

the tax commission, as under the specific plan proposed in this bill. And the present plan has this very decided advantage to the state, that the revenues are definitely determined and expenditures can be made accordingly, while under the proposed plan there would obtain a flexibility dangerous in its uncertainty, as the revenues would be more or less as the companies mined, much or little.

I believe that the bill, providing as it does, a double system of taxation on one class of property, is wrong in principle, and for this and the reasons above cited I herewith return the same.

Very respectfully,  
JOHN A. JOHNSON, Governor.

#### THE TARIFF IN THE SENATE

When the tariff bill's provision regulating the payment of duties on commodities coming into the United States from the Philippine Islands, the language of the paragraph relating to the free admission of products from the Philippines was changed to make clear that all manufactured articles imported into the United States from the Philippines should be composed wholly of products of the islands or of the United States. The change was made upon suggestion of Senators Bulkeley and Brandegee and was intended to permit Connecticut cigar wrappers to be taken to the islands and to be imported into the United States as a part of a cigar free of duty.

The provision requiring raw or refined sugar to pay the same duty when imported into the Philippines as when imported into the United States aroused Senator Bristow, who thought he saw in it an advantage to the American Sugar Refining company.

Senator Aldrich said he had not heard such an objection before and added that unless some such regulation was made sugar might be shipped into these islands and then come into the United States free of duty.

Mr. Bristow's amendment eliminating sugar from the requirement of the payment of duty on entering the Philippines was voted down by a vote of 11 to 49. Other of Bristow's amendments met the same fate.

During the discussion on the Philippine tariff Mr. Aldrich took occasion to say that President Taft "is in favor of this identical legislation."

The senate adopted by a vote of 42 to 28 the Philippine free trade section of the tariff bill, with amendments. Six republicans, Senators Root, Borah, Bristow, Clapp, Crawford and LaFollette voted with the democrats against the finance committee proposition.

On June 16, President Taft carried out the program outlined several days previously by the newspapers as the Aldrich program. He sent a message to congress recommending a two per cent tax on the net income of corporations and also the adoption of an amendment to the constitution providing for the income tax.

The text of the president's message is as follows:

"To the Senate and House of Representatives: It is the constitutional duty of the president from time to time to recommend to the consideration of congress such measures as he shall judge necessary and expedient. In my inaugural address, immediately preceding this present extraordinary session of congress, I invited attention to the necessity for a revision of the tariff at this session and stated the principles upon which I thought the revision should be affected. I referred to the then rapidly increasing deficit and pointed out the obligation on the part of the framers of the tariff bill to arrange the duty so as to secure an adequate income and suggested if it was not possible to do so by import duties, new kinds of taxation must be adopted and among them I recommended a graduated inheritance tax as correct in principle and as certain and easy of collection. The house of representatives has adopted the suggestion and has provided in the bill it passed for the collection of such a tax. In the senate, the action of its finance committee and the course of the debate indicate that it may not agree to this provision, and it is now proposed to make up the deficit by the imposition of a general income tax in form and substance of almost exactly the same character as that which in the case of Pollock vs. Farmers' Loan & Trust company (157 U. S. 429) was held by the supreme court to be a direct tax and therefore not within the power of the federal government to impose unless apportioned among the several states according to population. This new proposal, which I did not discuss in my inaugural address or in my message

to the opening of the present session, makes it appropriate for me to submit to the congress certain additional recommendations.

"The decision of the supreme court in the income tax cases deprives the national government of a power which by reason of previous decisions of the court, it was generally supposed the government had. It might be indispensable to the nation's life in great crises. Although I have not considered a constitutional amendment as necessary to the exercise of certain phases of this power, a mature consideration has satisfied me that an amendment is the only proper course for its establishment to its full extent. I therefore recommend to the congress that both houses, by a two-thirds vote, shall propose an amendment to the constitution conferring the power to levy an income tax upon the national government without apportionment among the states in proportion to population.

"This course is much to be preferred to the one proposed of re-enacting a law once judicially declared to be unconstitutional. For the congress to assume that the court will reverse itself, and to enact legislation on such an assumption will not strengthen popular confidence in the stability of judicial construction of the constitution. It is much wiser policy to accept the decision and remedy the defect by amendment in due and regular course.

"Again it is clear that by the enactment of the proposed law, the congress will not be bringing money into the treasury to meet the present deficiency, but by putting on the statute books a law already there and never repealed will simply be suggesting to the executive officers of the government their possible duty to invoke litigation. If the court should maintain its former view, no tax would be collected at all. If it should ultimately reverse itself still no taxes would have been collected until after protracted delay.

"It is said the difficulty and delay in securing the approval of three-fourths of the states will destroy all chance of adopting the amendment. Of course, no one can speak with certainty upon this point, but I have become convinced that a great majority of the people of this country are in favor of vesting the national government with power to levy an income tax, and that they will secure the adoption of the amendment in the states, if proposed to them.

"Second, the decision in the Pollock case left power in the national government to levy an excise tax which accomplishes the same purpose as a corporation income tax, and is free from certain objections urged to the proposed income tax measure.

