

The Merry-Go-Round of Taxation

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ALL taxes are ultimately paid by the *producers* of wealth, who are themselves, of course, consumers as well. The *immediate* payers of most of the country's tax bills—Federal, State and municipal—are private tax *collectors* first. The landlord, the monopolistic manufacturer, the speculative financier and the rich idler or sportsman are merely transmitters of a portion of what they exact from the world's workers in the forms of rent, interest, dividends and profits. This percentage of their annual gains handed over to the collector of public revenues represents a tax on agriculture, commerce and the processes of manufacture and the arts; and under the prevailing system the transaction is perfectly legal, although not a single dollar of the huge sum may come out of the private pockets of the four classes of non-producers mentioned above.

The landlord reaps where he has not sown—in appropriating an increment in the site-value of his land-holdings that is due to the growth and improvement of the community and not to any effort of his own. The manufacturer who monopolizes a market charges "all the traffic will bear" for his product. The financier speculates with his own and other people's money in gambling enterprises that are mere matchings of wit and not of creative activity. The rich idler squanders his income, after his "tax" of that designation has been paid, in self-indulgence or the patronage of "sports," his fortune being often an inheritance from a short-sighted testator.

The tax payments made by these non-productive elements of our citizenry represent wealth produced by others through the application of brain and brawn to the country's natural resources and their secondary products. When the "big taxpayers" participate as investors or in the "management" of industrial or commercial activities, they are mainly passive factors in such enterprises, demanding the lion's share of the product—and acquiring it through exploitation of the actual producers under the existing forms of law.

Theoretically, taxation is payment made for civic and governmental benefits received; and it is of two forms—direct and indirect. Actually, however, current taxation is a form of *tribute* exacted from the producers of concrete and merchantable values; and it is of *many* forms—most of them concealed. The real creators of the country's tangible wealth pay our taxes in their house-rent, in the prices of everything they eat or wear, the implements they use in their industry and the appliances of their domestic life—in addition to their legitimate share of the cost of public necessities, such as schools, street paving, police and fire protection, water, drainage and lighting systems, parks, playgrounds and sidewalks.

The under dog in the existing social and economic scheme is for the most part unaware of the bleeding process of which he is the victim, and a majority of his exploiters are likewise serenely unconscious of the unfairness of the system. The *average* capitalist is sincere and conscientious in exacting the maximum return on his invested assets, while the average workingman is grateful for the "chance" to earn a living in the sweat of his brow and to retain for his personal use only a *portion* of the wealth his labor produces. This mutual satisfaction proceeds from certain fundamental economic errors that are sanctified by religious and political "authority," justified by usage, and dignified by time.

The indirect process of collecting public revenues is really a game of "passing along" the burden—from the owner of raw materials to the manufacturer, from the manufacturer to the wholesaler or jobber, from him to the middleman, from the middleman to the retailer, and from the retailer to the general public—that is, to the ultimate consumer, who seldom suspects that the price he pays for every purchase includes the tax (plus a quintuple profit thereon) for which the other five "industrial and commercial factors" seek thus to be reimbursed.

The landlord is enabled to exact *his* toll by reason of the confusion that results from a loose conception and an inaccurate definition of the term "real estate," whereby no distinction is made between land and the improvements thereon; that is, between the bounty of nature and the products of human labor. Hence he simply adds the amount of the tax to the rental charge he imposes on his tenant.

The manufacturer whose industry turns out a necessity of life, or an article of popular demand, includes *his* tax in fixing the sales price of his output; and when he enjoys a *monopoly* of the home market, he usually adds to this a sum equivalent to the buyer's capacity to endure extortion. His chief ally in this procedure is the "protective" tariff, which shields him from outside competition and is another form of "tax" concealed in his price schedule.

The ordinary financier is a manipulator of current assets who "catches them coming and going," reaping a profit in each direction in the handling of liquid funds employed in the almost sure-thing gamble that results from the domination of accumulated wealth—the most powerful weapon of modern business. With his unearned "profits" thus to draw upon, he cheerfully admits the tax collector to his office.

