

## CHAPTER II

### PRINCIPLES OF TAXATION

#### Are There Principles Governing Taxation?

Judging from the history of the subject, we may doubt. We find taxes levied upon the head, upon business, upon occupations, upon income, upon inheritance, upon houses and lands, upon trees, upon the products of industry in every form, upon luxuries even to the length of one's boots, upon doors and windows, upon tonnage, upon imports and exports, upon manufacture, upon the use of vehicles, upon the food necessary to sustain life.

If we can deduce from all these, and doubtless many more, any consistent practice, if not theory, it is that the Donnybrook Fair principle of "where you see a head, hit it" has met with the general approval of government when taxing. Only in some degree of late years have the more advanced nations learned that certain forms of taxation are inexpedient, though scarcely ever have they perceived that they are inexpedient because wrong. Some of them have discovered that taxes on windows and doors, though common enough in some countries, are inimical to health.\* Fortunately for us, our national constitution forbids export taxes. Otherwise they would have gathered around them before now interests hard to dislodge. With less good fortune we permit import taxes to interfere with the natural rights of mankind, including ourselves. Head taxes, being more difficult to collect, have also largely disappeared, at least in name, though not in fact.

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\*A landlady in Fielding's "Tom Jones" says: "To be sure it is natural for us to wish our enemies dead, that the wars may be at an end and our taxes lower; for it is a dreadful thing for us to pay as we do. Why, now there is about forty shillings for window lights, and yet we have stopped up all we could; we have almost blinded the house, I am sure." This tax was only abolished in England in 1851.

Among our statesmen there remains a criterion, but not a principle of taxation. We derive it from a Minister of a French king, Louis XVI, who went down in blood. The Minister expressed his theory as being to collect from the goose (the taxpayer) the greatest amount of taxes with the least amount of squawking. Our legislators discuss, not the principles of taxation, but whether they can "put it over," acting usually in ignorance or in fear of consequences to themselves.

Let us give over the idea that taxation is something impossible to be understood by the common man and without definite foundation. Just so long as we entertain or act upon such theory, taxation will remain what it is today.

We find that business is made or destroyed by taxation; that through taxation industry is favored or prevented; that some forms of taxation are highly inquisitorial and offensive; that taxation everywhere takes from the individual without rendering an equivalent; that it absorbs from one class of taxpayers to expend for another; that in all quarters enormities are committed in its name, and that unemployment and distress are chronic. Even those who are largely the gainers through the favoritism shown in the exercise of the taxing function at one point find themselves as they think unjustly pinched at another.

Let us see if we can make our relations with the government as simple as they are with the corner grocery. There we go and make the simple exchange of money for goods. The storekeeper and ourselves are both satisfied with the transaction. An equivalent in money has been passed over for a like value in goods. In truth our transactions with the government should be just as simple, and ultimately will be.

Mankind is steadily working from the complex to the simple in its principles of belief and action—from many gods to one God.

Behind all the welter of confused action and motive, through the haphazard workings of taxation, there can be seen the light of guiding principles which should control our opinions as well as our actions, lead where these principles may.

### **Common Honesty**

We believe that there are general principles of taxation not to be departed from save to the damage of the taxpayer and of the state at large. Relations of honor and honesty prevailing between man and man are based upon principles generally accepted. The very existence of society rests upon the acceptance of this condition of affairs. Government simply represents many men. Therefore its transactions with an individual properly remain controlled by the same limitations of honesty and fair dealing as are imposed upon human conduct. After all, government is simply the whole body of the citizens dealing with one man, the taxpayer, through their common representative. Must we not expect the mass to be as honest dealing with the single individual as are its components dealing with one another? Let us assume, therefore, common honesty as a necessary foundation for taxation.

### **Return for Equivalent Benefit**

If under ordinary circumstances we part with our money for any purpose we expect to receive an equivalent, which may be in either goods or services. If the return is inadequate, we consider ourselves cheated. If by mistake or miscalculation we receive too much, it is our duty to make restitution. So much does common honesty demand. Since government

is essentially a co-operative arrangement should it not also conform to this principle in levying its taxes?

