

## CHAPTER XXIV.

### WHO PAYS THE TAXES?

Prof. C. A. Kent, in the role of a defender of the rich man in the matter of paying taxes, is an appropriate figure. Then, too, the time and place he recently chose was in perfect harmony. He was addressing the Men's Club in a church supported almost entirely by those who, though not millionaires, can truthfully be called rich, even if they do not place themselves in that class. And that they were in sympathy with the stand taken by the great pleader for the rich, is shown by the fact that no one, when he concluded, attempted an answer. He had proved his point, to their satisfaction at least, and it was useless to continue the discussion.

"The rich men pay the mass of the taxes," Mr. Kent is quoted as saying, and he insisted that under present conditions they were paying more than their share. Besides, they support the churches and colleges, he said. Society is divided into two classes, employers and laborers. The employers are the rich, the laborers are the poor. Yet he acknowledged that there was a feeling in the community that rich men were an evil to be got rid of. As a matter of fact, said Mr. Kent, people were poor because they did not save, but wasted.

The equitable placement of taxes is one of the most important problems in any community. If the rich, as held by Mr. Kent, are paying more than their share, it is something that should be remedied, and the sooner it is done the better for all concerned. Because one is rich is no reason why he should be made to bear burdens that belong to others.

In the United States it takes something over a thousand million dollars a year to meet national, state and

municipal expenses. The greater part of this vast sum is collected by indirect methods. The late Thos. G. Shearman divided tax collecting into "straight" and "crooked." Indirect—crooked—taxes are levied and collected in such a manner that the persons paying them are ignorant of the fact. Indirect taxes are the favorite methods of all who are unwilling to let their victims know what is going on. The customs tax collector is never seen by the person who pays the tax. The collector's deals are with the first owner of the thing taxed, and not with the final payer. When a bale of goods—woolens, for example—enters one of the ports of the United States a customs inspector demands the original bill, and in proportion to the cost of the goods he adds the percentage demanded by the government. This becomes a part of the price the same as the freightage and insurance across the ocean, and by the wholesaler is added to the sum total to be charged for handling. When it reaches the store of the retailer, he adds to this price the cost of his handling, which in turn is paid by the buyer—the consumer.

In all indirect taxes, then, the burden falls on the consumer, and it falls on him simply because he has no one to shift it to. The importer, the wholesaler, the retailer—each in turn has added the tax to the original cost charged by the foreign manufacturer. In no instance do any one of them pay the tax. They have passed the burden along, with an added percentage, until finally the consumer meets the expense out of the result of his own labor.

Do the rich pay any more than their share of customs duties? They are larger consumers than the poor, to be sure; their living expenses foot into dollars where those of others remain in the dimes. Yet it is impossible to see how they are paying more than their share. Indeed, the other proposition is easier of proof. And for this reason: The goods consumed by the poor pay a higher tax than those consumed by the rich. Still sticking to woolens, the duties imposed on high priced

goods are much less than those imposed on the poorer grades. The low taxed but high priced goods are worn by the rich; the low priced but high taxed goods are worn by the poor. The poorer the goods, the higher the tax.

In no case are internal revenue taxes paid by those who go to the government and buy the stamps that eventually appear upon their goods. The cigarmaker—the employer—adds the price of the stamps to the cost of the cigars; the brewer adds it to the price of his beer; the maker of proprietary medicines and articles considers the stamps a part of his cost of manufacture. In every instance the smoker of cigars, the drinker of beer, the purchaser of patent medicines for his own consumption pays the tax.

But the internal revenue tax is free from one objection that can with truthfulness be urged against import duties. Whatever the tax, it does not add to the cost of other manufactures not taxed. This the import duties do. In fact this is one of the objects of duties on many classes of goods manufactured in this country. The duty enables the American manufacturer to charge a higher price than he could were competition not restricted. So in this case at least, an import duty if high enough to exclude foreign manufacturers, adds nothing to government revenues, while increasing the cost of living.

It cannot be truthfully claimed that the rich pay more than their share of these taxes, either. In any case they can be evaded by not consuming the thing taxed. The poor man can dispense with his glass of beer, and the rich man with his expensive liquor, if they desire. Still this kind of evasion would really be of no help to the poor. For as it would not reduce the sum total to be raised by taxation, the government would be under the necessity of shifting it to something else wage-workers consumed.

Taxes on goods on the shelves of merchants are not paid by the merchants. The same can be said with a

tax on manufacturers' plants, raw materials and goods in process of manufacture. In the first place the merchant adds the tax to the price of the goods; in the second place the manufacturer adds the tax to the cost of manufacture. In both instances the charge is carried along until eventually paid by the consumer.

Taxes on houses are paid by those who occupy the premises. If owned and occupied by the same individual, that person pays the tax. If owned by one person and rented to another, the one who pays the rent pays the tax. When there was a tax in France on windows, houses were built with as few windows as possible. The windowless house rented for less than the one with plenty of light. If Detroit should put a tax on chimneys, immediately architects would figure on building houses with as few chimneys as possible. And the house with three or four chimneys would rent for more than those with but one. In both cases the renter would pay this tax.

