

## CHAPTER XVI

### Taxation

#### AN ELEMENTARY PHILOSOPHY OF TAXATION AND ITS PRINCIPLES.

*Taxes are paid in the sweat of every man who labors, because they are a burden on production, and can be paid only by production. If excessive they are reflected in idle factories, tax-sold farms, and hence in hordes of the hungry tramping the streets and seeking jobs in vain. Our workers may never see a tax bill, but they pay in deductions from wages, in increased cost of what they buy, or (as now) in broad cessation of employment.*

—F. D. R. Campaign Speech, Pittsburgh  
October 19, 1932

**A** LACK of intelligent tax planning is taking the nation further and further along the road to socialism, communism, and disaster, for the generally approved idea of taxation, according to ability pay, is identical with the avowed principle of Karl Marx, expressed as "From each according to his ability," is the principle of financing government by simple seizure of private property, with little regard for morals or for justice. It is essentially the policy of the gangster and the gunman, taking wherever the most may be had with the least resistance, and it is the first step to Marxian communism. Socialism and communism will be defined and discussed in a subsequent chapter but note that neither word implies any Russian tie-up.

From this method of raising funds it is only a step towards spending, "unto each according to his needs." Thus we have the full realization of the program of Marx, with the denial of personal property rights, inevitably bringing corruption and totalitarianism, with concentration of power in the supreme state. There is no limitation on the seizure of personal property and the obliteration of personal rights. It means bankruptcy of the people as in England, or virtual enslavement as in Russia.

What should we look for in planning a tax program? As a matter of fact, we have never planned anything consistent and logical, but our tax policy, like Topsy, has "just growed." Our policy, if you can call it that, is best described by the old battle-royal idea of "when you see a head, hit it." In other words, whenever anyone looks prosperous and seems to have money,

take it away from him. It is the idea advanced by the French Minister of Finance to the King when he outlined a policy of taxation as plucking a goose to get the maximum of feathers with a minimum of squawking. Certainly we should do better than this: we should have some definite, consistent policy and there should be some principle back of the method by which we seize private property for public use.

As a preliminary, we would accept two basic premises. First, we should collect for the support of government all income which justly and rightfully belongs to all the people before we exact what is truly private property, and this means that we should collect the ground rent. The land was the creation of the Almighty, or the product of nature if you so prefer to put it, and was put here for all mankind and not for the benefit of a few. We shall see that the value of land is due to government and the common life and that the income arising from the value of land may justly be taken for the support of government, to be returned to all the people in the services of government. Such a program cannot be called taxation, for taxes are the arbitrary exaction of private property for the support of government, and an income earned by society is not private property. It belongs to all and should be taken before recourse is had to private property.

The second broad principle of a tax program is that federal taxation should be levied only for constitutional purposes; and if you will read Article 1, Section 8, of the Constitution, you will see how rigidly these are limited. We believe that there is no justification for taxation to provide funds to be given away to individuals, to subsidiary governments, or to alien governments. To this statement there may be exceptions in cases where the gift is payment for services, as in the case of pensions to soldiers; but we can find no authorization in the Constitution for taxes to pay subsidies to state or local governments. Some grants to allies, in time of war or in prospect of war, may be justified if legitimately for defense, but generally donations to foreign peoples are not legitimate. Our interpretation of the Constitution may seem a bit extreme; but more is said on this subject in the next chapter, and the reader can make his own reservations.

In the case of subsidies to states, and to minor divisions of government, it is wrong, for the national government should spend and handle its own money in its own way. If given for local purposes, such policy destroys self-respect, self-reliance, and liberty, and has the same effect on states and on local govern-

ments as communistic giving always has; for such subsidies and grants are essentially communism among the states. We tax some to give to others and attempt to equalize conditions, making the prosperous and thrifty states pay for the more backward; and there is a complete parallel between such policies and taking from the well-to-do to give to the poor and thriftless. Either is communistic in principle and destructive to morals. Minor divisions of government may be taxed to support our federated nation, but never the other way around. The principle that Cleveland enunciated in a veto measure of February 16, 1887, "Though the people support the government, the government should not support the people," could be applied to our public expenditures: it is the duty of the states to support the nation, but not the duty of the nation to support the states.