It will be contended that government does give this appropriate return. We deny such contention and insist that when it takes from one it gives to another, in this respect violating established rules of ethics and honesty. The detailed argument is reserved. All we demand for the moment is acceptance of the principle that if government takes money from a man it must render or have before rendered him an equivalent, and that it shall not take without giving such return. In saying this, we ask no more than we expect from our neighbor. We reject all idea that power gives or makes right in the group more than in the common man. Violation of this rule as between man and man spells disorder. Have we a right to expect another result so long as the human element remains controlling the equation?

When we call in a carpenter or a jeweler he gives a new value to the material upon which he works. The law recognizes him as possessing a lien upon this newly created wealth to secure his payment, but gives no lien on anything else. When it is inconvenient or impossible to enforce such a lien it is substituted by a personal action if one fails to pay.

Likewise we call upon the government to perform many services for the entire community and for each man in it. These services are finally reflected in and help maintain the value of the land. But to no object on the land do they give any increased value. The primary lien of the government must, therefore, rest upon the land. There the equivalent benefit is to be found. From the owners of the land the government should require payment proportionate to the benefits conferred.

We have built up an elaborate structure to do for us all those things which are beyond the ability of anyone to do for himself. In doing them, the government makes life more livable and consequently the land on which we live more valuable to the human race. Thus, unless impeded, there should be a constant exchange; the value of the benefits showered upon the land again gathered up by the government and returned, just as exchange of moisture goes on between land and sky.

Let us then accept as a rule of action that taxes should represent a return for equivalent benefits.

#### **Co-operation Must Not Be Hampered**

We have treated government as a vast apparatus for better putting into operation activities of the people for mutual benefit. When this great purpose is departed from, when the highest welfare of the common man is no longer the aim and purpose of the governmental machine, its reason for being is forgotten. In so far as it wanders from this objective, it becomes our duty to try to right it.

If we are right, then the machinery of government should be so oiled and so directed as to secure to each individual his free opportunity to labor in any useful way. No hampering restrictions should be placed upon him. His fullest development must not be impeded. That which he wants to do and which carries with it only good to all must freely be permitted. Any other course means that the wheels even of government itself are sanded and not oiled, while the citizen suffers. But, because abnormal conditions have always existed is no reason for not correcting them any more than age-long conditions of slavery prevented its abolition among so-called civilized nations.

After all how does the government interfere with the individual in matters of taxation?

To answer this question is the purpose of this book. When the government levies taxes upon houses, on business, on personal property, on production in any shape, it shows itself unfriendly to co-operation, to the unhampered activities of man working for the common good of the community. In so doing, government opposes the free progress of mankind. Likewise when its taxation interferes with the interchange of the goods of one man for those of another, it tends to defeat its great purpose. For as far as it prevents the freest beneficial actions of the units of the community, co-operation among all its parts is lessened, if not absolutely forbidden.

#### **Should Taxation Interfere With Industry?**

Let us seek to do away with the apparent contradiction between the purposes of our agent, the government, and its activities as shown in taxation.

We will lay down as a postulate in our argument that government should not interfere with the free and beneficial actions of its citizens. If this be accepted, will not the burden of proof, as the lawyers say, be shifted to those who favor the present want of system in taxation? Let them tell us if government is ever justified, save through the tyrant's plea of necessity, in doing something to defeat the purpose of its original formation.

We all say we believe in freedom. For the purpose of this book we omit consideration of freedom of speech, of the press, of religious association, of movement from place to place. We limit ourselves to discussing freedom to do those things, to produce those articles, which we justly believe conduce to our comfort and our happiness without interfer-

ing with the equal freedom of another. We organize courts and juries to protect this right. To make it secure, mankind has struggled for ages. As between individuals the right is sacred.