The rich idler, when called upon to pay a tax of any sort, simply cuts a few extra coupons or turns over his latest dividend check, serenely confident that the activities of others in the conduct of the country's industries will soon replenish his personal bank account.

Thus we see that there is a wide gulf between the *payment* and the *production* of tax money. To alter the system in the direction of a more equitable distribution of the tax burden as administered is well-nigh impossible along

political lines on account of its seemingly impregnable legislative intrenchment. Yet the need of reform in the incidence of taxation, or the means of obtaining revenue for public purposes, presents an ever-recurring problem that is virtually an irrepressible conflict. It governs the alignment of political parties, consumes most of the time of our legislative bodies, is the subject of more laws than any other feature of government, is a prolific source of official corruption, favoritism and the waste of public funds, and is the basis of our bitterest partisan feuds.

The contending forces arrayed on either side of this conflict represent distinct and irreconcilable concepts. On one side are the battalions of greed, avarice and selfishness, who are yet not without a degree of suspicion that the era of legalized monopoly and special privilege is drawing to a close, but who still cherish a sincere belief in the legitimacy of Big Business and the segregation of immense fortunes in the hands of a few men. On the other side are those, more imbued with the democratic ideal, who conscientiously strive for legislative relief for the victims of unjust taxation, both private and public—through tariff abatements, governmental "economy," attacks upon individual trusts and monopolies, "soaking the rich," and other forms of legal patchwork.

This situation has given birth and sustenance to many organized attempts to invent and apply to the body politic, for the cure of its obvious ills, such poultices as Socialism, Communism, Sovietism and the rule of an oligarchy or a dictator. But these abortive efforts are invariably directed toward the relief or suppression of *symptoms* only. Like our own Congressional measures, they never indicate the slightest intelligent interest in *causes* of popular discontent; for that would lead to a discussion of the fundamental principles of taxation, of political ethics, of the moral element in government, and of the simple laws of justice. And that in turn would awaken interest in the "dismal science" of political economy itself—and such an outcome would never do; for where should we look for authoritative guidance along this line of research among the publicists of today?

That our whole system of taxation is artificial as well as unjust is revealed as clearly in its inconsistencies as in its inequities. We erect a tariff wall that assures an exclusive home market to our domestic industries and deprives the American farmer of most of his vitally needed foreign market—thus forcing him to buy his necessities at inflated "protective" prices and sell his surplus products at rates determined on a free-trade basis. While community growth and expansion, which we all concede to be desirable and seek to promote, are always the result of individual effort and expenditure, we invariably penalize with an *increased* tax the progressive citizen who thus contributes to our municipal welfare by erecting a fine new house or by enlarging or improving an old one—while the negligent and indolent owner of an adjoining vacant lot

(producing nothing but an annual crop of weeds) pays for the occupancy of his land alone but a fraction of the amount levied upon his industrious neighbor.

The taxation of any tangible asset that is the product of human labor tends to discourage its production; hence every such tax is properly regarded by the payer as a fine, a tribute, a penalty placed upon his enterprise. And its evasion is sought in many ingenious ways, other than by "passing the buck;" for there exists in almost every intelligent mind an instinctive recognition of the illogical, unjust and inexpedient nature of the proceeding.

Taxation that causes a curtailment of output is uneconomic and unscientific. Taxation of personal property of any kind is confiscation in its most literal sense. If a man owns a house worth \$9,000, on which he pays an annual tax of \$300 for thirty years, at the end of that period he has turned over to the city and county a sum equivalent to the entire value of his home. This principle applies with equal truth to the processes as well as the products of industry. The tax on textile machinery, for instance, is woven into the fabric it manufactures and is shown in either deterioration of quality or increase in the price of the goods—both at the expense of the ultimate consumer.

