

Income Tax Exemption on Bond Issues

In the July number of Equity, the editor, Charles F. Taylor, presents an argument for the removal of the income tax exemption from all future bond issues by the United States. Under the caption, "Liberty Bonds for the Rich," he says:

"In connection with income taxation, it is unfortunate that the 'Liberty bonds' are exempt from income taxes. For this reason these bonds will have different values for different holders. While to 'the masses' these bonds will bear only $\frac{1}{2}$ per cent., to the wealthy man whose income is such that the higher portions of which is subject to a surtax of 50 per cent, these bonds will be equivalent to a bond bearing 7 per cent interest. To him, the income of a 7 per cent bond would have to be cut 50 per cent, if the new law provides for such a surtax, and the surtax may be higher; while the 'Liberty bond,' bearing $3\frac{1}{2}$ per cent net, which will be made higher if future bonds are offered at a higher rate, does not have to be even mentioned in an income tax return. This double value gives an undue advantage to the large holder. For this reason, bonds thus exempted will finally find their way into the vaults of the very wealthy. This is not good public policy, and it is unfair. It is both unfair and bad policy to exempt any kind of productive property from taxation. If it is too late to remove this exemption from the first bond issue, it should be removed from future issues.

"Mr. Otto H. Kahn, a prominent financier of New York city, figures that, according to the income rates as fixed in the war revenue bill as it passed the house of representatives, investment in $3\frac{1}{2}$ per cent Liberty bonds is equivalent to investing in taxable security according to the following table:

Per cent	
5.02	—in respect of incomes over... \$ 100,000
5.38	—in respect of incomes over... 150,000
5.93	—in respect of incomes over... 200,000
6.45	—in respect of incomes over... 250,000
7.07	—in respect of incomes over... 300,000
7.82	—in respect of incomes over... 500,000
8.75	—in respect of incomes over... 1,000,000
8.97	—in respect of incomes over... 1,500,000
9.21	—in respect of income over... 2,000,000

"Usually, 'war taxes' disappear very soon after the cessation of war; but the war debt remains, to be paid largely by the returning soldiers and their descendants. When this war ceases we may expect such unusual taxes as excess profits tax, munitions taxes, etc., to be removed, for the very good reasons that there may be no more excess profits, and that munition manufacture will greatly decline. But huge private incomes will not cease. The 'war' income tax should remain until the entire war debt has been paid."

LETTER TO THE SECRETARY OF THE TREASURY

Following is a copy of a letter bearing on this subject which was sent to Secretary of the Treasury McAdoo by Mr. Taylor:

Philadelphia, July 25, 1917.

Hon. William G. McAdoo,
Secretary of the Treasury,
Washington, D. C.

My dear Sir: I fear that the democratic principle embodied in the recent income tax amendment is in jeopardy concerning the sur-tax on large incomes, the very feature of the income tax that we most value.

Two billion United States "Liberty" bonds have been issued with income tax exemption. The Farm Loan bonds ($4\frac{1}{2}$ per cent) have also been issued with income tax exemption. We are now facing another large bond issue and if the income tax exemption continues on these bonds this administration will receive severe criticism and condemnation in years to come.

I am enclosing July Equity opened and marked at the place (pg. 129) where my recent referendum to the economists of the country on financing the war begins. I wish to call your attention particularly to the marked portion of this report on page 136. The defect, there mentioned, in the present income tax makes surtaxes on large incomes payable practically only every second year; and this defect has enabled Congressman Edmund Platt to class those who favor surtaxes on large incomes with "fourth

grade school boys." See Congressional Record for May 22nd, 1917, pages 2960 and 2961. He has also used that expression in his correspondence with me. It is a great satisfaction to me to observe that the senate finance committee removes that defect in its recent report.

Now it is important that the income tax exemption should be removed from all future bonds issued by the United States; else these bonds in future years (they can not be paid nor readjusted under fifteen years—the time should have been five years at the longest instead of fifteen) will drift into the hands of persons with large private incomes in order to escape surtaxes on their incomes. The value of the recent Liberty ($3\frac{1}{2}$ per cent) bonds to such persons has been figured out by Mr. Otto H. Kahn and is given on the page above referred to in Equity and marked therein. This is somewhat startling.

When we think of our tremendous indebtedness at the end of this war and the means for paying the interest and repaying the debt, we meet at once with the problem of taxation. The excess profits tax will no longer then be possible because the excess profits will have disappeared with the war and possibly before. The usual internal revenue sources will have greatly diminished owing to the greatly diminished consumption of alcoholic beverages. The two chief sources remaining will be surtaxes on large incomes and the undemocratic taxation of consumption. The surtaxes on large incomes are already seriously crippled by the issuance of the Liberty bonds and the Farm Loan bonds with income tax exemption. If the future bonds are issued with income tax exemption the sur-tax on large incomes in order to pay the interest and principal of the war debt will entirely disappear as a means of revenue for that purpose or for any other purpose.

