defined as "that part of a payment or accretion of purchasing power which is not necessary either to maintain the service of a factor of production, or to its necessary or desirable increase." In other words, true profits above an allowance for interest and risk are not needed to maintain factor services and, consequently, may be absorbed through taxes.

In reality, this concept of "economic surplus" is ambiguous and utterly useless for the understanding of economic profits. What is an executive's "surplus" salary which can be taken from him without reducing his initiative and efficiency? What is a corporation's "surplus" profit that can be taxed away without hampering its operation and "necessary or desirable" growth? What is "necessary or desirable" growth? Every conceivable answer obviously must be arbitrary.

The "surplus" theory disregards the very function of profits as the indispensable regulator of business activity. High profits which result from increased consumer demand or technological improvements immediately provide and attract additional capital. The ensuing expansion of output then reduces the profits and ultimately eliminates them entirely. An absorption of profits through taxes, however, renders the expansion unprofitable and thus perpetuates the maladjustment that creates the profits.

In other words, the surplus taxation deprives the market economy of its ability to adjust to changed conditions. Progress through technological improvements is either halted entirely or slowed down to a "desirable" rate of growth. Thus, product prices are kept higher and wages lower than they otherwise would be. So we see that confiscatory inheritance taxes and the taxes against "surpluses" are quite as readily "shifted" as are regular corporate income taxes.

### Present Tax Rates Encourage Waste

The present taxes not only consume business capital, and consequently retard economic progress, but also lead to wasteful business practices. High taxes discourage thrift and economy because most of the fruits of such economy would accrue to the various governments in the form of taxes. Why should a corporation or a businessman in confiscatory tax brackets scrutinize business costs and endeavor to hold them down if there is little chance to gain thereby?

Instead of controlling costs carefully, a businessman subject to confiscatory taxation may be tempted to increase them. He may increase his outlays for advertisement, thus reducing his tax liabilities while at the same time promoting his future business. He may close his eyes to labor inefficiency in order that he may become more popular with his workers. He may grant costly "fringe" benefits just to reduce his tax liabilities. Or he may increase his costs of business travel and entertainment.

His decision depends on which yields the greater satisfaction: his added spending, or his net profit after taxes. For instance, being in the 80 per cent income bracket he must decide whether one dollar additional spending on advertisement, labor benefits, traveling, or entertainment is more desirable than 20¢ net profit. In many cases, his decision will be in favor of additional spending.

At first glance, the greater benefits to labor may appear desirable and beneficial. But it must be recognized that they are not earned through higher productivity. On the contrary, in this case they are accompanied by lower labor efficiency. The greater benefits are obtained gratuitously through distribution of the businessman's profits. They create a privileged class of workers earning higher wages for less work.

The workers' only claim to these benefits rests on the coincidence that the business which employs them earns high profits. Other workers, in marginal enterprises without profits available for benefits, will earn less for similar labor services. But such a difference causes dissatisfaction on the part of the "underpaid" workers and leads to labor unrest and strife. This ominous result, together with the fact that the higher costs consume business capital, should give concern to all workers, including those who share in the profits.

### Economic and Social Rigidity

Production for future consumption involves various degrees of risk. Demand, supply, and prices may change. Even the whole outcome of a business venture may be uncertain, as in the case of scientific research or the search for oil. A businessman, therefore, compares his chances of success and eventual profit with the possibilities of failure and loss. Enticed by the possibility of great profits, he may be willing to risk some capital. On the other hand, if profits are to be denied him regardless of his success, he will be reluctant to risk his capital. This is why confiscatory business taxes discourage risk-taking. The costs of failure are exclusively borne by the businessman, and the fruits of eventual success are mainly