

PART III.

THE DISTRIBUTION OF TAXES.

CHAPTER VII.

NATIONAL TAXATION.—INJUSTICE OF INDIRECT TAXES.

THE incomes described in the preceding chapter were incomes prior to taxation. It remains, therefore, to determine what part of the income of each class is taken by the public to defray public expenses.

It is beyond the scope of this essay to discuss the question how the burdens of taxation should be distributed. It is, however, within its province to note how little difference there is in essence between the principle of the property tax commonly accepted in this country and the principle of the income tax as advocated by the more progressive economists and statesmen of Europe. The doctrine that the very poorest classes should be deprived of needed food and shelter in order to pay

**The Accepted
Standards
of Justice.**

the same percentage of their incomes to the state as the very rich, has now as little standing before the intellect of Europe as it had before the heart of this country when the greater justice of the property tax was recognized. The proportional income tax as now advocated by most European thinkers concedes that an "existence minimum" should be exempted, and only the excess of incomes above this minimum be taxed proportionately.¹ The principle that permanent incomes from property should be taxed more heavily than life annuities, which have but half their selling value, and much more heavily than labor incomes, which have no selling value at all, is rapidly being recognized as self-evident, not only among thinkers, but among statesmen, — and among statesmen outside of democratic Switzerland. It was in recognition of this principle that the Dutch Minister of Finance, M. Pierson, secured the introduction of a general property tax in 1891, to supplement the income tax;² and it was in recognition of this principle that the Prussian ministry urged the same measure in 1892. The proportional income tax thus modified would distribute the burdens of taxation among the various classes, along almost the same lines as the equal taxation of property so long demanded by the general public in America.

¹ *E.g.*, Mill, Rau, and Schaeffle.

² See article by M. Greven in *Economic Journal*, 1892.

For example, were a proportional income tax of this rational sort to be substituted for existing taxes, the public conscience would not tolerate the taxation of family incomes below \$350, and would exempt this amount from the income of every family before taxing the balance as heavily as the largest incomes are taxed. On this basis the property and taxable incomes of the three great classes would stand as follows:—

INCOMES.	TOTAL PROPERTY. ¹	TAXABLE INCOME. ¹	PER CENT	
			OF TOTAL PROP.	OF TAX. INC.
\$5,000 and over,	\$35,500,000,000	\$3,040,000,000	55	47
\$5,000 to \$1,200,	20,500,000,000	2,435,000,000	31	38
Below \$1,200 .	9,000,000,000	950,000,000	14	15

Did we further allow for the fact that the incomes of the two poorer classes are chiefly from labor, and therefore should be taxed at a lighter rate than incomes from property, the assessment of each class would be almost precisely the same, no matter which method was used to determine its tax-paying ability. There is no greater mistake than the assumption that the American doctrine of the equal taxation of property and the non-taxation of labor rests upon any peculiar philosophy respecting the obligations of citizens.

¹ See table on page 128. To capital of each class add value of household furniture; from income of each class subtract \$350 for each family therein.

Public conceptions of justice do not rest upon political philosophies. At the basis of every system of taxation approved by the public conscience is the same instinctive conception that all classes should be taxed in proportion to their respective abilities. The doctrine so long accepted in America, that each class should be taxed in proportion to its property, indicates substantially the same sense of social justice as the new European doctrine, that each class should be taxed in proportion to its income over and above an existence minimum, and the property-owning classes pay an additional tax on their incomes from property. Whatever system of taxation the public sense of justice may require in the future, that sense of justice at present, not only in America, but among the awakened peoples of Europe, demands that each class should be taxed substantially in proportion to its property. To what extent do our present taxes conform with this demand?

In answering this question, the sharpest possible distinction must be made between national and local taxation. Our local taxes are almost wholly direct. The public knows how it is taxed, and the public sense of justice is kept awake regarding the distribution of these taxes. Our national taxes are wholly indirect. The general public does not see how it is taxed; and the whole

subject is thus taken out of the control of the public conscience, and placed under the control of powerful private interests.

Our system of national taxation was copied directly from that in vogue in Europe at the time of the formation of our government, and is now only less burdensome than the European systems because fewer of our public expenses are borne by the national government. Our school system is entirely supported by local taxes; our police system is entirely supported by local taxes; and even our military expenditures, including the enormous pension appropriations, are relatively less than the military expenditures in Europe. But if the amount of national taxation is less, the system by which it is raised is worse.

The Growth
of Our
National
Tax System.

