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BOSTON CITY CLUB BULLETIN



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OCTOBER, 1915

REVIEW OF RECENT EVENTS

TAXATION

Thursday Evening, April 29, 1915

Important addresses on Taxation in Massachusetts were delivered on the above date. Former Lieutenant-Governor Robert Luce presided and introduced the following speakers: Hon. Samuel W. McCall, Hon. Grafton D. Cushing, Hon. W. D. T. Trefry, Prof. Charles J. Bullock, Hon. Calvin Coolidge, Charles A. Andrews, Hon. Lawson Purdy, *to the Boston City Club.*

PRESIDENT FISH

"Gentlemen of the Boston City Club. We are here to-night to consider one of the most important and fundamental of the questions that come into an ordinary society; that is, how to get money to carry on the functions of government. The question is getting to be more and more acute every year for many reasons. We have new ideals as to the obligations of the State in looking after its citizens. We have developed the thought that the State is largely responsible, not merely for the education of children, but the health and well-being of the community, and every one of those operations involves the expenditure of large sums of money. Honorable as are our aspirations in that direction, I think we are bound to recognize that we should not carry out our ideals to extravagance, but, in addition to this source of expenditure, for which so much good can be said, there is no doubt whatever that we are in the era of great extravagance, national, State, municipal, and individual. The atmosphere reeks with the spendthrift idea, and side by side with this matter of taxation, I think we, and those representing us in the government, should be giving great thought to the question how we can save money, how we can get the better of the extravagant ideas of our time. It makes the situation a very complicated and difficult one.

"Of course an ideal system of taxation has never been attained in the history of the world. I doubt if anything like an ideal system will ever be attained as long as man exists on the earth, and certainly no taxation system will ever be perfect; but there is no doubt in my mind, however, but our tax system might have been adequate in the earlier and simpler conditions of a hundred years ago, yet now it is entirely inadequate, and there must be some radical change in the fundamental point of approaching this great question.

"At the present time, as I look at it, there is no logical motive in our taxation methods. Certain things to me are very clear. One is that the industries of Massachusetts are taxed far more than the industries in the neighboring States with which our industries have to compete, and this is a most serious situation.

"When it comes to individual taxes, it seems to me that our methods are unfair, according to the interpretation placed upon the law by the Supreme Judicial Court. It means a man suffers injustice because of how he lives. We all feel these things, and the question is how to get

out of them. It is easy enough to speculate, to get up theories of taxation, but we want in this State a plain, simple system that seems logical, reasonable, and fair. I don't know whether we shall succeed in doing it or not, but we must try.

"If there were more time I should be rather pleased to have this opportunity of giving my own speculation on this subject, but you will not hear it. You would have heard but an amateur's discussion of the subject. We have with us to-night gentlemen who have studied, and while I think sometimes a man's opinion is likely to be colored by his apparent interest in the point of view to which he has devoted so much time, I think there is no question in the world but that this subject of taxation is an expert matter, and we should get all the views of all the experts on the subject.

"I am guilty of an impropriety in saying these few words, for I am really here for one function, which is to introduce to you the presiding officer of the evening, our old friend Mr. Robert Luce, who will introduce to you the speakers it is your privilege to hear to-night."

Mr. Luce, in introducing the speakers in the Auditorium, said:

HON. ROBERT LUCE

"When I was in politics, one of the lessons I learned was the danger of over-confidence, and so it must be with some request for allowance that I describe this meeting as one which may well have more the character of a jubilee than one for partisan argument, for, unless the gentlemen of the Legislature who have spoken at the gathering in the banquet-hall and elsewhere to-day are at fault, the constitutional amendment which we shall consider this evening, or to which part of the evening is sure to be given, has a very promising chance of passing the House. It already has passed the Senate. The chances are very strong that it will be endorsed by the people next year.

