

# TAX-EXEMPT SECURITIES AND THE SURTAX

## CHAPTER I

### HOW THE ISSUE AROSE

High surtaxes and tax-exempt securities have found their way into our fiscal system from entirely different sources, and each was introduced without any thought of the possible complications that might arise from the presence of the other. The high surtax is the result of three circumstances, first, the growing conviction that, on account of our traditional reliance on indirect taxation to support the Federal government, we were failing to distribute the cost in accordance with ability to pay; second, the increasing popularity during the last 20 years of measures designed to equalize the distribution of wealth, or neutralize the effects of inequality; and, third, the extraordinary increase in Federal expenditure during and since the World War.

Progressive taxes, that is, taxes in which the rate increases with additional increments of income, were introduced into the fiscal systems of most European countries during the latter half of the nineteenth century. Originally regarded as a radical attack on