A great mistake has been made. It seems that the government, particularly your branch of the government, is about to continue this great mistake on an even larger scale. I hasten to you with this warning and with an urgent suggestion that all future bonds of the United States be issued without income tax exemption.

The existence of productive property in private hands, tax free, is a great evil to any government. Particularly is this true concerning income tax exemption on the obligations of the United States government at the present time.

Very sincerely yours,

C. F. TAYLOR.

DEMOCRATS IN THE LEAD

To The Commoner,
Lincoln, Nebr.

On June 20 the dry republicans of the state held a convention at Columbus to consider and determine whether or not they shall organize as dry republicans. On the same day the executive committee of the Democratic Dry Federation held a meeting to put the finishing touches to their organization.

We are not informed as to whether the democratic committee planned to have their meeting on the same day that the dry republicans meet, or whether, the two meetings occurring on the same day is a circumstance which is usually catalogued as a "strange coincidence." But, be that as it may, the fact that the executive committee of the Democratic Dry Federation meets to complete their organization on the same day that the dry republicans meet to start their organization is a contrast—a contrast that marks well the characteristic progressiveness of the democrats.

Probably the democratic committee will felicitate the dry republicans upon their decision to organize. It is well that they should; and who can gainsay their right to do so? In fact, they may do so with all the satisfaction of preceptors—for have they not shown the dry republicans the way?

It was on April 12 that the dry democrats held their convention and decided to organize. Two months and eight days after the dry democrats organize the dry republicans follow suit.

Not only have the democrats taken the lead in the fight for prohibition in Ohio, but they have acquitted themselves as well, if not better, in other states and in the nation.

Of the twenty-five dry states, eighteen of them are in the democratic column. After repeated efforts, extending over a period of fifty years or more under republican administrations, to vote the District of Columbia dry, the temperance forces had to wait for a democratic congress to pass the law and a democratic President to sign it. The two attempts to pass the Webb-Kenyon

bill under republican administrations failed; the one attempt under a democratic administration succeeded—the Webb-Kenyon bill, prohibiting the shipping of intoxicating liquor into dry territory, is now the law. The postal regulations under republican administrations never prohibited the sending of papers and periodicals carrying liquor advertisements into dry territory, but these advertisements are now barred from the mails—thanks to the democratic administration at Washington. It does look as though the democratic party has pre-empted the temperance field of all honors. It is time that our republican brethren got started.

But to return to the two state organizations: It will be recalled that it was William J. Bryan who first suggested that the dries of both parties organize. It was expected that the democrats would act upon it, but now the members of the party that has sought for years to destroy him do likewise. What a tribute to his influence! What a demonstration of his leadership! Certainly it is great to be a democrat and a dry one these days.

WM. P. HALENKAMP, Sec'y.
Democratic Dry Federation of Ohio,
Columbus, Ohio.

Politics in Germany

[From The American Review of Reviews for August.]

If Americans do not understand clearly why the German chancellor, Dr. Theobald Theodor Frederic Alfred von Bethmann-Hollweg, was obliged on the 14th of July to retire from the post which he had held for exactly eight years, they may at least console themselves by the reflection that the German public was also much bewildered about it, and the German press interpreted it in a variety of ways. The Reichstag, which is the popularly elected parliamentary body that represents all Germany, has no direct control over imperial policies, but has important indirect influence over policies through its power to give or withhold the money that pays the public bills. Furthermore, it is a national debating society and its discussions bear importantly upon the shaping of German opinion. For although Germany is not as completely governed by public opinion as England or the United States, it is useless to deny that so intelligent a country as Germany is in the last resort controlled by the dominating sentiment of its people.

THE REICHSTAG PEACE PROPOSAL

For some time past, there has been a steadily increasing clamor in Germany for peace at almost any price except that of dismemberment and humiliation. Large and important groups in the Reichstag, ordinarily out of sympathy with one another, have been coming together on the platform of peace along lines that Russia and the United States might regard as reasonable. Thus the Catholic element, known as the Centrist party, and the social democrats—these two groups being much the largest of the eight or more distinct parties in the Reichstag—were able to agree upon a peace resolution and to secure the support of a third group called the Radicals—the three groups thus brought together constituting a large majority of the total chamber. The strength of the three parties supporting the peace resolution was reported as follows: Socialists 107, Center 91, Radicals 45, making a total of 243. The rest of the Reichstag consisted of National Liberals 45, Conservatives 44, and the so-called German party 27, these three groups being devoted to the idea of a "German peace," based upon victory, annexations, indemnities, and German dominance everywhere. Besides these there are 20 Independents and a group of 18 Poles. The peace resolution of the majority parties was so important that we must quote it here in full. It is as follows:

"As on August 4, 1914, so on the threshold of the fourth year of the war the German people stand upon the assurance of the speech from the throne—'We are driven by no lust of conquest.'"

"Germany took up arms in defense of its liberty and independence and for the integrity of its territories. The Reichstag labors for peace and a mutual understanding and lasting reconciliation among the nations. Forced acquisitions of territory and political, economic, and financial violations are incompatible with such a peace.

"The Reichstag rejects all plans aiming at an