But an exception to this rule is the tax on agricultural machinery, levied either upon the completed device or upon the raw material of its manufacture. The farmer is a member of the producing class whose taxes can be neither shirked nor shifted. He is obliged to pay, out of the precarious income from his toil, not only his own taxes but a large percentage of other people's. The reason is that he is a *buyer* of implements, tools, domestic utensils and other commodities in a market with tariff-enhanced prices, and a *seller* of surplus foodstuffs in a market with prices fixed by the provision gamblers in other countries. He cannot include his taxes in the prices of his produce, for he has little or no voice in the determining price of schedules either at home or abroad; yet agriculture is the basic industry that enables our non-agricultural population to live and do business. It is resentment of this double injustice that has led to the formation of the existing "farm bloc" in Congress. Tariffs designed to restrict imports tend inevitably to hamper exports, for they violate the natural law of exchange—and the farmer is an exporter.

Yet the confusion that exists in the minds of the mass of American voters as to the cause and source of our growing tax burdens is quite as marked among farmers as among the other producing classes. They are predominantly advocates of "protection," on the specious and fatuous plea that conservation of the home market must especially benefit *them*—forgetting that this market is theirs anyway because their output consists entirely of the *necessities* of life. While they have for years been the mainstay of the Republican party, they have begun to make threats of a political retaliation that indicate a new perception

their status as a social and industrial factor—an awakening that may have far-reaching effects in the alignments of all parties and lead to a radical reform in our methods of Federal taxation at least.

The lack of popular knowledge and coherence of thought as to the principles and effects of taxation is not to be wondered at when we consider the mental confusion and lack of concord that mark the utterances of our intellectual leaders. I cite the following contrasting opinions on a single subject—the Single Tax proposal of the immortal Henry George, who was declared to be, in a recent address by George Bernard Shaw, “America’s greatest contribution to the world”—as a case in point.

Dr. Nicholas Murray Butler, president of Columbia University, New York, discussing not long ago the growing importance of the land question in this country, said:

“A generation ago, Henry George saw this and pressed upon public attention with marked eloquence and vehemence. His proposed solution for the problems growing out of the land is not one which either economist or public opinion has been disposed to accept. The fact remains, however, that some solution for the problems of the land and its relationship to human life should and must be found.”

Dr. Harry G. Brown, professor of economics, Missouri University, declares in one of his books:

“The Henry George conclusions have never received anything like a fair consideration in most text-books on economics, or anything like a fair presentation to the students of economics in most universities and colleges. Indeed, a majority of specialists of reputation in the field of public finance have opposed these conclusions with arguments which are logically fallacious, historically inaccurate, mathematically inconsistent, and sometimes grotesque.”

The Rev. S. Parkes Cadman, former president of the Federal Council of Churches, once asserted in a newspaper article that:

“The Single Tax theory has its merits. It seems to simplify exceedingly complicated matters and to remove every embargo from industry. Yet its strength is in the plausible wrongs it assails rather than in the remedy it proposes. Analyzed closely, this gentleman’s apparently logical scheme for grouping all taxes into one fails for want of practicality. Admittedly it would effect an immense saving if it could be done; but the doing of it is the barrier which economists declare insurmountable.”

And Count Leo Tolstoy, one of Russia’s deepest thinkers, remarked a short time before his death:

“People do not argue with the teaching of Henry George. They simply do not know it. Those who become acquainted with it cannot but agree. The teaching of George is irresistibly convincing in its simplicity and clearness.”

Similar disparities of opinion among those charged with educational responsibilities and accredited as teachers of the *truth* in their respective fields might be cited concerning almost every vital economic, industrial, political, social and fiscal problem of the day. The obvious reason

is that our legislation, after a century and a half of development, finds itself still in the *experimental* stage, from which it cannot emerge so long as our politicians confine their treatment of national, State and local questions and exigencies to symptoms, and ignore not only causes but the demands of justice between man and man and the ethical, moral and spiritual needs of our common life. Differences of opinion usually disappear when the disputants get down to fundamentals. It often happens, however—such is the fear of truth—that even the most persistent knowledge-seeker is terrified by the discovery of a *fact* that has an unfamiliar or unconventional aspect.

