

CHAPTER II.

CROOKED TAXATION.

§ I. Faults of existing system. The system of taxation most in use, in all civilized countries to-day, has all these faults.

The taxes under this system are always paid to the government by persons who are authorized and expected to recover the amount from some one else, with interest and a profit, upon which the law places no limit.

No one can ever tell the precise amount actually contributed by any one person, under this system, to the support of government.

No one can tell how much of the money paid by the final taxpayer goes to the support of the government, or how much goes into the private purses of individuals.

A large portion of the final tax-burden is invariably perverted to private use; while, in many cases, nine tenths and even nineteen twentieths are thus perverted.

Private property is thus forcibly taken for private use; an operation which every court in civilized countries declares in so many words to be "robbery, under the forms of law."¹

The amount of the tax has only a remote connection with the actual needs or expenses of government. It may be and the fact has been, in several countries, for ten or twenty years together, either much more or much less

¹ U. S. Supreme Court, *Loan Asso. v. Topeka*, 20 Wallace, 655.

than the government needed. Where this is the sole method of taxation, taxpayers often pay a lighter tax, for years together, under an extravagant and even corrupt government, than they pay under one rigorously economical and honest. This is no accident; it is inherent in the system.

The pressure of such taxation, therefore, has almost no effect in educating the people to demand or appreciate good government.

The more wisely and honestly such a system is administered, the more popular does it make public extravagance and the more unpopular public economy.

§ 2. Profits of crooked taxation. Under such a system, a few persons make large profits; and they easily concentrate their power to perpetuate and extend it, in such ways as more and more to diminish the proportion of revenue which goes to the public use and to increase the proportion in which it is diverted to private use.

Under such a system, the persons who thus profit by what all courts of justice describe as "robbery, under the forms of law," acquire "vested interests"; interference with which is regarded, by multitudes of honest and unselfish men, as something positively wicked.

Thus, as a necessary result of this system, the right to live by robbery grows to be not merely equal but even superior to the right to live by labor. For the right of labor is not recognized by law or public opinion; while the right of robbery is.

Under this system, honest men are often forced to abandon honest labor, and to live upon legalized robbery. At first, this application of force is merely accidental; but eventually it is intentional and deliberate. It has been intentionally thus applied for a century, in America, and for at least two centuries in Europe.

§ 3. **Taxation of poverty.** The whole burden of such taxes rests upon consumption and not at all upon wealth. The system absolutely exempts property from the support of government, and draws taxes only from those who have to spend, in proportion to their expenses.

Inasmuch as the necessary expenses of the very poor are a hundred times as large, in proportion to their wealth, as the necessary expenses of the very rich, these taxes bear with a hundred-fold severity upon the very poor, as compared with the very rich.

Averaging all classes of society under this system, the poor, as a class, invariably pay more than ten times their proper share of taxes; while the rich pay much less than one tenth of their proper share.

In addition to this, the system generally, though not invariably, adds to the cost of supporting the government a private profit, so large as to far exceed the whole amount of taxes paid by the rich as a class.

The whole of this private profit goes to a portion of the richer class; thus exempting them, as a class, from all taxation, and giving them a larger net profit from the very fact of taxation.

This system, therefore, perpetually adds to the natural savings of the rich; while it almost swallows up the natural savings of the poor.

The tendency of this method of taxation is, therefore:

1. To make the rich richer, and the poor poorer;
2. To shift the burden of taxation from those best able to bear it to those least able;
3. To remove all checks upon the extravagance of government, by making the only persons who know that they pay taxes indifferent as to the amount of taxes, if not actually interested in maintaining needless taxes, for the sake of a profit upon their collection.

4. To force into existence a class of wealthy men, whose income depends upon legalized robbery ;

5. To complicate the business of the country with taxation, so that enormous burdens are kept upon the people, for fear that "vested interests" will suffer if these burdens are lightened ;

6. To promote bribery and corruption, by making business profits directly dependent upon political action.

§ 4. **Crookedness of the system.** A system of taxation which invariably produces such results is fitly described by the name of Crooked Taxation.

It is crooked in its operation, crooked in its form, crooked in its motives, crooked in its aims, crooked in its effects, and, as fits a system inherently crooked, it is especially crooked in its influence upon the well-being of society.

It is not merely indirect. A curve is indirect. A right angle is indirect. Yet each is regular in its form and leads to results which can be clearly foreseen and which are frankly acknowledged. But so-called indirect taxation is never uniform in rates or operation. It never proceeds upon any fixed line, whether straight or curved. It never arrives at the point which is its professed aim, and it is never meant to arrive there by those who control it. It never produces the chief results which are expected from it, even by its inventors, and never produces any of the results which they publicly profess to expect from it, except in rare cases, in which their secret calculations are entirely at fault. Its line of working is pulled up and down by selfish interests, at a thousand points, until it becomes so hopelessly crooked that nothing short of omniscience can foresee its results. It gives rise to endless frauds, and every effort to repress these frauds involves some new oppression upon the honest and the poor. In-

vented originally to enable governors to defraud the people, it has no political support, except the desire of the governing class to deceive the taxpayer as to the cost of government, the desire of the governed to evade their just share of taxation, and the determination of a small section of the people to use it as a means of plundering all the rest. Undoubtedly, a few *doctrinaires* sincerely advocate this system, from honest motives; but their support counts for absolutely nothing, except as a convenient excuse in the mouths of those who have selfish reasons for quoting them.

It is doubtless time to verify these broad assertions, for the benefit of those who have not studied the question. No one who has studied it, with care and ordinary intelligence, since the days of the man who cynically declared that the supreme art of taxation was to pluck the greatest amount of feathers with the least amount of squalling, can have failed to see most of these things for himself. The only justification which any honest, intelligent man has ever offered for crooked taxation is either: (1) that government must be maintained, and the people will not submit to straightforward taxation for its maintenance; or (2) that *every* form of taxation is equally oppressive and demoralizing in its effects.