In the beginning it was not so. Public sentiment in this country against indirect taxation, and in favor of unrestricted commerce, was far in advance of public sentiment in Europe. Franklin and Jefferson and Madison would gladly have negotiated a reciprocity treaty with England, but Pitt found that he could not persuade the English Parliament to ratify such a treaty. When the Constitution was adopted containing the clause requiring "direct taxes" to be apportioned among the States according to their representation, it was not understood to preclude the

levying of such taxes. Not only was a direct tax apportioned in 1798,¹ but this tax, in one of its schedules, was made as sharply progressive as the great body of anti-monopolists would now demand. The dwelling-houses² of the entire country were divided into ten classes; those worth under \$100 were exempt from taxation; those worth between that sum and \$500 were taxed one-fifth of one per cent; and those worth higher sums were taxed at rates gradually rising to one per cent where the dwelling was worth \$30,000. Even at this time, however, the value of property in the several States did not correspond with the voting population; and the portion of the direct tax not collected from dwellings had to be levied at different rates in different States. When a direct tax was apportioned in 1813, these inequalities had become more marked. In Connecticut and Rhode Island, for example, the amount of property for each family had become almost twice as great as in Vermont and New Hampshire;³ while in Massachusetts, where the tax was apportioned among the counties according to population, the rate was more than twice as heavy in some counties as in

¹ Act of July 14.

² Including lots not exceeding two acres.

³ In New Hampshire the value of real estate had risen from \$132 per capita in 1798 to \$165 in 1813; in Connecticut it had risen from \$194 to \$326.

others.¹ The toleration of such inequalities was, of course, impossible; and the apportionment of direct taxes was abandoned with practically universal consent. Down to the time of the Civil War, however, our system of national taxation compared favorably with that of any country in Europe, as regards the method of its levies as well as their amount. With the war, however, the situation changed. The thought of this nation became absorbed with other questions, at the time that the European nations began to reform their systems of taxation. Democratic Switzerland, which had never completely lost the mediæval system of taxing property, took the lead in the revolt against indirect taxation, reducing it to an insignificant rôle, and practically displacing it with proportional and even progressive taxes upon property and incomes. England has not gone so far in this democratic direction; but her income tax, which was introduced as a temporary expedient on the repeal of the corn-laws, has now become a permanent part of the national budget, yielding \$80,000,000 a year, while the progressive inheritance tax yields \$70,000,000 more. Germany has followed in England's footsteps; and Prussia now collects \$29,000,000 a year from a progressive income tax, besides levying a small tax on inheri-

¹ Seaman's "Progress of Nations," 605. Pitkin's "Statistical View of the Commerce of the U. S. of A.," p. 329.

tances. Even in France, where the income tax is only now being established, the taxation of inheritances places an annual burden of \$40,000,000 upon the property owners.¹ In fact, inheritance taxes have almost reached into Africa, Spain levying such a tax. In our nation alone do the national taxes remain exclusively upon consumption, and thus burden the poorer classes out of all proportion to their abilities to pay.

The manner in which indirect taxation inevitably overburdens the poorer classes has been the theme of too many essays to require treatment in a statistical chapter² on the present distribution of taxes. It only remains, therefore, to state very briefly the chief sources of national revenue, and the probable proportion of each important tax that falls upon each of the three great classes of incomes.

Our national revenues have for several years aggregated a little less than four hundred million dollars.³ All but twenty millions of this sum is raised by customs and internal revenue duties,⁴

¹ "The Inheritance Tax," by M. West, p. 20. The tax on successions in 1892 was 209,859,500 francs; the tax on gifts, 22,551,500 francs more. The figures for Germany are for the fiscal year 1892-1893. Those for England are for the fiscal year ending with March, 1896.

² The writer had occasion to discuss this subject in a paper on The Taxation of Labor, in the *Political Science Quarterly*, September, 1886.

³ In 1890 the figure was \$403,000,000.

⁴ The receipts from customs are now but little in excess of the receipts from internal revenue. Were the customs duties on

and nearly three-quarters of it from taxes resting upon liquor, tobacco, sugar, and clothing. The distribution of these taxes is fairly typical of the distribution of all.

The tax upon liquor is practically the same per gallon upon the consumption of all classes. It is absolutely the same so far as the internal revenue duties are concerned, and the public revenue from the more heavily taxed imported liquors is a mere bagatelle. The quantity of liquor consumed by the ordinary family with \$5,000 a year and upwards is certainly not more than double that consumed by a family of the well-to-do class, or more than quadruple that consumed by a family with less than \$1,200 a year. But assuming that the wealthiest class consumes all of the imported wines, and this disproportionate share of the remaining liquors in addition, it still pays but one-twelfth of the aggregate tax, while the well-to-do class pays a sixth, and the remaining class three-quarters.

