

CHAPTER XI

INHERITANCE AND INCOME TAXES*

THE proposed Presidential and Congressional plan of limiting fortunes and raising revenue by inheritance and income taxes may, it is suggested, be greatly improved by two simple modifications, viz.: (1) Let fortunes be taxed chiefly in the process of their accumulation, rather than at probate; and (2) let the income tax be limited to those incomes which are not only unearned, but which are now untaxed. I ask consideration for a few of the arguments upon these points.

It is substantially correct to say that wealth, as fast as produced, is divided into two parts: one part goes to wages of hand and brain, the other part goes to privilege. The greater the part that goes to wages, the smaller the part that goes to privilege, and vice versa. The prime agency in determining how large shall be the part that goes to privilege is the private appropriation of ground rent, economic rent, in its various forms. The essence of privilege is the law-given power of one man to profit at another man's expense. A man gets rich, not out of his earnings, but out of his savings. If obliged to spend all his earnings it is not possible for him to accumulate riches. The poor man rebels, not because his rich neighbour

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can accumulate five hundred dollars to his one, but because, through the operation of this special privilege, it is at his, the poor man's, expense that the rich man's accumulation is made. Ex-Governor Long says that there will be discontent just so long as certain comforts and possessions are within the reach of one class and beyond the reach of another class. This discontent Archbishop O'Connell calls the "tumult of the envious." But unprivileged men, whether unprivileged rich or unprivileged poor, have not far to look to find that discontent and envy start only where skill and enterprise leave off and special privilege begins. You are not envious of Edison or Marconi or Bessemer or railroad magnates, or captains of industry; you gladly accord them princely rewards as public benefactors. It is only when the people are called upon to provide an Edison fortune for every city and town in the country through privileged exaction that your discontent is aroused. It is only when they are required to superimpose upon an unprivileged steel fortune of three or four millions a privileged fortune of a thousand millions, based upon economic rent, that the shoe begins to pinch. It is only when the ore baron, the coal baron, the oil baron, the railroad baron, and the land baron are privileged to take ten dollars or a hundred dollars from their wages and add it to the monopoly price of coal and iron and oil that men are swayed by the "tumult of the envious."

Legislation has been busy constituting criminal offences. The air is charged with criminal prosecution and conviction where fortunes have been swelled through violation of law. But is it not true that neither legislatures nor courts have seriously addressed

themselves to stopping the continuous drain of wealth from the pockets of the producers into the coffers of the privileged? President Roosevelt in his last message enjoins upon Congress: "Let us not do what the next generation cannot undo. We have a right to the proper use of both the forests and the fuel during our lifetime, but we should not dispose of the birth-right of our children." Mr. Bryan, in his prediction of "A Great Moral Awakening," quotes the declaration of the United States Supreme Court that "an unjust tax is larceny in form of law." Unjust fortunes are, we claim, the fruit of unjust taxes, taxes that subtract from wages and make almost impossible the savings of labour while augmenting the fortunes of privilege; or, to be more exact, unjust fortunes are due to the absence of just taxes.

But it is asked, what are you going to do about it? We say that there is just one punishment to fit the crime, to wit, the taxation of privilege. Tax the oil and the coal, the franchise, and all other forms of economic rent, at its fixed initial source, the land, which, without inquisitorial or dooming process, bears always the imprint of its own market valuation. Tax, not private ownership or corporate franchise, but the privilege attached thereto. The colossal error of the century is the private appropriation, instead of the taxation, of rent. This it is that makes the shopping district of every city a continuous battlefield for the business interests of her people, and every battle a Waterloo.

For the prevention of unjust fortunes a natural process is already provided. For an equitable reduction of accumulated fortunes artificial machinery

remains to be invented. President Roosevelt in his message confesses that the question of an income tax is "very intricate, delicate, and troublesome." It would seem that the proposed dissipation of fortunes by means of an inheritance tax must prove awkward and of questionable justice, besides discouraging enterprise at its point of greatest efficiency, and in the midst of a beneficent career. It would discourage the accumulation of unprivileged fortunes, which are a blessing in proportion to their size.

With all his boasted freedom, the American citizen cannot invent or manufacture his own principles. He can select them, but he cannot remould or ignore them. He may make permutations and combinations to his heart's content, but two and two will always make four, and the square of the hypotenuse will always be equal to the sum of the squares of the other two sides of the triangle.

So in economics, certain fundamentals cannot be disregarded, as for example that the expenditure, enterprise, and activity of society express themselves in economic rent, the value of land. Whoever pays this rent pays, as President Roosevelt says, "for the protection the State gives him." Whatever of this rent the city gets in taxes it has bought and paid for; whoever else gets any considerable part of it gets something for nothing. Taxes are like the wheat poured into the public hopper; rent, in whatever form, may be described as the flour that comes from the public mill. The privileged man, who is allowed to carry off the grist, eats his bread, as it were, at the taxpayer's expense. A tax upon rent subtracts nothing from wages, and any tax upon rent, however large,

cannot remain a burden upon the owner beyond a generation at most. Land value, otherwise perishable, is made imperishable by public conservation; hence the plea that the whole tax, whether inheritance or income, be gradually transferred to this one basis. Whether it shall be imposed lightly, as a life rate, or heavily, as a death rate, is merely a question of method. In either case it will soon cease to be a burden upon any one.

Unjust fortunes are made out of ground rent accumulated and compounded. They can be perpetuated only by the private appropriation of ground rent; cut off from ground rent the public nutriment and they will quickly crumble and perish from the face of the earth.

Mr. Carnegie says: "Who made the 'wealth' of the Manhattan Island farm? The community, the population, the people. Then you tell me that wealth is sacred. I say that the community was the leading partner that made that wealth. It was hundreds of people settling up there, thousands of people settling around there, and here are these millionaires. They have toiled not, neither have they spun." Is it not sensible to make such cumulative fortunes as these the basis of live taxation?

President Roosevelt cannot eliminate "intricacy, delicacy, and troublesomeness" from his income tax until he learns to distinguish sharply between capital and privilege, between incomes that are earned and those that are unearned.