Crooked taxation assumes a great variety of forms; but it is most familiar under the names of tariffs and excise taxes. It will simplify the discussion to confine illustration to these forms, although they are not the only ones. At the outset, let us take the duty on sugar, as it was maintained until 1890, and the tax on whisky, which is still supported by a majority of both our political parties. The one is a necessity, the other (except for manufacturing use) a luxury; and thus the two illustrate those two sides of the question.

§ 5. Taxes upon sugar and whisky. The tax upon foreign sugar is admittedly paid by our own people. For many years it averaged 70 per cent. of the cost, and amounted to nearly \$60,000,000 per annum. In addition to this, about 180,000 tons were annually produced at home, the price of which to the consumer was increased by at least two cents a pound by the tariff, or about \$8,000,000 in all. Either the whole of this \$8,000,000 went into the pockets of a few sugar-planters, or, which is more probable, they only gained half of it, while the other half was wasted in misapplied human effort. The effect of crooked taxation, in this instance, was probably to provide \$60,000,000 annually for public use, and, by incidental "robbery under the forms of law," to seize \$4,000,000 of private property for private use and \$4,000,000 more for no use at all, absolutely destroying it by putting it into labor as grossly misapplied as would be carrying bricks to sea and dropping them in the ocean.

The correctness of these figures and inferences will no doubt be vehemently disputed. But none of the disputants will be able to furnish figures any more correct; and thus the truth of the next proposition will be proved, to wit, that no one can tell how much of these taxes goes to the state, how much to private pockets, and how much to pure waste.

But this is a mere beginning. By one of those innumerable breaks in the wriggling line of crooked taxation, which are made on purpose to deceive and defraud the people, the sugar tax was suddenly raised to a prohibitory point on all sugar fit to eat. Thus our refiners were given an absolute monopoly; and the whole tax on eatable sugar, as distinguished from the crude article, was levied for the sole benefit of the Sugar Trust,—another instance of unqualified robbery under the forms of law, without a shred of pretence of government revenue.

These exactions, amounting to over \$75,000,000 per annum, did not end here. The jobbers and retailers must collect an increase from their customers, to pay for interest on their advances and usual profits; all of which must be paid by the consumers of sugar.

Who are these consumers? And how is this vast burden apportioned among the people? Every family consumes sugar. In what proportion? According to their wealth or their income? These considerations have only a slight influence. A family worth only \$5,000 will generally consume as much sugar as one worth \$100,000; and frequently such a family will consume more than a family worth \$10,000,000. We all know instances in which this is true. To say that the poor pay ten times as much of the sugar tax as the rich, in proportion to their respective accumulations, is an absurdly low estimate of the truth. The very poor pay ten thousand times as much, in proportion, as the very rich.

The last consideration applies equally to the tax on domestic whisky. The tax is collected, with a large profit, from consumers; and whisky is consumed in far greater quantities by the poor than by the rich; so that on this, also, the poor are taxed out of all proportion to the rich; while dealers, who are rich, as compared with the vast majority of our people, make a large profit upon the taxes, which they first pay but immediately collect from their customers.¹

¹It is often said that a tax on whisky is purely voluntary, and that it should not be regarded as a burden upon the poor, since they can escape it by practising abstinence. But this is a palpable fallacy. So long as indirect taxation is maintained, the masses *must* pay the bulk of it; because the rich never are numerous enough to pay, in taxes upon their consumption, one fourth of the needful revenue. In actual fact, they do not pay one tenth of it. If then the American masses should renounce liquors and tobacco, as they do largely in Italy, and absolutely in India, they would be taxed just as heavily upon their bread and salt, as the Italians and Indians are

Will any one pretend that those who ultimately pay these enormous taxes upon sugar and whisky have any idea of the amount which they contribute to the support of the government? Does the payment of such taxes have the smallest tendency to excite in the real taxpayers an interest in honest and economical government? Are not such taxes devised for the precise and avowed purpose of preventing the mass of voters from feeling the burden and becoming restive under it? Was there ever any motive for originally levying these taxes, other than the desire to blind the people to the cost of government, and to obtain money from them without their real consent? Is there any other good reason for maintaining a tariff for revenue only or an internal excise tax?

§ 6. Impossibility of economical government under crooked taxation.—Can such taxes be so levied, under the most honest administration, as to be “limited to the needs of government, economically administered?” The needs of government, thus defined, will often rise \$40,000,000 in one year and fall \$30,000,000 in the next. Suppose the entire revenue to be derived from sugar and whisky, which will serve just as well as to refer to a thousand similar taxes now existing. Suppose the government to require an increase of \$40,000,000 in its revenue. Shall the taxes on these articles be instantly increased by \$20,000,000 each? Such things have been done; but with what result? Speculators learn that the increase is to be made; they use corrupt means to secure such an increase as will insure profits to them; and they make gigantic fortunes at the expense of the poor, who cannot buy more than their daily needs. With irony, all the more bitter because it was so unconscious, our simple-minded “second Franklin” used to ask why farmers,

clerks, and day-laborers, who objected to a tax on pig-iron, did not forthwith build hundred-thousand-dollar furnaces, so as to participate in the profits of iron-making. And perhaps some other philosopher may ask why sewing-women do not buy sugar by the ton, at low prices, to feed their children.

Not only would speculators profit by such advances in taxation, but no human wisdom would suffice to measure even approximately the advance which ought to be made in order to produce the needed revenue. No estimate would come within \$5,000,000 of the actual result. Consumption might be reduced so much, by the increased cost, as to make a higher tax produce a smaller revenue. This has happened in cases without number. Or, in the effort to allow for this, the revenue might be increased to an excessive amount.

