

Operation of the Income Tax

general's office was found to have a force of employees at all times of the year sufficient to handle rushes of business which come infrequently. "There is a Chinese wall built around the office, which makes it impossible for the secretary of war or anybody else to use any clerks of that organization for any other work," was the statement of the commission chairman at a senate committee hearing. He illustrated: "They are organized very much like a street department would be if it had a large enough force continuously to handle a snowstorm over night."

This conspicuous inefficiency was found to be but one of five general causes. While the complete correction of these conditions is the work of a generation, the list of causes is significant to every business man. Money now wasted in every business as well as in the government might be saved if these causes for wastes were eliminated. Substitute management for congress and business for government, and the causes for wastes underlie the losses of the corner store and riverside shop as well as our billion-dollar government. And the immediate steps urged by the commission would not only save the business man's tax money but point the chance of further study of his individual business.

Translate the "changes in personnel of the government service," the first of the commission's suggestions for economy, into "adjustment of employees of a business," and you suggest the possible application of their work to individual businesses. Principles worked out from such a government study might easily be applicable in many lines of trade and industry. Thus the work of the government might serve as an experiment in the handling of clerical forces.

Similarly in the uniform classification of expenditures, the establishment of standards and specifications, the recasting of contract forms and surety bonds, inspection methods and tests, auditing claims and accounts and the detail handling of disbursements, all of which were definitely put forward by the commission to decrease the waste and inefficiency within one year, may serve as starting points for investigations in any office, factory or store.

On standardization, it was shown that government travel expenditures amount to \$12,000,000 a year, but there were no standard expense accounts. Each branch of the government service was found to be working out its own specifications for materials and supplies. In contracts and surety bonds, there was no standardization, though it appeared that equal or better security for the government at much less cost could be obtained.

Probing into navigation services, pertinent examples were found of waste through duplicating and overlapping operations. The light-house service of the department of commerce and labor, and the life-saving service of the department of the treasury, and the revenue cutter service were all related to the protection of persons and property at sea, and the enforcement of the navigation regulations. To combine the first two would reduce cost of operation at least \$100,000 a year and to co-ordinate all three of these services would result in a saving of \$1,000,000 a year, with increased efficiency. It was shown that the bureau of navigation and the steamboat inspection service were two different bureaus whose work duplicated and overlapped to such an extent that the two should be consolidated.

The weather bureau in the department of agriculture was found to be publishing certain charts of the ocean. The hydrographic office of the navy department was found to be making the same kind of charts. To stop this duplication would stop a waste of \$10,000 a year.

Business men who have installed new departments without reference to or co-ordination with other similar departments, find their parallel inefficiencies in government bureaus. One of the most striking examples of this is a number of different bureaus, all separately organized and all under separate authority, yet all organized, primarily, to promote public health. The bureau of public health and marine hospital service is under the treasury department. The bureau of chemistry is under the department of agriculture. The division of vital statistics, bureau of the census, is under the department of commerce.

The commission made no criticism of the special work of these bureaus. It merely pointed out that all are concerned with public health and should be co-ordinated into one organization.

These are cited as instances of how govern-

There has been widespread doubt all over the United States in reference to the method of collecting an income tax "at the source." More than 1400 trust companies have taken up this question in protest against their being forced to collect from all bond coupons deposited with them a national income tax.

The wording of the congressional bill is such that taxing incomes "at the source" might possibly mean that before any debt were paid the debtor might first be compelled to retain for the United States government the tax and only return it if the owner's yearly income were under \$4,000.

THE QUERY

In order to clear up any doubt about the meaning of the new law, the Public Ledger addressed the following question to Cordell Hull, the father of the bill, in congress:

"In the application of law to collect income tax at the source, does this mean a client retains the government tax from lawyers' fees, a patient from a doctor's fee, a tenant a tax on his house rental, as well as a bank retains the income tax on coupons accepted for deposit?"

MR. HULL'S LETTER

Mr. Hull, in reply, has sent to the Public Ledger, the following very instructive letter, which explains in detail the method of collecting the new income tax at the source:

"To the Editor of the Public Ledger: Sir—I am in receipt of your letter in which you make inquiry as to the operation of the proposed income tax bill with respect to collection at the source.

"I beg to say in reply that it is proposed only to collect certain portions of the normal tax of

ment business has grown, spread, sprawled, because the government, the general management, has not collected and analyzed certain important information.

For gathering knowledge and making analyses, technical experts were engaged for each special task. Here again the close relation between the government and the average business is apparent. Engineers who had given special study to the effect of the lightning of buildings on the efficiency of employees were engaged. They went to nine cities and investigated post offices, court and custom houses. On the basis of their reports, the estimate was made that at least twenty-five per cent of the cost of lighting federal buildings can be saved, this amounting to \$150,000 a year.

