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In Solving the Tax Problem the Hardest Nut to Crack is the One Just above Your Ears

THE BULLETIN

OF THE MANUFACTURERS AND MERCHANTS FEDERAL TAX LEAGUE

VOL. III. CHICAGO, MAY-JUNE 1924. No. 5.

COOLIDGE TAKES STEPS FOR NEW TAX SCHEME

Preparation of a new Mellon plan embodying suggestions for a further revision of the tax law in accordance with President Coolidge's promise to press for tax reform to supplement tax reduction is already under way.

Treasury officials indicate that those who aided in drafting the original Mellon plan, will have new suggestions to be incorporated in the forthcoming annual report by Secretary Mellon.

Chief recommendations, it is understood, will include the following:

Amendments to the new revenue law to make provisions applying to the board of tax appeals more workable.

Material reductions in estate taxes which were increased by congress in the new law.

Further reductions in the higher surtax brackets to the approximate level proposed in the original Mellon plan.

Adoption of a scheme to reach the tax exempt security situation indirectly.

Partial revision of the present corporation tax provisions, including possibly the repeal of the tax on capital stock of corporations.

HOW GOOD IS McNARY-CLARKE FORESTRY BILL?

Great things are expected from the McNary-Clarke Forestry bill signed by President Coolidge at the close of the last session of Congress. The New York Times says:

"The McNary-Clarke bill provides, among other things, that the Secretary of Agriculture shall co-operate with State and private organizations to advise and assist the owners of farms and of lands suitable for timber production in establishing, improving and renewing woodlots, shelter belts, windbreaks and other forest growth, and in growing and renewing useful timber crops. This is starting at the right place. However important the big forest reserves, conservation should begin at home. Not only should the farmer be shown the ultimate financial value of good tree crops, but he should be made to realize that by preserving and caring for his trees, whether in woodlots or simply in meadows or fields, he is materially aiding the nation's conservation policy."

All this is very good. But no reforestation program has yet succeeded, or ever will succeed, that does not lay its major stress on removing the tax burden from the standing trees and letting it rest on the value of the land only. Men will grow timber crops when it is profitable to do so; they will not grow them when it is unprofitable. And so long as standing trees are taxed year after year during the whole life of the tree the growing of new timber will remain unprofitable.

Drive to "Sweep the Nation" Launched by Federal Tax League

Simultaneously with the publication of the report of its National Tax Relief Convention the Manufacturers and Merchants Federal Tax League has launched a vigorous drive to get it into the hands of every leading man and woman in the country. Small slips displaying a cut of the book with a brief description of its contents have been printed, and an appeal has been made for aid in paying for and distributing as many millions of these little slips through the mails and other avenues as possible. While a very large number, if not an actual majority of our political friends in Washington privately acknowledge the wisdom of taxing business and industry less and the unearned increment of land values more, yet so far only a few have been willing to advocate publicly what they believe in privately until favorable public opinion has been developed to a greater extent. It is thought that the campaign now begun by the Manufacturers and Merchants Federal Tax League will result in bringing about the condition that will induce more of our legislators to "step out." When this happens it will not be long before a still larger number of them climb into the "band wagon."

MINNESOTA MAKES A NEW DEPARTURE IN TAXATION

By CARL J. BUELL

(Late Secretary of the Minnesota Tax Reform Association, St. Paul)

(Reprinted from the Report of the National Tax Relief Convention of the Manufacturers and Merchants Federal Tax League held in Chicago at the Congress Hotel on November 9 and 10, 1923.)

On April 11, 1923, the Minnesota Senate passed the house bill for the taxation of royalties received by the owners of mineral lands for permission to explore, develop, take out and ship iron or other ores.

Thus ends the second stage of a long contest to restore to the people, through taxation, a part, at least, of our great common heritage in the richest iron mines in the world.

A Long Struggle

The contest has been long and bitter and the story is very interesting.

As soon as it was certain that northern Minnesota contained valuable iron deposits, the owners of these lands came to the legislature with what they called "a plan to encourage the industry of mining."

They asked that these ore lands be absolutely exempt from all taxation for any purpose whatever until the ore was taken out; that they would pay into the state treasury one cent for each ton removed.

Just how this plan would **encourage industry** they did not explain.

In 1881 the legislature fell into this trap and passed their bill. It remained on the statute books for sixteen years and of course worked disastrously.

