

development, income taxation is to be approved. It should not be sidetracked by confining its legislative expression to a Constitutional amendment, when, as the fact is, there is no practical conflict between starting the amendment upon its slow course, and enacting a law to go into immediate effect upon the probability that it would be sustained without a Constitutional amendment. We doubt if Mr. Taft, were he again in private practice as a lawyer, would advise a corporation client to proceed by Constitutional amendment alone, and not also and concurrently by legislation, to secure for his client an object of somewhat uncertain constitutionality.

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President Taft's Corporation Tax.

Two objects are declared by President Taft as the purpose of his recommendation of a 2 per cent tax on the net earnings of corporations. The first is to secure an addition to the Federal income; the second, to bring the corporations of the country within the reach of Federal control indirectly through the taxing power.

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In so far as the object is to open a source of Federal income from direct taxation, the purpose is defensible upon the same grounds as those that apply to other forms of income taxation. It is open also to the same objections. The same inquisitorial necessities are present. So are the possibilities of fraud; and so is the fact that the tax would fall alike upon earned and unearned incomes. But this tax (though an "excise" in law, and therefore not legally "direct") is economically a direct tax, and as such preferable to the indirect taxes which are the alternative. Falling as it does upon the net incomes of corporations, its incidence is determined by the same economic laws that determine the incidence of income taxes in general. It falls not upon the processes of the corporation business as they operate, but upon the net results after the operation. It is in effect a tax upon the stockholders in proportion to their dividends. Bitter opposition may for that reason be looked for from powerful sources of political influence.

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For this Presidential recommendation it may also be said, as we have pointed out regarding the income tax, that although it makes no distinction between the earned and the unearned profits of corporations, precisely this distinction would ex-

press itself automatically in great degree. Some profitable corporations do earn most of their net profits, and these would be unfairly hit. As to most if not all of these, however, there is little valid reason for their being corporations, and none at all that could not be removed by State legislation. The corporations that would bear the heaviest part of the tax burden which President Taft proposes are those which, out of the necessities of their privileges, must be corporations. These derive their net profits chiefly from the privileges or franchises which they control. This method of getting at unearned incomes is, like that of the graduated income tax, crude and awkward and to a degree unfair; but it would make a beginning that could be improved in the right direction easier than the right thing could be secured by direct action. Let all corporations be taxed on their net profits, and ways for clarifying the distinction between earned and unearned incomes, between production and privilege, between law-made values and back-ache values, would speedily open up.

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As to the President's purpose by this fiscal innovation to bring the corporations of the country within the reach of Federal control, he would appear to have learned of the British ministry. They wanted an Imperial valuation of all the lands of the kingdom with a view to making those values a resource for public revenue. Realizing, however, that the House of Lords would not consent to this exhibit so menacing to their privileges, the Ministry have proposed in the budget, with which the Lords cannot interfere, a tax on land values, so small and so adjusted that it cannot evoke complaints from the landlord class without making them seem contemptible; and in order to provide for the levy of this tax, the Ministry have created a valuation scheme as part of the sacred budget itself. Thereby the House of Commons will bring within their reach indirectly through taxation the control of that whole great landed monopoly of Great Britain which has made and is making a few enormously rich and the masses poor. President Taft quite as candidly proposes in a somewhat similar manner to get Federal control, without Constitutional amendment, of the railway and other trust corporations of the country. By levying a tax upon their net receipts, there would be necessity for a fiscal mechanism through which the regulation of these corporations could be brought indirectly within the authority of Congress and the Departments.