dian sales tax is the fact that it is payable to the banks as well as to Customs Officials. Of course banks are centrally located and can forward payments on in to the Government with very little trouble. This I consider a wise bit of tax administration.

Taxes Well Administered

Further it must be said that Canada's way of administering her taxes might teach us a great deal. As commissioners of taxation she has the honorable Mr. R. R. Farrow and R. W. Breadner. Mr. Farrow handles the administration of customs and excise under which the sales tax is administered. Mr. Breadner administers the income tax. Both men are veterans in tariff and tax work for the Government. They know the quips and turns of the tax game which new political appointees would slide over without seeing. From one end of Canada to the other we heard nothing but praise for the desire of these officials to assist the taxpayer. As one who is somewhat experienced in tax matters I think it impossible to overestimate the value of having as tax administratives men who inspire confidence in the public and who give consideration to the citizen. This one thing in Canadian taxation is enough to account for many millions in revenue. Taxpayers do not mind paying taxes when they feel they are getting "an even break."

Sales Tax Neither Painless, Simple Nor Popular

There is much to be said for the Canadian tax system and against it. I would prefer not to inject my own personal views into the question. I would be content with the statement that the tax has some good administrative features but that it is neither painless, simple nor popular.

VII

WHAT SHALL WE TAX—EARNED OR UNEARNED INCOMES?

By HARRY GUNNISON BROWN
(Professor of Economics, University of Missouri)

(Delivered at the banquet given by the Manufacturers and Merchants Federal Tax League in the Congress Hotel on Friday Evening, November 9.)

I have been asked to talk to you a little while on the subject: "What shall we tax—earned or unearned incomes?" It is my opinion that we ought to rely more and more largely for meeting the reasonably necessary expenses of government, upon the sorts of income which I am going to class as unearned. This, of course, does not mean that I am committed to the view that earned incomes can for a long time be entirely relieved—if they ever can be so relieved—of all taxation. But it does mean that I approve of our taking, as soon as possible, steps in that direction. For this view, I shall present and elaborate to-night three reasons, viz.:

1. That by taxing unearned incomes at the present low rates we are forced into taxing earned incomes heavily and that we therefore penalize efficiency and punish thrift.
2. That this system into which we have so been led, of discriminating against industry, efficiency and thrift, is, in some degree, a **communistic** system of taxation.
3. That this quasi-communistic system of taxation which is popular with many because it seems to tax especially the rich, operates, in so far as it keeps us from taxing unearned incomes, to make the opportunities of the thrifty and ambitious poor, comparatively hopeless.

But what are earned incomes and what unearned? Before we can expect to make good our contention that the former should be less taxed and the latter more, we must make clear what we mean by the terms. My notion of an earned income is an income for which a person renders a service to those from whom he derives his income, so that his income is not realized at the expense of society-in-general or any part of society. And my notion of an unearned income is an income received by a person who does not give an equivalent service to those from whom he derives his income.

The Kinds of Incomes

Let me present a few illustrations. I should class the income of the burglar as unearned. I should class the income of a highway robber as unearned. Although such persons exercise some industry and, frequently, a great deal of foresight, their industry and foresight do the rest of us no good, but are used to get something for nothing. Similarly, I should class the excess prices received for his goods by a monopolist as unearned, because they are gained at the expense of consumers. Unearned incomes like these, indeed, I would not desire to have taxed. It is better that they should not be received in the first place. But they will serve to illustrate the idea of an unearned income, and there are, as we shall see, other unearned incomes which can advantageously be taxed.

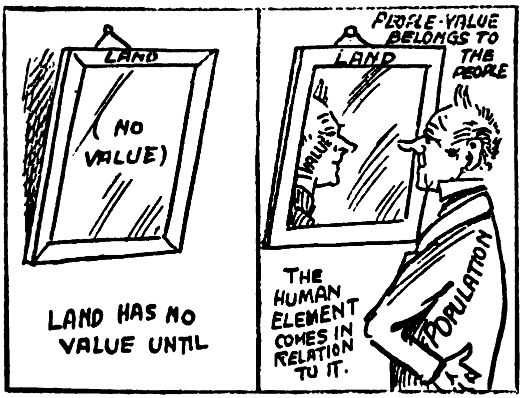
On the other hand, the income which is secured in exchange for a real service rendered is earned. Such an income is the income of the farmer whose efficient labor adds to the world's supply of corn and wheat; or the income of the merchant whose intelligence in the selecting of goods pleases patrons and causes them to flock to his store; or the income of the manufacturer whose wise use of materials, installation of up-to-date machinery and effective co-ordination of his labor force enable him to expand his business and make correspondingly large returns.

There is a very wide-spread notion that the interest on capital is not earned as truly as the wages of labor. This notion is wrong. Much more wealth can be produced with capital than without it. And capital comes into existence only by saving. So, the person who works and, saving part of his proceeds, puts it into capital, **adds more to the annual output of industry** than the person who works but does not save. To give him a larger income—in the form of interest on capital—is **not** to rob any one else. It is merely to give him wealth which, except for him, would never have been brought into existence.

Land Rent Is Unearned

But the case is not the same with regard to land and sites. They are not brought into existence by the owner. The rental yield which he derives from them is, in general, neither the product of any owner's labor nor of any owner's saving. Land is valuable because of natural advantages of location, etc., and because of community growth. The latter influence is recognized wherever the phrase "unearned increment" is current. We all know that the annual rent which an owner could charge for a piece of bare land in Chicago's loop district—to a prospective builder desiring a long lease—is not a consequence of the owner's saving of the land or making the land; but is the consequence of the growth of Chicago and surrounding territory.

THE REFLECTION



—Cartoon by J. W. Bengough.

Where Socialists Blunder

This distinction between land and capital is not comprehended by the average man. It is evaded by the ultra-conservative. And it is **persistently overlooked by most socialists.** Extremes sometimes seem to meet, and in this regard **the conservatives resemble the socialists.** To orthodox socialists, all income from property is anathema. Only the wages of work are recognized as legitimate. Rent of land, the excess returns of monopoly, and **the interest on capital brought into existence by the owner's hard work and thrift**—all are classed together by socialists as unjustifiable incomes. The socialists are not necessarily communists. They do not, that is, insist that all incomes should be equal. But they do object to any-one receiving income from property and, therefore, they want government to own all large properties and pay citizens according to their labor.

The socialistic notion that the interest on capital which owes its very existence to the owner's work and thrift is robbery, has spread widely. It is found insidiously working its way into the minds of persons who do not at all consider themselves socialists. Unless checked it may have significant consequences in legislation. And the one open, frank and effective way to check it—to make the advantages of **individualism** clear—is to insist upon the distinction between earned income from property and unearned. This is a distinction between income from property which is used to serve the public and is brought into existence by the owner's work and saving, and income from property of such a kind that it has no relation to anyone's work or saving. As I have said, most socialists habitually ignore this distinction. And therefore they fail to see that the interest on capital has exactly the same kind of justification from the viewpoint of public policy as the wages of labor and the profits of efficient management of industry. In each case the recipient of the income gets something because he has produced something by his saving or thrift, by his labor, or by his effective direction of the labor of others.

LOVE ONE ANOTHER

—Cartoon by Art Young.

Present Tax Policy Wrong

We all know that the functions of government are important. And they cost money. Taxes **must** be levied. Government **must** take a part of our total income in order that we may be protected in the enjoyment of the rest. Therefore, since the funds must be collected, the **less** government takes of **unearned** incomes the **more** it must take from **earned** incomes. In our hesitation about increasing the taxes on unearned incomes, we allow our government to tax earned incomes at a very high rate. In so doing, we punish the active business man for his activity. We penalize the thrifty man for his thrift. We discriminate against the efficient man on account of his very efficiency. We fine people for doing exactly the things which we ought especially desire them to do. We say, in effect, to the man who is trying to improve the efficiency of his business: "It may benefit all of us to have you do this but if you do it successfully you will be taxed at a much higher rate on what you earn." We say, in effect, to the man who is improving his land, increasing his buildings and enlarging his equipment: "This may be good for all of us but if by your work and thrift you do it, we will make you pay much higher taxes than your lazy neighbor who enjoys an equally good site but makes no improvements."

Taxes That Do Not Discourage

There are two kinds of taxes that do not work in this way. They are (a) taxes on inheritance, if properly adjusted, and (b) taxes on land. An inheritance tax levies on what comes to the individual through no effort or thrift of his own. Therefore it does not discourage his effort and thrift. The saving of a parent for the benefit of his children may, indeed, sometimes be discouraged if he believes that inheritance taxation will seriously reduce the amount the children are allowed to receive. But saving is not often done for the benefit of remote collaterals, and a very heavy tax on inheritances so received will not be likely to discourage thrift very much if at all. For this reason many authorities believe that inheritance taxation ought to be progressive with increasing distance of relationship, as well as with increasing amount of inheritance.

The Land Value Tax

The other kind of tax that in no way discourages efficiency, business activity or thrift is a tax on bare-land value, on the so-called economic rent of land. The rent or value of a piece of land, as distinct from the value of every improvement made in or on it by an owner, is mostly a matter of location. This value will remain practically unchanged—I refer to the value of the land exclusive of the improvements—whether the owner does much or little, is thrifty or thriftless, makes improvements or does not make them, puts up a high and valuable building, a cheap shack or no building at all. The tax which the owner would pay would be in proportion to his advantage of situation—a community-made or a nature-made advantage. In this sense the tax is on an unearned income. Not being made greater because the owner's thrift or ambition was greater, it would not discourage such thrift or ambition. By relieving the people, in part, of other taxes, it would insure to ambition, efficiency and thrift more nearly their natural reward.

In the midst of the various proposals for sales taxes, super-income taxes on earned incomes, profits taxes, etc., it is refreshing to find an organization of business men the members of which appreciate distinctions of this sort and are pressing upon Congress a program which would, at least in part, carry them into effect.

The Best Possible Tax

Again, a tax on land values, unlike much in our present taxes, is not communistic. It **does not** try to reduce the efficient to the level of the inefficient. It **does not** try to reduce the thrifty to the level of the unthrifty.

Nevertheless such a tax is, from the point of view of the poor man who is thrifty and hard-working and who wants a chance to get started in life, the best possible kind of tax. Such a tax makes land cheaper. It discourages speculation in land. There is a very important difference between land and capital. If houses are taxed this will not permanently much lower their value. For houses wear out and new ones have to be built and **no one will intentionally build them to sell for less than they cost.** In the long run, capital can not be made cheaper than the cost of making or constructing the capital. But of land it may be said, without important qualification, that **it has no cost of construction.** Its value depends only on what the income owners expect it to bring them. If the income is less, the salable value is less. So, if the rent of land is taxed, land values are lower. In so far as speculative holding of land is discouraged, the taxing of land tends even more definitely towards lower selling values. These lower selling values of land make the purchase of land for farms and homes easier. The higher tax on land values makes a lower selling price. And other taxes can be correspondingly reduced. If earned incomes thus are less taxed, it is easier to accumulate out of earnings, the money to buy a piece of land for a farm, a home, a business. Such a change in tax policy, like the establishment of a system of free public schools, is in the direction of giving a real chance to all who show, by their willingness to work and save, that they desire such a chance.

THE LORD GIVETH AND THE LANDLORD TAKETH AWAY

—Courtesy of "The United Committee for the Taxation of Land Values," London.

Another Point of View

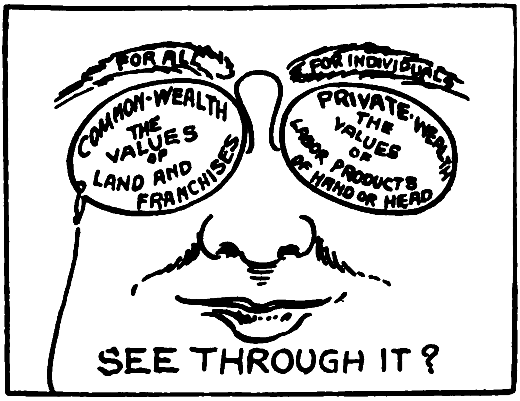
But there is another way of looking at this question which, to many of us, may seem even more significant. We all know that success is frequently a precarious thing. Sometimes the business conditions of a few months sweep away the accumulations of a life-time. So, too, sickness, or miscalculations for which we are not entirely to blame, may leave us, after years of effort, financially where we started. Our children, then—or, if not our children, perhaps our grandchildren—have to begin a struggle which we fondly hoped they would be spared. If land is comparatively untaxed, then it is made hard for them to get started. Their earned incomes have to be heavily taxed and they can save but slowly. The value of land is high and they can not soon buy it. They are obliged to remain tenants or laborers for years—perhaps so long as they live.

To tax land values more and other things less is, therefore, a reform similar to the abolition of imprisonment for debt, to the doing away with debt slavery, and to the establishment of bankruptcy laws. We protect the individual—ourselves, our children, our grandchildren—from the danger of falling so hopelessly low in the economic scale. **High land prices** may mean prosperity for a **few**—but they mean hopelessness for the **many**.

Taxation which reduced land prices would, of course, be disadvantageous to the mere land speculator, who, because of it, would have to sell his land at a lower price. But the active business man who wished to sell one site in order to buy another would have as much occasion for rejoicing as for regret. And the hard-working, thrifty person who, starting without property, was trying to acquire some, would greatly benefit. Even the owner of unimproved land who had intended to be a speculator only, would have held out before him the promise that all improvements which he might make in the future would be less taxed, so that, if he were thrifty, his total taxes might eventually be lower because of the changed taxation policy.

Conclusion

To recapitulate, then: If we would tax unearned wealth and incomes—inheritances and economic rent—more, we should be able to tax earned incomes less. We should therefore not have to penalize ambition, efficiency and thrift to the extent we now do. If we were willing to tax unearned incomes more heavily we might avoid having a taxation system applied to earned incomes lean so heavily in the direction of communism, of trying to bring down the thrifty and efficient to the level of the unthrifty, the inefficient and the idle. And yet, at the same time, such a system would appear to be better for the ambitious and thrifty poor man than the system we have. For it would cheapen land and so make it easier for such a man to get started as an owner of property. And like the abolition of debt slavery and the establishment of bankruptcy laws it would protect all of us and the children of all of us, from the danger of sinking so low in the economic scale as is now possible.



—Cartoon by J. W. Bengough.

The final conclusion of our inquiry may seem a paradox to those who would help the common man by apportioning taxes on a progressive basis to efficiency and incomes. The seeming paradox lies in the assertion that not to penalize those who earn much may be advantageous to those who earn little. Yet this assertion, if it points to a heavier taxing of incomes not earned at all, appears to be justified. A system of taxing mainly unearned incomes is at the same time good for business, leaves free play for individualism as opposed to socialism, is anti-communistic, and gives the common man a better chance than now for the profitable exercise of all his powers.

VIII

SANE TAXATION

By WILLIAM H. HOLLY

(Attorney-at-Law, Chicago, Illinois)

(Delivered at the banquet given by the Manufacturers and Merchants Federal Tax League in the Congress Hotel on Friday Evening, November 9.)

I am asked to talk to-night on the subject of "Sane Taxation." There has never been any such thing.

The only theory of taxation that the politicians of this country have ever had was to grab where the grabbing seemed easiest. There has been no system of taxation, any more than there has been a system of murder or robbery. The burglar selects his victims according to their ability to pay. So do our legislatures. They have evolved no theory as to any methods of taxation which would result in the raising of revenue in the fairest way or with the least injury to the individual, or the best results so far as business and commerce are concerned.

They have not even adhered to taking from the people in proportion to their ability to pay. A tax on imports falls most heavily, as a general thing, on the poor. A sane system of taxation is one which will produce the revenue needed for the legitimate expenses of government with the least interference with the business and prosperity of the country. Such a system does not permit of the taxation of incomes, nor super taxes on excess profits, nor taxes on the personal property, nor license taxes.

Taxation—As It Is

The tax upon personal property is not paid by the person who hands the money to the tax collector. The merchant adds the taxes he pays to the prices of goods he sells. The tax that the merchant adds is not the only tax that is added to the price of goods. The grower of sheep must add to the price of the wool he sells, the tax he paid on the sheep. To this must be added the tax the manufacturer pays on his plant and machinery and the tax that the wholesaler pays. All these add very appreciably to the price the final consumer is