§ 7. **Difficulty of reducing crooked taxes.** Take the case of a needed reduction of revenue. Did we not struggle with this problem for twenty years? Do we need any illustrations of the almost insuperable difficulties of reducing crooked taxes? Vested interests have sprung up. Large investments have been made, upon the expectation that the inequalities of crooked taxation would be maintained indefinitely. Reduction of taxes means ruin to a few wealthy men. In 1807, all New England raged against the embargo and non-intercourse acts. But, when they were forced on New England by the South, New England merchants turned into manufacturers, and made the South pay heavy tribute. When the absurd embargo was repealed, the South supposed that it would do a favor to New England by repealing the non-intercourse acts also; but, to the astonishment of short-sighted politicians, this repeal was defeated by New England votes, controlled by the new manufacturing

class. The South forced New England into an abnormal development of manufactures; and it has paid heavily for its folly, for eighty years since.

It is impossible thus to trifle with vast business interests. After crooked taxation has forced capital to seek its profits out of legalized plunder, those who have been driven by legislation to seek profit in this way will fight to the death to maintain the taxes through which they live. They are not to be blamed, any more than a Turkish pasha is to be blamed for extortion, when his master gives him only the choice between living by extortion or dying by the bowstring.

Again, it is impossible to tell beforehand what will be the effect of a reduction of crooked taxation. A very heavy reduction of the tariff in 1846 produced a large increase of revenue. But a much smaller reduction in 1857 produced a permanent deficit in revenue. Judicial corrections of treasury rulings, reducing duties upon steel blooms at one time, and upon steel wire at another time, *increased* the revenue upon each of these articles, from a few hundred dollars to about two millions. Crooked taxes are like crooked rifles; the only thing of which you can be sure is that they will *not* produce the effect which you expect of them.

The result is that crooked taxes forever produce either a great deal too much or a great deal too little. And as no government can go on under a perpetual deficiency, every government, which depends entirely upon crooked taxation, keeps up excessive taxes and surplus revenues, with the inevitable consequences—extravagance, waste, and corruption. The total abolition of protective duties would make no difference upon this point. Public waste and corruption are the necessary results of exclusive dependence upon crooked taxation.

§ 8. **Political corruption.** Crooked taxation offers such inducements to bribery and other forms of political corruption as to make them almost inevitable. Whatever may be the fact in other countries, experience proves that, in America, at all events, such corruption is an invariable attendant of such taxation.

In the United States, this fact is not merely admitted by all political parties : it is positively charged by each of them in all their leading organs of opinion, by all of their orators in election campaigns, and by most of their leading statesmen. The Republican National Convention of 1888 distinctly charged that the proposed Democratic revision of the tariff was dictated by the Whisky Trust. Every Republican State convention, every Republican newspaper and every Republican orator declared that the Democratic tariff of 1894 was dictated by the Sugar Trust and carried through Congress by actual bribery. It is an article of faith, with almost every American protectionist, that all efforts for reduction in protective duties are paid for with British gold. On the other hand, every Democratic convention, newspaper and orator asserted continuously, from 1888 onwards, that the Republican victories of 1880 and 1888 were secured by open and flagrant bribery of voters upon an enormous scale, and that the protectionist tariffs of 1883 and 1890 were carried through Congress by the expenditure, in each case, of over two million dollars, mostly in purchasing the election of Congressmen, but partly in influencing Congress itself. The third party has always believed that both parties were thus corrupted.

§ 9. **Evidence of corruption.** Some of the most important of these accusations are unquestionably true ; for they have been admitted by the very parties accused. In December, 1880, the Vice-President-elect,

at a public dinner given in honor of one of the most notorious corruptionists in the country, declared, amid laughter and cheers, that the guest of the evening had carried the decisive State of Indiana by the liberal use of "soap"—a slang phrase well understood by all to mean bribes to voters. In 1888 the same State was again carried by such open and admitted bribery, under written instructions from a person who formerly held a high public office, that the very President, who owed the vote of his State to the management of this official, refused to have anything further to do with him. On the other hand, the charge of bribery with respect to the final form of the tariff of 1894, passed by a Democratic Congress, was made as vigorously by Democrats as by Republicans; and the only plea of justification ever made by the small section of the party accused was that the bribe had been paid before the election of Congress, in order to help its election, and that nothing had been paid to individual Congressmen since the election.

Whatever moral difference there may be between the bribery of Congressmen and the bribery of their electors, it is clear that the injury to the community, in the result upon its business interests, is equally serious in either case, while the general effect of buying electors is worse than that of buying Congressmen. It is probable that the votes of Congressmen upon the final passage of a tariff bill are rarely purchased, but it is still more probable that many votes upon details of a bill are purchased. Of course, legal evidence of such facts is almost impossible to be had, but evidence entirely satisfactory to reasonable minds has been obtained as to Congressional votes, both for and against tariff changes.

Nor is such corruption by any means confined to tariff legislation. There is far more evidence of Congressional

corruption in connection with the whisky tax than in connection with any tariff. The frequent and sudden increases of the tax on whisky between 1862 and 1866 were notoriously accompanied by large speculations in whisky, carried for the account of Congressmen by the whisky ring, and amounting to direct and gross bribery. The last increase of twenty cents in this tax, made in 1894, has been followed by an official exposure of the Whisky Trust accounts, showing an expenditure of \$600,000 for "statistics" and \$500,000 for "extraordinary legal expenses," most of which, it is admitted, was made in corrupting Congress into the old trick of increasing the tax, while exempting whisky on hand. The fact that this enormous expenditure was not rewarded by full success suggests the amount which must have been spent on former occasions, when such success was obtained.

§ 10. Iniquitous methods of collection. The methods by which nearly all crooked taxes are collected are always and everywhere iniquitous and disgraceful. Perhaps we ought to say that the methods by which the amount to be collected is ascertained are iniquitous, rather than the mere final act of collection. Any gentleman can, without a stain upon his character, use such force as the law may direct, to seize property, forfeited for non-payment of taxes. But no true gentleman can go through all the details of the work required by law and necessity, to ascertain the amount which ought to be collected under most forms of crooked taxation. And although a very large number of true gentlemen do administer the existing tax laws, without doing anything unworthy of their reputation, their administration is attended with greater injustice to the poor and the honest taxpayers than is that part of the administration which is entrusted to unscrupulous and brutal officials.

