

CHAPTER VIII

EFFECTS OF PRESENT METHODS

Is the subject of taxation unimportant? To us it seems to go to the very foundations of our existence as a nation, and every day to become of greater moment.

In the earlier life of our country every little village and almost every large plantation furnished all the simple necessities of life. The forests directly supplied house material, the sheep afforded wool which the housewife made up into clothing, shoes were fashioned at home, and food was furnished by the farm. Gradually all this has been changed until far-off factories supply clothing and all other necessities, including everything entering into the construction of a house. Meanwhile, bridle paths have given way to better and better roads and to rail communication. The co-operative effort which began on the farm now embraces the whole nation, as well as foreign countries.

Keeping accurate time with this development, the functions of the government have correspondingly enlarged and multiplied. From originally minor operations, the government now enters into every relation of life. Nor have we nearly reached the end of the procession. New situations constantly arise, and perception of new wants brings new demands for public services by our common agent, government. Even now supervision over the higher strata of the air has been added to the care of the government.

Will the riddle of taxation be correctly solved? If not, we may fear for our country's life. Can the blood of the community be poisoned at its source and the body politic escape the consequences?

There are those who say that present methods of taxation are of small consequence; that a change

which would be just to the individual would be only a matter of a few dollars, and that an unjust system means little damage. Bearing in mind that taxation upon personal property is constantly rolling up and finally resting with crushing weight upon the shoulders of the final consumer, who can truly calculate the total burdens? No statistician, however he may strive, can accurately calculate all the immediate or remote consequences, direct or indirect, of a faulty system. They are best shown by a consideration of the plight to which these unjust methods have brought us.

But if we are to accept the very moderate estimate of loss with which statisticians have furnished us we would be compelled at once to not less than double it to obtain the effect probably resulting to the community. Be it remembered that when one man is wrongfully taxed, the proceeds arising therefrom are used to the benefit of another. The social balance is thus thrown desperately out of adjustment. The magic phrase sounded so often on the stump of "Equal rights for all, special privileges to none," becomes in the mouth of the orator a meaningless concourse of words. That the speaker did not understand or use his understanding of the words is manifest enough in the fact that he has not sought to give them practical meaning.

After all, the expression cited has a real foundation, and abuse of the taxing power denies its force. Lincoln told us long ago that no nation could exist half slave and half free. The condition in our country today has been brought about largely through the abuse of the taxing power.

We shall not spend much time in discussing the present national situation, important as it is. Other writers have done this effectively. We shall content

ourselves with references to a few well-known facts. May we point out that as recently as within the last ten years the advent of the first billion-dollar corporation was welcomed and received extensive comment? Today that same corporation is nearly or quite in the five billion dollar class, and there are others of about the same size, while a corporation of a billion dollars' capitalization has become almost commonplace. In a few more years we may find corporations whose total capitalization will figure up an amount equal to the present national debt, and upon such gigantic total the American public will pay tribute. If these corporations were not so largely based upon special privileges or monopolies, their mere size would not call for comment from us.

There is another side of the picture. Economists tell us with apparent truth that some twenty per cent of the American citizenry receive such small incomes that they are just escaping starvation. Another twenty per cent live on the border line, having barely enough for food and clothing, and quite unable to save anything for old age. With the gentler amenities of life they may not become familiar.

We have thus forty per cent of our population, almost one-half, in a position to be vitally and bitterly affected by methods of taxation. Of another twenty per cent, who are more fortunate, it may be said that their chances for the future of protection against the major calamities of life are none too good. They have little peace from corroding anxieties. The rich have become richer and the poor, relatively, if not absolutely, poorer.

The whole of the saying "the rich are growing richer and the poor poorer" may not be true. There seems to be a level of existence below which mankind cannot go. With all our self-gratulations, it appears

that almost one-half of our people have reached it. As to wealth, however, the sky is the limit.

The report of the Commissioner of Internal Revenue for 1928 shows that 15,780 persons receiving net incomes of over \$100,000 had an aggregate income of \$4,903,359,562, or about one-eighteenth of the income of the twenty-four million families in the United States. Three-quarters was from property—unearned by personal exertion. These 15,780 persons received one-fourth of all dividends, and after paying Federal taxes and surtaxes had left on the average \$266,344. Some 375,355 persons had one-sixth of the income of twenty-four million families.

