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# Curbing Inflation Through Taxation

SERVANTS OF INDIA SOCIETY  
MADRAS 14

*A Volume of Symposium Addresses by*

MARRINER S. ECCLES  
J. W. OLIVER  
MILTON GILBERT  
SETH D. SIMS  
HOMER HOYT  
IRVIN BUSSING  
MARIUS FARIOLETTI  
GODFREY N. NELSON  
ALFRED G. BUEHLER

ALVIN H. HANSEN  
JAMES F. HUGHES  
ROY BLOUGH  
CARL SHOUP  
S. E. HARRIS  
ARTHUR Z. ARNOLD  
GEORGE A. TESORO  
A. KENNETH EATON  
MARY E. MURPHY

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By

MARRINER S. ECCLES	ALVIN H. HANSEN
J. W. OLIVER	JAMES F. HUGHES
MILTON GILBERT	ROY BLOUGH
SETH D. SIMS	CARL SHOUP
HOMER HOYT	S. E. HARRIS
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ALFRED G. BUEHLER	MARY E. MURPHY

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## FOREWORD

SO MUCH has been said about tax policy and inflation in recent months that another conference devoted to the question may seem to be superfluous. But those who are best informed are well aware that there are still many unsolved problems. Many technical matters are still in the realm of opinion. Changing conditions create new problems. And the educational job has scarcely begun.

A few years ago the fields of public and private finance were sharply divided, as were also the work of the theorists and the work of the practitioners. Today all of the knowledge and considered judgment of bankers, tax administrators, and the students of public finance and business cycles must be pooled if the best procedure is to be adopted.

Nor is it sufficient to call upon the experts. It is necessary to convince the taxpayers and the potential bond buyers of the dangers of inflation. And it is necessary for every consumer to realize that his buying will contribute to inflation, and that his saving will help to check it.

The total cost of our national government from its origin to the beginning of this war was less than 160 billion dollars. This sum is considerably less than we have spent in the brief period since the war began. If President Roosevelt's budget for 1945 is realized, we shall have spent twice as much on this war by the end of the next fiscal year as we spent in the whole span of our national history before the war began. Our annual expenditures exceed the total national income in any pre-war year. Physical production—and the national income—have,

of course, been enormously increased; but half of our output, or more, goes directly to war uses.

The financing of war expenditures on this scale is a Herculean task. Financing them without serious inflation requires skill of the highest order. There is some ground for congratulation on our achievements thus far. With a far more costly war than any in our preceding history, whether cost is measured in billions of dollars or as a percentage of the national product, we have covered a larger proportion of total expenditures with tax revenues. Yet the "inflationary gap" has been dangerously large.

Only a negligible part of the cost of the Revolution was met from tax revenues, since the national government had no taxing power. During the Civil War, the Confederacy derived a little more than one-tenth of its receipts from taxes, and the Union was able to cover more than one-fifth of its costs from this source. The proportion of costs covered by taxes was pushed up to one-fourth for the first World War, and to nearly one-third for the first years of the second World War (1941-42 and 1942-43). Budget figures for 1943-44 and 1944-45 raise this proportion to more than two-fifths. A substantial part of the costs of both the Revolution and the Civil War was covered by issues of paper money, some of which were never redeemed. Such issues have not been resorted to in either the first or the second World War. And this improved financing is reflected in price levels.

Fortunately, much of the surplus spending power has in fact been saved and a relatively small portion has contributed to rising prices. In view both of the possible price increases offered by this surplus income and of our experience in the first World War actual price increases have been moderate. But they have been sufficient to create genuine—and unnecessary—hardship. And in concentrating on this obvious



measure there is some danger that we shall overlook other important indicators of inflation.

The index of the cost of living is not the sole test. Not all savings have gone into government bonds. And savings invested in real estate or the stock market may bring inflation. We suffered serious inflation in the nineteen-twenties without any important increases in the cost of living. Instead we had real estate booms in Iowa and Florida; and we had a stock market boom of unprecedented proportions. These are factors to watch today.

The war on inflation has yet to be won. In fact, the most critical battles will probably come after the war on the Axis is over. It is with this in mind that the subject of this year's conference of the Tax Institute was chosen. The members of the Program Committee are Mabel Newcomer, Vassar College; James W. Martin, University of Kentucky; William J. Shultz, New York State Department of Taxation and Finance; and Mabel L. Walker, Tax Institute. We hope that the exchange of information and opinions in this symposium may take us one step farther toward our goal.

MABEL NEWCOMER  
*Chairman,*  
Program Committee

Vassar College  
February, 1944

*APPENDIX*

TAX INFORMATION AND PUBLIC  
EDUCATION

## APPENDIX

### TAX INFORMATION AND PUBLIC EDUCATION

LEONARD POWER

*Educational Consultant*

ON THE SECOND afternoon of the Tax Institute Symposium in New York City on February 7 and 8, a group of educators and tax experts discussed what the schools could do to raise the general level of economic literacy, with particular emphasis on taxation.

