

A TARIFF FOR REVENUE

Single Taxers are free traders. The acceptance of free trade as the natural trade—*i. e.*, the trade that would obtain in the absence of all artificial restriction—and the knowledge that “wages, instead of being drawn from capital, are in reality drawn from the product of the labor for which they are paid,”¹ destroy in the mind whatever may linger of the plausible sophistries of protection. (See Henry George’s *Protection or Free Trade*). A brief discussion of the doctrines of these opposing schools, from the view-point of the Single Taxer’s economic philosophy, will be found under the head of definitions in another part of this work.

While it is inadvisable to enter into a lengthy discussion of the conflicting claims of the Protectionist and the commercial Free Trader of the old school, we may pause to indicate the unsatisfactory nature of the teachings of so-called free trade before the advent of Henry George. And for the benefit of those who, though having abandoned all belief in the claims of protection yet cling to the theory of a tariff for revenue, it may be well to examine briefly the grounds on which duties on imports are defended purely as revenue raising measures.

The objection to both tariff and excise taxation as a means of raising revenue is that they disturb prices, lessen production, build up monopolies, and bear in proportion to consumption rather than possession or income. These taxes cannot be so adjusted as to press with equal weight upon all points, which is an economic way of saying that neither of them can be a just method of taxation.

An indirect tax grows with every exchange, as the payment of the tax is advanced by each intermediary dealer; the accumulated profit may in this way double the price to the consumer. The amount collected under a revenue tariff for one year would

¹*Progress and Poverty* (Doubleday Page Edition) p. 23.

be perhaps a third less than the actual increase in price resulting from this mode of taxation.

A tariff upon imported articles not manufactured in the country might, in the absence of other and better sources of taxation, be a convenient means of raising revenue, though subject to the same objection that it takes for public uses less than it forces the consumer to contribute to the profits of intermediaries, who have to advance the tax over and over again. But it would not act with a protective tendency, and, as in the case of tea and coffee, would not increase the price of other commodities. Tea and coffee are the "raw materials" of no industry; therefore those who should refrain from drinking tea and coffee could escape the payment of the tax. But a tax upon iron for instance, whether in the ore, in the pig, or in the bar, cannot be so evaded.

A tariff revenue violates the first principles of a just revenue. It collects from many things instead of a few; and is a complicated and unwieldy system. It has been well said that certainty in taxation is preferable to equality because certainty under natural laws will lead ultimately to equality. And the uncertainty of a tariff for revenue, and the greater expenses of collection, not involved in some other forms of taxation (that upon land values, incomes,¹ or bequests), condemn such a tax upon exchange.

But while this uncertainty must condemn any system for the raising of revenue where more certain methods are at hand, it is always a recommendation for its adoption to those who benefit by such a tax. What other reason can justify the combination upon the same article of specific with *ad valorem* duties, save to conceal the amount of the tax from the pastoral mind?²

¹There is, however, an essential injustice in an income tax, preferable as that is to all other forms of taxation. Even where small incomes are exempt as is the case in England, it must bear harshly upon professional incomes and casual salaries. It cannot make a distinction between fixed revenues derived from land, and those derived from unstable enterprises, or from incomes to be terminated within certain periods.

²The revenue tariff of Great Britain and the protective tariff of Germany are comparatively free from *ad valorem* duties. There are disadvantages in specific duties absent in *ad valorem* duties, and there are disadvantages in *ad valorem* duties absent in specific, but the combination of *ad valorem* with specific duties eliminates the advantages and combines the disadvantages of both.

It is true that Americans exhibit a marked distrust of all direct taxation. But a direct tax is always preferable to an indirect as straightforwardness in conduct is preferable to all shuffling and evasion. The more indirect a tax is the worse it is. A tax on wealth is not so bad as a tax on the process of production, since one interrupts industry, and the other does not. The first may retard it, but to retard it by interruption is to retard it more. This is why a tariff for revenue—a tax upon the process of production, or, what is the same thing in the end, a tax upon exchange—is not a wise way of raising revenue.

All indirect taxes are taxes on consumption. So, too, are some direct taxes, but indirect taxes always are. Such taxation encourages governmental extravagance and leads to heavier and increased taxation. Under it, even when not advocated for protection, sensitive interests grow which cling to its continuance and resist its repeal. Were our burdensome system of taxation a direct one, as has been intimated, men would not long tolerate it. Had that system against which Watt Tyler and his men rose in rebellion been levied in a more indirect way, its essential injustice would never have been perceived. It is instructive to note that time and time again men have arisen in rebellion against taxes unjustly imposed; and half the wars of Christendom have had their origin in shameful attempts to rob the poor in the guise of revenue. But these ancient methods differed in their brutal directness from the secretive nature of modern taxation.