(Continued on page 3)

FEDERAL TAX LEAGUE SCORES ANOTHER POINT

"So long as we must have an income tax," declared the Manufacturers and Merchants Federal Tax League two years ago, "let us separate as far as possible income that is earned from income that is unearned, and tax the first at a substantially lower rate than the second."

What the League insisted upon two years ago and definitely set out to get is now the law of the land. The League did not get all it was after—far from it—but a modest start has been made that will yield better fruit in the days to come.

The League, in brief, demanded that the tax rate on earned income be cut down by 50 per cent, leaving the rate on unearned income at 100 per cent, and it was so incorporated in the bill introduced by Congressman Oscar E. Keller. Other bodies, organizations and parties followed with the demand that the rate on earned income be cut from 20 to 37½ per cent—the administration's own program fixing the reduction at 25 per cent. In the bitter factional struggle and jockeying for power that disgraced the halls of Congress at the last session the maximum amount to which this 25 per cent reduction should apply was arbitrarily fixed at $20,000 in the House and later in the Senate at $10,000.

While the definite reduction of 25% on earned income under $10,000 will henceforth mean a saving of about $60,000,000 a year to the taxpayers of the nation, this is a matter that is of little importance. The really significant thing is the introduction of a new and juster principle of taxation—a principle for which (with a little coaxing perhaps) the public demand will grow stronger and stronger as time goes on.

OUTLAY FOR RENT HIGHEST SINCE 1914

Rents in the United States in March, 1924, were higher than at any time since 1914. This increase in rents was considerably greater than the increase in the cost of any other major item in the family budget except coal, which was two points higher. All of the other items in the budget at some time since 1914 had, however, increased relatively more than had rents in 1924 but by the time of greatest rent increases, these other items had receded.

The National Industrial Conference Board, in connection with its investigations of changes in the cost of living in the United States, has had occasion to study the relative proportion of the family budget necessarily spent for rents by wage earners' families at different periods within the past decade. In 1914, according to careful investigations, the proportion of the total family outlay which went for rent averaged 17.7 per cent. In March, 1924, it was 20.0 per cent.

THE BULLETIN

of the Manufacturers and Merchants Federal Tax League

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A WORD OF APPRECIATION TO OUR READERS

To those who put forth their best efforts to achieve a difficult object it is always a source of joy to receive an occasional word of encouragement. We have of course known this all along but never have we realized it so much as within recent months.

Last November we held our National Tax Relief Convention here in Chicago at the Congress Hotel. It was our intention at the time to publish the very valuable addresses delivered at this Convention in a separate report. This in itself could have been done in a little while although the editor of the report found it necessary to absent himself for some months in Washington.

About the time however that the addresses were ready for the press the suggestion was made that the report would have greater value if a supplement of about one hundred pages were added elaborating on the more important topics brought out at the Convention. To do this right of course required some considerable additional time. Yet no sooner was this task about completed then it was again proposed—and in view of the present state of knowledge on the subject very wisely, we believe—to double, or if need be, treble the size of the supplement in order that the volume might be one of, if not **the** most complete, thorough and authentic document on fundamental taxation and its effects, published in recent years.

The report is done. Whether it will come up to the expectations of those who proposed it remains to be seen. We feel however that we have done our best in the matter—sparing no pains, time or expense to make the report all that it ought to be.

Unfortunately in the execution of this task much other work has had to be neglected. The answering of correspondence, the supplying of information and the writing of articles have been much delayed. Even the publication of our Bulletin has been irregular. In the natural course of events here would be just cause for complaint and we have duly expected to receive it. While there have, of course. been some who have complained the very large majority of our readers, we are glad to say, have had nothing but words of encouragement. For this evidence of genuine friendship and approval the management of the League is truly grateful and takes this opportunity to thank each and everyone for the patience they have shown while the heavy work just completed was undergoing preparation.

OTTO CULLMAN, President.

THE TAX-EXEMPT BOND BOGEY

The "Dearborn Independent" takes a fling at the recent effort on the part of the Treasury Department to abolish tax-exempt bonds which is well worth reprinting. It says:

"A year ago, when the Treasury Department began its crusade against the so-called tax-exempt securities, the decreasing amount of income being derived from surtaxes was pointed out as evidence of excessive investment in such securities to the detriment of taxable income. It will be remembered the comparisons ended with the receipts on this account for 1921, the comparison beginning with 1918.