The discussion was led by a panel of distinguished educators representing higher education, state departments of education, the United States Office of Education, the National Education Association, and the Association of School Business Officials. The purpose of the discussion was to pool experiences and to offer suggestions concerning what may be done to make school and college officials aware of present inadequacies and the need for creating an alert and informed public opinion in the field of civic education.

After some preliminary remarks by the various members of the panel, the discussion seemed to cluster about the following points:

1. It was recognized that there is a gap between the political level of taxation and the theoretically desirable level, and that education may help to reduce this gap. Dr. Frank W. Hubbard reported that the National Education Association, through its Committee on Taxation and School Finance, has selected six states in which to experiment in the reduction

of this gap by holding conferences on the state level, on regional levels within the states, and in selected localities. In these conferences educators and tax experts will meet with representatives of boards of education and of civic, business, and labor organizations. The reports of the first conferences to be held may be used to guide later conferences. A digest of the reports of several of these conferences may be published and distributed widely for use in other states. Although the primary purpose of this experiment is to explore the major problems of financing education, it is hoped that each conference and series of conferences will lead to a better understanding of the relationship of financing public education to the other public services of local and other governmental units. Dr. Edgar L. Morphet pointed out certain modifications in the tax structure of Florida that could be traced to the state-wide study of taxation generated in educational circles and, for the most part, led by educators.

2. Educational leaders and lay leaders in each of the several fields, including the field of taxation, need to meet more often for the purpose of discussing common problems. It was pointed out that everybody is now more tax conscious than ever before, and that all of us are grasping for an understanding of the economic issues involved in world organization. The U. S. Office of Education reports that only five per cent of high school students are now receiving instruction in economics, not counting the excellent work in consumer economics courses for girls. There is need for laying a better foundational structure in the classrooms. But events are moving so rapidly that the immediate need is felt for a superstructure of less formal instruction.

At the adult level, much can be done through group meetings and by using the radio and the press. The planning of adult education is primarily an educational responsibility.

Information on governmental services and their costs can be prepared for publication by students in high schools. Students may also be used on radio programs but there is need for careful preparation of analyses and scripts, and it is at this point that the educators and tax experts should come together.

3. Citizenship in a democracy requires understanding on the part of the public of the local, state, and national tax policy. In their study of tax policies, educators should not limit their concern to the narrow area of the financial support of public education. It was pointed out that there is need for the cooperative development of standards by which educators and laymen may evaluate various tax proposals, since very little is now generally understood about the possible effects of proposed tax policies. The Tax Institute, other organizations interested in taxation, and educational organizations and associations at all levels should work together on the development of evaluative tax criteria.

4. Although it takes fifty years to make a change in the school systems of the United States, the panel pointed out some first steps that may be taken without delay. One of these is the preparation by high school students of analyses and reports on local government budgets and expenditures—putting a premium upon graphic presentation of services and costs. The preparation of these reports, it was pointed out by Mr. Walter Millard of the Citizens Union, will help to give the students themselves a clear understanding of where the tax money goes. But in addition to such analyses and reports there is a definite need for high school study units on taxation. Little is now known by members of the panel of the extent to which such units have been developed. Professor Paul R. Mort pointed out that, even on the elementary school level, where all are reached by the schools, a beginning may be made through the subject of arithmetic. There is need for

further study and research regarding what is actually being done in the area in the public schools.

5. On the college level, and in the field of teacher preparation, the subject of taxation is sometimes included as a unit in a course on School Administration. Some institutions, notably Teachers College, Columbia University, Cornell, and the University of Michigan, are offering full courses on taxation to school superintendents, but few classroom teachers receive any training in this field.

Since the Tax Institute does not recommend tax policies, and since a panel discussion does not result in resolutions of any kind, the end results may be summarized by stating (1) that educators and tax experts enjoyed the opportunity afforded by the Tax Institute to come together; (2) that educators need to make greater use of the Tax Institute and other sources of tax information, and (3) that in the development of state, regional, and local educational or informational programs on taxation, tax experts should be regarded as essential resource persons for use in panel discussions, round tables, conferences, or institutes.

The members of the panel included: Professor Paul R. Mort, Teachers College, Columbia University; Roger M. Thompson, Director of Administration, Connecticut State Department of Education; Edgar L. Morphet, Consultant, Research and Statistics, U. S. Office of Education and Assistant State Superintendent of Florida Schools; Frank W. Hubbard, Director of Research, National Education Association; Edwin F. Nelson, Business Manager, Hartford, Connecticut Board of Education and President, Association of School Business Officials; and Leonard Power, Educational Consultant.

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