"Possibly there are men present who do not understand that this means the end of a contest that has been waged for a full generation. Massachusetts, like all republican communities, and I am using the word 'republican' with the small letter in this case, is intensely conservative. It moves very slowly, and it is a long time after its serious-minded men come virtually to agreement upon any important proposition, before the mass of the people consent to make any change. The agitation which may culminate in the vote early next week dates back to about 1875. It was then that a commission, the first I believe of numerous commissions on the subject, was formed by Mr. Thomas Hills, Chief Assessor of the city of Boston, who was convinced of certain propositions in the matter of taxation that have since that time been held by many of the assessors of the Commonwealth. He was of the belief that the existing law could be enforced so that personal property could be disclosed, and, by what was known as a doomage system, it would be possible to secure justice, and that if only the individual property could be disclosed, then the tax

rate would soon fall on real estate; there would be much more even-handed justice than at that time, or to-day, exists.

"The trouble with his proposition was that all history denied it. Ever since there have been governments, every method that human ingenuity could devise had been used. The rack, the knout, the gallows itself have been used from time immemorial to extort from individuals the tax based upon that form of property, and everywhere it has failed. By that means, the doomage system, although given the most intense application, they failed to disclose more than a third or a quarter of the personal property. But there arose a body of men in this State who held that was the only way to measure the capacity of our people to pay enough, and so, year after year, they came to the State House and fought out the issue, first with the Massachusetts Anti-Double Taxation League, and later on with other organizations, and every year there was a deadlock. No progress whatever could be made, and I say, with some sorrow and compunction, that after a service of two years on the Tax Committee, I was so faint-hearted as to make up my mind that my lifetime would not see the deadlock broken. I regret, in these later years, no more active part has come to me in the fight, which I believe is now to be so happily completed.

"Some progress has been made from time to time, some changes in the law, after the usual long and hard effort. You will pardon me, if I recall that in seven successive years I stood on the floor of the House and spoke for the direct inheritance tax, and seven successive times it was knocked down, and in the eighth year the House adopted the measure without a word of debate. It was done right at the proper time.

"This evening we have for one of the speakers a man who has practical knowledge of the working of the law, and another Massachusetts man thoroughly familiar with the whole complicated problem, as well as one from beyond the bounds of the State who will instruct us as to what has been found useful and what has not been found useful in another larger commonwealth than ours.

CHARLES A. ANDREWS

Deputy Commissioner of Taxation

"Taxes in Massachusetts, in figures, amounted to \$107,000,000 in 1914. In round figures, for running the State, \$20,000,000 was required, and the rest for running the municipalities. Taxes in Massachusetts are assessed by one of two authorities, and only two assess taxes here, either the State or the municipality. We think we have county taxes, and we do, and county expenses, but no tax is assessed for any county purpose, as such. It exists merely as part of your tax to the municipality. You never heard of a county tax in Massachusetts. There are none. There never have been any.

"Taxes are assessed by the municipality on your property and by the State upon privileges. There is only a slight variation from this

absolute rule here. Bear in mind, then, that your tax is assessed either by the State on account of some privilege which you enjoy, or by the municipality upon some property of which you are possessed, and fundamentally that is all there is to the study.

"Massachusetts taxes are controlled by a constitutional instrument, strait-laced and unbending. The constitutional provisions relating to taxation are two, and briefly are: (1) Property must be reasonably and proportionally taxed, and (2) Privileges must be reasonably taxed. All tax laws are made by the Legislature. There is no body under any circumstances that can make tax laws contrary to the laws of the Legislature. The Legislature established the old tax code in conformity to the Constitution of the State, and the provisions of the Constitution are, that if taxes are to be levied, they must be reasonable and proportional, and if levied upon privileges, they must be reasonable.

"The principal privileges which have been taxed, and are taxed, in Massachusetts, by laws passed by the Legislature and administered by the State for its own good, are corporate privileges and the privileges of bequeathing or receiving property at the death of the testator, inheritance tax, and corporation taxes of various kinds.

"Most of the discussion we have had in the last twenty-five years with relation to our tax system, has related to the taxation of property, and not to the taxation of privileges, and since we can't undertake to cover the whole situation here to-night, I want to say a few words about the taxation of property, how the Constitution was made, the kind of a law we have, and the trouble it makes for us. The Supreme Court, for two or three generations, in its interpretation of the provision relating to property, has said, in substance, that property ought to be proportionately taxed. The Court has said in almost so many words that it is impossible for the Legislature to pass laws which shall distinguish between classes of property and tax one high and the other low. Repeatedly the Court has said that if property is to be taxed at all in a municipality, every class of property, every item of property ought to be taxed at the same rate, upon the same valuation — its cost value — and this measure for taxes, this guide for taxes, was set up and we were obliged to administer.