The foregoing considerations lead me boldly to propound a few leading questions: Why *tax* anybody or anything for any purpose whatsoever? Why deprive any citizen of any part of what he lawfully earns, or produces, or manufactures, or inherits? Is not his home his castle? Is not his ownership of the product of his individual labor as inviolable as that of his right lung? Disregarding the sumptuary legislation that restricts his personal liberty beyond the point where it does not infringe upon the equal liberty of his fellows, and aims at the control by others of his personal habits and tastes, why should the exercise of arbitrary authority be permitted to divest any citizen of any portion of his personally-created assets?

The ready answer to these questions, of course, is: Because there are *community* expenses that must be met; the citizen receives the benefit of public utilities, has his children educated, is shielded against crime and fire hazards, enjoys the privileges of public libraries, museums, parks and amusements, has his garbage removed and his street lighted and paved, has often a free water supply and reaps all the advantages and facilities of citizenship in a peaceful and well-ordered city, county, State and nation. These benefits must be paid for because they call for a huge financial outlay, and, it is contended, our governing bodies, having no means of *producing* wealth, must delve into private pockets as a means of *raising* revenue for public needs.

This argument lacks soundness in that it ignores one of the most important operations of natural law—the gradual growth of every community into a self-acting social organism. The elements of a pure democracy are inorganic; but when the ideal of co-operation is perceived, and common needs, mutual desires, and the interdependence of individuals are recognized, a democracy becomes unified into an organic body that has a life and growth and character wholly separate and distinct from those of its constituent elements. This homogeneous entity, like other vital organisms, is creative in its activities; and one of its creations is an augmented value that attaches to the *land*, without the use of which neither the individual nor the community could exist for a minute.

While this value has individual sources of *origin*, it has

only a collective *expression*. Its measurable extent varies in exact accordance with the increase or decrease of population. Its contributions vary in amount in precise correspondence with the shifting demands for special locations. It is a perfect barometer of the pressure that results from competition for choice sites, which often display an enhanced value of 1,000 per cent overnight—due to a rumored public improvement, the building of a railroad, the establishing of a new industry, or a migration of population.

The lesser deity most fervently worshipped by our generation is Science, whose handmaid is natural law. One of its foundation factors is, of course, logic. Why not apply this principle to our consideration of the land-value fund? If we were to do this, the first conclusion would be that because it is commonly produced it should be commonly owned, the obvious extension of the idea being that it should be used for the benefit of *all* instead of for the enrichment of a few landlords, who do no more to increase the value of their personal land *sites* than any equal number of their fellow-citizens. I use the word "sites" advisedly, for its contradistinction from *improvement* values is of the utmost economic importance.

A house-owner is entitled to undisturbed and untaxed possession of his home because he has devoted his labor (or its equivalent) to its production, the community having no part in the process. To deprive him of any fraction of its value for public purposes, while there exists any other available source of public revenue, is as confiscatory as the taking of his watch or clothing would be. Furthermore, no increase in the value of the house *per se* can be claimed for community action. But the *location* may become tenfold more valuable within a single year, owing to urban growth and development; and as the occupant has no more to do with this enhancement of value than any other unit of the population, why should *he* be permitted to monopolize it? Because, under the present system, by which the land owner is allowed to do this—reaping a value created by others—our taxing endeavors are diverted from the natural channel and applied in a variety of directions that, through political manipulation and legal camouflage, eventually converge and reach the pockets of the actual *producers* of wealth.