"The utter worthlessness of the comparison is shown in a report of the Treasury Department, published July 7, announcing an enormous increase in income tax receipts for the calendar year 1922. As was predicted by those who were not carried into the ranks of believers in everything emanating from official Washington, the result shown was such as to put a quietus on the argument attempted. Not only was the course of surtax receipts no longer downward, but there was as in other branches of the complicated rates, a large increase in totals.

"It is to be hoped the tax-exempt bond bogey is banished forever. It was only a cover for other evasions of taxes."

PROSTITUTING A GREAT STATE UNIVERSITY

Just as the smoothest "confidence men" always try first to join the church, so do the biggest privilege-seekers always endeavor to get inside of the universities so they can control the sources of information and better mold public opinion. It is therefore a matter of great credit to both church and university that they strive to keep themselves as pure as possible from these noxious influences.

Once in a while however even our best institutions are caught napping—and one of them apparently is the great State University of Wisconsin. In this University there has recently been started an organization calling itself the "Institute for Research in Land Economics and Public Utilities," with Dr. Richard T. Ely of the Department of Economics as Direcfor.

While this so-called "Institute for Research" has its headquarters inside of the University, with a staff made up chiefly of professors from the University, it is, from all that we are able to find out, not financed by the University, but is supported entirely by private funds from the outside—funds contributed in the large by certain corporations and economic groups seeking to have privilege and monopoly taxed **less** and industry and consumption taxed **more**.

Busines men, manufacturers, farmers and all other producers will do well to keep an eye on this "Institute." It is doubtful if the Wisconsin University authorities are yet aware of what is actually going on, but when a situation is reached wherein a group of hand-picked professors will allow their teaching positions to be used for the benefit of "vested interests" and monopolies, and to the detriment of competitive business, industry and agriculture—we repeat, when a situation like this is reached in any University, the faculty of that University is badly in need of an overhauling.*

*** A further account of the activities of the "Institute" under the direction of Dr. Ely will be found in the Report of the National Tax Relief Convention of the Manufacturers and Merchants Federal Tax League, pp. 280-288.**

THE KELLER TAX PROGRAM

While a respectable portion of the tax program introduced into Congress by Representative Keller in January was embodied in the final tax bill signed by President Coolidge—notably the repeal of a variety of sales and excise taxes, the increase in the inheritance rates from 25 to 40 per cent, and the reduction of 25 per cent on all "earned income" under $10,000—the land value tax bill failed to pass the Ways and Means Committee. A softer attitude toward the bill however was plainly noticeable, and the more liberal discussion of it in the cloak rooms of both the House and the Senate is a matter that is of more than ordinary significance.

THE GRIFFIN BILL

In company with all other bills for financing the federal soldier's bonus the Griffin bill was pigeonholed by the Ways and Means Committee at the last session of Congress. Congressman Griffin's bill, it will be remembered, proposes to pay for the bonus by an excise tax of one per cent levied on all idle and unimproved lands held by firms, corporations, joint-stock companies or other associations organized for profit. It was the belief of Congress that the tax rates, as they existed last year, could not only be trimmed down very handsomely, but that they would also be sufficient to pay the soldiers their adjusted compensation. With a federal deficit threatening in next year's tax receipts however the Griffin bill is destined to come up again.

Statement of the Ownership, Management, Circulation, Etc., Required by the Act of Congress of August 24, 1912.

Of **Bulletin of the Manufacturers and Merchants Federal Tax League**, published monthly at Chicago, Illinois, for April 1, 1924.

STATE OF ILLINOIS, }
COUNTY OF COOK. } ss.

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Emil O. Jorgensen who, having been duly sworn according to law, deposes and says that he is the editor of the **Bulletin of the Manufacturers and Merchants Federal Tax League**, and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 443, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher, Manufacturers and Merchants Federal Tax League, 1346 Altgeld Street, Chicago.

Editor, Emil O. Jorgensen, 1346 Altgeld St., Chicago.

Managing Editor, none.

Business Managers, none.

2. That the owners are: (Give names and addresses of individual owners, or, if a corporation, give its name and the names and addresses of stockholders owning or holding 1 per cent or more of the total amount of stock.)

Manufacturers and Merchants Federal Tax League, 1346 Altgeld St., Chicago, Ill.