**Incidence
of the Tax
on Liquor.**

The tax upon tobacco is relatively a more serious item to families with large incomes. It is true that the internal revenue duties are in the main so much per pound on the quantity consumed, but the government receipts from imported tobacco

**Incidence
of the Tax
on Tobacco.**

liquor and tobacco classed with the internal revenue duties thereon, the aggregate would be more than one-half the total revenue.

constitute about one-fourth of its revenue from this source. The tax on imported tobacco falls almost exclusively on the wealthy and well-to-do classes. Assuming that the wealthier families pay three times as much for tobacco as the well-to-do, and that the two classes consume all the imported tobacco, and their *per capita* share of the domestic product, the wealthiest class still pays but one-tenth of the total tax, the well-to-do class but one-quarter, and the remaining class two-thirds.

The tax upon sugar is little better than a *per capita* tax upon all classes. The tax upon cloth-

**Incidence
of the Taxes
on Sugar and
Clothing.**

ing, however, from one point of view, falls more heavily upon the wealthier classes than any other of these indirect taxes. Making all allowance for clothing purchased abroad by the wealthier classes, it remains possible that a family with over \$5,000 a year usually pays as much for cloth as three families of the well-to-do class, or twelve families with less than \$1,200 a year. Upon this basis the wealthy class would pay one-eighth of this tax, the well-to-do class over one-quarter, and the remaining class three-fifths. From another point of view, the wealthy class, or rather a part of it, is really enriched instead of burdened by the taxes on sugar and clothing, both of which are framed so as to increase the revenues of American manufacturers.

This phase of the question, however, may be ignored.¹ When we consider only the revenues actually received by the government the conclusion inevitably reached is that Conclusion. the wealthy class pays less than one-tenth of the indirect taxes, the well-to-do class less than one-quarter, and the relatively poorer classes more than two-thirds. The table summing up the incidence of these taxes in 1890 would stand as follows: —

CLASS OF INCOMES.	TOTAL INCOME.	TOTAL PROPERTY.	NATIONAL TAXES.	TAXATION TO	
	\$	\$	\$	Income.	Property.
\$5,000 and over . . }	3,110,000,000	35,500,000,000	35,000,000	.01	.001
\$5,000 to \$1,200 . }	2,890,000,000	21,500,000,000	85,000,000	.03	.004
Under \$1,200 . }	4,800,000,000	9,000,000,000	260,000,000	.05	.028

In the domain of direct taxation such injustice would not be tolerated one month; but in the domain of indirect taxation, it is endured year after year.

The situation, as presented above, has not been

¹ The writer is convinced that the amount of the taxes paid by one class to another is commonly exaggerated by those who appreciate the iniquity of not only exempting certain industries from taxation, but making them the recipients of taxes paid by others. The gains of the tax-receivers are much less than the losses of the tax-payers. After the English fish bounty had resulted in the fitting out of vessels, not to catch fish, but to "catch bounties," exceptional profits were at an end. Most bounty systems end in this way.

materially changed by the passage of the Wilson Bill. The only important feature of that measure which ran the gantlet of the Senate and the courts, was the abolition of the one protective tax¹ whose proceeds went to members of the middle class. The one feature of the bill that struck at the roots of existing iniquities has been overthrown by the Supreme Court. Reversing its earlier unanimous decisions, that body has declared that the clause in the Constitution relating to "direct taxes" meant to the Constitutional convention what such a clause would mean to-day. Under this decision our system of national taxation remains in proportion to its weight the most unjust to poorer classes of any now tolerated in a popularly governed country. There was, however, one redeeming feature to this decision; and that was the manner in which the court finally took the extreme ground that no national taxes resting upon property could be imposed under the present Constitution, unless they were so apportioned that property in the poorest States should be taxed four times as heavily as property in the richest.² Without this final decision an unsatisfactory income tax would, in any emergency, have been pos-

Recent Tariff Changes.

¹ The duty on raw wool.

	POPULATION.	VALUE OF REAL ESTATE.
² Connecticut	745,000	\$543,000,000
South Carolina	1,147,000	176,000,000

sible without amending the Constitution. With it, all who believe that the nation should have command of its resources, and all who believe that taxation should be controlled by the public sense of justice, are bound to support an amendment to the Constitution, which shall make possible a system of taxation thoroughly in conformity with the present needs of the nation.