

Entered at the Postoffice at Lincoln, Nebraska, as second-class matter.

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Editorial Rooms and Business
Office, 324-330 South 12th Street

One Year\$1.00
Six Months50
In Clubs of Five or
more, per year.. .75

Three Months25
Single Copy05
Sample Copies Free.
Foreign Post, 52c Extra.

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THE COMMONER, Lincoln, Neb.

free and clear. He has no personal notes outstanding. During the year he has spent \$25,000 cash in putting an addition on his store. He rents his dwelling, paying a rental of \$1,200 a year.

"How much income tax does he have to pay?"

"First, as to his business, he will be liable only for a tax on the net income, and this he will calculate very much as he would do for himself if there were no income tax. That is, he will deduct necessary expenses incurred in carrying on the business, interest accrued and payable during the year on indebtedness, all taxes (excepting, of course, the income tax) for the year, losses from fire or other accident not covered by insurance, bad debts written off the books, a reasonable allowance for wear and tear in his store, but no additional allowance for restoring such wear and tear, and no allowance for permanent improvements made to increase the value of his property.

"He finds that his business expenses for the year were \$74,000; his indebtedness on the mortgage is \$2,500; all losses were covered by insurance; bad debts were \$500; wear and tear amounted to \$1,000; taxes were another \$1,000. From the gross income from his dry goods business, then, the law allows him to deduct the sum of these amounts, or \$79,000.

"The rent which he receives from the two apartment houses comes from twenty tenants, each of whom pays \$1,000 a year. The tax on this part of his income can not be held by the tenants for payment at source, since they would be required to withhold it only in case each paid more than \$4,000 a year. He must, therefore, state this income from rents in his return and pay the tax thereon himself.

"As to the dividends, his income from the first corporation is \$500; from the second, \$75, and from the third, \$25. Corporations are subject to the normal income tax of one per cent on their net incomes, and since none of these sums, nor all of them together, exceed the normal income limit of \$20,000 for individuals, Mr. A—personally does not have to pay any income tax on this part of his income. It is paid for him at the rate of one per cent by the corporation.

"The law gives Mr. A—, as a taxable person, an exemption on \$4,000.

"He is, of course, entitled to make no reduction for the rent of \$1,200 that he pays for his dwelling, or for household expenses.

"To sum up the income personally taxable to him; Mr. A— would have a net business income of \$20,000 from his apartment houses; in all, \$41,000. From this, he will deduct the amount of his exemption, namely, \$4,000, leaving \$37,000 as his net income subject to tax. On the first \$16,000 of this sum (that is, the first \$20,000, less the exemption), he will have to pay one per cent or \$160. On the remaining \$17,000 he will have to pay an additional one per cent making two per cent or \$340. His total income tax will thus be \$500."—El Paso (Tex.) Times.

Are \$300,000,000 Worth Saving?

The Opportunity and the Work Done by the Economy and Efficiency Commission at Washington

By R. E. Coulson, in "System," the magazine of business. Reproduced through the courtesy of the publishers of "System."

Every business man knows that in the long run he must get back at least one dollar for every ninety cents he pays out, or shut up shop. Yet in the federal government, the biggest enterprise in the United States, which spends a billion dollars annually, there is no such direct relation between expenditure and returns.

Every manager knows that the chief spur to efficiency—to industry—to time and labor-saving—is competition. Wastes tend to grow with monopoly, as the necessity for strict economy disappears, unless there is corresponding effort to check and control these wastes. In the biggest business in America—an absolute monopoly—there has been no such incentive and few such checks.

Every employer knows that uncertainty of tenure kills initiative and weakens the administration of departments. New heads lack the detail knowledge necessary to suggest improvements in methods; subordinates lack the authority or the urge to make betterments. With shifting executives and a stationary force, the only safeguard against inefficiency is the working out of standard, straight-line methods for handling routine. For lack of such standard methods, our government departments waste, perhaps, \$300,000,000 every year.

The commission on economy and efficiency had only started this work of analysis and standardization when its appropriation was cut, its activities discouraged. Some of the extravagances it found and prescribed correctives for are listed here, and in articles to follow. That its work should be abandoned and the reorganization of the government's business be halted now would be a serious and costly mistake. To congress and to all readers of System, we commend the commission's purpose and urge continuance of its important work.

