

Taxing 'Bigness': How Big? So Big!

By Edward Atlas

President Roosevelt, in his message to the extraordinary session of Congress, urged plans to cut the taxes on small business.

"We should give," said the President, "special consideration to lightening inequitable burdens on the enterprise of small business men of the nation. Small businesses, or even those of average size, have difficulties of financing and distribution which are not shared by large corporations.

"Therefore, by special tax consideration they should receive more equal opportunity to compete with their more powerful competitors..."

The dragon of big business is once more upon us and St. George is to the rescue with his sword of discrimination. But why? Aside from political considerations, is there any sound economic reason for the discrimination?

Business is a generic term for the process of applying labor to land for the purpose of producing wealth. Man seeks, and by competition is forced, to apply his labor efficiently, that is, so that he can produce the most wealth with the least expenditure of labor. The process of production, it must be understood, is not completed until the product has reached the hands of the consumer. The particular form in which the labor of any man or group of men will be expended is determined by the demand of the consumers, who in their turn and to a like value, either directly or more commonly by means of a series of exchanges, supply the first producer or group of producers with the commodities he or they desire.

Now, due to differences in magnitude of consumers' demand, production can sometimes be more efficiently conducted as a "small" business and in other instances as a "big" business. Thus, for example, a spur railroad line in rural area is a "small" business compared to the New York Central Railroad due to the fact that the area and popula-

tion the spur line serves has a small demand for transportation. Similarly an electric light and power company serving a small town is a small business compared to a company serving a large metropolitan area because its supplies a lesser demand.

The same principle, though less easily perceived, is equally true of business in more competitive fields. Thus, large chain stores can successfully compete against independent stores only because they can supply a large consumer demand more cheaply than the independent operator can supply a smaller consumer demand. If it is this ability

of "big" business to supply consumer demand more cheaply than can "small" business that the President refers to when he says that small businesses have difficulties in distribution which are not shared by large corporations, then to show special tax consideration to small business is to discourage efficiency and cheap production and to put a premium on inefficiency and waste.

Another objection to the President's proposal is the difficulty if not impossibility of drawing a line between small and big business. To the peddler with his pack the cross-roads country store seems big; to the cross-roads store the village emporium appears big; and so gradually up to the metropolitan department stores, and even between them there is variation in size. By what shibboleth can it be told where to draw the line between small and big business?

The truth of the matter is that the President is attempting to distinguish on the basis of size, that which, regardless of size, is part and parcel of one process—production. In a free competitive system the size of any business will be automatically determined by its efficiency. We can recognize that many of present day businesses are big not because they are more efficient, but because they are the possessors of some government granted special privilege or monopoly. The remedy then is not to set off one special privilege against another, for two wrongs do not make a right, but to withdraw all special privileges.

Cut taxes on small business? Change the "small" to "all," Mr. President, and you've got something there.

See: "Progress and Poverty," p. 77, p. 204.