Otto Cullman, Pres., 1346 Altgeld St., Chicago, Ill.

James H. McGill, Sec'y, Valparaiso, Ind.

Fenton Lawson, Treas., Cincinnati, Ohio.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect, in the said stock, bonds, or other securities than as so stated by him.

EMIL O. JORGENSEN, Editor.

Sworn to and subscribed before me this 2nd day of April, 1924.

(SEAL) WALTER G. HENRY, Notary Public.

(My commission expires January 6, 1927.)

SANE TAXATION

By WILLIAM H. HOLLY
(Attorney-at-Law, Chicago, Illinois)

(Reprinted from the Report of the National Tax Relief Convention of the Manufacturers and Merchants Federal Tax League held in Chicago at the Congress Hotel on November 9 and 10, 1923.)

I am asked to talk to-night on the subject of "Sane Taxation." There has never been any such thing.

The only theory of taxation that the politicians of this country have ever had was to grab where the grabbing seemed easiest. There has been no system of taxation, any more than there has been a system of murder or robbery. The burglar selects his victims according to their ability to pay. So do our legislatures. They have evolved no theory as to any methods of taxation which would result in the raising of revenue in the fairest way or with the least injury to the individual, or the best results so far as business and commerce are concerned.

They have not even adhered to taking from the people in proportion to their ability to pay. A tax on imports falls most heavily, as a general thing, on the poor. A sane system of taxation is one which will produce the revenue needed for the legitimate expenses of government with the least interference with the business and prosperity of the country. Such a system does not permit of the taxation of incomes, nor super taxes on excess profits, nor taxes on the personal property, nor license taxes.

Taxation—As It Is

The tax upon personal property is not paid by the person who hands the money to the tax collector. The merchant adds the taxes he pays to the prices of goods he sells. The tax that the merchant adds is not the only tax that is added to the price of goods. The grower of sheep must add to the price of the wool he sells, the tax he paid on the sheep. To this must be added the tax the manufacturer pays on his plant and machinery and the tax that the wholesaler pays. All these add very appreciably to the price the final consumer is called upon to pay. The higher the price of the goods the fewer people, of course, who can buy them, and the smaller the quantity that will be consumed. This means a slowing up of production. The factory will not be called upon to produce the quantity that it would otherwise be able to dispose of.

Effect on Initiative and Enterprise

Income taxes and excess profit taxes strike directly at the greatest incentive to production—the hope of profit and reward. Every business man knows—it is axiomatic—that one works better and to greater effect when he knows that he will receive and keep as a result of his efforts, the full return his labor has produced. But if he knows that the government is going to step in and take a large portion of his earnings from him, he will not have the same interest in his business. Where the hand of the government is lightest, there business is best. Just in proportion as the government takes from business men the legitimate reward of their efforts, business slackens.

THE TAXPAYER'S NIGHTMARE
—Gale in the Los Angeles Times.

Tariff taxes too, are a deterrent to business. They may seem for a time to stimulate, but it is the same kind of stimulation that alcohol causes in the human system. Larger and larger doses are required to produce the desired result, and finally the system reaches the point where the stimulant no longer has any effect, and panics and business depressions result.

A Sound and Sane Tax

The Federal Government has been raising its entire revenue by methods that injure business. The Manufacturers and Merchants Federal Tax League is proposing that a portion of the revenue needed by the national government shall be raised by a method that shall not bear so heavily on the business interests of the country. This method is set forth in the Keller Bill, now pending in Congress. It is simply this, that the privilege of holding land shall be taxed at the rate of one per cent of its value in excess of $10,000, after deducting all improvements and products of industry, including standing timber and the soil fertility of farms.

This is a tax that cannot be shifted from the land holder to any other person. It can not be added to the price of goods. It is constitutional. It is practical. It will not burden production. Rather, it will stimulate it. Instead of adding to the burden of the manufacturer and the merchant, it will tend to reduce his rents or the price he will have to pay to secure a site for his store or his factory. It will shift a portion of the burden of supporting the government from the business interests in the country to the real estate speculators. It is a sound and sane tax because it is a tax easy to collect and because it will aid instead of injure productive enterprise.

WORTH LISTENING TO

"Our single tax friends are having a lot of fun out of the British Labor party's failure to carry out its promise to build houses for British workers to live in.