§ 11. **Collection of excise taxes.** Take what are usually called internal-revenue taxes, but which are more correctly termed excise taxes, as an illustration. It is impossible to administer the laws imposing these taxes, without the constant aid of spies, sudden searches of private premises, seizures of property, upon the slightest pretext, continual arrests upon suspicion, and enormous penalties for slight offences and even for honest mistakes. The punishment visited upon a land-owner, who suffers his land to be used for making one gallon of illicit whisky is literally a thousand times more severe than can be imposed upon him for suffering the land to be used as a haunt of highway robbers. The punishment prescribed by law and inflicted in fact for making the gallon of whisky is far more severe than the punishment ever imposed for atrocious acts of violence, not reaching the dignity of actual attempts to kill. In England, thousands of brutes have dashed their wives or mothers against walls or tables, breaking several ribs; not one of whom was ever punished with one fourth of the severity shown to the maker of illicit candles.

It is not surprising that, for more than a century after excise taxes became general in England, so that not only liquors, but also leather, glass, candles, bricks, and innumerable other articles could only be manufactured under the rigid espionage of public officers, the very name of "exciseman" became an object of universal hatred and contempt. It is not surprising that, in the mountain regions of the South, where a little whisky would naturally be made on every farm, the exciseman is generally hated, although too powerful and courageous to be despised.

§ 12. **Collection of tariff duties.** Tariffs on imported goods are administered on similar principles. Every person arriving at our ports must submit to an ex-

amination of his baggage, such as he would think degrading and intolerable if made by a city assessor. Ladies' dresses and underclothing are dragged out and spread upon the wharf for the inspection of a coarse crowd of dock laborers. A "faithful officer" searches them carefully, to see if they are sufficiently dirty to warrant the belief that they are in "actual use." The late Mrs. William Waldorf Astor (honor to her memory!) was the first woman who rebelled against this abominable practice and refused to pay a tax upon cleanliness. She successfully appealed to the Supreme Court against this disgusting standard of taxable character; but the outrage is still repeated, ten thousand times a year, by vigilant officers, who peer and pry into women's clothing and insist that it must be new, because it is not filthy.

On the slightest suspicion that a passenger has concealed dutiable goods, the law gives absolute power to the customs officers to strip the suspected person naked; and this power is habitually exercised. There is enough sense of decency in our officials to assign women to the duty of stripping women; but imagine the shame and torture which even such a search must inflict upon a sensitive and innocent woman. Of course, the customs officers would, with one voice, declare that no innocent woman was ever subjected to such an outrage; but such a statement is an insult to our common-sense. The mere fact that no woman has brought suit for damages on this account proves nothing. Few sensitive women would endure the added shame of relating their story in court; and as none of them could prove malice on the part of the searcher, no sensible lawyer would advise them to sue. The malice is in the law, not in the officers.

The oppressions which have been practised upon millions of poor immigrants arriving in the United States

have never been even faintly described. For many years it was the uniform practice to make them pay enormous taxes upon every article, however trifling, which they had not actually used and soiled. Cases are well known in which a poor woman, who had only one pair of stockings (which she kept clean for landing, going barefoot on the ship,) was taxed 80 per cent. on this pair; and men, having only two suits of clothing, have been taxed upon one suit for more than it cost. Nine officers reported their names for honorable mention, on their joint seizure of two yards of flannel, which a poor Irish woman had kept clean until her arrival. These are but small instances of vast numbers of similar petty and contemptible extortions, which are carried on, not from corrupt motives, but in zeal for the enforcement of crooked taxation. Is it possible that men of refinement and honor can administer such regulations without degradation? ¹

¹ While these pages were passing through the press the following item appeared in the New York *Evening Post*, of April 18, 1895.

“ Washington, April 18.—Accompanying the Treasury decision permitting ships to come up to New York harbor in the night and discharge passengers' baggage without taking out a special permit or hiring inspectors, a code of instructions for inspectors will be promulgated. This will set forth in plain terms that the intent of the law is to break up smuggling in the importation of merchandise, not to annoy and harass the honest travelling public.

“ Several cases have come to the notice of the department recently showing that inspectors often mistake their duty in this particular. Within one month, three women who had been travelling abroad and brought home millinery for their own use were pounced upon as professional dressmakers trying to smuggle in goods for sale to their customers. Two of the accused were able to prove their innocence without much difficulty; but in the case of the third certain measurements were taken which convinced the inspectors that the gowns found in her trunks could not be hers, as they would not fit her figure. At her own suggestion, therefore, she dressed herself in the several garments, and submitted the results to expert judges named by the collector, who promptly decided that the inspectors were in error and sent her home in triumph.

“ It is the desire of the present administration of the Treasury to break up this sort of thing.”

§ 13. **Ad valorem taxes.** The only fair method of taxing any article is obviously by proportioning the tax to its value. Taxes, levied in strict proportion to weight or measure only, are so frightfully unjust to the poorer classes that no one attempts to justify them, except on the ground of necessity, to avoid the frauds which are common under the *ad valorem* plan. So impracticable is it to make all duties specific, that under the McKinley tariff itself, which was framed in 1890 by fanatical devotees of the specific system, more than half of the duties were *ad valorem*.

But, in order to avoid fraud and evasion under *ad valorem* taxes, the government is compelled to employ a small army of spies, to resort to all kinds of low tricks to ascertain prices, to treat all merchants as thieves and rogues, to require detailed statements about matters concerning which the declarants cannot possibly know anything, to impose enormous fines and penalties for errors which may be fraudulent or may be perfectly innocent, to put valuations upon goods which the officials know and admit to be utterly false and excessive, and in general to adopt methods of dealing with honest taxpayers which no business man could use without being expelled from all decent society. Blackmail, fraud, swindling, and enforced lying are regular methods of collecting the tariff revenue of the United States, not through the fault of the administrative officers, but as the necessary result of deliberate provisions of statute law. These words do but express, in plain English, what both Republican and Democratic Secretaries of the Treasury have stated in the decent obscurity of many-syllabled words.

