

Coin Slogan, Dodge Tax

By Harry Gunnison Brown

A recent article by Buell W. Patch in Editorial Research Reports urges direct taxation of all incomes above the subsistence level. Citing Senator LaFollette and others, the author contends that this would make many more citizens tax conscious, that a graduated income tax conforms to the principle of ability and that indirect taxes do not conform to this principle.

Alas and alack. When will "liberals" stop mouthing the word "ability" and get down to some real analysis of the tax problem? Probably never, for our supposedly progressive groups, including our political leaders of the most reputedly "liberal" proclivities, seem to have been completely sold on the "ability" slogan and concern themselves little or not at all with the matter of sources. The income tax is very wonderful, they think, because it can be based on "ability," and the ultra-liberal among them and those of quasi-communistic bent can glory in the thought that their favorite tax provides a way to "soak the rich."

It may, indeed, be very well contended that income from constructed capital, such as buildings, machines, orchards and steamships, is as truly earned as is income from work. For those whose saving has made the construction possible have benefited the community by whatever additional output this capital enables the industrial system to produce. Perhaps, therefore, if our people are determined to tax incomes of all kinds regardless of source, it might be plausibly argued that income from capital should bear no heavier burden than comparably measured income from labor.

* * *

But the method of measuring the income from capital and from labor, respectively, surely ought to be comparable. And in the case of income from capital, repairs and an allowance for depreciation are subtracted before there is reckoned any net income to tax. Only that income which,

if depreciation is regularly put aside and wisely invested, would go on forever, is taxed.

How about the income from labor? Do we subtract an allowance for repair of the source of the income and a further allowance for depreciation of this course, before we reckon the taxable income? We do not. And because we do not, the income tax bears more heavily on the incomes men earn by their work than on the incomes earned by their accumulated capital. No wonder owners of property when they can't arrange to have the public needs taken care of by commodity and sales taxes on the poor, eagerly "whoop it up" for income taxes as the next best way to get "tax relief for real estate."

But there is a far more fundamental distinction which our professional "liberals," whether in public life or in editorial sanctums, never stress and to the understanding of which by the common run of folks they never make any contribution. This is the distinction between income on capital which would not have come into existence except for the owners' saving and which really adds to the wealth-producing efficiency of industry, and, on the other hand, income from ownership of the earth.

* * *

New York Harbor was made by geological forces operating before the dawn of history. With the settlement in the continental United States of over a hundred million persons, spreading out from the Atlantic to the Pacific, and with the building of roads and railroads converging on this harbor, the demand for men and women to work in and about New York City, in transshipping goods from railroads to steamships and vice versa, in manufacturing, in banking and in other lines serviceable to the

entire country, and the demand for men and women as clerks, taxi drivers, waiters and waitresses and in other work have come to be very great.

In order that the needs of all the people of the United States may be adequately served, millions of persons must live near and around New York Harbor. And those comparatively few who own this part of the surface of the earth can charge the workers literally hundreds of millions of dollars every year for granting these workers permission to work and to live where the rest of the people of the United States must have them work and live if their work is to be done effectively.

* * *

Is there no difference between an income received by an individual from an orchard he has planted or a boat he has built or share in a factory the construction of which his saving has helped to make possible, and, on the other hand, an income which owners of the earth about New York Harbor can secure as the price of permitting work to be done there and permitting men and women to live there? Is there no distinction which such contributors and editors think worth emphasizing, in their enthusiasm for the rights of the common man, between an income based on individual contribution and an income secured by charging others for community-produced location advantages?

If the custom had developed of allowing individuals to secure income by charging other persons for permission to sail boats on the ocean and on lakes and rivers, and the general public had come to take the custom as a matter of course, it seems pretty certain that our conservative tax "experts," our "high-brow" magazine editors and our literary intelligentsia in general, would also take the custom as a matter of course; and the "intellectuals" of radical proclivities, along with the "experts" would claim they could see no difference between such income and income from man-made capital.



They would seek eagerly to have taxes based on "ability" so that the executive who received \$20,000 a year for efficient work, the retired worker who received \$20,000 a year from capital the construction of which his saving had made possible, and the man who received \$20,000 a year for permitting steamboats to operate on his personal section of the Hudson River or of Lake Erie, could all be taxed at the same rate.

They would discover various economic likenesses between lakes and factories to show that there was no real basis for any difference in tax policy. They would insist that the important thing was to "soak the rich" and not to worry about such unimportant trifles as differences in the source of incomes.

And presumably they would discover plausible reason for a similar attitude if some persons were charging others for the enjoyment of the sunshine!

* * *

Meanwhile, the more conservative writers and tax advisors and "experts" would vociferously seek "tax relief for lakes and rivers" and "tax relief for sunshine" as a means of helping the common people, and they would point out how necessary it was to "broaden the tax base" so as to make more people "tax conscious" or to levy sales taxes so as to make everybody "tax conscious."

I hope it will not appear to the reader that I am trying to arouse any undue sympathy for the person with a \$75,000 income who, because of a graduated income tax, must contribute a large amount to government. But I do want to emphasize that an income from property ought to be distinguished from an income gained by labor. And especially do I insist that an income derived from capital which is brought into existence by labor and saving and which adds to the wealth-producing efficiency of the community's industry must be distinguished from income that an individual gets through being able to make others pay him for permission to work on and live on the earth and to enjoy community-produced advantages.

If we do not make this latter distinction, we penalize efficiency in serving the community. If we do

not make it, we penalize thrift and the accumulation of capital. If we do not make it, we leave to the owners of sites, however progressive may be our income tax, a large part of the community-produced annual rental value of land. If we do not make the distinction, we facilitate speculative holding of land. If we do not make it, we open the way for high sale prices of land, with slums and congestion, with inadequate playground space and with wide-spread tenancy in place of easy ownership of homes by those who live in them.

Is it to be our "liberals," our "friends of the people," our radical "high-brow" magazines and our New Deal enthusiasts, to whom we shall finally owe these consequences?