One does not need to clasp the Utopianism of Single Tax to his bosom to appreciate the validity of many of their arguments to a limited extent. Their fault, of course, lies in their exaggerated ideas as to the importance of the item of rent in the national income, but with the spectacle of several million farmers in our own northwest weltering in debt as the result of trying to capitalize inflated land values in a world where there is still the cheap land of the Argentine and Canada, it is worth while occasionally to give ear to the Georgites."—"Scrutator in the Chicago Daily Tribune.

Minnesota Makes New Departure in Taxation—Con.

The Iron Ore Scandal

Not a dollar could we get from these rich ore lands for schools, or roads, for town, city or village purposes, for paving, sewers or water systems in the mining towns, nor for any other purpose. The whole mining country was destitute of everything that means civilization and decency.

It became a national scandal, and in 1895 I was asked by an eastern magazine to visit the iron country and, if possible, suggest a remedy.

The remedy was as plain as the side of a barn. Repeal the tax exemption law, and give the people of the mining country a chance to take in taxes for public purposes, a little of the value of the common heritage.

Minnesota Wakes Up

My report fell into the hands of S. A. Stockwell, then and now, a member of the legislature; and the next session 1897, repealed the special law.

Then the mining country began to really develop. Schools, roads, bridges, paving, sewers, water systems and all the other needs of civilization could be met, and have been because the publicly-rated values of our common heritage would be had for public purposes.

Of course the iron land owners fought bitterly, but the people finally won, and the local communities are fairly well taken care of.

Thus ended the first victory of the people over the iron lords.

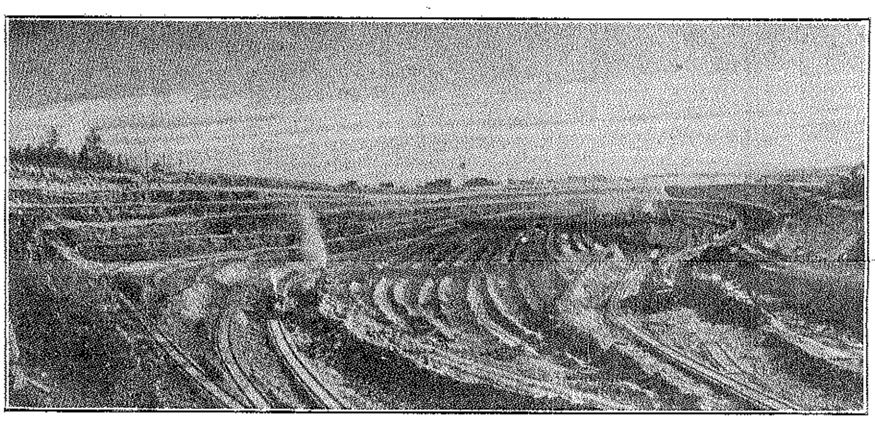
The Problem of Mining Royalties

But this is not enough. Mining is an exhausting process. The profits of mining are the result of destruction—destruction of the natural resources. Nothing but desolation is left for posterity.

In all fairness, then, not only the localities, but the state should get a large part of the net profits of this destructive process.

We are wiser now then the people were then. We now retain title in the people to what little remains of our great natural heritage,

SCOOPING IRON ORE OUT OF THE MESSABE RANGE IN MINNESOTA



and thus secure for the public the **entire royalty** or **rent** of our minerals, timber, etc.

But when the title has already gone into private hands, the state has nothing left but the power of taxation; so we amended our constitution, in 1906, and provided that different classes of property might be taxed differently—some more than others.

Now the burning question was how to frame tax laws that would get for the state what justly belongs to the people, and at the same time not burden and injure the **mining industry**.

Industry of Mining Should Not Be Taxed

Mining, like every other productive industry, should not be taxed, but the heritage destroyed in the process should be paid for.

(Continued on page 4)

Minnesota Makes New Departure in Taxation—Con.

It took many years and many failures to work such a system.

Session after session bills were introduced, and either failed to pass or were vetoed, because they would burden the industry, drive out the small operators who work on a close margin of profit, and bring injustice and disaster.

Finally in 1920 the Minnesota Tax Reform Association was organized with the present writer as Executive Secretary.