When we return to the relation between the individual and the mass of individuals we call government, we find the right qualified and denied. We may not erect a shelter to protect ourselves against the summer's heat or the winter's storms without meeting the taxgatherer representing government. If we furnish our house either directly by our own labor or indirectly by employing others, the product is taxed. We are punished regularly, systematically, for advancing our own progress and that of the community. Our industry is circumscribed and restricted everywhere by taxation. Is this allowing such freedom of action as is consonant with the highest development of society and of the individual? If man in so many of the relations of life has progressed, cannot such progress be directly traced to the breaking down of restrictions upon industry? A whole congeries of limitations fell never to rise again when the feudal system passed away.

Our lesson, nevertheless, has been incompletely learned. We do not see that we are no better than feudal lords when we restrict building by a tax, diminish the comfort of our houses and restrain production at twenty different points by taxing the material entering into the house and into the furniture we need, make the production of food more difficult by our taxes upon everything used in its production and transportation. It does not strike us that our course limits the use of labor or, interfering with industry, throws people out of employment or forbids their rightful activities.

To all this the answer is made that government must be supported and that, however industry may suffer, such suffering must be borne. However good this may be as an excuse—and later we shall deny its validity—it is no defense. The interference remains. The “stealing still continues stealing.” It is much as we might excuse a starving man for taking a loaf of bread. Forgiveness for such an offense and defense of it as rightful are two different propositions.

No better defense than we have indicated having been made for interference with industry through taxation, we may lay down as a rule of positive action that industry should not be interfered with by taxation.

But can taxation help or hinder industry? Our statesmen think so, and experience justifies them. Saloons were formerly taxed to limit their number, and with success. Today the first four years' growth of fruit trees and three of vines go untaxed in California solely to encourage their planting. In many states the manufacturer's plant is free from taxation to encourage its functioning. In the way of trade, we tax the product of the foreigner in our custom houses and do not correspondingly tax the home producer, all to the alleged end of building up American industry. This course does develop certain home industries, even though it be argued and probably proved that the community as a whole is injured.

In the instance of the local taxes which particularly concern our argument—those upon houses, property and production of food, for instance—it cannot be maintained that in any respect they encourage industry. It must be admitted that their effect is to injure and depress that production which



is the end and object of industry. This we hold to be an infringement upon the natural right of every man to best conserve his own welfare, and quite as condemnable if the interference is by the action of the whole community as confessedly it would be if indulged in by one member.

If freedom is a desirable thing, it should be enjoyed to its fullest, consonant with the like right on the part of others. Liberty merely to pay taxes means nothing. Liberty must mean freedom of action in any beneficial way, including the right to the fullest development of one's self, mentally, morally and physically. This right may not be hampered by one's fellows. In respect of liberty of production we must be individualists, realizing that in working for our own highest good we are doing our best for the community of which we are a part. We need not forget that the advancement of the community has been brought about, not so much by its acts as a whole as by the separate movements of the individual. Even community movements always have had back of them the individual. We cannot at any point oppress the unit without retarding the mass.

Interferences with industry are shackles upon the liberty of the individual. His time and his talents are alike restricted. No longer can he carry out his legitimate desires except under penalty. His pursuit even of health, convenience and beauty has been restricted, since today all efforts in these directions mean added taxes. The whole community is made sick through the actions of its collective representative, the government. This fails to act as a machine for satisfying the co-operative instincts of those under its control. The actions of each of its members are hampered by its method of taxation.

All this is none the less true because not fully realized. Like St. Simon Stylites, living at the top of his pillar, we have become so accustomed to a cramped position that free action seems unnatural.

In our Declaration of Independence we affirmed as inalienable the rights of the individual to "life, liberty and the pursuit of happiness." If we have not the liberty to strive and accomplish of which we are now speaking, our right to life and the pursuit of happiness is at the same time interfered with.

Probably we cannot run the country on the Ten Commandments and the Declaration of Independence, and yet ignoring them assuredly will not bring success.

Detailed discussion of this sort of interference we shall consider later. At present we are only concerned to deny its rightfulness as an abstract proposition.