Of course it is not true that taxation accounts for all the distress of the poor and all the swollen wealth of the enormously rich. It is a mistake to argue that with the passing away of unjust taxation all the ills of humanity will be cured, or that all great fortunes will cease to augment so rapidly. Our governmental and social structure is not so simple. Nevertheless, taxation and other governmental errors are largely responsible. Let us briefly analyze the situation.

We have spoken of one large corporation whose capitalization has been multiplied by four or five within the short space of ten years or less. Its strength lies in possessing and using the power of eminent domain, and the control of public property—the exercise of each of which is a distinctive duty of the State. The government has given this corporation the privilege of erecting its structures and carrying on its business, as far as its needs demand, on the streets and roads; it also has the privilege of compelling any person to give up his property to the company upon proper showing, whether he might wish to do so or not, compensation being paid. This

is an extreme exhibition of governmental might, exercised for private benefit. The same company enjoys the benefit of the patent system, with all the advantages over the public which this gives. Other large corporations likewise represent the union of more than one form of monopoly. The various great privately-owned public utilities of whatever nature increase in their importance, monopolizing as they do public property, and with their ability to use the power of eminent domain.

Turning to another great combination of today, the United States Steel Corporation, we find that its wealth is largely in its possession of great deposits of iron ore. With two other corporations of like nature, it controls the iron trade through ownership of natural opportunities. Secure in such ownership of special privileges, lightly taxed, it can bid defiance to competitors. Were these privileges of all of them taxed in any considerable degree, industry would be freer and real competition rendered possible. As it is, these companies have but to sit tight upon their beds of ore, untouched by the Sherman Act and all public complaints. Holding this privilege, which gives them almost a complete monopoly as against the public, they can put excessive prices upon iron and steel. When we release them from the major share of taxation upon their natural opportunities, we enable them to develop or not develop them, as they choose, and to charge all the traffic will bear. It is not established business or physical structures that constitutes their strength, but their stranglehold on the natural sources of supply. In the case of the United States Steel, these have increased the value of the common stock from six to twenty times in less than thirty years, according to the moment you choose as the beginning.

When we reflect that all our vast stores of wealth—and we have instanced but one of them—come from somewhere, that the community has been and is creating their value, and that our systems of taxation are diverting such wealth from the worker to those already surfeited with wealth; when we recall the terrible consequences of such procedure in so many countries, we may repeat with new emphasis the words of Jefferson, “I tremble for my country when I reflect that God is just.”

More than eighty years ago the poet Lowell wrote of

“Leagues of unpeopled soil, the common earth,
Walled round with paper against God and man.”

This condition exists today while oppressed industry throws millions out of work to wander about, vainly seeking access to the opportunities to labor which exist on every hand. Such, or similar, conditions have led to the most serious consequences in both ancient and modern times. The latifundia which destroyed ancient Rome are paralleled by conditions which led to the French Revolution of more than a century ago, and the Russian Revolution of modern times. These should be to us guideposts of warning of the way which leads to destruction.

Therefore, in studying our mistakes we are taking a first step to protect our present civilization. We should not cling too strenuously to our pot of blood, as told in the tale of Olive Shreiner, and forget those less fortunate, whose sufferings it is in our power to alleviate or remove. We propose nothing revolutionary; nothing but the taking of steps based upon the solid principles of common honesty and fair dealing.

We lay aside with these few passing remarks the larger aspects of the situation. Our special concern is in investigating the local tax field.

We may ask if there is a town in our whole country which has not experienced the ill effects of our present methods of taxation. Constantly we hear of towns whose growth and development have been checked or absolutely prevented by the extortionate values placed upon their land—values not justified, if any account is to be taken of earning power, which is the only true basis. Such conditions also drive people to dwell and work upon less desirable properties. This causes enormous loss to the community.

All this results in increased cost of living and diminished comfort, as people must dwell in less advantageous places. To make these places available, more needless taxes, falling most heavily on industry, must be imposed.