A tariff for revenue has a disturbing influence upon trade, less in degree but not different in kind from a protective tariff. It must also act with a protective tendency. For example, if the annual needs of a country are twenty millions, and duties of ten or twenty per cent. are levied to that amount upon imports, much more than that must be contributed to industries protected to the extent of the duties levied. Rates of duty may easily be too high for revenue, but they can never be too high for protection. A tariff with uniform rates of duty would not be a revenue tariff. A rate of duty that might produce a large amount of revenue if laid upon a certain article, would be absolutely prohibitory in the case of another.

No one can defend a protective tariff as a means of raising revenue, since the treasury gets the lamb's share and somebody else the lion's. No free trader can advocate a tariff for revenue, since the reasons that condemn the one as unmistakably condemn the other. A really protective tariff ought not to, and actually would not raise any revenue, and a revenue tariff must always in a variety of ways act as a protective tariff, whether it be applied with that object in view or not.

There is this objection against even an ideally perfect tariff for revenue. It could not be kept a revenue tariff. Not only must it fail, in the very nature of things, to discriminate with justness between necessities, conveniences, and luxuries, but the door of a revenue tariff swings ever outward into a protective tariff. Theoretically, it may be held that a revenue tariff may remain after a protective tariff is abolished. But, practically, the protective fallacy might be scotched, but not killed, while there remained, in the form of a revenue tariff, a possible means of resuscitation.

It is impossible so to adjust a revenue tariff as to make it a system of equal taxation. *Ad valorem* duties must invite undervaluation, and specific duties must operate as prohibitions on the inferior and more abundant kinds of the article affected by them, even though such duties be extremely moderate.¹

A free commerce makes for peace. Revenue tariffs being interferences with commerce are, therefore, though in lesser degree than protective tariffs, impediments to peace. Revenue tariffs, too, must retain much that is incidental to protective tariffs—ignoble governmental espionage, with its baggage searching and inquisitorial methods. It is not a manly mode of raising revenue; is not, as our ancestors might have said, upright nor forthright.

All indirect or unseen taxation is out of place in a democracy. All systems of taxation which accumulate revenue beyond immediate needs are a peril to the nation. All taxation which looks even incidentally if not avowedly to the business of the citizen, rather than to the needs of government, is a menace to free institutions.—EDITOR.

¹Gloves imported from France into England worth twenty-four shillings a dozen pairs were not excluded by a duty of four shillings and six pence, but gloves worth eight shillings and ten shillings were excluded altogether.

THE INHERITANCE TAX

The Inheritance Tax has several advantages over some other forms of taxation in common use.

The tax is derived from the property of deceased persons, who themselves cannot use it longer, and is paid in most cases by those who have done little or nothing to produce the wealth that they will henceforth enjoy. It is paid at a time when the means of payment are at hand and represents no real sacrifice by the taxpayer. The tax is relatively sure, and inexpensive in collection. It does not interfere with production, unless unduly high, and it cannot be shifted.

On the other hand, the procedure incident to the collection of this tax makes additional costs and fees which, in the case of many small estates, equals or exceeds the amount of the tax. In the United States there is a further difficulty because the laws relating to inheritance are enacted by the several States and not by the federal government. When estates have property in two or more States, the same property is often subject to double taxation, especially in the case of securities and shares of stock. The State of which the decedent was a resident claims the tax because of his residence, while the State where the property represented by the shares is located, claims a tax because of its jurisdiction over the corporation.

Nor can the tax be a substantial source of revenue. In New York, where the rates run from one to eight per cent. the average receipts from the Inheritance Tax are \$12,000,000 annually, or less than five per cent. of the total State and local revenue. And New York has an undue proportion of large estates that really represent wealth located in other parts of the country, or that was made elsewhere than in this State.

In Wisconsin, the average yield of the Inheritance Tax is about \$700,000 annually, less than one and one-half per cent. of the total public expenditures. In California, where the rates

have been increased three times since the first law of 1905, and are perhaps the highest of any State, the tax for 1915 amounted to \$2,483,000 or about two per cent. of the total State and local revenue.

As rates which are at least one per cent. and grade much higher on large fortunes, produce so small a proportion of the total revenue, it is obvious that the Inheritance Tax cannot be a substantial source of revenue. To support the government exclusively by this tax would require the taking of every estate.

From the Single Tax point of view, the Inheritance Tax is defective in several ways. It bears no relation to the benefit conferred by government upon the property taxed. It falls upon property which usually is subject to annual taxation, (paid by the decedent prior to his death and by the beneficiary afterwards) so that the Inheritance Tax is an additional burden upon the same property.

