advanced by certain economists that a large bond issue would cause inflation of prices which should be checked by very heavy taxation is based upon a misapplication of the quantitative theory of the purchasing media and is unsound. It is not proposed to lower the standard of value, as was done during the civil war by the issue of irredeemable paper currency. An increase of bank loans would not of itself tend to increase prices. It would have a tendency to increase prices only if it should cause an increase of business activity and of the demand for commodities.

"But no artificial restriction of business activity is needed, as undue activity of business will be prevented by the inadequacy of the supply of labor and the resulting increase of wages and prices, together with the uncertainty and risks of business in war times. There is more danger of excessive restriction of business than of excessive expansion.

"Whether the Government raises the cost of the war by bond issues or by tax-

tion, wages and the prices of commodities will increase during the war by reason of the following causes: First, the enlistment of a large number of laborers in the army and navy, thus diminishing the supply of labor, and, second, the employment of part of the remaining labor in producing war materials and supplies for the Government, thereby diminishing the supply of labor available for the production of things consumed by the people and for other necessary purposes.

"The problem of high prices of commodities due to the war is not a problem of currency or of bank credits, but it is essentially a labor problem. The increase of the prices of commodities can be checked only by diminishing the demand for the commodities, or by increasing the supply or the efficiency of labor applicable to their production. But it must not be overlooked that unless we place an embargo upon the export of foodstuffs and other exportable articles, their prices will be fixed by the world's supply of these articles and the world's demand for them. The prices of these articles consequently will rise until their consumption throughout the world is reduced to the diminished world's supply. Diminished consumption or increased production of such articles in the United States will affect their prices to a limited extent only.

"It has been urged that a drastic increase of the income tax is desirable because it will force the people to practice severe economy, and by diminishing the employment of labor in producing luxuries or for other unnecessary purposes will cause labor to be shifted to the pro-

duction of necessities of life and supplies for the Government. Drastic taxation of incomes would not prove an effective or an equitable means of obtaining these results. In estimating the effect of such taxation three classes of persons should be considered.

"First, the class you first mentioned, the very rich, that is to say, those whose incomes largely exceed their living expenses. Now, the very rich are not numerous, and taxation that is not practically confiscatory would not compel them largely to reduce their living expenses—certainly not their consumption of necessities of life. The principal effect of taking away from the very rich a considerable part of their incomes would be not merely to depress the value of securities, but also to diminish the amount of new capital that would be available for business purposes and for charities.

"Secondly, those should be considered who receive incomes substantially larger than needed to supply the necessities and the ordinary comforts of life, but not substantially larger than needed to maintain the standards of living to which they are accustomed. Heavy taxation might force persons of this class to diminish their consumption of luxuries; but nothing short of practical confiscation would cause them to diminish materially their consumption of food and of other necessities of life.

"Persons of this class commonly spend at least a fifth of their incomes for rent, an item which could not be reduced promptly, and they commonly spend a considerable part of their incomes for

the education of their children and the support of dependents and for charities. To reduce their living expenses substantially many persons of this class would have to vacate the houses which they own or lease and to readjust their entire mode of living. As such a readjustment cannot be effected quickly, many of them would be forced to draw upon their principal or incur debts.

"And then we come to the relatively poor, whose incomes are not more than enough to supply the necessities of life and a very moderate degree of comfort. This class includes most laborers, clerks, and farmers, and many professional men. It includes the vast majority of the people of the United States. Therefore, to effect through taxation a substantial lessening of the aggregate consumption of food and of other necessities of life it would be necessary to impose substantial taxes on the relatively poor.

"Taxation sufficiently heavy to compel people to change radically their modes of life would not merely cause suffering among those who are taxed. It would bear with special hardship upon many laboring men and women who would be thrown out of employment and who could not promptly find other work for which they are fitted. It would also bear with special hardship upon the owners of dwelling houses and shops, the rental value of which would be greatly depressed, and upon all those engaged in the manufacture or sale of any commodities that can be dispensed with. It would cause far-reaching business disturbances and failures that might seriously imperil the financing of the war."