

Government Ownership of Railroads, and War Taxation by Otto Hermann Kahn. txt  
the greatest possible number of citizens an interest to watch  
governmental expenditure, and an incentive to curb governmental  
extravagance.

It may safely be asserted that our war taxation runs counter to every  
one of these tested principles.

II

The characteristic difference between the House Bill and the revenue  
measures of Great Britain (I am not referring to those of France and  
Germany, because they are incomparably less drastic than ours or Great  
Britain's) is, first, that we do not resort to consumption taxes and  
only to a limited degree to general stamp taxes, and, secondly, that our  
income tax on small and moderate incomes is far smaller, on large  
incomes somewhat smaller and on the largest incomes a great deal  
heavier.

The House rate of taxation on incomes up to, say, \$5,000, averages only  
one-fifth of what it is in England; the House rate of taxation on  
maximum incomes is approximately fifty per cent. higher than it is in  
England. Moreover, married men with incomes of less than \$2,000 are  
entirely exempted from taxation in this country. In England all incomes  
from \$650 on are subject to taxation.

I believe, on the whole, our system of gradation is juster than the  
English system, but I think we are going to an extreme at both ends. And  
it must be borne in mind that our actual taxation of high incomes is not  
even measured by the rates fixed in the House Bill, because to them must  
be added State and municipal taxes. There must further be added what to  
all intents and purposes is, though a voluntary act, yet in effect for  
all right-minded citizens tantamount to taxation, namely, a man's  
habitual expenditures for charity and his contributions to the Red Cross  
and other war relief works.

The sentimental and thereby the actual effect of extreme income  
taxation is not confined to the relatively small number of people in  
possession of very large incomes directly affected by it. The  
apprehension caused by the contemplation of an excessively high ratio of  
taxation is contagious and apt to react unfavorably on constructive  
activity.

It is highly important that taxation should not reach a point at which  
business would be crippled, cash resources unduly curtailed and the  
incentive to maximum effort and enterprise destroyed. And it should not  
be forgotten that both theoretically and actually the spending of money  
by the Government cannot and does not have the same effect on the  
prosperity of the country as productive use of his funds by the  
individual.

If all the European nations have stopped during the war at a certain  
maximum limit of individual income and inheritance taxation, even after  
four years of war, the reason is surely not that they love rich men more  
than we do or that they are all less democratic than we are. The reason  
is that these nations, including the financially wisest and most  
experienced, recognize the unwisdom and economic ill effect under  
existing conditions of going beyond that limit.

III

The same observations hold good in the case of our proposed inheritance  
taxation (maximum proposed here forty per cent., as against twenty per