Two Tax Bills Are Prepared

We prepared two bills, in consultation with the State Tax Commission and the Attorney General, viz.:

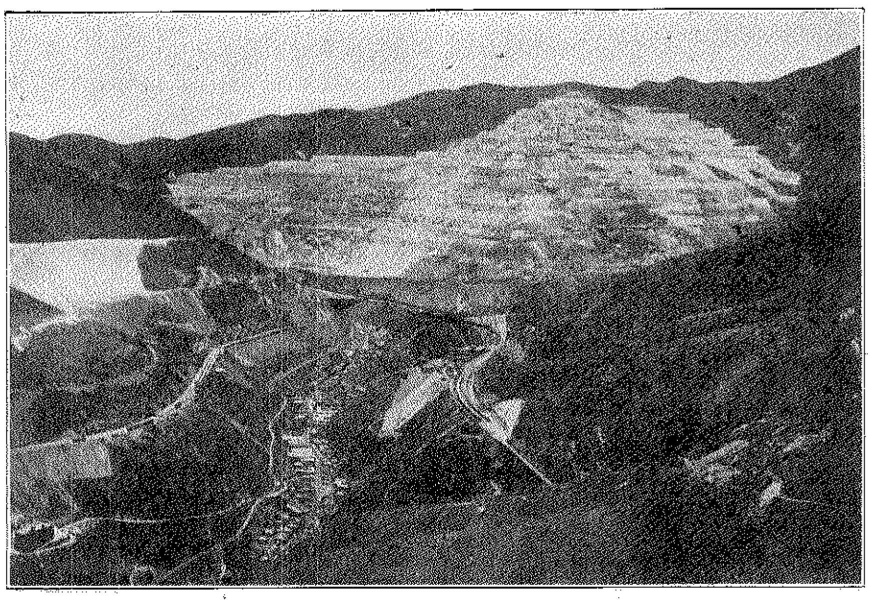
I. First, a bill to tax all who receive royalties 10% of the royalties so received.

II. Second, a tax of 10% on the **net profits** of all who engage in mining and shipping ore. This bill, so far as possible, levied no tax on the industry itself nor upon its output of ore; but upon the **net** profit. This **net profit** is the result of the destruction of the natural resource.

Both Tax Bills Are Passed

Our job was not an easy one. The power of the steel trust was against us. The second bill passed in 1921, but the Royalty bill was

A MOUNTAIN OF COPPER AT BINGHAM, UTAH



defeated by a small margin in the senate, after passing the house 103 to 14.

Twenty-two senators who voted against this bill did not sit in the senate of 1923. Some were not candidates, but many were defeated.

So, on April 11, 1923, the royalty bill passed the senate 39 to 25 and is now the law of the state. It had passed the house 104 to 16, a month or more before.

This is a logical system. It taxes as fairly as possible both classes of ore land owners: First those who do not operate, but receive the heritage value in the form of a rent or royalty; Secondly, those who get this heritage value, this potential royalty—by operating their lands themselves.

Instead of 10%, these bills both provide for a tax of only 6%. It is not enough. Not half enough; but future legislatures can correct that defect, and doubtless will.

Soundness of the Minnesota Law

The vital thing about these Minnesota statutes is this: They do not tax the industry, but they do get a part of the **land-value** for the benefit of the people.

The Alabama coal and iron taxes and the Pennsylvania coal tax are a certain per cent on the value of the product. Such taxes burden the industry, increase the price, and are passed on to the consumer.

Our royalty and net profit taxes do not increase prices, are not passed on to the consumer. They simply diminish the net profits, or net income of the fortunate owner of the title to our mineral lands.

If the state had retained title, all the rent or royalty, and all that part of the net profits due to the natural location or quality of the one would come to the state.

The Problem of the Future

The problem of the future, not only in Minnesota, but in every state of the Union, is to so frame tax laws as to get as much as possible of this common heritage for the use of all the people.

We have set the example. I hope others will follow.

USE THIS BLANK

Manufacturers and Merchants Federal Tax League,
1346 Altgeld Street, Chicago.

Herewith $2.00 for the Report of your National Tax Relief Convention.

Send me also free............little slips about this book which I can hand to my friends and acquaintances.

Name ....

Address ....

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HERE IT IS!

REPORT

of the

NATIONAL TAX RELIEF CONVENTION

of the

MANUFACTURERS AND MERCHANTS FEDERAL TAX LEAGUE

(Held in Chicago at the Congress Hotel November 9 and 10, 1923)

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