The states should let local governments stand on their own feet and carry their own responsibilities; and local governments, notably the cities, have, in ground rents, a tremendous fund available for public revenue which they do not now collect. It would be more than ample for all reasonable municipal needs, and our cities could easily support themselves on the revenue which city investments create. Just as far as possible, all taxes should be levied locally, giving the people direct control, checking extravagance and waste, and cutting down corruption. It keeps local government strong and it allocates expenses where they belong—to the people who directly benefit.

National taxation to provide funds to be used for local purposes is open to the same objection as the fallacy of "the greatest good of the greatest number," of which more will be said. When the whole nation is taxed to grant subsidies to states or to minor local divisions of government, it is possible for a minority of the states to be victimized by the majority, just as a minority of the people are often victimized by the majority. If local questions are acted on by broader governmental units, voice in the matter under consideration is not confined to those who have a positive interest in it.

There is another reason why financial burdens should be borne locally just as far as possible. Today, the federal government borders on insolvency. It has repudiated its obligations, devalued its money, and is plunged deep in almost hopeless debt. The states are stronger and better qualified to carry burdens, as are the local divisions of government. Even if this were not true, it is wiser to jeopardize states or cities than to wreck the nation by upsetting federal credit or demoralizing our currency. We

should throw back on the states obligations and expenses, as well as control, of many operations with which the federal government is now concerning itself. Education should be a matter of local pride and of local control, paid for locally and managed locally. Similarly with relief and local improvements. Keep the federal government strong for defense: keep its credit good and its money sound and avoid inflation.

Even at best, some direct federal taxation may be necessary. What should be our tax policy? Taxes should be levied only for national and for constitutional needs. Even for these purposes it would be better, as far as possible in order that taxation shall be handled locally, for the states to levy the taxes and then pay a proportion into the federal government. The great primary objective of the national government is the defense of life, liberty, and property, but defense should be broadly interpreted. It may, and often should, include not only defense from enemies at home and abroad but from many dangers, such as disease, human, animal or plant, and from shipwreck.

The Constitution specifies the requirements of taxes levied by the federal government. Read these over, or better yet, study the whole Constitution, with which every American citizen should be familiar. Note particularly the clauses on taxation, and the amendment which authorizes the imposition of an income tax, quite at variance to what had been thereto our tax policy.

What are the fundamental principles upon which a tax program should be framed? In normal times, but not necessarily in war times when even the sacrifice of life may be demanded, all taxes should embody these principles:

1. They should be impartial and uniform and, under identical conditions, equal in amount, inescapable and relentless. It is sometimes said that the wealthy should pay more than the poor, for they have more property to defend; and there is something in that argument. It may justify taxing a man with property worth a million dollars a thousand times as much as one possessed of only a thousand dollars, but it cannot justify a *tax-rate higher per thousand* based on the wealth of the insured, any more than we would tolerate graded tax insurance premiums, increased not in proportion to the value of the property insured but at a *higher rate*.

2. They should not, under the guise of taxation, be subterfuges for the subsidy of one group at the expense of another, as for instance, the tariff, paid by the consumer in higher prices to benefit favored producers.

3. As a corollary they should never be framed, as is the income tax, on the principle of "equalizing wealth," dividing it up, or any other communistic policy.

4. They should, as far as possible, be levied directly on the taxpayer and not of such a nature that he is simply a deputized taxgatherer, collecting from others the tax which he pays. Hartley Withers, eminent English authority, says with truth, "Unfairness is necessarily attached to any form of indirect taxation."

5. They should not check legitimate business, nor discourage industry, thrift, progress, or accumulation of capital. In the case of businesses which call for regulation, and are therefore subject to license, fees should cover, amply and with safe margin, the cost of supervision, but should not be made an excuse for gathering revenue.

6. They should be easy and economical in assessment and collection, and of such nature that they may be equitably assessed and readily collected, with a minimum of annoyance and expense both to individual and to state.