Conceding that this community-created fund should be appropriated for community purposes, thus liberating both capital and labor from their present tax burdens and accelerating instead of retarding their productivity, the next logical step toward a scientific system of taxation concerns the *methods* of the fund's determination, collection and application. Fortunately, the machinery for regulating these functions already exists and is in continuous operation. Appraising with accuracy the mere *site* value of any piece of land, in city or country, is extremely simple—because the land cannot be concealed and lies in plain view out of doors, is indestructible and irremovable, and is not susceptible to theft, duplication or change of area; and for these reasons its exclusive

ownership represents the only form of monopoly that is absolute. The endeavor to merge the worth of the house and other improvements in this single estimate of the location value is what renders the process of assessment, under the term "real estate," complicated, indefinite and often unjust. As competition in the realty market for the purchase of choice sites plainly indicates their sales value, no owner could object to this as the criterion of their valuation for purposes of taxation. And such a tax is almost unique because, like the farmer's, it cannot be evaded or shifted. An attempt to add the land tax to the selling price would merely increase the next year's rating; and an attempt to saddle it upon a tenant (successful in the case of a *house* tax) would result in the lessee's changing his landlord or buying a site for himself at one of the very low prices that would obtain if *speculation* in land were thus abolished.

The collection of taxes confined to land exclusively would range from 100 per cent of its annual rental value downward, in accordance with budgetary needs and estimates for it has been computed by competent statisticians that land values throughout the whole United States, capitalized at four per cent, would yield sufficient revenue to meet all the expenses of government—Federal, State and municipal—even under the present extravagant system of outlay. As an immense proportion of these public expenditures is due to the vagueness, complexity, dishonesty, inequality, injustice and continuous legislative tinkering that characterizes the prevailing scheme of tax determination and collection, it is obvious that the change to this simple, just and scientific plan and method would cut the above computation by a very large amount. The "graded tax plan" undertaken as an experiment in Pittsburgh several years ago, whereby at stated intervals ten per cent of the tax on buildings is shifted to the land, has proved so successful that "land speculation" has virtually ceased and the early total exemption of improvements is plainly indicated.

But a levy of even 100 per cent would entail no hardship upon any one except the idle land-foreteller, who speculates in the "futures" of population growth, industrial development and public improvements—plus the individual enterprise and civic loyalty of his neighbors and who today is fatuously favored by merely nominal assessments because his land-holdings are unused and allegedly "unproductive," although their *unearned* and constantly growing increment may exceed in volume the legitimate income of any of his associates from their personal work or business. This type of monopolist is very common, but an adequate tax upon his attempt to "corner" a section of our natural resources would soon reduce to a minimum the number of such speculators by forcing them to put their land to proper use or dispose of it to others willing to *work* for their living. A corresponding reduction in our vast army of lawyers, tax department and custom-house employees, and tax-eaters in general, and

their consequent entry into productive occupations, would quickly follow this expedient and far-reaching readjustment of the incidence of American taxation.

All "taxes," however, would still be paid by the *producers* of wealth; but the payers would include every member of the community, not merely the willing workers, because *all* its citizens are but units of a social organism that by its mere existence and through its needed public utilities *creates* the economic value of the land—each tax all based upon a just appraisal of the site of which the owner claims the right of sole occupancy or possession, and being minus every other form of tax that is now unjustly levied upon personal property, individual earnings and natural rights.

Confirmation From a High Source

In the years of reconstruction and rehabilitation following the speculative panic of 1873—and they were long lean years—there appeared a remarkable volume of English literature from the pen of an economist, philosopher and social thinker, a volume which was destined to be translated into almost every language of the world. The power and inherent strength of its thoughtful restrained persuasion has placed it on a plane which has been reached by few economic treatises. That volume is "Progress and Poverty," by Henry George.

After one of the most painstaking, broad studies of primary economic theories covering the fundamental problems of wages and capital, want amid plenty, population and subsistence based upon the Malthusian theory, laws of distribution, of labor condemned to involuntary idleness, the effect of progress upon the distribution of wealth, the author arrived at the consideration of the bottom cause of the ever-recurring paroxysms of industrial depression. That fundamental cause he believed to be the speculative advance in land values. In every progressive community, population gradually increases, and improvements succeed one another, bringing about an increase in the value of land. That steady increase leads to speculative activity in which future increases are anticipated. In this manner, land values are carried beyond the point at which, under existing conditions, the customary return is expected by wages and capital, an increasing proportion of income going to rent. Production begins to decline at that point and this cessation is communicated to an ever-widening circle of industrial activity. There are other proximate causes such as the growing complexity and interdependence of the machinery of production, defects of currency and credit, protective tariffs and artificial barriers to the interplay of productive forces, the pursuit of monetary profit, but beneath all factors, according to Henry George, is the fundamental initiatory cause in the speculative advance of land values.

