CHAPTER V

TAX EXEMPTION IN RELATION TO PRIVATE FINANCING

The next argument to which we must give attention is the claim that the exemption of certain securities from taxation causes a scarcity of capital for those enterprises which do not have the benefit of the exemption. During the period of tight money from 1919 to 1921 this argument was especially popular. Its force has been greatly reduced by the persistent ease which has characterized the money market ever since the summer of 1921; yet as recently as September, 1923, Representative Ogden L. Mills stated the point as follows: [1]

> Is there any need to point out that we are driving liquid capital needed for production into unproductive channels? Let me give you one illustration that came to my attention. A man I know had half a million dollars of bonds of an industrial corporation paying 5 per cent and selling at 85. By selling the bonds, taking a loss of 15 points, and investing in New York City 4½ bonds due in 1917 at 106 that man would make in the course of the life of the bonds $226,000. If instead of buying New York City bonds due in 1971 he bought farm loan bonds callable in 1932, that were at the time selling

[1] *Proceedings* of the National Tax Association, 1923, pp. 337-8.