#### **Taxation Should Not Drive Away Or Operate to Exclude Property and Persons**

This proposition is a corollary of the preceding one. If taxation prevents property from coming into existence, next in its workings is taxation which drives away property.

Such taxation now is at work in some degree everywhere. We have in mind an eminent citizen of the United States, formerly of Ohio, who once remarked that he, with his several millions, left the state of Ohio, where his personal property was severely taxed, and went to live in Washington, D.C., where personal taxes were in practice then unknown. Ohio lost a family valuable in every sense of the word, as it happened, driven away through what its head felt to be unjust taxation. This is a single illustration, though capable of indefinite multiplication.

The state has to its loss thus exiled much of its wealth, intelligence and culture.

Many others remain who conceal their wealth. It is useless to declaim against such a condition. It exists and has a foundation in justice, as we shall try to demonstrate. To call them tax dodgers gets nowhere. They go, or resort to expedients to conceal. They know, though the community as a whole has not yet learned, that in the larger measure such taxation is double taxation upon visible wealth wherever levied, and upon the mere evidence of wealth in the shape of stocks and bonds. The community is the loser through their departure.

We may lay it down, therefore, as a principle that any method which of necessity exiles persons and property is mischievous. States are slowly learning this and modifying the rigor of intangible property tax laws.

Incidentally, severe laws of taxation prevent the incoming of possible useful industries and persons. These laws stand as a threat against the newcomer. Repeatedly the question as to whether a given new undertaking shall be established in one or the other of two places is determined by consideration of the tax situation. The power to tax is recognized as a possible power to prevent the growth of industry or to destroy it.

#### **Taxes Should Remain Where Placed**

If government is honest with itself and with the taxpayer, it will so arrange matters that taxation will not be a creature of pretense. It will not levy a tax on one person, knowing that of necessity he must pass it on to those dealing with him, while the ostensible payer remains untouched. This can be better

appreciated by considering a few instances of such transfer of responsibility.

Taxes have been, and in many states still are, levied on mortgages, the asserted idea being that men of wealth should pay a special contribution to the state in this way. In point of fact, the workings of such taxes have been materially different. Their advocates took no account of what is known as the "incidence" of taxation, that is, the point upon which taxes really fall. In this instance the money lender has a choice of two things and the borrower no beneficial choice whatever. The lender can either require that the borrower pay the tax, or refuse to lend unless the borrower pay an increased rate of interest sufficient to give the usual return on money, plus enough to cover the tax, thus indirectly reaching the same end. Either way, the incidence falls upon the borrower, an end supposed to be avoided in the levying of the tax.

But the results of the infliction of the tax carry further. To avoid all complications, many money owners will not lend on mortgages, and the rate of interest on them advances. Much evil thus results.

In short, such a tax is a limitation upon the natural freedom of men and of business.

Another more common method of levying a shifting tax is by putting it upon either the sale of particular articles or the aggregate of a merchant's sales. Such taxes, ostensibly levied upon the merchant, become part of his cost of doing business, and as such usually have to be met by the purchaser of the goods. At one and the same time the merchant is interfered with in his business and the purchaser finds his cost of living advanced. The effects of such taxes will be more fully discussed hereafter. These examples are sufficient for present purposes.



We have accepted the idea that honesty is, or should be, a desideratum—more than a desideratum, an absolute rule of action—in taxation as well as in other things. No tax should be resorted to which has a hidden meaning. People are not to be robbed in ignorance of the fact that their pockets are being picked. And yet taxes of this description are a favorite with many legislators. Not only, as has been said, is the egg sucked, but the shells are concealed. The people feel that they are being plundered, but do not see how. The goose is plucked without much squawking in the process and the naked taxpayer, the goose, thereafter feels the chilling effects of the wind without associating such effects with the loss of his protection.

Let us set it down as an invariable rule that deceit in taxation, as involved in levying a tax to be passed on to another, is reprehensible and contrary to fundamental principle.

We might pursue the subject by showing that all taxes upon material entering into the construction of houses or upon the manufacture and sale of all articles of personal property are of this description, but for the present this examination will be deferred.