

## II

**TAXING BUSINESS TO DEATH**

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Business is defined in the dictionary as "A pursuit or occupation that requires energy, time and thought"; but in this discussion the term "business" will be limited to lawful occupations intended to satisfy the desires of others, in exchange for payment in money, services or property, conducted voluntarily by individuals, partnerships or corporations.

Business as thus defined unquestionably is suffering from maladjustment, from derangement, and unwholesome conditions. In the physical body, maladjustment, derangement and unwholesome conditions are evidences of disease, so by analogy business may properly be considered the victim of a disease or of many diseases. I shall present evidence that a serious, chronic and increasingly acute business disease is caused by our faulty system of taxation, the inevitable tendency of which is to destroy business. An appropriate name for this alleged disease is taxitis—a name significant of its origin.

**Taxitis—The Disease of Business**

Taxitis, like chronic alcoholism, has been recognized as a disease only in recent years. A century or thereabouts ago, one who did not



—Cartoon by Ted Brown, courtesy of the Chicago Daily News.

drink alcoholic beverages regularly—who was not a mild alcoholic—had great difficulty in getting his life insured because he did not take

alcoholic beverages. When practically all men suffered (or should I say enjoyed) chronic alcoholism, its mild form was considered normal health. Similarly all business suffers more or less acutely from taxitis; hence its victims generally do not recognize that it is a disease. They accept its mild and more obvious symptoms as natural and inevitable conditions of all business; nay more—its victims, farmers, bankers, merchants, manufacturers and the vast majority of those engaged in the many useful occupations included under the term “business,” generally look upon those who consider these symptoms evidences of a dangerous but preventable disease, as more or less dangerous foes of a sane and orderly society, even as our forefathers looked upon those wild fanatics who were teetotalers.

### **Taxitis Like Alcoholism**

Taxitis, like chronic alcoholism, is seldom the immediate and obvious cause of death. Both diseases are, however, progressive and degenerative; the moderate but regular tippler rarely died of alcoholism, but his powers of resistance were so lowered thereby that he fell an easy victim to minor ailments, shocks, strains or exposures which would have had little or no effect upon him had he not been a chronic alcoholic. The death certificate gave as a cause of death, not the degenerative disease which had weakened normal resistance, but the minor disturbance which the victim in his weakened condition, could not resist. In like manner many business enterprises have been compelled to suspend, numerous willing workmen have been denied the opportunity to work, and many working farm owners have lost their farms, during the past few years, who were truly victims of taxitis even though they never suspected it.

Diseases are frequently difficult to diagnose because their manifestations are remote in time or place from their causes. Some years ago, after several hours of continuous fly fishing, I suffered acute pain in my right elbow, which naturally I attributed to the unwonted and excessive exercise of the elbow joint. As the pain continued for several weeks, I consulted a physician, who after a careful examination, expressed the opinion that the pain in the elbow was caused by an infection in the tonsils. Within a week after the tonsils were removed, the pain in the elbow disappeared and has never returned; and the elbow stands the severe strain of an annual fishing trip without protest.

### **How Taxitis Works**

Similarly the effects of taxitis are often remote from its cause. The gas rate in a certain city was raised a year or more ago, after the customary exhaustive investigation into the cost of the service. It was found that among the important items of cost was the reward that had to be paid to induce investors to supply the necessary funds for extensions and other capital investments. The annual price for the use of capital had advanced in a few years from 5% to 7%; the in-

crease of 2% per annum in the cost of money was directly traceable to the income tax; men of large incomes, with the present income tax must be paid 7% or more in order to enjoy 5% net. As the total investment in this gas undertaking is about \$3.50 per M. cubic feet of gas sold annually, the consumer of gas now pays 7 cents more per thousand for his gas because people all over the country, who own none of the securities of this gas company are compelled to pay an income tax to the federal government. Does the gas consumer have any idea that his advanced gas rate is a symptom of taxitis? Nay! Listen to what one of our congressional surgeons, the probable next chairman of the Committee on Ways and Means says in the Nation's Business for November, "The federal taxes on individual and corporation incomes cannot be passed on." Apparently the congressman believes his statement; unquestionably he will act upon it, unless his constituents are better diagnosticians than he; but that he has arrived at this curious belief by any process of reasoning based on a knowledge of facts, is unthinkable. The gas rate illustration is characteristic of taxitis; its more serious symptoms are generally remote in time and place from the tax collector's office; yet the connection may readily be traced, as in the following true story. A successful farmer migrated from the States to the Canadian Northwest; he purchased land, stocked it with beef cattle and developed a very prosperous industry; his range cattle were shipped to Iowa where they were finished for market by corn growing cattle feeders, who also had a prosperous business. The ranchman in Canada was offered \$250,000 for his ranch in 1920; but as he knew



