

# FACING THE TAX PROBLEM

A SURVEY OF TAXATION IN THE UNITED  
STATES AND A PROGRAM FOR THE FUTURE

*Prepared Under the Auspices of the  
Committee on Taxation of the  
Twentieth Century Fund, Inc.*

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## A TWENTIETH CENTURY FUND INVESTIGATION AND PROGRAM

The Trustees of the Fund approved the plan for this investigation, underwrote its expense and appointed the Special Committee which had charge of the study and drew up the program for action. The Trustees, however, have not assumed responsibility for the factual findings or the recommendations included in this volume.

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The following Special Committee of the Twentieth Century Fund was in charge of the investigation by a special research staff, the findings of which are summarized in Chapters 1 to 26 inclusive of this volume. The Committee alone is responsible for the recommendations for action which are included in Chapter 27.

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## PREFACE

Taxation is obviously one of the leading public issues of the day. This volume is intended, first, to give the general reader an understanding of the tax system as it now exists—federal, state, and local; and, second, to suggest specific ways by which it can be improved.

The survey has been undertaken by a method which the Fund has used previously in dealing with other issues: through an *ad hoc* research staff and a special committee. The committee, whose members are listed on page iv, was appointed by the Trustees of the Fund in October 1935. It has had general charge of the entire undertaking. The research staff, whose names are listed on pages v and vii, presented to the Special Committee a factual and analytical picture of the American tax system, with their own conclusions and recommendations—included in Chapters 1 to 26 of this volume. The Special Committee studied these findings and, largely on the basis of them, has prepared the series of specific recommendations for action in improving the tax system which are contained in Chapter 27.

The Trustees of the Fund believe that by this procedure scientific methods can best be applied to the formulation of economic policies. The essential facts are assembled by a staff of economists specially experienced in the particular subject. A committee, representing diverse points of view and chosen on grounds of recognized integrity, disinterestedness and practical experience, takes these facts and, solely in the interest of the general public, proposes concrete measures to deal with problems which the facts disclose.

The Committee on Taxation, like other committees of the Fund, came to its task without any preconceived policy as a group, and with widely diverse personal opinions. That its members have reached unanimous agreement on all but two recommendations is evidence both of their determination to deal with facts objectively and of the validity of the program they propose. This procedure is refreshing and should be genuinely corrective, in a world which is played upon so often by the partisan propaganda of special interests.

In presenting this volume to the public the Trustees and officers of the Fund are glad to express their appreciation of the unselfish labor which the members of the Committee have put into this project. Special appreciation also goes to the staff which, with great patience and in the best traditions of disinterested research, has dealt with exceedingly complex and intractable material.

The facts summarized in this volume have been drawn largely from the published records of previous research. In some instances, however, the staff was obliged, by the lack of available data, to undertake its own original studies. The detailed results of these special investigations are contained in a separate volume entitled *Studies in Current Tax Problems*, soon to be published by the Fund, and in articles to be published in scholarly journals.

EVANS CLARK, *Executive Director*  
The Twentieth Century Fund

330 West 42d Street  
New York City  
March 1, 1937

## FOREWORD

BY THE DIRECTOR OF RESEARCH

This foreword serves to give a general expression of appreciation for the helpful assistance rendered by the large number of persons who at one time or another came in contact with the work. It also indicates, through a statement of the major contributions of the associate directors, members of the research staff, and others, how much the project has been the result of co-operation.

Professor Roy Blough and Professor Mabel Newcomer, as associate directors, in addition to participating in the planning of the volume and in the critical analysis of all the manuscript, have each contributed several chapters. Professor Blough wrote the chapters (Chapters 9-14) dealing with the tax system as an instrument of social control. Professor Newcomer wrote the chapters on expenditures (Chapter 7), distribution of the tax burden (Chapter 16), and intergovernmental tax relations (Chapter 24). Both joined in writing the conclusions and recommendations in Chapters 25 and 26.

The organization of the office force and the editing of the manuscript for matters of style were handled by Mrs. Cranston Holman, who was assisted, in the first task, by Miss Dorothea Higgins.

The other members of the research staff contributed basic memoranda. Their contributions will be noted in detail, and some of them will be reproduced in full, in the forthcoming companion volume, *Studies in Current Tax Problems*. Memoranda cited without reference to that volume (see for example page 64) will be made available



either through publication in journals or in mimeograph form.

The staff has been fortunate in the assistance that it has received from the many persons who gave freely of their time and effort. Only a brief statement of acknowledgment to a few of these is possible here. Professor Edwin R. A. Seligman was specially generous in reading the manuscript in both the preliminary and the later stages. The members of the Special Committee, whose names appear on page iv, assisted by giving detailed comments in the course of the committee meetings and at other times. I particularly appreciate the opportunity to express my indebtedness to Professor Robert Murray Haig, whose advice and encouragement, both in the past and during the present work, have been fundamental to the development of the research in this survey. Thanks are also due to Dr. Louis Shere for many important improvements made as a result of his comments after reading the manuscript in proof.

The numerous and extremely helpful suggestions on both form and content made by Mr. Evans Clark, Director of the Twentieth Century Fund, resulted in extensive revisions. Dr. Frederic Dewhurst, Economist of the Fund, also assisted by a close reading of the entire manuscript. Many valuable suggestions for form in preparation for printing were made by Miss Elizabeth Mann, Publications Associate of the Fund.

The tax officials of the various governmental jurisdictions again exhibited that willingness to supply information and to comment on preliminary drafts that is one of the most encouraging signs for the future of tax research in the United States. Business organizations and individuals were likewise helpful in their responses to inquiries. The results of the co-operation from these groups will be particularly evident in *Studies in Current Tax Problems*. Acknowledgment is made to Columbia

University for its generosity in providing working space for the staff.

In no case, of course, does any responsibility for statements of fact or opinion in the staff's report attach to those who assisted us in the ways just noted. Moreover, the statements in Chapters 25 and 26 reflect only the opinion of the three directors of research, and the other members of the staff bear no responsibility for that section of the report.

CARL SHOUP, *Director of Research*

Columbia University  
New York City  
March 1, 1937

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