In the popular mind, the Inheritance Tax finds justification as a method of reaching, by means of progressive rates, large accumulations of wealth. It is true, of course, that many, if not most, large fortunes have not been earned, but are the result of some form of special privilege. The remedy for such conditions, however, is either to tax the full value of the privilege or to abolish it, and not allow the owners of such privileges to extract wealth from the community during their entire lifetime on the chance of getting some of it back when they die.

It is a fundamental doctrine of the Single Tax that a man is entitled to whatever he produces by his own labor. When special privileges are abolished and each man has only that which he earns, there will be no justification for taking any of such earnings away from him while he lives, or from those whom he desires to have such earnings when he dies.—EDITOR.

HOW CAN THE SINGLE TAX BE COLLECTED

Inquiries are often made as to how the Single Tax can be collected. Back of this question lie several other questions, the answers to which can be better made when there exists a wide-spread and strong sentiment for the taking of economic rent for public purposes. No one can successfully prophecy just the form the statutes will take in any State or country when that time shall have arrived. It is inexpedient to lay down a programme for legislation, most of which may be long deferred. There would inevitably be differences of opinion concerning the details of any such programme, and such differences of opinion might lead to a lessening of the effort to secure popular approval for the principles laid down by Henry George.

Without attempting to outline a programme of legislation now for the raising of all revenue by a tax on land values for the United States, the State governments, county governments and local governments, it may be appropriate to outline some of the practical objections that are made by those who oppose an exclusive tax on land values.

The law that is universal in the United States for the assessment and taxation of real estate contemplates its assessment at market value. It is alleged, and truthfully so, that an increase in the tax on land values tends to reduce the market value of land. It is argued that on this account any great increase in the tax on land is impracticable because the assessed value will decline so much that the tax rate will be so high as to be impossible. Some Single Taxers have suggested that it would be better to adopt rental value as the basis of taxation so as to avoid this decline in the basis for taxation. Some have suggested that net rent plus taxes be capitalized at the current rate of interest for such property and that this capital sum should be used as the basis for taxation. It is apparent that if this plan were adopted the amount of the tax would not affect the taxable

base except in so far as a heavy tax on the value of land should cause a shrinkage in rental value due to an increase in the market supply of land.

It is quite possible in theory to adopt rental value as the basis for taxation or to adopt the capitalized rental value in the manner already described. Either of these plans involves some change in the accustomed habits of thought of the people of the United States and Canada. The difficulty due to a decline in the market value when the tax increases is more apparent than real. Under-assessment in the United States is so common that people are accustomed to the idea of tax rates rising even above six or seven per cent. In such places a mere increase in the assessed value of land and a decrease in the assessed value of buildings could proceed until buildings were entirely exempted from taxation without increasing the tax rate at all. Probably all local revenue does not now on the average exceed fifty per cent. of the rental value of land alone. If the interest rate is assumed to be five per cent. on the average, a tax rate of five per cent. upon the market value of the land as reduced by the imposition of the tax would take fifty per cent. of the rental value. For example, if the rental amounts to \$1,000 a year, the untaxed capital value would be twenty times \$1,000. or \$20,000. A tax rate of five per cent. on the reduced value amounting to \$10,000 would yield \$500. Thus the tax would be \$500. and the net rent, after deducting the tax, would be \$500. The capital value would be twenty times \$500. or \$10,000.

The natural procedure to change the existing system of the General Property Tax for local and State purposes would be to reduce or abolish the tax on personal property and improvements, increasing the tax rate as might be necessary to raise the required revenue. It has been shown that the tax rate would only have to rise as high as five per cent. in order to take one-half the rental value. Progress beyond that point would involve a considerable increase in the tax rate, but that increase might be gradual, and would not necessarily attract any more adverse comment than does a raise in the tax rate applied to the classes of property now ordinarily taxable.

It may be interesting to note that a two per cent. tax rate on actual market value takes theoretically more than one-third of the rent. A tax of one-third takes approximately two-thirds, and it would require a tax rate of 15 per cent. to take three-fourths of the rent. To use the same illustration, if the net rent, including taxes, amounted to \$1,000. and three-fourths of the rent were taken it would leave a net rent of \$250. \$250 capitalized at five per cent. amounts to \$5,000. 15 per cent. of \$5,000. equals \$750. Thus the tax would be \$750. The tax rate 15 per cent. The market value \$5,000. and the net rent \$250.

The process of reaching the Single Tax would be exactly that described by Henry George when he said that all that is necessary is to abolish taxes on everything except the value of land. The progress of this process might be very different in one State or country than in another. The taxes to be abolished would be different, but the process would be the same.—EDITOR.