Volume 49
Issue 1 *Dickinson Law Review - Volume 49, 1944-1945*

10-1-1944

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There is general agreement that curbing inflation goes to the heart of the post war problem. Employment is but one dependent phase of that problem. The basic forces which produced the inflation of 1919 and 1920 exist today in magnified intensity. Government deficits are much larger and increase of currency and bank credit have been far greater.

While it is a rare surtax-bracketeer who forgets the depression of a decade ago,[1] it is less likely that he will recall that within less than two years after the end of the first World War prices dropped 45% and industrial production 35%. This was not so so much the direct result of the War as of the price inflation which broke out all over the world immediately after the war.

While it is too much for one nation to hope to prevent a depression of the proportions of that which reached this country in 1929, "a person who does not imagine himself to be God"[2] can with equanimity propose a method to forestall a depression of the smaller variety. Workmen, skilled or unskilled, who looked for work in the last depression know that our elder statesmen are not magicians.

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[1]For the benefit of that rare gentleman:

(1) Skilled workmen were glad to get work, of any sort, at any figure, no less their trade at an accustomed figure.

(2) Most communities had work to be done, and willing and able men to do it, but credit was lacking.

(3) Bondholders' Committees (following the third reorganization) dared the delinquent tax collector to take title to and operate their hotel, apartment house, loft building or factory.

(4) Local governments defaulted on their bonds.

(5) School teachers threatened to strike if not paid their back wages; and colliery operators predicted inevitable shut-downs if forced to pay delinquent taxes required for those wages.

(6) Americans were trying desperately to help themselves rather than to subsidize the rest of the world.

To him may it be necessary to say that history repeats itself, that death and taxes are not alone in being inevitable.

May he be concerned, but not dismayed by the many difficulties and shortcomings inherent in this argument for a stitch in time.

He may prefer to postpone taking that stitch until its efficacy has been demonstrated abroad, not realizing that even American aid and largesse will not suffice to put the rest of the world in a position to try it until it is too late for this country to profitably copy the example.

[2]Holmes—*Collected Legal Papers* (1920) 306.

Inflation is like the weather—everybody talks about it and nobody does anything about it. And it is human nature for the one who talks of rainy weather to have a difficult time in making friends and influencing people. Many so-called "plans" emanating from born optimists or worse, are a rehash of old stuff with little or no incentive to their designated followers. They call for angels to be governed by arch-angels. There has been and may always be a place for phrase-makers in winning wars, but there is no place for them in preventing or winning depressions.

The opportunity afforded by the E Bond Drives is a step in the right direction, but there is always a danger as the 5th War Loan follows the 4th War Loan that people will become a little tired and regard them as an old story becoming less attractive as military success becomes more certain. There is also the temptation to reconvert the Bond into cash at the slighest provocation. Nothing in the law books will prevent their being so converted when there is an inflationary rush or the pinch of unemployment.

OPA is another step in the right direction. However, price control serves as only one cure to the lack of balance between expendable income and available goods from which inflationary pressure arises.[3]

Preventing inflation is very much like preventing a flood. The main object is to stem individual springs of credit in time to prevent their forming rivulets which, if they flow together without direction and control, will cause the mighty torrent of inflation.

Men build dams against floods. No dam is so great that it alone can stem the flood and no dam is so small that it can be neglected with impunity.

It is more expensive to pump water up hill (or to prime the pump therefor) than to control its running down hill by numerous small reservoirs. Prevention of inflation, to be even measurably successful, must be approached on a similar basis.

It is also important to apply the test of *cui bono* in any program requiring widespread cooperation—and cooperation at all levels of government is a *sine qua non.*

It is timely for the fiscal officers of all our states as well as Federal planning agencies to consider now how the states can fulfill a role in effecting as well as benefitting from anti-inflationary measures. And it behooves many states to save, in so far as possible, the temporary gains achieved through war time production with its attendant influx of industry and personnel.