Again, the commission pointed a way for the government to cut the cost of paper for money, of which it buys about five hundred tons a year at \$800 a ton. Canceled bank notes, cooked and macerated, bring at sale \$21.50 per ton. The commission's experts, after investigating, recommended a process which raises the sale value of pulp to \$200 a ton and will save, it has been conservatively estimated, \$100,000 a year.

How the government was paying one clerk \$493 a year less than this work was actually worth, was found in a study of efficiency records in the national bank redemption agency of the treasury department. Commission experts found that the conditions were such that the clerks who count the most money render the most valuable service and therefore entitled to the highest pay, while those who count the least money render the least valuable service and are entitled to the lowest pay.

A method of keeping records established in 1892 was analyzed. By this method it was shown possible "for a clerk's output to be practically negligible in quantity and poor in quality, and that clerk, by reason of the weights assigned to the social virtues of punctuality, attendance and attention to duty (designated as 'industry') to have a very fair standing in the office. The result is that promotions in salary based on the efficiency records of this office are recognition of irreproachable conduct rather than meritorious work. Fairness in distribution of salaries is due to the good judgment of the office chief rather than to the scientific construction of the efficiency record.

Forty-six employees by the new system were found to be earning more than their salaries. Seven employees were found to be earning less than sixty per cent of their salaries. This was on a basis of studies during May, 1912. A plan was recommended by which those who earn less than sixty per cent of their salaries be reduced to the next lower grade of pay and their salaries

one per cent imposed upon individuals at the source of the income. This method would apply to annual individual incomes of profits arising from a business connection or relationship extending through the year, such as annual rents, annual interest, annual salaries, etc., even though the same should be payable in part at stated periods during the year.

"Individual income accruing to tradesmen, professional men, etc., at irregular times and in different amounts would be embraced in a personal return of the taxpayer.

"In each instance save one no tax would be withheld and paid at the source of the income unless the same exceeded \$4,000; the one exception relates to interest upon corporate and United States bonds. By reason of the fact that such interest is generally represented by coupons payable to bearer and current in trade, it would be impossible to apply the method of collection at the source along with the \$4,000 exemption.

"When the owner of the bonds parts with title to the coupons in trade or business they become capital or principal instead of income in the hands of each successive purchaser. The debtor corporation alone is therefore required to withhold the tax when the coupons are presented for payment, and if the bondholder has failed to present them or have them presented for payment for himself as owner, and hence receive the benefit of the \$4,000 exemption, he would later apply to the internal revenue department by filling out a blank available for such purpose for abatement of assessment or refund of tax, on account of exemption or deductions. Very respectfully,

"CORDELL HULL."

—Philadelphia Public Ledger.

be given to the clerks earning the greatest amounts in excess of their present salaries.

Each of these waste-saving investigations of the commission simply piles up the reasons for the continuance of its work and the possibilities of the broad development of a government department of commerce which shall be to the business man what the department of agriculture is to the farmer. If the government can save and utilize five thousand tons of waste paper, does not the detailed study by experts of the possibility of this saving have results suggestive to every business? If the government can learn how much it costs to buy and maintain typewriters in hundreds of offices, would not its study to reduce costs and the results achieved help the business man to economize in his own offices?

JUSTICE TO SENATOR MYERS

A republican paper printed in Missouri, published a Washington dispatch containing this paragraph:

"Senator Myers of Montana, a democrat, announced that he would 'stand-pat' for a proper protective tariff on sugar and wool, despite the attitude of his party."

The St. Louis Republic was misled by this dispatch and so it printed an editorial paragraph criticizing Senator Myers. As a matter of fact the dispatch printed in the republican paper presented a garbled report of Senator Myers' remarks. The Congressional Record of May 16th, gives the accurate report of the Montana senator's speech, and it will be seen that there is marked difference from that speech and the report of the same printed in the republican newspaper. Following is the extract from the Congressional Record:

"Senator Myers: * * * I will stand pat for protection of the masses. The time has come when the people need protection from special interests. I now announce that I am for free wool and free sugar. Tariff reform, like charity, should begin at home. Let us first strip our own protected interests of special privilege. Then we are in a position to demand that others be required to do likewise."

Promptly correcting the injustice it was led to do the Montana senator, the St. Louis Republic adds:

"The Republic is almost tempted to forego regret that it was misled by the republican paper's dispatch, for the need of correction gives us an opportunity to call to the special attention of our readers an exhibition of patriotism and independence on the part of a democratic senator which is worthy of the best days of the upper house of congress."