"This measure for taxes, these guides for taxation, were set up when we were a colony, and when the only kinds of property were land and live stock, and small stocks of merchandise. Money did not exist. Credits were unknown. Shares of stock were almost unheard of. Each little community was a whole in itself, and the possession of \$1,000 worth of land or live stock indicated half the ability to pay taxes by the owner, which was possessed by the owner of \$2,000 worth of land or live stock. In those simple days, when classes of property were simple, when there were none of the complications brought about by trade, and money was almost non-existent, the standard of taxation adopted in colonial times and later under the Constitution, was as good a standard as anybody ever had wanted.

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"Things went well until other classes of property arose under other economic conditions. As money increased and property decreased, our taxes have increased at least in like proportion. The tax laws for many years in operation in this Commonwealth, and now on the statute books, direct that the assessors of taxes in the municipalities shall value on full cash value the following principal classes of property each year:

(1) Real estate. That, as you know, means land and the things erected on it, or affixed to the land, or buildings, that is, real estate.

(2) Personal property which are divided into five or six principal classes as follows:

(a) Stocks of merchandise.

(b) Live stock.

(c) Furniture and household effects.

(d) Net credit — the amount due in excess of that which you owe.

(e) Your income from your profession, trade, or employment in excess of \$2,000.

(f) Shares of stock of certain classes of corporations not exempt from taxation.

"The assessors of your town are required to go about the town, visit the property of citizens each year, and write down on their books, according to their knowledge or their judgment, all estimates of the fair value of all these different items. The assessment of real estate is difficult enough but, on the whole, fairly well accomplished here. Assessments of stocks of merchandise is somewhat more difficult, but even that is done with a tolerable degree of success. The troubles of the assessors begin when they have to see that which is unseeable and know that which is unknowable, and unscrew that which is unscrewable. Their troubles are concerned with the assessment of those classes of personal property which you do your best to cover up, and which they, even if they did their best, could hardly uncover, and, as the gentleman said in the room above a few minutes ago, that he thought the historian of some future day would say Massachusetts was a community of the greatest untold wealth, I agree with him.

"With the arrival of credits and securities, that standard for taxation which had proved good in the simple days, began to break down. Credits and securities have multiplied during the last seventy-five years until, at the present time, there can be no doubt that more than half the wealth of Massachusetts and the citizens of Massachusetts exists in the forms of credits and securities, shares of stocks, bonds, debentures, or other evidences of indebtedness, which securities and credits derive their only value from the fact that they are paper evidences of property, and not wealth in their own right, and, under our Constitution, we have been repeatedly told by the Supreme Court that we cannot distinguish between those classes of property which have value in their own right, and those other classes which have value only as they are evidences of something else of value. Do you get the point? Your land, your building, and your stock of merchandise, the things that are in Massachusetts,

where you live, the things with which you live, which carry on your industry and do your work for you, they are invested capital here, and are here performing their work as invested capital, but what about your Pennsylvania bond. There is no part of the Pennsylvania here. When you bought that bond you took \$1,000 out of Massachusetts and sent it to Pennsylvania or Illinois, and out there it became invested capital, and started in out there to do its work as capital at will. Out there it became subject to taxation, and has been actually taxed, and the laws of the Commonwealth of Massachusetts say it has a value equally here, and that, although the only thing it does is to produce income here, yet it must be taxed upon its full capital value, at exactly the same rate in Massachusetts, as if that property actually were here, working as invested capital. The great distinction which exists, and which nobody can deny, between wealth and evidences of wealth, we cannot recognize under our tax laws.