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[3]"The universal price ceiling serves as the framework for other policies which will diminish the inflationary gap. It makes possible an effective war labor policy, more stringent income and excess profits taxes, and greatly enhanced savings. . . ./but/ without economic measures, the ceiling would in the long run become administratively unenforceable and socially harmful:" "*Statement of Considerations*" prepared by *Office of Price Administration.*

There is reason to forget the difficulties in state finance of the middle 30's in the boom of the middle 40's, but such forgetfulness will not forestall recurrence of the situation of a decade ago.

Constitutional and legislative objections had to be surmounted or ignored to remedy such depression problems as mortgage deficiency judgments. It should not be a prohibitive task to make preventive measures legal.

SUGGESTED PROGRAM

The emphasis on investment in United States of America Treasury obligations is a force on one of the pressure points in our body economic. Further force is necessary to stem the sapping of credit strength through inflation. This force must not conflict with and if possible should be coordinated with the War Bond effort.

It is suggested that large funds not now available for investment in War Bonds would be available to anticipate a certain and fixed future expense such as real estate taxes. It is recommended that voluntary payment now of future real estate taxes be made attractive to the taxpayer, individual and corporate, while he is paying his current taxes as usual.

The direct immediate effect would be to remove large sums from present availability to the consumer's goods market. The desirability of this as a means of preventing inflation is self-evident. An indication of the order of the figures involved lies in the eleven billion dollars of mortgage amortization achieved in the first three years of this war. Pressure for tax anticipation would not be so great as that for mortgage reduction, but a vastly larger number of people would be concerned.

Local taxing units such as the township, city or state would be the collectors and recipients of the tax as usual. Provisions would be made in drafting the uniform tax law for one or more incentives to pay now. The tax would be applicable to the first calendar year's taxes due and payable after the peace and a maximum of five year's taxes could be thus anticipated. While the legislation would not preclude the taxing unit from using such funds immediately to amortize existing obligations, it would prohibit other expenditure prior to the year for which collected. The funds collected would be invested only in obligations of the Federal Government.

INCENTIVES

The key to the success of the program is making it attractive to the taxpayer to anticipate his taxes.

This would be a simple matter, particularly in the case of corporations, if the advance payment would constitute an allowable deduction from that year's income. It is improbable that the courts would so hold, since there would be no obligation upon the taxpayers to so anticipate his tax, and the Commissioner of Internal Revenue has ruled upon an hypothetical question advanced by the author that the deduction would not be allowable.[4]

It thus becomes the function of the state to make the program attractive to the taxpayer. To a certain extent a receipt in full would be satisfactory, but a discount of some amount would be required to gain widespread acceptance.

If a discount is the incentive, it may vary from state to state and even among municipalities or other taxing units within a given state. A discount of as little as 1½% would appeal to the average small home owning wage earner because he cannot get that much on his money, with equal security, anywhere else. Federal tax anticipation notes are beyond his ken. A larger discount for anticipation of years subsequent to the first year should be allowed, up to a maximum of perhaps 4%.

Where there is a state income tax the additional incentive of income tax deductibility would be available.

In the case of corporate taxpayers provision for additional reciprocal concessions in current state corporate taxes might be made.

Of the many objections that immediately occur, none of them appears to be insuperable in the light of the major objective. They fall into three main categories: economic, legal and psychological.

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[4]"In 1944 taxpayer pays his 1944 real estate tax on Gladacre, and also remits to the local tax collector funds which the latter declares payment of real estate taxes on Gladacre for the first, second, and third years after the two hundredth day following the cessation of hostilities.

Taxpayer deducts all of said funds from 1944 Federal income tax return.

To what extent is such deduction allowable if taxpayer is:

(a) Individual on cash basis.
(b) Individual on accrual basis.
(c) Corporation on cash basis.
(d) Corporation on accrual basis.

