

## ESSAY ON TAXATION

Included in a publication of six essays submitted to the publishers of Public Opinion,  
Washington, DC / Published by Thomas Y. Crowell & Co., 1892

BY MR. J. WHIDDEN GRAHAM, OF NEW YORK.

[J. Whidden Graham was born in Nova Scotia, and is twenty-eight years old. Was educated in country schools, and worked successively on a farm, in a factory, and in a store. Came to the United States several years ago, and has since been employed as a reporter in New York City. Has been actively interested in the various labor and social reform movements; writes occasional articles on the tariff and currency questions, and is assistant secretary of the New York Tax Reform Association.]

UPON the general question of taxation, including as it does the important issues of a protective or revenue tariff *v.* free trade, internal revenue, income, land, and corporation taxes, there exists the widest diversity of opinion. But, much as authorities may disagree as to the direction or nature of the changes required, the opinion is wide-spread and rapidly growing that our entire system of national, state, and municipal taxation should be radically reformed. That such a sentiment should exist is not surprising, for methods of taxation, like all human institutions, are an outgrowth of certain conditions, which, when changed, necessarily involve a readjustment to suit the new circumstances. The gradual realization of the fact that crude methods adopted in the early years of the country's history are entirely inadequate for present needs has converted the whole country into a vast debating society, in which not only farmers and financiers, but politicians, business men, workingmen, — in short, all classes, — are eagerly studying and discussing the various phases of the taxation problem.

It cannot be claimed that this is altogether a recent development, for it was the taxation issue which led to the separation of the colonies from the British crown, and it has been an important factor in national politics ever since. Yet only within later years has an attempt been made to consider the question apart from the bias of partisanship, solely with an end to the best interests of the whole people. The result, in so far as national taxation is concerned, can hardly be said to be a success; for the two great political parties of the country having joined issue on the question of protection *v.* a revenue tariff or free trade, the discussion carried on has been far from impartial.

With no expectation of being able to add anything new to the arguments in favor of abolishing the protective tariff now in force, I may briefly state some of the reasons which can be adduced in support of a more simple and equitable system of taxation. The first consideration is that taxes on imported commodities tend to discourage commerce and industry by making more difficult the exchange of products of various countries. That this is true of all tariffs, whether for protection or revenue only, is not denied, the advocates of protection claiming that it is desirable in the interests of the home producer. As it is a fundamental principle of the science of the

production and distribution of wealth, that men seek the satisfaction of their desires by the least possible effort, it follows that individuals living in separate political communities, as well as those living under the same government, will only exchange products when it is mutually profitable to do so.

Against this law of reciprocal exchanges it is urged that the national government should enact legislation compelling consumers to purchase from certain home producers, at an increased price, the goods they would otherwise obtain from abroad. Without entering into the minor points of differences in wages paid in various countries as compared to this, or the necessity for an artificial stimulus for the diversification of home industries, it is sufficient to point out that all such legislative interference with exchange of commodities must inevitably result in decreased production. That this is so can easily be seen by an examination of the methods in which wealth is most effectually produced, which are: those giving the largest returns for the smallest expenditure for labor, land, and capital; the factors of production. From this it follows that when artificial restrictions compel the producer to give a larger share of his commodities for the goods he needs than he would have given if allowed to exchange them to the best advantage, the total wealth is diminished. These considerations apply equally well to revenue tariffs, in so far as they act as a hindrance to the importation of commodities.

Tariffs, then, being condemned on the broad ground that their effect is to decrease the wealth, and therefore the comfort and happiness of mankind, it remains to be seen whether any system can be devised which is -not open to the same objections. Such a system has already been suggested, and is advocated by a large and increasing number of adherents, who believe that it is the only practicable solution of the difficulties in which the question is involved. **Briefly stated, the proposition is to: abolish all duties on foreign goods, and internal revenue taxes, and resort to direct taxation levied on real estate alone. This must not be confused with the tax on land values, which has become associated with the name of Mr. Henry George, whose persistent advocacy of a tax on rent has brought that question prominently before the public. Whatever merits his scheme may have, it is evident that its adoption, with its attendant feature of the confiscation of all unused land, is at present beyond the limits of probability, and need not be seriously considered here.** There is no doubt but that, when the public has been educated up to a perception of the injustice of allowing certain individuals to retain the values resulting from the general growth of the community, the demand that these values should be appropriated by the community will become wide-spread. The question is really one of methods of land ownership, and not merely of taxation, and should be discussed separately.