Typical of the work performed by the commission and the possibilities of other work which it may do, is its study made of the methods of handling correspondence. "While a general inquiry pertaining to the organization and work was necessary to an intelligent consideration of details," the commission explains, in its report, "the ultimate purpose of the investigation was to recommend changes in business method and technique that would result in increased efficiency or savings. The commission has taken the same point of view on the government work that any business man would take on his own organization." Its methods of approach, therefore, besides their intrinsic interest, have an application in the average office.

In February, 1911, a circular form was submitted to the various administrative divisions designed to bring out complete information about existing methods of handling and filing correspondence. This was chosen as the first point of attack because the operations are common to all departments and the conditions, in many respects, are the same.

Detailed questions in regard to the processes employed in handling correspondence were grouped under the following headings:

- Incoming Correspondence:
- Receiving and Opening.
 - Briefing.
 - Recording and Indexing.
 - Distributing.

- Outgoing Correspondence:
- Preparing.
 - Briefing.
 - Recording and Indexing.
 - Copying.
 - Dispatching.

- General:
- Filing incoming letters and copies of outgoing correspondence.

The answers to these questions give a detailed and relatively accurate picture of office methods in the service, so far as handling correspondence is concerned. As a result of this inquiry and a study of the methods of private concerns, the commission issued, in February, 1912, a preliminary report presenting the results and set-

ting forth the principles which, they believed, should govern the handling and filing of correspondence. The commission dealt, of course, with tremendous totals. The departments in Washington receive annually 43,000,000 communications and dispatch 22,000,000, making a total of 65,000,000 communications handled each year. Yet much of the constructive criticism and suggestion offered in the report applies as well to the average large or small business.

In dealing with filing problems, for instance, the commission's recommendations recognize the difficulty of devising a system whose details satisfy all conditions, and the necessity of adapting the system to the needs of each particular office. Its analysis of the principles of filing and the things to be considered in developing a system are fundamental:

- Certainty of obtaining a particular paper or all the papers relating to a particular subject. This certainty to be independent of the time elapsed since filing of the papers.
- Rapidity of obtaining a particular paper or group of papers. This rapidity to be only slightly affected by the time which has elapsed since filing.
- Rapidity with which documents may be filed.
- Cheapness of operation.
- Simplicity.
- Reduction to a minimum of the space required.
- Miscellaneous requirements and desirable features, such as cross references, numbering, and so on.

In this preliminary investigation, the commission made very practical recommendations. Correspondence in many offices was found folded twice the long way and filed in document files with the contents "briefed" on the backs.

Vertical flat filing—the practice almost universal in business—was the first recommendation. This automatically would do away with briefing and make a saving of no less than \$90,000 in clerk hire. In a vertical file, any letter would be as accessible, and its contents as easily grasped at a glance, as though its contents had been briefed on a jacket.

Of the two hundred and fifty filing systems studied in the various departments the commission found few where the classifications were either logical or scientific. The usual method seemed to be a numerical finding system, which requires an extended numerical sequence, each new file receiving the number following the last. This has the advantage of allowing additions only at the end of the file, but it fails to render the files self-classifying. Subsidiary records—a book or more often a card index—have to be used. Since papers on the same subject are widely separated, the danger of burying important papers leads to laborious and expensive cross-indexing.

The commission advocates the application of the card-index principle to the filing of letters. In other words, the letters themselves should be sectionalized and classified. The adoption of a subjective classification of correspondence, based on the Dewey decimal system of library classification, is also proposed. This has been largely adopted in private business in the last ten years.

After a thorough investigation, it was recommended that all correspondence, incoming and outgoing, should be filed upon a subject classification arranged as nearly as possible on a self-indexing basis. When numbers for each file were essential, it was recommended that a decimal system be employed. The proposed system is very flexible and can be adapted to varied subjects. The classification numbers tell of each letter or file of correspondence both what it is and where it is. New topics arising can be closely related to existing heads merely by adding a decimal place. All papers on one subject are kept together and are preceded and followed by allied subjects.

"No book or card record of incoming or outgoing correspondence should be made except where absolutely essential, and all bound-book registers of correspondence received and sent