

The Income Tax Fallacy

DEVELOPMENTS along lines of taxation and discussion during the past few years, have been almost equally disheartening; perhaps in part at least because the paramount necessity of getting enormous sums of money for absolutely necessary public use has made both people and public men more than usually careless about scientific methods of obtaining it. But the very fact that there is at least a difference of opinion as to the necessity for or the desirability of the suggested service men's bonus has at last started an inquiry into the incidence of each of the various taxes that have been proposed for the purpose. Single Taxers have less excuse than the average citizen for the vagaries in which they have indulged respecting the merits of income and excess profits taxes.

As the REVIEW ably pointed out in its March-April number, there has often been on the part of many Single Taxers a looseness of thought akin to economic heresy in their treatment of the principle of the income tax. While it is not a burden on industry and an obstacle to its exercise in the degree that tariffs and taxes on merchandise or buildings are burdens and obstacles, it does, in its extreme form, operate to discourage active enterprise and leads to the speculative holding of natural opportunities out of use whenever conditions arise like those now prevailing, of rates that are sure to be reduced in the future so that future increments will be penalized less heavily than present ones.

On the mere ground of equity little or nothing can be said in its favor if only because it is practically impossible to discriminate through an income tax between earned and unearned increment. With the surtax system, the pirate who is injuring the public by withholding land from use pays no income tax on it now even though its value may be steadily appreciating, and in all likelihood when he does realize his profits will pay a much smaller percentage; while the genuine captain of industry, such as the type of railroad or bank president who is engaged in actual constructive work and not merely a manipulator of stock values, drawing a salary that brings him well up in the surtax scale, is mulcted heavily on the income that he has fairly earned by contributing to the general production of wealth. Even when the vacant land speculator does realize his profits now, while the total for himself and his tribe will run into figures far greater than the individual large payments for true services rendered, the working of the unfair surtax system may take from the individual land speculator for public use a much smaller percentage than it takes from the individual high-salaried working man.

In its effects of this nature—and they are by no means sporadic cases—the income tax does not even meet the requirement that it is a rough and ready way of getting at the unearned income: the thought of which is undoubtedly the instinctive influence that has led many Single Taxers to advocate the income tax as the "second best" way to raise revenue. But after all the scientific rule of taxation

is not concerned primarily with the effort to have the government try to make an abstractly fair apportionment of taxes. At the bottom of that idea is the theory of laying taxes according to ability to pay, rather than in proportion to the benefits received from government. It should never be forgotten by Single Taxers that, as the REVIEW has pointed out elsewhere, our fundamental object is to restore to all men the right to the use of the earth, by removing the obstacles which now prevent free access to it.

To accomplish this, the income tax avails not at all, but on the other hand it serves as the red herring across the trail which Henry George was so fond of using as an illustration, by misleading those who just look blindly for some scheme to correct inequalities of return for service into thinking they have found one. The bungling methods under which our own income tax has been enacted have helped to open the eyes of the people to its inefficacy, but Single Taxers have not done what they might to point out its fundamental error. Even as a horrible example it has failed, because instead of leading men's minds to better methods, as some Single Taxers have argued would be the result, it has instigated agitation for such monstrosities as consumption taxes, which are being adroitly pushed forward by special interests to take the place of what are being recognized as burdensome imposts, and advocated on the specious plea that they are so small on each purchase as not to be felt at all.

In the actual administration of the income and excess profits taxes, a condition has developed that would seem to contradict the economic axiom that direct taxes cannot be distributed. To what extent this is true when surtax provisions come into play, may perhaps be a question; for while of course there is no reason to suppose that recipients of unearned or interest incomes on which even 80% is taken in taxes would balk at receiving the balance, it is possible that employers of capital-producing incomes of which say 60% is taxed, may prefer not to take incidental risks to keep their capital employed. Of course, there are all sorts of methods of evasion, and one of these which is not generally advertised but with which bankers are perfectly familiar, is that receivers of large incomes will invest in Liberty Bonds as far as these are wholly or partially exempt from income taxes and then borrow on them, investing the proceeds in taxable securities, against the proceeds of which they can charge off the interest on their Liberty Bond loans to reduce their taxes on the other investments.

When it comes to the excess profits or war profits taxes an entirely new set of complications is presented; largely due, no doubt, to the hopeless muddle with which they have been surrounded by the small fry lawyers, both Democratic and Republican, who have had in hand the drawing of provisions for such taxes. On the face of the returns, as we might say, there would seem to be an element of fairness and perhaps no burden on production if we could make the profiteers who have been reaping great returns from war expenditures, pay back into the public treasury some portion of these returns. But in practice it would seem as if

such ability as we have been able to command for the purpose, has been utterly unable to make any just apportionment and we are now hearing loud cries that taxes of this kind are simply added to prices, and thus reimbursed from the consumer. How far this is true is by no means certain, but to some extent it is probably a fact, although mainly no doubt because of the unscientific methods by which government attempts to impose such taxes.