To this we might add one other principle, a very broad one: Just as far as possible taxation, and spending of resulting funds, should be in the hands of states or of the local divisions thereof, for reasons already given and because the preservation of liberty and free self-government depend upon maintaining the independence of the states. Therefore, if expenses are to be heavy, if taxation is to be onerous, and if public debt is to be increased, it is far better that these disasters should come upon state and local governments rather than upon the nation. There is less danger of local governments losing their heads than there is of the national government yielding to folly, because local affairs and expenditures come closer to us and are generally under closer scrutiny.

Taxes should preferably be levied for the general support of government and not for particular objectives. Our governments all presuppose a legislative body, entrusted with the raising, management, and spending of public funds; and it is wiser to leave the allocation and appropriation of money to such a body and hold them accountable, rather than to assign certain tax receipts to specific purposes for which they may prove either insufficient or excessive. Conditions, needs, and tax yields often change greatly through the years and appropriations for each activity should be adjusted to circumstances and not left to chance.

Many a school and college is seriously crippled by "designated" gifts and bequests, restricted sometimes to a very narrow use,

and the difficulties thus caused are similar to those encountered when collections from a particular source are definitely allotted for a specific objective. We have in mind a generous bequest to a small college to provide the fine arts department with literature and prints, with the result that the library and museum in this field are ridiculously over-expanded while the wretchedly paid fine arts faculty is being rapidly starved out of existence.

There is a growing tendency to assign the yield from certain taxes to specific purposes, notably to "relief," child welfare, and other humanitarian purposes. The difficulties of providing funds, for objectives of strong emotional appeal, are sometimes answered by imposition of a new tax. Thus the over-zealous advocates of new and greater operations achieve their ends by adding to the burdens of the poor taxpayer without arousing the opposition which would result from diverting grants of other departments of government.

There are countless examples of such practices. A tax on pay-rolls, paid both by employers and employees, provides "security" for the improvident and for those who don't like to work. This is often spoken of as insurance, but it is not framed on any actuarial basis. As a result, the cost of caring for derelicts and the unfortunate is imposed on those who create industry and give employment, while those who employ no one or who refuse to work escape. There is a drift toward setting aside the yield from certain taxes to various children's agencies and to education, which accounts for the frequent excesses of many of these programs; having the money, they naturally spend it. In some states there is an urge to set aside the proceeds of sales taxes and certain oil taxes in a similar way, and in New York City an annual tax on every telephone in the city is proposed, to furnish funds for totally unnecessary "public" housing, and we shall see later why we say that it is unnecessary.

However, this argument is not of universal application. There are a few taxes, sometimes more accurately described as licenses, which it is just to devote to particular purposes, for they will benefit directly those who pay for them. The motorists pay the taxes on cars, accessories, fuel consumed and for driving licenses, and it is just to use these funds, first, for the expenses of operating the bureaus required for control, second, for highway construction, maintenance and policing, and third to provide parking spaces in our cities. Similarly a rural dog tax may well be devoted to paying damages caused by dogs and sheep destroyed. Such taxes are totally different from taxing employees to pay

benefits to the unemployed and the unfortunate or taxing tele-phones to provide housing for favored groups.

### QUESTIONS

Is the principle of Marx, "From each according to his ability," very different from the accepted American principle, "Taxation according to ability to pay?"

Broadening the tax base is advocated. Is it a sound ethical principle to tax something just because we have not taxed it before?

Is there a potential income produced by government and by society? If so, should this be collected and used before we seize personal property?

Should taxes be levied by the federal government only for purposes which the Constitution sanctions?

Can you find justification in the Constitution for federal taxes, not for the support of government but to give away?

Are there advantages in keeping state and local governments strong?

Do you favor centralizing all authority in a totalitarian government?

Is it just to tax one state to provide funds to be given to another state? Does such a policy savor of a communistic dividing-up?

Does the "general welfare" clause mean the welfare of all the people or of selected, favored groups?

Is government built on justice and the protection of all or is it organized to equalize wealth and to engage in charitable giving?

Are duties such as charity and sympathy duties of personal life and of religion and matters of personal conscience or should they be controlled and directed by government, and should the funds be raised by taxation?