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THE United States NEWS



THE ONLY MAGAZINE

DEVOTED ENTIRELY TO

REPORTING . . . INTERPRETING

AND FORECASTING THE

NEWS OF NATIONAL AFFAIRS



PUBLISHED WEEKLY
AT WASHINGTON

Copr. 1947 by U. S. News Pub. Corp.

PRICE 15 CENTS

NOVEMBER 7, 1947

IF CONTROLS RETURN—



A NEW RUSH TO BUILD



RISE OF U. S. SPENDING



1947 GIFTS: TAX RULES



G. O. P. Leader Halleck Battle Ahead in Congress



November 14, 1947

"In proportion as the structure of a government gives force to public opinion, it is essential that public opinion should be enlightened."
GEORGE WASHINGTON

The United

(These two pages present each week the opinion of The Editor and the other members of the staff who report, interpret, and



THE REAL COMMUNISTS

BY DAVID LAWRENCE

The real communists are not in Hollywood. Nor are they to be found in any substantial number in the rank and file of American labor unions.

The real collectivists and socialists are in Washington—in the high places of government, in the high councils of national labor unions, in the high councils of the Democratic party.

For the real communists which America must combat are not those who are in league with foreign governments or who are "subversive" in the sense that they wish to see our form of government overthrown by physical force.

America has only a handful of communists who sympathize with totalitarianism in Russia or are really working in the interests of a foreign power.

But America has many citizens whose loyalty to the United States is unquestioned and who yet are the enemies of our risk-capital system. They are doing everything in their power to overthrow it by political means.

The enemies of our system of risk capitalism are for the most part conscientious citizens with a sincere conviction that state socialism is better for America than the "free enterprise system." They do not avow that belief. They would be offended if called by any other label except "liberals."

This very group, however, strives to destroy our system of risk capitalism. They really want government capital and government control substituted and some form of planned economy established, with the government as master. This group is infiltrating our government, our churches, our schools and colleges.

Undermining tactics: The underlying strategy at the moment of the group is to break down America's strongest sinew of strength—the profit-and-loss system.

In recent months the main attack against the profit-and-loss system has come from the strategists in the CIO, aided and abetted by Democrats of the radical school of thought in Congress.

The objective seems to be to undermine all confidence in the profit-and-loss system, first, by arguing that profits are too high and, second, by attributing all price increases to "profiteering" and playing down

the part that wage increases or agricultural conditions or scarcities of materials have played in the inflation of prices.

Confusing the facts on profits: The attack isn't subtle. It is out in the open. It starts with the emphasis on the numerical size of profits. It ignores the large volume of business done in an inflationary period and the fact that profits have not changed materially in ratio when related to the national income. It omits mentioning that the profit dollar is taxed twice and that the purchasing power of the profit dollar has shrunk by 51 per cent while the worker's dollar has diminished 39 per cent.

It ignores, moreover, the fact that profit margins of per cent per dollar of sales have not varied materially from pre-war averages. It overlooks entirely the fact that the book value of capital in terms of the cost of plant or buildings or equipment is low and that any use of "net worth" when applied to 1939 figures will necessarily be wrong today. For the "book value" of capital is not a true picture on which to make measurements of profit.

A locomotive still running today was bought at about \$50,000 in pre-war days. A new one costs about \$150,000. A plant unit to produce an ingot of steel is on the books at a depreciated level of about \$50 whereas a new unit would cost close to \$200 today.

Plant is wearing out. Machinery must be replaced at present-day costs—not "book value" costs. Where is the capital coming from to replace what is worn out?

Fortunately, the excess-profits tax was repealed in time to prevent the worst depression America would have faced in her whole history. The communists and radicals call it a "windfall" and ignore the economic implications altogether. They want fixed expenses increased because one or two years of readjustment show numerical profits to be high. They ignore the fact that the ratio of profit to total sales in 1947, according to the Department of Commerce figures, is less than eight-tenths of one per cent above that of 1929.

After eliminating the inventory profits, which are temporary, and the benefits due to carryback pro-

"I wholly disapprove of what you say but will defend to the death your right to say it."

VOLTAIRE



The pages of The United States News are written in their entirety by
(The editorial news irrespective of the editorial views expressed here.)

Undermining confidence in risk capitalism is first step to state socialism— Strategy of blaming all economic ills on profits without disclosing real picture —High taxation promotes communistic doctrine of levelling all incomes.



Provisions in the tax laws, corporate profits in 1946 were lower than in 1945. This is the statement recently made by the economic staff of the Legislative Reference Service of the Library of Congress in response to inquiries from the Senate Committee on Labor and Public Welfare.

The nation owes a debt of thanks to the conservatives in Congress who foresaw the need both for the repeal of the excess-profits taxes immediately after the war and for the carryback provisions that have so well cushioned the transition period.

There are, nevertheless, radicals in Congress who have so little regard for economic reasoning that they now want to put back the excess-profits tax on the mistaken theory that it will hold down prices. What they really want is a managed economy—a public utility status for most industries and government-created monopolies and cartels. Yet they vehemently deny any such purpose and consider themselves "liberals."

Some of the enemies of our risk-capital system are merely demagogues who distort the economic facts of life, but some of them are good men who just do not know what makes the wheels go round in a profit-and-loss or risk-capital system.

Everybody on the same "level": The most conspicuous example of this is to be found in the attitude toward tax reduction on the part of many Democrats. Some, to be sure, go along blindly with the Administration without stopping to think what the implications of their position really are. Others know what they are after—they want to reduce all earnings to a level of so-called equality. They want to put the skilled and the unskilled, the talented and the untalented all on the same footing. They belittle management's skill at every opportunity.

The communistic doctrine, too, is based on a levelling of incomes. Many of our American communists don't know that in Russia the original revolutionary concept came to be modified after some practical experience with human nature. Some rewards are given today in Russia to the skilled workers. Some incentive systems have been adopted. Private capital and pri-

vate ownership of the means of production are, however, still tabooed.

But in America the first step in the original approach apparently has been introduced—not as communism, of course, but as so-called "liberalism." It is plainly a move in the direction of state socialism.

Penalizing the thrifty: In the message of President Truman last summer vetoing the tax bill, for instance, is to be found the equivalent of the original bring-everybody-to-the-same-level doctrine of the communists. He argues, in effect, that the successful must be penalized, that thrift is not to be rewarded, that tax reduction must not benefit those who by their very earnings have achieved an advanced position.

The Democratic Administration's argument is that proportionate tax reductions from high wartime rates cannot be given those upon whom the burden fell heaviest during the war. These men must continue indefinitely to bear wartime tax burdens. They have felt the biggest cut by the tax collector in take-home pay of any group in America since 1939, and on top of this has come inflation's cut in purchasing power.

There is no more certain way to kill risk capitalism than to punish the managerial class.

The managerial class usually furnishes investment money for the purchase of stock equities. Today this market has dried up. The middle class is pinched by inflation and the Administration denies it tax relief. Companies that were not fortunate enough to earn big profits in 1946 and 1947 cannot expand or replace outworn equipment to increase production because they do not have sufficient earnings to justify bond issues and they cannot find a market for the sale of stock. The investor class foresees no dividends high enough to be worth the risk as long as tax rates are virtually confiscatory.

The system of risk capitalism can be demolished by a refusal to relieve individuals of wartime tax rates, thus destroying incentives and depriving the middle class of a chance to save money for investment.

The enemies of the system of risk capitalism are the unwitting exponents and allies of the communist philosophy.

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