—Cartoon by Orr, courtesy of the Chicago Daily Tribune.

of no investment of this amount which would yield him as high net returns as he was getting from his ranch, he declined to sell. In 1921 a new congress assembled, which passed an Emergency Tariff Act; among the new taxes to "protect the American farmer" was an ad valorem duty of 30% on cattle. As this duty exceeded the possible profit that might have been made by feeding the Canadian cattle with American corn on American soil, the importation ceased; note the observed symptoms of the progress the disease caused by this new tax; the expatriated American farmer lost his United States market; as his investment was adapted to but one purpose and as there was no market for his product elsewhere, after two years he lost his entire investment. "100% patriotism" forbids us to sympathize with his misfortune; the tariff succeeded in its purpose of preventing the

importation of cattle and of reducing the prosperity of our neighbor. But this was not the only symptom; the American railways lost the traffic of moving the cattle from the Canadian boundary to Iowa, and again to the Chicago stock yards and the beef movement from Chicago to possible points of consumption; the Iowa farmers lost the profitable indirect market for their corn; the packers' business was reduced, the price paid by Americans for beef unquestionably was somewhat enhanced and the export of beef was somewhat reduced. Were these observed results indications of economic health or symptoms of economic disease?

### The Roots of Taxitis

Taxitis has two causes; in levying taxes "we have left undone those things which we ought to have done, and we have done those things which we ought not to have done" and the effect is that "there is no health in us"; we have taxed those functions that we ought not to have taxed and we have failed to collect for the public use those revenues that we should have collected; in consequence we suffer from taxitis.

The subject assigned me "Taxing Business to Death," apparently limits this discussion of taxitis to the first of the two causes, levying taxes where they should not have been levied and the destructive effects of such levies upon all of those useful service activities which are comprised under the term "business" as defined at the outset.

As "the power to tax is the power to destroy" so the tendency of all taxation is to destroy that which is taxed; legislators all recognize this tendency and hence they honestly try never to tax directly any useful undertaking so heavily that it is obviously put to death by taxation. They know that taxes can be so levied as to destroy certain curable evils; congress used this knowledge to eliminate the disease known as "phossy jaw," an occasional disease of operatives in the match industry caused by the use of white phosphorus in making matches. A high tax upon the use of white phosphorus in making matches, made such use unprofitable, and red phosphorus was substituted. Recently Congress attempted to abolish child labor in factories by a heavy tax upon the products of child labor when shipped across state lines. Doubtless the law would have been effective had it been found constitutional. Unfortunately the specially destructive indirect effects of all taxes levied on business "in proportion to the ability to pay," are not suspected by legislators, by those who pay such taxes or by the bankrupt and out of work victims of such taxes.

### How Business Manages to Survive

The administrators of our revenue collecting laws indicate by their actions that they recognize the destructive tendencies of many of our taxes; they show mercy upon business in innumerable cases by ignoring completely certain applications of our revenue laws which are obviously destructive to business. In other cases the taxes asses-



the tax payers are too vociferous. But the damage done to any business by the tax which it pays to the tax collector, is in most cases negligible as compared with the damage done to the same business by taxes levied upon other business. When a majority of the men engaged in business, clearly recognize this fact, they will act to eliminate taxitis, as effectively as the passing generation acted to eliminate yellow fever.

### **Taxes—Most Effective of Boomerings**

Unfortunately, the common way of seeking relief from taxes on our business is to urge Congress or the Legislatures to tax the business of others. Thus for many years farmers and wage earners—all engaged in business—were merrily engaged in shifting taxes from their undertakings to another business, the railroads; as they had the votes, they succeeded in greatly increasing the taxes collected from the carriers. But the carriers in turn had to collect additional revenue from shippers to pay the increased taxes; this increased the cost of commodities consumed by farmers and wage earners, including railway employees; this boosted railway payrolls, which in turn necessitated still higher freight rates; the higher freight rates caused lower farm prices for farm commodities as well as a higher farm cost of farm supplies; is it not probable that more farming enterprises have been taxed to death by taxes levied on railroads than by taxes levied directly upon the farm? But the destructive effect of increased railroad taxation is not limited to the farm; the farmers' purchasing power was thereby reduced, commerce and manufacturing slowed down, there was less railway traffic, coal mines suspended operations or reduced their working time, and unemployment became a serious insoluble problem to that vast majority who buy patent medicine pain killers instead of eliminating the cause of their ailment.