There is one tax that cannot be shifted. That is the tax on land values. When any community has given value to a piece of land, and the assessor has done his duty in assessing it at its true cash value, the owner cannot shift the burden. He must pay it himself. Were the tax on area, it would be different. If, for example, Detroit taxed land at a certain price per square foot, whether situated on Woodward avenue in the center of the city, or on Michigan avenue at the limits, then the tax would be borne by the person occupying the premises. He could not escape it by moving from any one locality, for all localities would alike bear the burden. But so long as there is any difference in land value, and it is so taxed, the would-be occupier has the choice of high priced or low priced land, and this choice of location prevents the owner of the best located land charging any price he pleases. Whether the taxes are high or low they add nothing to the value of the location, and do not enter as a factor in the rent charged.

Besides the tax on land values, other direct methods of taxation are a tax on incomes and on successions. The first, however, leads to perjury and inequitable taxation; the second to all manner of scheming to dispose of or hide property in order that it may escape both the probate judge's and the assessor's eyes. In no case can either be collected with absolute justice to all concerned.

In what way do the rich pay more than their share of these various taxes? As consumers, it has been shown that in some instances they pay less than their share, where the tax on the goods consumed by the poor are at a higher percentage than on those consumed by the rich. At any rate they pay only in proportion to their consumption, and the stomach and back of the rich are not more commodious nor broader than those of the poor. As manufacturers or importers or merchants they pay no taxes; the taxes on their goods are shifted to the backs—literally—of their customers. As landlords, every penny of taxes on buildings and improvements are shifted to their tenants. They pay taxes only on what they themselves occupy.

It is an easy matter to prove the rich do not pay their share of the taxes. A few years ago I had occasion to investigate the assessors' books in Detroit, and I found that the holdings of the small property holders were assessed anywhere from 30 to 60 per cent nearer their true cash value than the holdings of the rich. At that time the assessors did not bother about charging the holders of valuable vacant land by the foot front, but were content to lump it at so much per acre. Thus the small property owners were made to bear double burdens. Were these rich paying their share?

In the latter part of January, 1902, the final report of the executor of the estate of the late John Ward, as published, gave the value of the estate as \$223,765 in personal and \$550,625 in real property. Mr. Ward was a well known business man, and perhaps the largest individual lender of money on real estate securities

in Detroit. While the aggregate of his estate was not as great as it had been estimated, it was still enough to show that Mr. Ward was a very wealthy man.

"In the light of the disclosures contained in the executor's final report, it is surprising, or perhaps not surprising, to learn that Mr. Ward in his life did not pay taxes on the basis of any such personal assessment as \$223,000," says the Evening News. And it continues: "In 1898 and 1899 his personal property was assessed at \$16,500, about one-fourteenth of its value at the time of his death. In 1900 the personal property of the Ward estate was assessed at \$67,750, or less than one-third of its real value."

There has not been a single instance in Detroit in which a rich man's estate, when disclosed in the probate court, has not been shown to be worth much more than for what it was assessed. Often the figures have swelled into the hundreds of thousands of dollars. When divided among the heirs it has almost as suddenly disappeared—from the assessor's rolls. How was it that for so many years these rich estates were not assessed?

As I write I have before me a clipping from a recent number of the Detroit Tribune showing how the Illinois state board of equalization has just added to the tax rolls of Chicago \$77,745,180 taxed corporations, thanks to the Teachers' Association of that city, who were anxious that the taxes be increased in order that they might get a raise of salary. One corporation alone, the People's Gas Company, which was assessed last year for \$2,500,000, was raised to \$63,000,000. Have the rich in this instance been paying their share of the taxes?

How the railroads of Michigan have for years fought every attempt to compel them to pay taxes in proportion to their holdings is an old story. Governor Pingree went to his grave with the battle only half won. And while the last legislature did tardy justice to the holders of other assessable property by increasing the

amount to be paid by the railroads hereafter, it is more than suspected that between the tax commission and the state auditors there will be found a way—with such valuable help as the lawyers in Prof. Kent's class are always ready to give—whereby these burdens will be again shifted to the shoulders of others.

And now the Honorable Tom L. Johnson, mayor of Cleveland, in his fight for equal taxation, has shown that the railroads of Ohio are assessed for only 21.9 per cent of their market value; and if they were assessed for only 60 per cent of their value, they would rate for \$204,000,000 more than at present, and would pay to the counties \$5,933,765 instead of \$2,149,980, as in 1900. And while the assessment of the great corporations averaged less than 22 per cent of their market value, the assessment of farms is shown to average 60 per cent or over of their true cash value. Are the rich in these instances paying their share of the taxes?

One thousand persons and corporations own over half of the real estate of the city of Detroit. As a rule those who own land and buildings also own personal property. But though these 1,000 persons and corporations own half of the city, they by no means pay half the taxes. Taxes can only be paid by the production of wealth in excess of the cost of living. This is done by the 60,000 or more wage-workers who in addition to their own living create enough surplus value to pay not only the taxes, but the living expenses of those who do not work. The real taxpayers in every community are the men, women and children who, by honest toil, create wealth. The man who steps up to the tax receiver's office and gets his receipt plays the least important part in the economy of taxation.