"I therefore recommend an amendment to the tariff bill imposing upon all corporations and joint stock companies for profit, except national banks (otherwise taxed) savings banks and building and loan associations, an excise tax measured by two per cent on the net income of such corporations. This is an excise tax upon the privilege of doing business as an artificial entity and of freedom from a general partnership liability enjoyed by those who own the stock. I am informed that a two per cent tax of this character would bring into the treasury of the United States not less than \$25,000,000.

"The decision of the supreme court in the case of Spreckles Sugar Refining Co. vs. McClain (192 U. S. 397) seems clearly to establish the principle that such a tax as this is an excise tax upon privilege and not a direct tax on property and is within the federal power without apportionment according to population. The income tax on net income is preferable to one proportionate to a percentage of the gross receipts, because it is tax upon success and not failure. It imposes a burden at the source of the income at a time when the corporation is well able to pay and when collection is easy. Another merit of this tax is the federal supervision which must be exercised in order to make the law effective over the annual accounts and business transactions of all corporations. While the faculty of assuming a corporate form has been of the utmost utility in the business world, it is also true that substantially all of the abuses and all of the evils which have aroused the public to the necessity of reform were made possible by the use of this very faculty. If now by a perfectly legitimate and effective system of taxation, we are incidentally able to possess the government and the stockholders and the public of the knowledge of the real business transactions and the gains and profits of every occupation in the country, we have made a long step toward that supervisory control of corporations which may prevent a further abuse of power.

"I recommend, then, first, the adoption of a joint resolution by two-thirds of both houses,

proposing to the states an amendment to the constitution granting to the federal government the right to levy and collect an income tax without apportionment among the states according to population; and, second, the enactment as part of the pending revenue measure, either as a substitute for, or in addition to, the inheritance tax, of an excise tax upon all corporations, measured by two per cent of their net income.

(Signed) WILLIAM H. TAFT.  
"The White House, June 16, 1909."

President Taft won over several republicans, among them Senator Brown of Nebraska.

Senators Borah, Bristow, Cummins, LaFollette and Clapp held a conference following the president's message. Referring to the results of this conference an Associated Press dispatch says:

They decided that the president's plan is not inconsistent with their demands for adoption for an amendment taxing incomes, and that both may be adopted in harmony. They assume that the president's plan as endorsed by leading republicans on the finance committee is designed "to chloroform" the income tax amendment, but nevertheless announce that they will continue to fight for its adoption.

In a brief statement prepared by Messrs. Borah and Bristow, the supporters of an income tax amendment say:

"The friends of the income tax feel it a duty to continue to put forth every effort to secure the adoption of the measure. They will, therefore, urge the adoption of the amendment. They also stand ready to support a resolution providing for an amendment to the constitution of the United States. While they believe that the supreme court will sustain the law, yet to provide against any possible contingency that might rise from an adverse decision, they gladly favor the proposition to amend the constitution. They do not feel satisfied with simply a corporation tax.

"A tax upon the net income of corporations only will imperfectly reach the desired result. It will tax tens of thousands of stockholders whose total incomes are very small, and will exempt in large measure the immense personal incomes of the country.

"The provision they favor, treats large incomes exactly alike, whether received by corporations, or individuals, and whether arising from interest, dividends, inheritances or otherwise.

"The plan which they propose simply carries the president's views to their legitimate end, and is as consistent with the decision of the supreme court, as is the tax on corporate incomes alone. There is no reason for exempting from this tax the vast incomes of individuals like Carnegie, Rockefeller and others, a very large part of whose fortunes do not consist of corporation stocks.

"It is also well known that corporations, especially the larger ones, can in most instances shift the burden of the tax to the public by imposing upon the people increased charges and prices.

"As to the publicity feature, there is no substantial difference between the two measures. In other words, there is the same necessity for securing information, and insuring publicity in the income tax as that of corporation tax.

"Every possible effort will be made to secure the passage of the income tax amendment."

The battle to place wood pulp and paper upon the free list was led by Senator Norris Brown (rep.) of Nebraska, which caused a lively debate. Senator Brown undertook to withdraw his amendment for free paper so as to place himself in position to support the provision of the house bill, which levied a duty of \$2 instead of \$4 a ton on paper as proposed by the finance committee. Senator Aldrich interposed, which objection made necessary an aye and no vote on Mr. Brown's amendment, which lost, 29 to 52. All the democrats except Mr. Bailey voted for the amendment, while among the republicans only Senators Bristow, Beveridge, Brown, and Burkett voted for it. Senator LaFollette then proposed an amendment containing a \$4 a ton rate on print paper until June 1, 1912, when the \$2 a ton rate of the house should go into effect, in order to give the Wisconsin mills time to adjust their business to the lower rate. This amendment was also voted down, 31 to 44. The finance committee's amendment placing the duty of \$4 a ton on print paper was then adopted by a vote of 44 to 32. Senator Tallafarro was the only democrat voting with the republicans for the amendment, while Senators Brown, Burkett, Bristow, Beveridge, Cummins, Curtis, Dolliver, LaFollette and Smith of Michigan, republicans cast their votes against