Coming back to fundamental principles, however, the man or woman who has really absorbed the Georgian philosophy, should never forget that the main thing is to free industry, that there is no justice in government taking anything from the individual except in return for what it gives to the individual, and no wisdom in penalizing industrial effort through measures that are ostensibly aimed at making recipients of income disgorge the proceeds derived from the industry of others.

E. J. SHRIVER.

High Prices and Taxes in 1767

THE "enormous expenses and unparalleled success of the late war" is the reason given for high prices and extravagance in the *London Magazine or Gentlemen's Monthly Intelligencer* for the year 1767, in an article which the American Exchange National Bank here does good service in reprinting in pamphlet form. It is interesting to compare the situation then and now and to find how similar conditions of fact and thought were a century and a half ago.

The writer says that "whoever remembers the many millions annually borrowed, funded, and expended, during the last war" can be under no difficulty to account for the high prices of provisions, etc., and he shows how the interest on these borrowed funds and the new taxes every year imposed "must unavoidably increase prices."

"For," he says, "a duty laid on any commodity does not only add the value of that duty to that commodity, but the dealer in it must advance the price double or treble times that sum; for he must not only repay himself the original tax, but must have compensation for his losses in trade by bad debts, and loss of interest by his increased capital. Besides this, every new tax does not only affect the price of the commodity on which it is laid, but that of all others, whether taxed or not, and with which, at first sight, it seems to have no manner of connection. Thus, for instance, a tax on candles must raise the price of a coat, or a pair of breeches; because, out of these, all the taxes on the candles of the wool-comber, weaver and the tailor, must be paid. A duty upon ale must raise the price of shoes, because from them all the taxes upon ale drunk by the tanner, leather-dresser, and shoemaker, which is not a little, must be refunded. No tax is immediately laid upon corn, but the price of it must necessarily be advanced, because, out of that, all the innumerable taxes paid by the farmer on windows, soap, candles, malt, hops, leather, salt and a thousand others, must be repaid: So that corn is as effectually taxed as if a duty by the bushel had been pri-

marily laid upon it; for taxes, like the various streams which form a general inundation, by whatever channels they separately find admission, unite, at last, and overwhelm the whole. The man, therefore, who sold sand upon an ass, and raised the price of it during the late war, though abused for an imposition, most certainly acted upon right reasons; for though there were no new taxes then imposed either on sand or asses, yet he found by experience, that, from the taxes laid on almost all other things, he could neither maintain himself, his wife, nor his ass, as cheap as formerly. He was, therefore, under a necessity of advancing the price of his sand, out of which alone all the taxes which he paid must be refunded. Thus the increase of taxes must increase the price of everything whether taxed or not; and this is one of the principal cause of the present extraordinary advance of provisions, and all the necessaries of life."—*Market Review*, issued by J. S. Bache & Co., N. Y. City.

What Others Think Of The Review

Here are a few commendations from the many recently received:

I send you the most cordial greetings and congratulations on the continued excellence of the REVIEW.—ALEXANDER MACKENDRICK, Glasgow, Scotland.

The SINGLE TAX REVIEW is always good, every number.
HON. F. F. INGRAM, Detroit, Mich.

Heartiest good wishes for the good work you are doing.
CHAPMAN WRIGHT, Birmingham, Eng.

I believe that the REVIEW has a distinct reason for being. I agree with its vigorous editorial policy and its whole conduct.—PRESIDENT OF A PENNSYLVANIA COLLEGE.

I enjoyed your letter to the Irish very much.—W. A. DOUGLASS, Toronto, Canada.

I send this in appreciation of your article on Controller Travis and the Cave Man.—W. B. LOWENSTEIN, Memphis, Tenn.

I want to express my approval of your Open Letter to DeValera. I heard from my mother's lips the tales of '48.
F. W. LYNCH, San Francisco, Calif.

I always much appreciate the REVIEW and am always very glad to see it.—W. R. LESTER, Sussex, England.

The Handwriting on the Wall

LAND speculation proceeds feverishly in many places despite amateurish attempts to repress rent advances. Goodbody & Co., members of the New York Stock Exchange, remark that land values are the last to rise in a business boom, and when they do a revulsion is not far off.

Commerce and Finance, N. Y. City.