"I might go into all sorts of details as to how the tax makes trouble, but I am satisfied the cause of the whole of our difficulty comes down to this. It is a fact of economics that there is a difference between property and wealth, a difference between that with value in itself and that which is only an evidence of value elsewhere, and that great distinction is as wide as the world and which cannot be controlled in the slightest degree by the State or the Legislature. The Legislature has asked the Supreme Court whether it is possible to make that distinction, to separate those things which are evidences of wealth and those which are wealth, and to tax one as evidence and one as the thing itself, one on account of its capital value, and the other on the only thing it produces in Massachusetts, — its income, — and the Court has said with the Constitution unchanged that distinction cannot be made, and that is why we are in trouble, and we will be in trouble always until Massachusetts squares itself to the principles of economics, which are to be much more considered than anything else. We have been trying here for a hundred years to say that we will set aside the laws of economics which are fundamental, and that we will try to secure our revenue equably, in accordance with the system which we have outgrown, and which has never been made to work in any community, in any country, where there existed side by side property of value in its own right and property which is an evidence of wealth elsewhere.

"What is your bond of the Pennsylvania Railroad taken at in Massachusetts? At your income from it, that is all, and as long as your \$1,000 remains a part of the Pennsylvania Railroad in Pennsylvania, the only thing that exists in Massachusetts is the thing that counts to Massachusetts, — the \$50.00 income, — and our tax laws say that the \$1,000 which is out in Pennsylvania is here also, and taxes you accordingly. The result is that you don't want it known that you own that bond, and if you do own such a bond you see to it that the assessors don't know it, because with a \$20.00 tax rate, it means that out of that \$50.00 we give up to the municipality \$20.00, and have a three per cent investment for

ourselves, and we don't like that, and don't believe it is necessary for any community in the State of Massachusetts to take forty per cent of our income in order to support the government, and it is not. So the great majority of us escape taxation on our bonds, and those who do not are those who have been unfortunate enough to have brought their estates to view, and in a way they could not avoid.

"There are a few who are so dead honest that they come in and make the sworn statement required by law, and expose their own property to this kind of taxation which takes from thirty-five to sixty per cent of income. They may get some satisfaction in their conscience, but very little approbation from their neighbors.

"We made up in the office a little while ago, for purposes of figuring taxes, a typical estate composed of some real estate, a mortgage and some securities, the same as any of you might own, and we subjected it, theoretically, to taxes in three or four places in the State. In the town of Orleans, which you may have heard of, and of which some of you are legal inhabitants, we found in 1914 seven per cent of the income of that estate would have been absorbed in taxes. Nobody would object to that. Woburn with a \$26.00 tax rate would have collected sixty-one per cent of the income. Woburn is a little excessive in its rate; but in any \$20.00 rate city, forty-seven per cent of the income would have been absorbed in taxes. That was an estate the same as any of you rich people might have owned. We thus have a tax system in Massachusetts which allows the same estate to contribute seven per cent in Orleans and forty-seven per cent in any town with a tax rate of \$20.00 per thousand, and sixty-one per cent where the rate is \$26.00 per thousand, and we call that 'proportional taxation,' and it is, as the Supreme Court has said.

"There are some of us who would like to get away from that system. I don't know whether you would like to or not, but believe me, we in any way responsible for the interpretation of such a law would like to get away from it, and the Legislature last year seemed to have an idea that it would like to get away from it, and passed last year a constitutional amendment which gives to the Legislature power it does not have now, power to assess classes of property in different ways, any classes it may select, with ratio to the income produced, and to exempt such classes of property from other taxation, and to make this tax just the same rate in Orleans as in Woburn; or, if you like, the other way. The Legislature has not that power now.

"The constitutional amendment passed last year is designed to give that power to the Legislature. That constitutional amendment is before the Legislature for action this year. It has already passed the Senate. Next week it will be up for action in the House. It is a little ominous that we have not heard of any opposition. I have been on Beacon Hill long enough to know that if you don't hear anything about opposition you had better look out, and I don't think we have gotten so far along in this solution that any one can afford to assume that that thing is going smoothly through the House. The thing for us to assume is that it has

not gone through yet, and if any of us have any influence which we may properly use with members of the House, it is not too late, or too early, for us to use it between now and next week, in order that the members of the House may be advised of the seriousness of the situation, and the necessity for a remedy.

"Mr. Cushing said, downstairs, that he thought if this constitutional amendment was defeated in the Legislature now, or rejected by the people next fall, there would be little chance of getting nearer the solution of the problem for pretty near a generation. I think he is right. These are the days right now when it may well be that we shall determine for ourselves and our children, whether it is going to be possible for the Legislature, if it wants to, to establish an equable system of taxation in place of that which we all know to be unjust, even though it may be in line with, and agrees with, the necessary interpretation which has been given to the word 'proportional.' If the kind of system we have is proportional, God save the Commonwealth of Massachusetts, and let us forget that word 'proportional.' Let us get some of it, at least, out of the Constitution.