"Section 23 (c) of the Internal Revenue Code provides, in part that in computing net income there shall be allowed as deductions taxes paid or accrued within the taxable year. In order to be entitled to a deduction for amounts paid as taxes under this section, however, taxpayer must show not only that he paid the taxes, but that such taxes are enforced contributions. Delivery of funds to a tax collector for payment of taxes, the amount of which is not known, assessed, due, or payable, does not constitute payment of taxes.

"Inasmuch as the payment referred to in your question would be a voluntary one, and would be for taxes for some future year, the amount of which is not now known, assessed, due, or payable, such amount would not constitute an allowable deduction from gross income in the case of an individual or a corporation on either a cash or accrual basis."

ECONOMIC

It may be felt that the small amount of money that would be thus taken out of circulation does not justify the legislative turmoil that would be required to effect the opportunity to anticipate taxes.

Exact estimate of the amount is impossible because there are no accurate figures available as to how large a real estate tax is collected in the United States each year.[5] The best guess is that of the Bureau of the Census whose derived figure is four and one-half billions annually.

Of course the proverbial straw broke the camel's back and Randolph Paul, Esq., Counsel for the Treasury Department, said that fifteen billion dollars poured into the market by consumers would prevent anything from saving our whole economic structure as we know it today.[6] And even four and one-quarter billions is not a small amount if we credit the criticism of Federal expenditures of that amount in the nineteen thirties.

It is impossible to tell how many years taxes would be anticipated by how many taxpayers. But there is a large amount of money looking for safe investment and, depending on the incentives afforded, ten billion dollars might find its way out of circulation to stay out permanently.

A more valid hesitation may arise from fear of loop-holes in the law against spending the money prior to the year against which it is levied. In other words it might be spent prematurely. On the other hand, there is a possibility of the Federal government doing the same without the attendant spreading of the risk thereof achieved by forty-eight states holding the funds.

Where the incentive involved a discount some of the tax collected would appear to be sacrificed. Reference to the tax sales (and prices) of the middle thirties made even 93% of the tax dollar seem very worthwhile. Some proportion of the taxpayers who anticipate (particularly corporations) will thereby be saved from being delinquent later on. And anticipation by the prudent and able may save the day for those who are imprudent or unable to anticipate.

[5]In many states, the municipalities have such a varied levy (ranging from 2½ mills to 15 mills in Alabama for example), that it would be impossible to give an estimate as to the amount of taxes that might be collected by such municipalities.

In many states property taxes are not segregated as between those levied upon real estate and those upon other holdings (Maine, Indiana). In New Jersey, for example, the property tax is separately assessed as to improvements on lands and personal property. The tax rate is computed on the combined value of both real and personal property assessments and the receipts of taxes are not accounted for separately, but in totals, therefore the yields of real and personal property taxes cannot be ascertained except from the individual tax duplicates of the several municipalities.

In Vermont the state keeps no record of the amount of real estate taxes collected by local governments.

[6]28 CORNELL L. QTLY. 143, January 1943.

A change in assessment might cause a loss to the taxpayer or to the taxing community. In the light of the current high industrial and commercial assessments, this would be a good speculation for even the next decade for most taxing communities. For some few it would be a bad bet. In any case the taxpayer would have a chance to make up his own mind, and the uniform enabling act should make it possible for the subordinate taxing unit to decide whether or not it would inaugurate the system.

It may be objected that "war prosperity" or inflation is Federally caused and financed, and therefore the Federal Government should have a clear field for absorption of excess purchasing power; that the availability of tax anticipation would impede war bond drives. Such objection becomes less cogent as the amount of available funds is compared with the amount taken up by each successive bond drive. Furthermore, to the extent that states simply act as intermediaries, "guarantors" as it were, by investing such tax collections in Federal securities, the Treasury's program will be implemented rather than impeded.