Up to the time that "Progress and Poverty" made its appearance and for several decades afterwards, there existed a westward flowing frontier where land was freely available to dissatisfied Easterners and energetic immigrants. In the latter part of the eighteenth and early part of the nineteenth centuries, Kentucky, Tennessee, Ohio, Illinois, and Indiana beckoned with their fertile valleys. Each succeeding panic, 1792, 1819, 1837, 1857 and 1873, added impetus to the flow of Eastern blood to the unsettled West. Wealth was measured in actual material possessions of which the most important was land. And with the exception of canal construction and then later, railroad construction, actual speculation had been largely carried on from colonial days in the buying and selling of large outlying tracts of real estate.

In 1795 the Georgia "Yazoo" land frauds, the most notorious and

widespread of the early American land gambles, took place—approximately 30,000,000 acres comprising most of the present States of Alabama and Mississippi were sold to four separate land companies, for the aggregate of \$500,000, or about half a cent an acre. Shares or scrip in the early land companies, representing a pro rata equity in the trusted property were generously offered to the public. Philadelphia, New York, Hartford and Boston were the principal centers, each city having its own "deals" and selling its shares throughout a wide area. Their purchases of land extended from Lake Erie to the Gulf of Mexico and from Maine to the Mississippi. The size of their operations is not to be despised even from the viewpoint of present day extensive speculative operations.

With the early consolidation of railroads, headed by the New York Central and the Hudson River lines in 1869 by Commodore Vanderbilt, there was slowly ushered in that period of large scale production and commerce under the corporate enterprise which provided a medium of wealth in the form of corporate securities, stocks and evidences of debts, which together with government securities of all classes, gradually appeared more important to the layman than real estate.

While stocks and bonds became the favored medium for investment and speculation, land naturally continued to play a most important part. It was not so many years ago that real estate development companies were giving prospective purchasers free trips to Florida and to Muscle Shoals. The Florida real estate boom, while antedating the stock market crash of 1929, is too recent an occurrence to be easily forgotten.

ROY A. FOULKE, in Analytical Report of Dun & Bradstreet.

A Notable Series of Papers

"AN Ancient Remedy for Modern Depressions" is the title of a series of papers running in *The Gaelic American*. They are from the pen of Henry J. Foley and they are wholly admirable, scholarly and argumentatively novel.

In the first of the series begun in *The Gaelic American* of Sept. 30 Mr. Foley gives a history of the Brehon Laws under which Ireland flourished for a thousand years until replaced by the English land laws which spread throughout the world. But during those thousand years in which the Brehon land laws were operative there were no unemployed in all Ireland. But under the English land laws Mr. Foley tell us that Ireland became "the world's poor house."

Discerning the insecurity of the new structure built on the old lines, Mr. Foley says:

The earth, which is in theory the heritage of man, of all men, has been alienated. Men who are not already blessed with prosperity have no right on the earth, and no right to a place to work. My thesis is that unemployment and panics are not sad and lamentable accidents, but the logical and inevitable results of a mistaken and heartless policy.

And with an eye to the modern planning of the new economics he says:

Every complicated modern device introduced to cure unemployment and panics without removing the cause of panics has only given rise to confusion worse confounded, to more unemployment and poverty, and to the creation of still more fantastic remedies. Public works to furnish employment bring more crushing taxes and more poverty; poor relief and charity-drives create pauperism and destroy morale; reconstruction schemes, the lending of billions to the banks