### **Congressman Green on Taxation**

But there is hope even in Congress; the Hon. Wm. R. Green, the member of the Ways and Means Committee previously quoted, makes some truthful statements in his article "Taxes—What May We Expect?" in the Nation's Business. He apparently sees some of the destructive indirect effects of taxation on business: "If business is injured by taxation, the injury is not confined to those conducting it but spreads among the public at large to an extent depending upon the nature of the business affected and how necessary it is to the public." . . . "It is just as true that to injure the welfare of the masses by taxation injures business as it is that to injure business is to injure the masses." Congressman Green apparently sees some truth, but evidently it is "through a glass, darkly"; for in another place he says "The greater portion of the taxes levied by the state is of such a nature that it can and usually is passed on by the business paying it; but the federal taxes on individual and corporation incomes cannot be passed on." The facts are not exactly as stated. Dr. Green evi-

dently knows no more about the cause and prevention of taxitis than the medical men of the '70s knew about the cause and prevention of yellow fever; but like them, he is quite familiar with the fever chart and probably knows how to administer sedatives and opiates.

### Some Effects of Taxitis—Political and Economic

Let us investigate Dr. Green's statement; he says "the greater portion of the taxes levied by the state is of such a nature that it can be and usually is passed on by the business paying it." If it "can be" the word "usually" is unnecessary. The fact is that every item of cost of any business is included in the price of the product or the business perishes; now among the costs of every business is the cost of capital, which is enhanced by an income tax which therefore is passed on eventually to the purchaser, regardless of whether the state or the nation collects it, or whether it is collected from a corporation or from the investors who receive interest or dividends therefrom; taxes on individual incomes may not show their evil effects on business as quickly as do the taxes on corporation incomes, but both are probably more injurious to business than any retail sales tax that is politically possible. The retail sales tax produces on the purchaser

#### THE DOG IN THE MANGER



—Gale in the Los Angeles Times.

an immediate and acute pain in the pocketbook nerve; which causes so high a political pressure that Dr. Green and his staff are able to diagnose the disease promptly and eliminate its cause. The principal damage done by the tax on soft drinks was political—but the tax was repealed.

The effect of the tax upon corporation incomes frequently is not felt by the public until the demand for the services rendered by said corporation exceeds existing capacity; thereafter the public pays not only the amount of the tax but an increment believed to be sufficient to amply reward the increased risk caused by this relatively obscure form of taxitis, the malignant nature of which may not appear for several years after the infection caused by Act of Congress. The tax upon individual incomes derived from corporation bonds produces a still more obscure form of taxitis; there may be no apparent effect therefrom upon the cost of products until new financing is necessary—then the symptoms develop almost explosively. An acute

stage of this form of taxitis occurs with every public service corporation when it has to refund old obligations; the increased interest rate necessitates advances in the rates paid by the public for its services. That taxes collected on working capital, tools, buildings, and equipment are items of cost that must be included in the price of the product if the business is to continue solvent, is obvious.

### **The Way Out**

Now what taxes are collected that are not passed on, and are such taxes collected by state or nation? The only permanently collectible taxes that cannot be passed on, are those which are collected from some privilege derived from government such as the right to collect rents and royalties. Any tax whatever that might be levied on business, so heavy or of such a nature that it could not be passed on, would quickly destroy the business and could no longer be collected.

Now let us return to Dr. Green's professional opinion that the greater part of the state taxes is passed on. As about half of the revenue of most states is obtained by taxing privilege, only about half of the state tax can be passed on. The latter part of Dr. Green's opinion is probably about 80% mistaken, for about 80% of all corporation and individual income is derived from business and not from the privilege of skimming the cream from the community milk pail.

Business as a whole has not been taxed to death—not yet; but there are no occupations that come within the scope of our definition that are not suffering from taxitis. And what does Dr. Green propose? More work of experts to perfect methods of doing what should not be done; establishing a court of appeals—"members paid enough to obtain and keep competent men"; and lastly to tax incomes derived from capital loaned to states and their subdivisions, eventually to be repaid by money raised by further taxation, a very pretty analogue of a suggested perpetual motion machine.

Fellow Sufferers, there is no reason for us to expect any real relief from taxitis until a sufficient number of patients to be politically effective, have a clear understanding of the cause of the disease, are able to recognize its symptoms, and have learned how the disease may be prevented.

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### III

## **OUR DISCLAIMED ASSETS AND LIABILITIES**

By J. H. KAUFFMAN  
(Secretary Ohio State Tax Commission)

Since my name appeared on this program, I have received a letter from one who has heard me speak on several occasions on this subject, part of which reads as follows: