

THE DEMAND FOR AN INCOME TAX.*(For the Review.)*

By JOHN HARRINGTON.

There is, without doubt a growing demand for an income tax. It is due to two causes; first, the breaking down of the general property tax system; and, second, the feeling, more or less prevalent, that the rich are now paying less than their just share of taxes, and that they would be reached by an income tax.

The Democratic party is rather disposed to father the idea as one of its principles. It passed the federal income tax law of Cleveland's administration, which was afterwards declared unconstitutional; and has since continued to advocate an income tax in its state and national platforms. But President Roosevelt now advocates the income tax; and many Republicans are cordially supporting his position. Some of the states, too, are considering the adoption of a state income tax law—Republican as well as Democratic states; so that perhaps it cannot now be considered wholly a Democratic political measure.

The subject is therefore, a timely one for our consideration. Should we support or oppose the principle? or may we divide on it? It will be conceded that it is better than the tariff system of raising revenue, and an improvement on a number of other methods of taxation. But whether it will do more real good than harm in the long run, is a question worth settling, if it can be settled. If it is a stepping-stone to better things, it should be supported. But if it can be seen that it would be but a stumbling block, tending to perpetuate injustice, it should be vigorously opposed.

The Wisconsin legislature has adopted a resolution for an amendment to the constitution authorizing an income tax. The proposed amendment will be before the people for their adoption at the next general election. This brings immediately before the people of this state the question of the wisdom and justice of an income tax. The general property tax as a system is breaking down, especially as it relates to personal property. This is shown and admitted expressly in the last (1907) report of our tax commission, as to personal property; and is, I think, fairly admitted by inference as to real estate, in the same report.

Our tax commissioners therefore, like innumerable other citizens in public and private life, are casting about for a crutch to aid the decrepit and stumbling general property tax; and like many others, have cast their official eyes upon the income tax to help out. On page 20 of the last report, it quotes approvingly the old maxim, that each citizen should contribute to the support of the government according to his ability. On this maxim the general property tax has been founded, and on this maxim the income tax is advo-

cated. If the maxim is unsound, it is not probable that the income tax will work better than the general property tax.

We believe the maxim to be unsound, and fruitful of many of the evils that inhere in the general property tax system, and that we think will inhere equally in an income tax. We believe the true maxim is, that each citizen should contribute to the support of government according to benefits received, not according to ability to pay. A man does not pay for groceries, clothing, city water, gas, or transportation according to ability to pay, but according to benefits received; and the benefits of government should be paid for on the same principle.

The Wisconsin commission suggest that in justice to other tax-payers, the rate must in all cases exceed ten per cent, and must average not less than twenty per cent. (p. 32). This shows, if it shows anything, the desperate straits to which our old-fashioned officials are being driven. But as there are many advocates of the income tax, let us examine some of the objections. Others will point out the advantages.

It is probable that there is something fundamentally wrong in every law which allows exemptions, as being contrary to the true application of the American ideal of equality. However that may be, a presumption is at once raised against the justice of the income tax by the fact that all income tax laws allow an income of some amount, varying from, say, \$500 to \$1000, to be exempt from taxation. This is intended to exclude the great body of wage earners. If an income tax must be had, the exemption is probably necessary as a matter of expediency, for several reasons.

The great majority of wage earners receive only scant living wages, barely enough to live in decency, with scarcely comfortable food, clothing, shelter and heating; homes without water connections, bath tub, and gas light facilities; and only elementary schooling. The hardship an income tax would impose on these would more than offset any benefit the public could gain from the proceeds of the tax.

The political support of the wage earners to any income tax can only be gained by exempting them. This is a species of taxation without representation; that is, it is taxation of the minority by the majority, who themselves go untaxed in that particular way. It looks like a step toward the exploitation of the rich by the poor. I am not sure but that a fair construction of President Roosevelt's position is that the rich are now exploiting the poor, and that through an income tax the poor can retaliate in a measure of exploitation of the rich. Justice demands that no persons nor class be allowed to exploit any others. I feel sure that no income tax designed to reach every income, large and small, could be adopted by popular vote.

It would be impossible to collect a general income tax that applied to all incomes, for it will require an army of officials to enforce the tax against the few; and if the many were taxed the number of officials necessary would be appalling.

The objection to the income tax most often heard, if not most forceful,

is its inquisitorial nature. Men do not like to have public officials examine into the details of their private enterprises, pry into their business secrets and confidential affairs, and be subjected to worry, perhaps, lest these officials reveal what they have learned, possibly to business rivals.

The American people do not like the nosing and prying about of officials and secret service men so prevalent in Russia. Even under our present system, if a local assessor or tax commissioner pries about sufficiently to learn the amount of a merchant's insurance on his stock of goods to aid in arriving at its value, he is looked upon askance, as being over officious, and business men feel a resentment toward him.

The incitement to fraud and perjury, the premium placed upon deceit, is, perhaps, as serious an objection as any. A ten, fifteen or twenty per cent. tax (p.32) will be a tremendous burden; and the saving of some part of it will be a temptation that would almost move angels. It will give the saints a severe jolt. The species of arithmetic brought into use to figure down the net income of various kinds of business and occupations will require a new text book the like of which has never yet been seen.

Presumably the official work will be done by local elective assessors, men, who will want to be elected again. These men now fail to find all the personal property. Our tax commission estimates that more than one-half the taxable personal property in the state now escapes, in spite of the fact that most of it can be seen. When it comes to incomes, which cannot be seen, how much greater will be the proportion to escape? Probably seventy-five to ninety per cent. of taxable incomes will escape taxation. A man may take chances in committing perjury as to his own income. He will not do so as to the property of widows and orphans of which he is trustee. Here is another attack on the widows and orphans, the weak and the honest.

There is a large list of occupations, such as that of a lawyer, a doctor, a traveling salesman, a superintendent of a factory and others whose income is derived from their personal services, who earn from \$1500 to \$5000 a year, and who live up to their incomes. Often they have little or no property exempt from execution. No matter how drastic the law to enforce the tax may be made, many of these will escape. It will not be good state policy to commit them to jail, and deprive the state and their families of their wealth producing services. Many of them will make their residences at convenient points just outside the borders of the state. Many others will be in a position to recoup their taxes, or a part thereof in higher charges or prices, and thus shift them to others.

It would be laughable if it were not so serious to watch the struggle being made by taxing officials and law makers to raise money to meet constantly and rapidly growing demand for public expenditures, and the slipshod public work being done to economize even a little. And all because they have not the courage to admit that the rapidly growing value of land and franchises is created by the public, and is morally a public fund; that all the public need do is take this unearned income, and have all the money

it needs. That the simple and yet sufficient thing to do is to exempt from taxation all personal property, improvements on land, incomes and occupations, and let all taxation fall on land (including franchises) on the basis of value.

Does it not seem that a taxing system must be bad fundamentally that has so many bad features? I shall be glad to have the advantages of the income tax pointed out.

ADDRESS BY HENRY WARE ALLEN

AT THE DINNER OF THE AMERICAN FREE TRADE LEAGUE.

The American Free Trade League is to be congratulated upon the advocacy of an idea clearly defined, economically sound, and about which there can be neither equivocation nor misunderstanding—this organization having many years ago passed through the kindergarten stage of tariff reform.

The establishment of any fundamental reform involves not the building up of new and complicated structures such for example as are suggested by socialism, but, instead, the abolition of that which is wrong in the existing system. Reforms of this nature are, therefore, regarded as negative in character and so lack the glamour of novelty with which pseudo-reforms appeal to the imagination. Hence the antipathy, derision and contempt exhibited toward anti-slavery, anti-imperialism, or an anti-tariff crusade. This question, as all questions in political economy, must be tested and settled on ethical grounds. Considerations of expediency are of secondary importance, and must follow. Fortunately that which is ethically sound will invariably be found to be expedient and practicable. What is good in theory is good in practice. To place expediency before ethics is to put the cart before the horse, and generally leads, sooner or later, to trouble. The idealist, the "dreamer," is in reality the practical man, for standing on higher ground he sees beyond the environment of selfish interests—and the so-called "practical man" who has no use for the lode-star of ethics is, after all, a dangerous pilot for the ship of state.

What is truly radical is truly conservative. To be radical is simply going to the root of the matter and holding on to—conserving—that which is good. Free trade is a conservative proposition. It would prevent confiscation of the individual's wealth. Protection, on the other hand is essentially socialistic in its theory of helping the nation and a favored few at the expense of individuals, and socialists are generally protectionists. It behooves us all, therefore, to reflect that if radical reforms are not permitted to relieve strained conditions a rising tide of unrest may carry us to those extremes to which protection naturally leads.

Free traders would simply conform to natural law by restoring to men