§ 14. **Crooked taxation widens the social chasm.** The greatest evil resulting from such taxes remains to

be considered. This is their effect upon the distribution of wealth, by making the rich richer and the poor poorer than they would be under direct taxation.

It will not be here asserted that the poor are growing absolutely poorer. Whether true or false, that statement is not here in issue. The point made is that crooked taxation makes the poor poorer than they would be under direct taxation, and that it continually widens the disparity between the rich and the poor.

Some of the inevitable incidents of such a system tend strongly in this direction. The intermingling of politics with business and the constant interference with production and consumption, which crooked taxes involve, would alone give continual opportunities for speculation, of which none but capitalists can ever avail themselves, and from which, therefore, none but capitalists can profit; while such profits are made chiefly at the cost of the poor. The uncertainty of operation, which always attaches to these taxes, making that which was crooked in its construction doubly crooked in its working, opening still larger opportunities to speculators, swells yet more the profits of capitalists at the expense of others. Changes in the text of the laws providing for such taxes are very frequent; and changes of interpretation are ten times as frequent. Every one of these offers to a few shrewd capitalists a fine harvest, out of the crops of the poor. When such opportunities for profit become gradually infrequent, the class accustomed to count upon them clamor for a revision of the law; and, no matter whether the revision is upward or downward, the engrossing clerks always make some innocent mistake, which is worth a million dollars at least to some lawyer, who, by a marvelous instinct, discovers the mistake almost before the ink is dry; while fifty new elements of crookedness are intro-

duced by sly legislators, which escape public attention, until another set of capitalists have cleared as many million dollars out of the "accidental inequalities" of taxation.

These characteristics of such legislation are usually brought up in controversies over the issue between tariffs for revenue and tariffs for protection; but in reality they have little to do with that issue. They are inherent in all tariffs and in all taxes upon production and exchange. The principal reason why they have become associated with that particular controversy is that, under a protective tariff, there is always a large number of wealthy and influential people who can be induced to join in a demand for revision; while, under a tariff for revenue only, such a demand comes only from the few who profit by mere change, unless there is a substantial reason for it. Moreover, a tariff for revenue only is, for reasons not necessary now to state, a practical impossibility in any country which depends for its revenue upon indirect taxation alone; and therefore the United States have never had any experience of it.

But all these effects of crooked taxation, amounting, though they do, to many millions, annually drawn from the poor and divided among a few of the rich, are insignificant, compared with two other influences which remain to be considered. These are: (1) the levy of tribute upon the masses for the direct profit of a few wealthy classes; and (2) the enormous taxation of the poor and almost entire exemption of the rich.

§ 15. Protective taxes. The first of these is not the most important; and it is one concerning which there is so much controversy, that it will be only briefly mentioned here. This is the tribute which a few rich men are enabled by this system to levy upon the rest of the community

through so-called protective taxes upon competing products. The most moderate estimate of this item places it at three times the amount of duties actually collected by the government upon such products. As those who dispute this estimate assert that a protective tariff imposes no burden at all upon the people of the protected country, but that Europe pays all the protective taxes of America on European products, while America pays all the protective taxes of Europe on American products, there is no advantage in offering any compromise on this estimate. It may be taken as it is or rejected altogether. It is included in the computations hereafter given; but if rejected, it would not reduce the estimate of the effects of indirect taxation by so much as one half.

But the justice of allowing, in these calculations, for an addition to the cost of domestic productions to the consumer of fully three times the amount of all duties collected, is demonstrated in an appendix to the recent work of David A. Wells on *Economic Changes*, page 472. There can be no impropriety in saying that this appendix was not written by Mr. Wells, but is the work of a gentleman of unusual ability and experience in statistical fields, who is also much more conservative in his views than Mr. Wells. This appendix shows that the people of the United States have actually paid an average price for iron and steel, during ten years, ending in 1887, of \$56,000,000 per annum in excess of the average English price; while the official statistics show that the average revenue to the United States from duties on all iron and steel, during the same period, was less than \$15,000,000 per annum. This shows an addition to the cost to the consumer of three and two thirds of the whole duty collected. But this is not all. Tin plates are included in the dutiable articles. No tin plates were produced here

during those ten years; and therefore the increased cost of American production relates solely to other forms of iron products. Excluding these, the revenue from iron and steel has averaged less than \$12,000,000 per annum, during the period referred to. The consumer has, therefore, paid over *four and one half times as much as the duty* in addition thereto.

§ 16. Excise taxes. The amount which should be allowed for the effect of internal taxes upon domestic production is much more difficult to estimate. That such taxes do increase the cost to the consumer, far in excess of the mere tax paid to the state, is very clear. The history of the match tax alone is sufficient to prove this. Levied solely for revenue, it soon ruined all small manufacturers and created a monopoly, which increased the price, not only by the one cent per box paid to the government, but by another cent; as was proved by the fact that the cost to consumers fell two cents soon after the repeal of the one-cent tax. And, for nearly two years after the tax was laid, this whole increase went into private pockets; the market being fully stocked, in anticipation of the tax. But it is not probable that all excise taxes operate quite so severely. Their influence in checking production, however, and the wholly unforeseen ways in which they hinder improvements and petrify industry, to the common loss, are well known. It would be a moderate estimate to put the indirect cost of such taxes at one fourth of the amount collected; but, having no proper basis for an estimate, it is better to make none.