A notable illustration of this truth is afforded by the City of Los Angeles, though doubtless other instances will occur to anyone. There one can see great stretches of land lying between occupied sections, but themselves entirely vacant or scantily improved. To these idle lands the city furnishes paved streets, sidewalks and sewers. Street lights are supplied and the police must include them in their beats. In fact, part of the street improvements are paid for by the lot owners, but another large part is borne by the city as a whole. Either way, this cost represents a present economic loss. The outlay for lights and police, and fire protection for sparsely inhabited sections increases taxes, which are paid mostly by industry, and in a disproportionate degree by the industrious poor. We pamper speculation in land as if it were a desirable thing. True it is that the speculator sometimes loses his bet, but the city and the

poor always lose. Everywhere comfort is diminished and life rendered harder. The economic loss to the public through the waste involved in land speculation is enormous.

We have elsewhere referred to the fight between landlords and merchants using land exposed to speculative advances. The landlord constantly endeavors to obtain a present return which will correspond to the speculative future value of his land. If he wins, the gainful and publicly beneficial operations of the merchant and the advance of the community are alike injured.

Just as, from time to time, we find cities become speculation-mad over land, so we find the country in general engaged in the same wild pursuit, to the injury of both individuals and of the nation. Robert Morris, given credit largely for financing the American Revolution, found himself in a debtor's prison as a result of such exploits. The paralyzing effects of the panics of 1837 and 1857 are largely attributable to the same cause. The farmers of the West and Northwest who, within the past ten years, bought and sold land at \$300 to \$500 an acre when economically it should not have been valued at more than \$50 to \$100, found their imaginary profits turned to dust in their hands, and hundreds of banks which accepted their valuations were forced to the wall. The whole community, urban and rural, of which the speculators formed but a small part, was involved in the crash, and Congress has been appealed to in vain for real relief. Had the mad race to get rich without labor been checked in the beginning by just taxation of land values, the speculators' dreams would not have been so radiant nor the reality of their awakening so painful. Even now, land speculation has brought the State of Florida to distress.

What has been the result upon our farming communities who have faithfully supported for over a hundred years an evil system of taxation? Census and other figures show that in 1820 90 per cent of our farmers owned unencumbered land they cultivated. In 1880 those in like state numbered 55.3 per cent of the whole, with 19.1 per cent mortgaged and 25.5 per cent tenants. The census of 1900 showed a diminution of about 7 per cent in the number of farmers, owning land free of encumbrance, while 35 per cent were tenants. But twenty years later the unencumbered farmers had decreased to 32.2 per cent of the whole number, while tenancy was considerably in excess of 40 per cent. We are drifting rapidly into Old World conditions where the man is, in ownership though not in hard labor, divorced from the soil. The profits go to others.

We note at the same time that every year it becomes more and more necessary to employ larger amounts of personal property to secure the best results from the soil. The farmer becomes more like any other manufacturer. His implements come to him, as to every other person, burdened with numerous taxes. These call for the investment of money he has been unable to save or to borrow. Our unjust system of taxation forces him to a lower level of existence. He does not know what is wrong, but strikes out blindly, injuring himself and others.

Again, when the young man would follow the occupation of his father as a farmer, the price of land is pushed up to a speculative figure, ignoring possible returns from production, and he has not the means to buy, or, having some small savings, he purchases at such price, makes a part payment, finds himself eaten up by taxes and interest, and loses all. Thus he is forced to the cities, a change in his life

for which he is illy prepared, and much distress ensues. The social consequences become alarming. Later we shall discuss in detail the position of the farmer.

It must not be thought that the evil effects of our present unmethodical methods of taxation are confined to labor or to the farmer. If large manufacturers seeking new locations anxiously inquire as to the rate of taxation and whether their plant will be taxed or free, if merchants handling great quantities of goods prefer Philadelphia, where personal levies are nearly unknown, to Baltimore, where they are rigorously pursued; if we find manufacturers in turn prefer Baltimore, where their plant is untaxed, to Los Angeles, where it is taxed, we discover that this is a matter of importance to them. If we find cotton mills moving from the New England States to the South, not merely because of labor conditions, but because of high taxation upon their improvements, we again make the same discovery. The manufacturer loses time and wastes energy in seeking to escape the tax-gatherer, and the community scores a loss.