A direct tax on real estate, however, is open to none of the arguments urged against a tax on rent or the tariff. It would not injuriously affect production or discourage the investment of capital, but would be evenly and fairly distributed upon all users of real estate. As every one is included in the latter category, since it is impossible to live without using real estate, all would pay a share of taxation.

An additional argument in favor of a direct tax on real estate is its ease and cheapness of collection. Instead of the elaborate machinery of custom houses and internal revenue officials, a small force of assessors and collectors will suffice, who, it could easily be arranged would also levy and collect state and municipal taxes. Again, the tendency of direct taxation would

inevitably be to lead to greater economy in the administration of the government, as the immense sums now practically squandered in unnecessary expenditures could not be raised without a general protest, if they were taken from the people directly. Not a small evil of the present system is the fact that heavy burdens are imposed on the public, because the taxation out of which they are paid is not realized by the tax-payer.

While the question of reform in state and municipal taxation has not attracted so much attention as that of national revenues, it is nevertheless an issue of importance throughout the country at large. In all the states in which elections were held this year, the platforms of both political parties contained reference to the necessity for better tax laws; and the Farmers' Alliance, or third party movement, has declared in favor of sweeping changes in methods of assessing and collecting state taxes. Commissions for the purpose of securing information concerning the most equitable methods of raising state revenues have been frequently appointed by the legislatures of various states, but so far the conclusions reached by these commissions have not been generally adopted. Among the farming population of the country a sentiment exists in favor of reaching the wealthy classes by taxing all forms of personal property, and many states have enacted stringent laws for that purpose. The experience of those states, however, has shown that the personal property tax fails of its object, and is a prolific source of fraud and perjury. It is also found that the farming districts of these states pay proportionately a larger share of personal property taxes than the towns and cities. The reason for this is the fact that while the farmer's personal property is known and can easily be estimated by the assessor, that of the wealthy city resident cannot be found. And, since the value of city real estate is enormously greater than that of the country districts, direct taxation on real estate alone would not bear unjustly on the residents of the latter sections of the states.

There remain to be considered income, succession, and corporation taxes, each of which has a considerable number of supporters at the present time. The main objection to an income tax, in addition to its opportunities for fraud and evasion, is that it punishes the man whose special abilities, devoted to the production of wealth, benefit thousands while enriching himself. As society has everything to gain and nothing to lose by an increase in the total production of wealth, it follows that to tax those who are more industrious or inventive is to put a premium on laziness and ignorance. The history of the income tax in those countries in which it has been in force shows nothing in its favor, and its inquisitorial features are so foreign to the spirit of American institutions that there is little probability of its being adopted here.

Taxes on inheritances are, when light, easily collected, and might be made to yield a small part of state revenues; but any attempt to raise large sums in this way would simply lead to the distribution of property during its owner's life. This method of evading the succession tax is already in practice in several states in which for a time considerable amounts were obtained through it, but which have fallen off with the more strict enforcement of the law.

Taxes on corporations, which are merely large aggregations of capital for more economic production or distribution of commodities, are equally objectionable with all other taxes on capital. Their tendency is to prevent small firms or individuals uniting for the purpose of carrying on business on a wider scale, at decreased cost to the consumer; and their effect in states where adopted has been to drive many corporations into other states. An exception should be made in

favor of taxing all corporations owing their existence to a public franchise, which should pay for the special privilege granted by the state

All other forms of taxation having been shown to be either insufficient, inequitable, or injurious to the business interests of the country, direct taxation levied equally on all real estate, remains the only satisfactory system that has yet been suggested. Favored by nearly all the leading writers on taxation, it is only a question of time when its merits will be perceived by the public and its replacement of present methods be assured.