§ 17. Dealer's profits. The profits of dealers upon the indirect taxes, which they pay in the first instance, are plainly a charge upon consumers. Take earthenware, as an example. In consequence of the great cost of handling these goods and the constant losses by breakage, the nomi-

nal profit of dealers is rarely as low as 50 per cent. This profit is charged, as a matter of course, upon the duty as well as upon the cost. The duty prior to 1894, was nominally 60 per cent., but actually nearer 70 per cent.; since packages are made dutiable, while they are useless, after being once used. To call the actual tax $66\frac{2}{3}$ per cent. is moderate. But the tax to the consumer, plus the dealer's profit, was never less than 100 per cent. and often far more. Precisely the same addition would be made to the cost of a similar domestic article, if subject to a similar excise duty.

Nominal profits upon unbreakable articles are by no means so large. Yet to call the general average of mercantile profits, before the consumer is reached, only 15 per cent., is ridiculously low. No estimate, of which the writer is aware, puts it lower than 25 per cent. Nevertheless, the lowest conceivable figure shall be here accepted.

The profits collected upon local taxes on buildings and chattels must be put still lower. Let them stand at only 5 per cent.

§ 18. **Burden of taxes and profits.** On the basis of the foregoing explanations, and upon the census and other official statistics for 1880 (those for 1890 being not even yet quite complete), the following tables are constructed.

<i>American Tax Burden of 1880.</i>	
Import duties	\$186,500,000
Internal revenue, etc.	147,000,000
Increased prices domestic pro- tected goods	559,500,000
Total	\$893,000,000
Dealers' profits, 15 per cent. .	134,000,000
	\$1,027,000,000
Local taxes	\$312,000,000
Landlords' and dealers' prof- its, 5 per cent	15,600,000
	327,600,000
Grand total	\$1,354,600,000

Out of what fund can these taxes and profits be paid? Not out of what the people spend, but out of what, but for these charges, they would save.

In proportion to what are they paid? Not in proportion to what is saved, but strictly in proportion to what is spent upon living. The larger the proportion which the necessary cost of mere subsistence for himself and his family bears to each man's income or property, the larger, in exact proportion, is his relative share of compulsory taxation. If he chooses, for his own pleasure, to increase his expenditure much beyond this limit, he bears a larger proportion of the actual burden of taxation; but this is not compulsory upon him.

As, however, nearly all men of more than average wealth do spend more than is absolutely necessary, the correct method of ascertaining the relative tax burden of each class is to estimate the average expenditure of that class, disregarding the extremes of extravagance or stint.

The estimate in Mr. Gannett's census report of accumulation for the ten years between 1870 and 1880 was \$1,300,000,000 per annum. This figure will be accepted for the last year of the series. The census of 1890 estimates the annual savings since 1880 at \$2,000,000,000.

§ 19. **Earnings of the people.** Adopting the census of 1880 as the basis, as we must at present, there were then about 17,400,000 producers, supporting each a group of three persons, disregarding fractions. The earnings of 3,000,000 to 5,000,000 farm laborers in the census year 1879 were shown by the agricultural report to be less than \$194, on an average, including the cost of their living. The earnings of 4,000,000 farmers were less than \$300 each. The earnings of 2,700,000 artisans averaged \$346. It is often claimed that this represents only a portion of their earnings, and that the census gives the total amount of wages paid in the year

against the largest number of laborers ever employed at any time. This is not true. The census distinctly states that only the average number of laborers is given; and therefore it is entirely proper that the whole amount of wages should be given. It is to be remembered that this average of \$346 includes the earnings upon which a group of three only are supported. The average family numbering five, this income represents an average family income of \$577. So far from being too low, this is actually much too high. It is much more than the average earnings of mechanics' families in cities. It is \$62 more than the average railroad employee earned, in 1888, when working 313 full days in the year.¹ Four hundred and fifty dollars would be an ample estimate of the average income of four fifths of American families. Nevertheless, the excessive amount of \$300 for each worker, equal to \$500 for each family, will be here accepted as the lowest range of average income, with \$400 for each worker, or \$666 for each family, in the next grade.

What were the total earnings of the whole people? The officials, who had themselves taken a large part of the census of 1880, and who remained in office after General Walker retired, became alarmed at its showing upon this point. By no manipulation consistent with the figures could it be made to show a gross production of much more than \$5,000,000,000 per annum. One census taker then guessed that farm products were underestimated \$1,400,000,000, while another guessed that manufactures were underestimated \$3,400,000,000. The agriculturist was not so wise as the manufacturer, and gave reasons for his guess. Of course the reasons cut down the guess at least one third. The manufacturing guess shows too much evidence of manufacture upon its face. Still, the real census figures are undoubtedly too low. We *have*

¹*U. S. Labor Report, 1889, p. 160.*

to guess. Building up from the foundation of a minimum average earning of \$300 for each worker, or \$500 for each family (which is decidedly too much); allowing an average of \$1,000 for each of 1,000,000 workers in the centre, which Mr. Atkinson has pretty clearly proved, and making the least reasonable allowance for the large incomes of the richer classes, we reach the conclusion that the actual production of the nation in 1880 was between \$8,300,000,000 and \$9,000,000,000. Prof. W. T. Harris, after analyzing the original and amended census figures, estimates the same income at only \$7,300,000,000 (*Forum*, July, 1887). If the average income of the basic 13,000,000 workers was only \$225 instead of \$300, Professor Harris's estimate is probably correct. Knowing, as we do, that several millions of them did not average even \$200, it is quite possible that he is correct. But as, upon this basis, the disproportion between the burdens imposed upon the rich and the poor would become too startling for general acceptance, it is better to err upon the safe side, and to assume that the earnings of farmers and mechanics were far greater than any one has ever been able to prove them to be. All such figures must necessarily be largely guesswork; but it will be found that no reasonable guesses can be made which will materially alter the final general result. We may proceed to rectify all these guesses, by comparison with actual returns of incomes, made during the existence of an income tax.

