Red Mercer

EXCESS PROFITS TAX

Your editorial of August 31 is most enlightening and covers the general subject of Excess Profits Tax and propounds all of the arguments against consideration of such tax at this time.

Speaking specifically of only one industry, which is the air transportation group, I thought you would be interested in some of the inequities and discriminations which would come from the present tax proposal and more specifically, if the present legislation were enacted which carried with it as proposed, the 1940 Tax Formula

The 1940 tax law, as applied to the airline industry, permitted all mail pay to be considered separately and, therefore, deductible. Obviously, the air carrier having the high percentage of subsidy mail pay to his total gross revenue would be the beneficiary of this formula. It so happens that only two certificated air carriers in the United States would be substantially ruined by such formula for they are the two carriers who by efficiency and progressive management have developed a transportation business to the point where they are not reliant upon mail pay subsidies but to the contrary are carrying the United States mail on a compensatory basis. These two carriers are Eastern and American, both of which have been complimented many times by the regulatory C.A.B. tax.

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Locally, let us compare American's position with that of Braniff. Braniff Airways operates its domestic system and international system through one corporation. Being highly subsidized in the domestic field on a relative

basis and combined with this an unusually high mail subsidy for the operation of their Central and South American routes, it is clear that some 32% of their total gross revenue is mail pay. American Airlines, on the other hand, operates only domestically within their own corporation and, although they are the largest domestic carrier in the United States, they rely upon only 4% of their total gross revenue in mail payments. The inequity is apparent with these two examples. As a third example, let us take T.W.A., which is also a combined domestic and foreign carrier, even though it is in the "Big Four" of the airlines business. They, too, would be the beneficiary of the proposed legislation even though they are receiving the highest mail subsidy as a transcontinental domestic carrier, and an especially high mail subsidy in their overseas operations.

Obviously, these examples point up the discrimination between carriers and forcefully show the penalties placed upon efficient management, farsighted planning and careful control of expenses. The company having had the best management and produced the best results would be completely destroyed under the proposed excess profit legislation and has no opportunity to even protect its investment without any consideration to the stockholder's welfare.

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We concur wholeheartedly in the formula outlined in your editorial and believe that these examples will prove that hasty tax legislation at this time, without careful scrutiny and consideration to all of the ill effects that would come to efficient business organizations, would only end up in financial disaster, abandoning all incentives for free enterprise, efficient management, or it must influence such corporations to enter a field of extravagance which in itself would be inflationary.