Lest it seem as if unjust methods of taxation simply affect labor, let us consider their effects upon capital. We must now inquire somewhat as to the origin and meaning of capital, and then discover the effects upon it of our present systems of taxation.

In the beginning there were but two elements in production, and, except in form, this condition still maintains. These were the labor of the individual, and land, from which directly, as from food plants, or indirectly, as through cattle, sheep and the like, everything came. Man applied himself to the earth, first with naked hands and then with such rude tools as he could fashion. These tools, which were the re-

sults of his labor, constituted his first capital. From such beginning, all wealth has come, whether as capital or otherwise. It was soon found that the community as a whole was producing more than sufficient for its food and clothing. This surplus became wealth, which it was found could be stored up against future necessities, or used for the comfort or adornment of the individual, or devoted to the production of more wealth. With the latter use began the existence of capital—wealth to be used for the increase of wealth.

The later stages of the procession are well illustrated by the growth of capital in the United States. We began with but little capital, so little as to be almost negligible. Yet today, the surplus, after providing for our own capital needs, is such that we can lend from our funds to rebuild war wastes. After all, capital has never ceased to be a part of the margin over and above the return to the laborer to meet his necessities.

Everywhere we go back to labor to find its origin. It is the very quintessence of labor; it is stored-up human exertion. The diseases which affect labor affect it. This is apparent when we reflect that wherever the laboring masses are most oppressed, there capital is slowest in its increase. Where laborers are kept in ignorance, and as a consequence are least productive, capital languishes. In either event, less surplus is devoted to the production of more wealth. Despite all our shortcomings, but for reasons to be discussed later, we find the United States accumulating capital more rapidly than ever did China, or Russia under the Czars. In each, much wealth existed, but little capital.

Capital, therefore, in a large sense is but a by-product of labor and its tool for helping on—creat-

ing new markets for—more labor. So viewed, that which oppresses or interferes with the one oppresses and interferes with the other. They are not enemies of one another, but capital supplements labor as the reaper supplements the muscle and mind of the farmer and makes him more efficient.

Thus looked at, there are not three elements combined in production, land, labor and capital, but two—labor applied to land, with capital as a by-product. It is only for convenience or through ignorance, and often leading to error, that anyone can speak of three. The verity of this situation must be realized before proceeding to the next step in the argument.

What, then, is the effect of present systems of taxation upon capital? If capital is originally of one nature with labor, has the problem of effects of unjust taxation been changed? Will not capital suffer as well as labor?

One cannot, completely describing the picture, speak of the unemployment of labor without at the same moment speaking of the unemployment of capital. At the present time, with a painful degree of unemployment, we are confronted with the fact that the returns upon capital are at their lowest. Interest has touched a lower point than ever before known in this country, even in prior times of distress. To this complexion have our tariff taxes, our occupation taxes, our taxation upon personal property, whether improvements or otherwise, our favors to natural monopolies, our artificial monopolies, and our marking up of valuations upon public utilities brought us. Temporary relief can come only when the current commences to run in the other direction, when the demands of the owners of privileges are lessened. Permanent relief will come when they are restricted and controlled, and that relief is to be first obtained

through proper methods of taxation, and finally through other reforms that in this book we can only indicate.

Whenever, therefore, we have spoken of obstacles to the employment of labor, we have included, whether expressed or not, the employment of capital, and when we mention the non-employment of labor we include likewise the non-employment of its hand-maiden, capital. They remain in our modern civilization one and inseparable. Whatever is the enemy of one is the enemy of the other. No road can be constructed, no house can be built, except they join together in the undertaking. The fatalities which attend the one affect the other.

When capital cannot make terms with monopoly, it remains unemployed, and the laborer is out of work. When the laborer has no employment, capital is without a market for what would otherwise be its product when in use as an implement in the hands, directly or indirectly, of labor.

When we find capital refused an opportunity to work because of the high price demanded for use of natural opportunities, both capital and labor, its progenitor, are shut out of useful endeavor. We believe that in every community in the land exactly this situation exists. The aggregate makes a terrific strain upon the body politic, a strain no country should be required to bear.