§ 20. **Income tax returns, 1866.** It is much to be regretted that no correct statistics of the incomes of the people of the United States, during the years when an income tax was levied, seem to be attainable. The figures given in Lalor's *Cyclopædia* do not agree in any respect with those of official reports of the Commissioners of Internal Revenue; and neither set of tables works

out any result which agrees with the taxes collected. Only some suggestions towards a correct result can be gathered from any of these figures. It appears that in 1866, under a law exempting \$600 and house rent, incomes were returned, from business profits and salaries, by 460,000 persons, to the gross amount of about \$885,333,000; which, after adding the \$600 exempted and an estimated average house rent of \$400, which is none too much, would make a total income of \$1,345,000,000. This amount represents that upon which the tax was paid in 1867; and, although a large part of this payment was made on account of assessments made in 1865, an equally large part of the assessments of 1866 was not paid until 1868; so that the one balances the other.

Of these 460,000 taxpayers, about 37,000 (or 8 per cent.) acknowledged incomes exceeding \$5600 and house rent, which, in their cases, must be estimated at fully \$900 additional. This would make their incomes exceed \$6500. Their total incomes amounted to over \$312,000,000, including house rent. This is somewhat less than 25 per cent. of the whole; but, as the proportion was much larger in 1865, 25 per cent. will be a fair average.

In the city of Brooklyn, in 1865, 1734 persons returned incomes exceeding \$5600 and house rent; of whom 801 returned incomes exceeding \$10,600 and rent. It will be reasonable to classify them into incomes of \$6500 and of \$12,500 minimum respectively. In the poorer district of Brooklyn, the richer class constituted 40 per cent. of the whole class above \$6500; in the wealthier district, the proportion was 48 per cent. It will be a very moderate estimate to put the incomes of the whole country, exceeding \$10,000, at $37\frac{1}{2}$ per cent. of all exceeding \$5000. In Great Britain the proportion considerably exceeds 40 per cent.

Even in those European countries where the income-

tax is most rigorously and honestly enforced, it is universally conceded that at least one third of the assessable income is never returned. In the United States there can be no doubt that less than half of the tax really due was ever collected. The administration of the law was everywhere corrupt; and in most of the western and southern States it was a mere farce. It is a moderate estimate to assume that there were really more than 800,000 persons in receipt of incomes exceeding \$700, in 1866, and that their aggregate income exceeded \$2,500,000,000, or about \$3000 each on an average. These may be divided into three classes, viz.:

I.	720,000 at \$ 700 to \$ 5,000.
II.	50,000 " 5,000 " 10,000.
III.	30,000 " over \$10,000.

When the exemption was increased to \$1000 and house rent, the number of taxpayers fell off to about 260,000; and upon the exemption of \$2000 the number fell to 75,000. There is nothing to be learned from the study of returns so palpably fraudulent. It is to be hoped that much better information will be gathered from returns under the new law in 1895.

§ 21. **Estimated incomes, 1880.** The increase of wealth in the United States, between 1866 and 1880, according to the valuation of real estate (which is the only safe test), was 65 per cent. The increase of population was 35 per cent. Taking the medium figure of 50 per cent., as the increase in the number of large incomes, the result would be as follows:

Incomes.	<i>American Incomes Over \$700.</i>	
	1866	1880
\$ 700 to \$ 5,000.....	720,000	1,100,000
5,000 to 10,000.....	50,000	75,000
10,000 upwards.....	30,000	45,000
	<u>800,000</u>	<u>1,220,000</u>

We must collect any further light on the classification of incomes from a study of the British income-tax returns. The following table shows the official return of

GREAT BRITAIN AND IRELAND.

Business Incomes in 1884.

Persons.	Income.	Average Income.
104	£50,000 & over	£91,783
1,192	10 to 50,000	17,644
1,871	5 " 10,000	6,553
1,117	4 " 5,000	4,270
1,947	3 " 4,000	3,266
4,202	2 " 3,000	2,282
13,268	1 " 2,000	1,277
32,769	500 " 1,000 }	541
19,996	400 " 500 }	
48,572	300 " 400 }	367
110,626	200 " 300 }	197
163,736	150 " 200 }	
399,400		

These returns represent only earnings from personal services and profits derived from business, other than farming. Rents, incomes from corporate investments, mining, farming, etc., are not included. As 67,000 farmers and at least as many landlords also made returns, it is obvious that the list is a very incomplete statement of the income taxpayers. Not less than 200,000 British families live upon their investments alone; and the whole number of incomes above £150 must have exceeded 600,000 in 1884.

§ 22. **Savings of each class.** Let us now estimate the probable savings of each class, in 1880, after all taxes were paid.

Labor commissioners have repeatedly inquired into the savings of laborers, with the result of fixing these at not more than 5 per cent. of such incomes under \$500, after all taxes have been paid. As taxes consume, directly and indirectly, at least 15 per cent. of a laborer's average income, the average laborer is not so thriftless as

it might at first appear. He does not spend more than 80 per cent of his earnings. A paternal government takes care of that. The middle class find it difficult to save more than 10 per cent. But the savings of the rich proceed upon a rapidly increasing ratio, until we reach some men who save, with ease, 95 per cent. of their income. This is not common; but there are well-known instances of persons whose income exceeds \$1,000,000, whose expenditures do not equal 2 per cent of their income. Such persons are practically exempt from all taxation by the Federal Government.

Constructing a table upon the foundations thus afforded, taking American statistics so far as they go, and using British statistics only for the purpose of supplementing and classifying American figures, the following is the result:

American Incomes, Expenses, and Savings, 1880.

Class.	Persons.	Income.		Average Expenses.	Average Savings.
		Range.	Average.		
I.	50	over \$1,000,000	\$1,500,000	\$250,000	\$1,250,000
II.	500	250,000 to 1,000,000	450,000	100,000	350,000
III.	5,000	50,000 to 250,000	88,000	40,000	48,000
IV.	12,500	20,000 to 50,000	27,500	15,000	12,500
V.	27,000	10,000 to 20,000	14,000	9,000	5,000
VI.	75,000	5,000 to 10,000	6,400	5,000	1,400
VII.	250,000	2,000 to 5,000	2,700	2,300	400
VIII.	850,000	700 to 2,000	1,000	850	150
IX.	2,500,000	350 to 700	400	380	20
X.	13,672,000	under 350	300	285	15

It is now necessary to tabulate the aggregate expenses and savings of each class, as an entire class.