A collateral benefit would be the increased interest of local "investors" in their local governments. One of the principal criteria of the postwar success of democracy will be the administration of local government. And, incidentally, postwar employment, like any fiscal structure, to be healthy should not be an inverted pyramid. The broader its foundation, the better. The more widespread credit is, the less likely its hurried diversion into uncharted channels for reasons of political expediency when under such compulsion as a Bonus March.

LEGAL

Amendment of state constitutions and enactment of necessary legislation presents less of a legal problem than it does a practical problem. The legal picture is clear, although diverse.

Each state has an individual problem varied by its peculiar constitutional and/or legislative provisions. In some cases the intention of the constitution appears to be that only such taxes shall be levied as will meet current costs. If a "surplus" is created, then the next subsequent tax levy must be reduced accordingly. Or the statute may so provide as in Montana. Or both state constitution and statute may so provide as in West Virginia.

The fact that the taxes we are considering are applicable to and ear-marked for other years may obviate this difficulty.

As a general rule, the levying of a tax beyond the amount required for current purposes is considered a discretionary matter, subject to the scrutiny of the courts,[7] unless there is statutory authorization. Where there is no additional levy, however, and payment is voluntary, this rule would be inapplicable.

The speed with which this program could be put through the respective state legislatures presents a substantial problem. But, in the light of the speed with which military eminent domain and other legal matters progressed in the early part of 1942, this is more a psychological than a legal problem.

There would be no necessary connection or interference with state approval of subordinate (usually county) taxing unit budgets. They would be approved in the usual fashion at the usual time. Since no increase in taxes would be involved, the voluntary collections would apply to a future year for which no budget would be in order.

Certain apparent technical handicaps are dissipated on only second thought. There would be no increased difficulty in alienating or hypothecating or inheriting realty on which the taxes were paid in advance. Adjustments in prices and settlement would be made precisely as they are where taxes are delinquent.

PSYCHOLOGICAL

The best way to stimulate inflation is to advertise to the consumer the fact that the dollar has already depreciated in value somewhere beween 25% and 40%, and will depreciate further. On the other hand, all the arguments favoring purchase of War Bonds plus the optimum in security are available, without crying "Wolf."

The most important way to abate inflation is to take currency out of circulation for a definite period.

If an early example is set by an investment conscious state like Massachusetts or a war prosperous state like West Virginia, other states are apt to hurry into line.

Where a constitutional amendment is necessary (and courts which held deficiency judgment acts constitutional may be persuaded that the necessity of prevention rises as high as the necessity of a remedy) the electorate will not be

[7]The general rule governing this question is stated in 61 C. J. 557, as follows: "It is against the policy of the law to raise taxes faster than the money is likely to be needed by the government, and, in the absence of statutory authority, a tax can not be levied for the sole purpose of accumulating funds in the public treasury, such as for remote or future contingencies that may occur; nor can it be levied in excess of the amount required for the purpose for which it is levied, with the intention of using the excess for another purpose." Again it is stated in 44 C. J. 1288: "A tax for a sinking fund in excess of the amount needed for such purpose in any one year is invalid as to the excess."

asked to commit itself to an investment. The only commitment will be to confidence that their officials will not spend the funds collected in advance of the time permitted by the law. There will be no increase in the taxpayer's obligation.

It may be contended that its tendency is toward decentralization and states rights since inauguration will be voluntary on the part of the states and they will administer the program. They will have the sole "say" in spending the money. That is true and to that extent the program is at variance with the tendencies of the New Deal.

But the question is not a political one with reference to the current national platforms of the Democratic and Republican parties.

The desire to preserve as much as possible the necessarily temporary advantages of increases in population of as much as 200% will be sufficient reason for the inauguration of the program in some states.

Holmes (the judge) said a *valid* idea was worth a regiment any day. Hugo (writing in an earlier, more optimistic day) said an idea whose *time had come* was stronger than all the armies in the world. If the foregoing represents a valid idea whose time has come, it may afford a welcome retreat to many Americans including a substantial number of her old soldiers.