"It may seem strange to you that we have not taken this action before. I think I know the reason. Even such good citizens as belong to the Boston City Club, a good many of them have absolutely failed to think and to talk on matters of taxation in terms of Massachusetts, and have done their thinking and talking in terms of their little bit of a business, or their municipality. I doubt not there are such individuals now who can't see any farther to the tax situation here than the town of Orleans, and so are satisfied with it; and I doubt not there are some people also who can see nothing further in the tax problem beyond the fact that their own business, because of some peculiar situation, pays a small tax, and that makes them satisfied.

"I am confident there is no public question with which we have to deal which calls so loudly to the citizens of Massachusetts to think and talk and act in terms of the whole State of Massachusetts, and if we do that, the next step is the approval of the constitutional amendment in the House, and its approval by you next fall. If we do that I am satisfied we shall be able to teach the rest of the country something they have not yet learned about taxation, as Massachusetts has so often and so well done in other fields of public endeavor."

HON. LAWSON PURDY

President Dept. of Taxes and Assessments, New York City

"It is a very rash man that will come from New York at this time and advise other people about their constitution. We have a constitutional convention of our own in session. Our Constitution is very satisfactory to me as it is. I hope they will do nothing to it. It is almost as good as that of Connecticut. The word 'taxation' does not occur in the Connecticut constitution, nor does the word 'revenue,' so

the commission tells me our Legislature is unrestrained. They have never done anything reckless. I feel perfectly confident that the Legislature of Massachusetts will never do anything rash.

"I have heard much of the word 'proportional' in your Constitution. If I could have my own way, at least so I feel from my own experience, I should rather eliminate that word 'proportional.' With your Constitution I should be glad to see anything done to it, but I do not feel so confident about our own. I may not be in a position to brag in Massachusetts from now on. Times have been hard in New York. There has been much lack of employment, many tenantless houses, very little to do. The devil finds work for those who have little to do. Hence, with discontent rife in the city and State, some enterprising gentlemen this winter tried to turn our tax law for the State upside down. After they had finished with it, it was damaged a little, but not very materially changed.

"They are busy now over the Constitution. There are always people, especially when discontented, who seek to alter the whole Constitution and the course of nature by statute or amendments to the Constitution. I hope no great harm comes to our Constitution. I still have much faith in our Court of Appeals and that they will best the interests which seek to change it, or which we have heard so much of late, and that they will adhere to the theory that the Constitution is a structure of law and nothing more, as it is, in the main, throughout New England.

"Your troubles are due to accident rather than design. It might interest you a little to know how different our tax law is from yours. Not that you would wish to copy it, probably. But we are happily free from some of the troubles from which you have suffered, and it would seem to me that, even under your Constitution you might have some of the things we have. For example we have never thought the stock of a foreign corporation any more than the shares of stock in the hands of an individual of a corporation which is taxed on its capital should be taxed again by our State. We always considered the one tax enough.

"It was not clear to some assessors about forty or fifty years ago that that referred also to the shares of stock of a corporation organized under the laws of another State, and so these assessors attempted to assess the shares of a foreign corporation in the hands of a citizen of New York. Our Court of Appeals, however, as it seems to me, very conservatively decided that the shares merely represented property somewhere, and it was to be presumed that property was dealt with by the laws of the State in which it was situated, in accordance with their best judgment, and that the shares could not be again taxed in New York.

"Nine years ago we followed in part the good example set us by Massachusetts and exempted all mortgages, but only after the payment of a recording tax. That was a compromise to the belief that

borrowers on mortgage securities should not be singled out for taxation, but the tax was so suitable and so precisely in accord with the same conditions everywhere, that the compromise was accepted without much reluctance. The law remains and mortgage debts are not taxed in the State of New York if the mortgage was recorded since the first of July, 1906. The following year the law also provided that anybody might take a mortgage bond and pay the tax in respect of it at the same rate ($\frac{1}{2}$ of 1%), and that mortgage bond would never again be subject to taxation. With us it makes no difference if it is a single bond or a great many, the evidence of debt secured by New York mortgage recorded since July 1, 1906, are not again taxed with us.

"Four years ago we extended that to operate upon all other bonds, so that if a tax of one-half of one per cent were paid in respect to those, they would not again be taxed.

"We have always been allowed to tax all debts upon our personal property of all kinds. Here you make what seems to me to be a curious distinction. If a man borrows money from you and gives you a note, you may offset a similar debt against that note; but if a corporation borrows the money from you, and gives you a solemn piece of paper called a bond, then you make no deduction, but a tax is imposed. I have never been able to see the logic of that any more than the logic in the veto of Governor Harmon when the Ohio Legislature desired to temper the wind a little in that State. While you could deduct the debt you owed to a man who merely had a note, if you owed a debt you could deduct that, the debt a bank owed you was different from a debt owed you by an individual on a note.

"I said our Constitution had been endangered a little. The enthusiasm of these gentlemen for change this winter, resulted in a suspension of the law that you could present a bond and pay one-half of one per cent on it, and it was exempted, and they had a close session while they could think what they wished to do about it. They thought but could not make up their minds, so they have enacted on open season from the first of May to the first of November, so they will think until the first of November, and perhaps next winter we shall have a change. Perhaps they will follow your example, but I do not like an income tax for the State of New York. We have to consider geographical location. Too many of our people live half the year in New York, the other half of the year in New Jersey or Connecticut. We have to deal with property rather than with persons, but that has no particular bearing on conditions here, because your people seem to be willing to stay with you, no matter what you do with them. That is a high tribute to Massachusetts and so intended. I feel the same way, as I said at lunch. I have a great deal of State pride. My ancestors have been there for two hundred and fifty years, and I should hesitate to leave it. So I sympathize with any Massachusetts man, and that leads me to say that I was introduced to your tax law many

years ago and have had a casual acquaintance with it ever since.

"I read with great interest the report of the Commission of 1897 and was deeply interested in the history of those fourteen or eighteen towns. They were interesting, but I did not understand about them exactly. I do not see why they are and why they were allowed to continue. I used to use them as illustrations when speaking about the system in Massachusetts, but I did not understand. Finally I obtained, the other day, the message Governor Walsh sent to the Legislature, and he described the little town of Orleans. Finally I saw it. My eyes were opened and I understood. Massachusetts did not wish to lose the conscientious rich men whose ancestors had been in Massachusetts, and so they desired to retain for them cities of refuge to which they could go, and keep their consciences and money intact.

"I infer from some things that Professor Bullock said and even from some things that Mr. Andrews said so well, that they do not like these cities of refuge, and they are so interesting. They are so interesting that I hope the literary men of Massachusetts will write them up in an effective fashion, so that they may not be lost to the world.

"Of course the science of any decent tax system is that nobody can get away from from it. Did you ever stop to think of the old definition of the word 'tax'? It is a contribution to the State enforced by sovereign power. Is that your tax law? If you are going to have any tax of any sort, or kind, so that you should find out how well or ill it works, it should be absolutely effective on every one, and take from every one the part the law says shall be taken from him. You can't do that under your Constitution as it is. If you can't do that, or can't pass this amendment now before the Legislature that takes the word 'proportional' out of the law, I see no reason why you can pass that and pass an act allowing you to have an income tax in Massachusetts. You certainly want a condition under which men can make the contribution the law says that we shall make, and not be driven to subterfuge by it.

"My experience in New York in examining people who have been assessed for personal tax, leads me to believe there are a very small proportion who are dishonest. These jokes about tax-dodgers really represent more the law being very severe, and persons do not voluntarily surrender themselves up to iniquity. It is not that when put under oath they do not tell the truth. That may not be so in those States with a mandatory listing system. I have heard in those States that men do make lists they know to be untrue.

"With us I think the telling of that which is wilfully untrue is very rare and, to some degree, we have a system of enforcing our law that is far more efficient than your system of enforcing your harsh law. I saw as I came along to-day a sign posted by the Assessors of Boston saying that people must file their lists not later than the fifteenth of

May. That is an invitation. They are making motions at you. Nothing will happen to you if you don't do it except perhaps 50% if you are taxed, and then that might not come high enough to equal what you would have to pay on if you did what the assessors invited you to do.

"This is what we do. We say, 'You live in a nice street, \$100,000,' and you are shocked. The only way you can get out is for you to come over to the office of the Tax Commissioner and be cross-examined as to what you have, have your testimony written down and swear to it. That is worse than making out a paper in the quiet of your office and mailing it to the Tax Commissioner. We try not to tax the same person two years running who proves he has nothing. We got up a card-index system so as not to do it twice. We try not to do it to the same person running until three years have rolled around, when he may have accumulated something. Aside from that we try to comb the town thoroughly and try to get everybody that is practicable. We get a large number of persons who are happy to come and swear, for, under our law, they may be rich and not liable to a personal tax.

"I remember examining an old merchant whose name is widely known. It was in the early days of my service. I began with his stock of goods. He did not know exactly how much it was. By and by, after a little coaxing, he said it would not exceed \$1,000,000. Then I came to the amount his customers owed him and he was quite sure, was ready to swear it did not exceed \$600,000. Then, how much was there in the bank. He was sure that did not exceed \$100,000. Then he had some other interests that brought the total up to \$1,314,000. It looked hopeful. Then we came to the liability side. He said he owed on his own bonds, secured on real estate mortgages, \$2,500,000.

"We have grown up under that system so that we are pretty well used to it. Suppose that you thought you and your partner might like to have your business go on in an ordinary way and you incorporated it and one of your lawyers who knows the tax laws, says, 'What do you think are the gross assets of your business?' You say they are about one million dollars. Then they will incorporate your business probably for about \$500,000 of stock and \$500,000 bonds. You would take the stock and divide with your partner the stock and bonds. The bonds will be secured by the real estate owned, so they will not be taxable. Then your corporation will start with a debt of \$500,000, and that will be sufficient to wipe out any personal assets. You pay taxes only to the State on the basis of the dividends paid on the stock, and if your bonds carry a fairly high rate of interest, you don't have so much dividends to distribute, so that cuts down the taxes you pay to the State. Your people call that tax-dodging. I do not. The law in New York says that if you incorporate your business, mostly bonds and not much stock, we won't tax you much.

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It is optional with you to choose the conditions under which you do business.

"To go back to the merchant I told you about. The law says if he owns \$5,000,000 real estate and borrows \$2,500,000 at 4%, and takes that and turns it in such a way so as to earn 8 or 10% on it, the law will allow him to do that, or something else, and he naturally chooses that thing, because it is the most profitable. It is quite proper. The law says he can choose.

"It is up to the Legislature not to make such fool laws. At the same time our law and yours are just what the people generally want. The probability is that you are just about getting ready to have this thing, and when you are ready for something else, you can have your Constitution the way you wish to then, and your tax laws as you wish, and then perhaps your people will not come over to us, but we will come over to you, to get better tax laws."

MOCK TRIAL

Thursday Evening, May 6

The closing event of the season of 1914-15 took the form of a mock trial:

James W. Rollins, Chairman of the Building Committee, and Louis C. Newhall, architect, were charged with graft in the construction of the new building. The following is the organization of the court for the trial, which resulted in acquittal:

Judge presiding HON. ROBERT O. HARRIS

Clerk of Court GUY H. HOLLIDAY

COUNSEL

Prosecution

HON. LOUIS A. FROTHINGHAM

HON. JAMES M. SWIFT

HON. CHANNING COX

DANIEL J. KILEY

JOHN B. DORE

Defense

GUY A. HAM

SOLOMON LEWENBERG

GEORGE L. BARNES

Sheriff SAMUEL F. HUBBARD

Chief of Police EDWARD G. GRAVES

HON. WILLIAM C. REDFIELD

Thursday Evening, May 13

"Mr. Toastmaster, Mr. Mayor, Gentlemen of the City Club. It is not for me to intrude upon matters of foreign affairs, but if the President could speak to me now, he would say that the support of a people too mighty to be other than calm, too strong to be other than self-contained, too wise to be other than firm, and wholly unafraid, was the greatest assistance that he could have in guiding the State on paths earnestly sought to be those at once of honor and of peace.

Outlook for our commerce and industry. 17