American Incomes, Expenses, and Savings, 1880.

Class.	Persons.	Total Income.	Total Expenses.	Total Savings.
I.	50	\$75,000,000	\$12,500,000	\$62,500,000
II.	500	225,000,000	50,000,000	175,000,000
III.	5,000	440,000,000	200,000,000	200,000,000
IV.	12,500	343,750,000	187,500,000	156,250,000
V.	27,000	378,000,000	243,000,000	135,000,000
VI.	75,000	480,000,000	375,000,000	105,000,000
VII.	250,000	675,000,000	575,000,000	100,000,000
VIII.	850,000	850,000,000	722,500,000	127,500,000
IX.	2,500,000	1,000,000,000	950,000,000	50,000,000
X.	13,672,000	4,101,600,000	3,896,520,000	205,080,000
	17,392,050	\$8,568,350,000	\$7,212,020,000	\$1,356,330,000

§ 23. Incidence of taxation. The incidence of taxation is now to be considered. The gross expense of the people's living has been estimated, as above, at \$7,212,000,000 for the year 1880. Taxation was distributed nearly pro rata upon this. The whole burden of taxation, including its intended and unintended effects, has been shown to be \$1,350,000,000. This was equal to $18\frac{7}{10}$ per cent. on expenses. As the total savings, before taxes are deducted, would amount to \$2,700,000,000, the ultimate burden imposed by taxation and its effects was 50 per cent. of all the national savings.

But, while this is the average, that average is based on a vast disproportion of burdens. The tax of $18\frac{7}{10}$ per cent. upon expenses means a tax of less than 4 per cent. upon the easy savings of the richest class, but of 78 per cent. upon the hard savings of the poorer class. Indirect taxation, therefore, bears twenty times as heavily upon the average poor man as it does upon the average rich man.

This will appear by the next table, in which is given:

1. The annual expenses of each class;
2. The tax burden at $18\frac{7}{10}$ per cent. on such expenses; and
3. The savings which each class could make, with no greater self-denial than at present, if it were relieved from all taxation.

American Tax Burdens, 1880.

Class.	Persons.	Total Income.	Expenses.	Tax Burden, $18\frac{7}{10}$ %.	Taxable Savings.	Savings left after Taxation.
I.	50	\$75,000,000	\$12,500,000	\$2,337,500	\$64,837,500	\$62,500,000
II.	500	225,000,000	50,000,000	9,350,000	184,350,000	175,000,000
III.	5,000	440,000,000	200,000,000	37,400,000	277,400,000	240,000,000
IV.	12,500	343,750,000	187,500,000	35,062,500	191,312,500	156,250,000
V.	27,000	378,000,000	243,000,000	45,441,000	180,441,000	135,000,000
VI.	75,000	480,000,000	375,000,000	70,125,000	175,125,000	105,000,000
VII.	250,000	675,000,000	575,000,000	107,525,000	207,525,000	100,000,000
VIII.	850,000	850,000,000	722,500,000	135,107,500	262,607,500	127,500,000
IX.	2,500,000	1,000,000,000	950,000,000	177,650,000	227,650,000	50,000,000
X.	13,672,000	4,101,600,000	3,896,520,000	728,649,240	933,729,240	205,080,000
	17,392,050	\$8,568,350,000	\$7,212,020,000	\$1,348,647,740	\$2,704,977,740	\$1,356,330,000

§ 24. Concentration of wealth through unequal taxation. The general effect of this inequality of taxation will be better understood by dividing the community into three classes, as is done in other countries, calling them the rich, the middle, and the laboring classes.

Under the system of taxation, existing in 1880, the stored-up wealth of the community was annually divided about as follows:

American Annual Accumulations, 1880.

Class.	Persons.	Accumulations.
Rich.	120,000	\$873,750,000
Middle	1,100,000	227,500,000
Laboring	16,172,000	255,080,000
Total,	17,392,000	\$1,356,330,000

If these calculations are at all correct, they demonstrate that, in 1880, fully half of the annual accumulations of the country fell into the hands of less than 28,000 families.¹

But, it will be asked: Is this the result of indirect taxation? Certainly it is. If taxation were direct and exactly equal, the annual savings of each class should bear the same proportion to each other, after taxation, that they did before. Taxation, in short, should at least not make the poor relatively poorer than the richer classes. Let us see, then, how the case would stand if there were no taxes, no bounties, and no favoritism.

Natural Savings, in the Absence of Taxes, 1880.

Class.	Persons.	Untaxed Savings.
Rich.	120,000	\$1,073,466,000
Middle.	1,100,000	470,132,500
Laboring.	16,172,000	1,161,379,240
Total,	17,392,000	\$2,704,977,740

On this basis, it will be seen, the laboring masses would gain 43 per cent. of all the wealth, instead of less than 19 per cent., as at present; while the middle and laboring classes together would gain 60 per cent. instead of 36 per cent.

But upon what principle of equity or economic science should any artificial taxes be laid upon the masses of men, whose incomes fall below \$400 to a family? Why should not taxation fall upon property instead of labor? Why should it be taken out of the means necessary to a bare living? It is idle to say that taxation of labor promotes economical government. It never has done so; and it

¹ Of the whole accumulation, \$1,356,330,000, over \$633,000,000 fell to 18,000 families, and \$50,000,000 more to less than 10,000 families included in Class V.

never will. It has already been pointed out that indirect taxes are maintained for the very purpose of convincing the vast majority that they are *not* taxed, and that they have no interest in economical and prudent government. It is beyond contradiction that this is the design and effect of such taxes. It is absurd to contend that they must be maintained, in order to secure the votes of the majority for good and cheap government, when their chief object is to prevent these voters from feeling any personal interest in that question.