

farewell: May Peace and Justice come to this community, and to all others.”

“Though their coming be delayed, I will patiently wait and work for their appearance,” answered the treasurer.

And so I am sure will some of the younger generation who may read this story, and whose ideals, aspirations and work must so largely shape the future destinies of our race and of our beloved country.

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## THE INCOME TAX.

By JOSEPH DANA MILLER

**Its Impracticability and its Injustice—Something of its History—How it can be Shifted—Hardly More than an Emergency Tax at any Time.**

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Following is an essay on the Income Tax, probably the most careful examination of the subject ever made, written by the editor of the Review for *Belford's Magazine*, and afterwards reprinted in a volume edited by Mr. Bolton Hall, and published by Messrs G. P. Putnam's Sons, New York and London, under the title of “Who Pays Your Taxes?” Questions of the Day series, (1892).

It is printed here by request, being considered timely on account of the fact that the three political leaders of as many different parties, Messrs Roosevelt, Hearst and Bryan, are advocating the Income Tax. It is desirable that Single Taxers be not betrayed into the abandonment of principle involved in even a partial endorsement of the Income Tax. For the presumption of its justice as a means of recovering wealth unjustly abstracted is an admission of the evils of present economic conditions, the remedy for which we know to be something quite different. From another aspect it carries with it its own condemnation, since the doctrine that you and I—in other words, the community—have the right to take any part of any man's earnings is best left to the gentlemen whose practice it is to levy such tributes upon solitary wayfarers along lonely roads.

The kind of income tax most likely to be imposed is one exempting incomes below a certain fixed sum. It will be assumed that incomes below one thousand dollars per annum represent actual necessities, and upon all incomes in excess of that sum government may levy at discretion. Let us consider, first, the impolicy of such a discriminating income tax.

A tax exempting incomes below a certain fixed sum intensifies the effect which all such taxes have, of operating as fines upon industry. Its effect is precisely the same as discrimination in railroad rates in favor of certain localities to the disadvantage of competing centres. Such railroad discriminations as, for example, enable farmers at distances to transport their wheat more cheaply than farmers nearer to the market, result not solely to the disadvantage of individuals, but, what is not so clearly apparent, in the actual destruction of wealth. Its effects are positive as well as relative.

Its operations may be illustrated in another way. If the United States

imposed taxes on incomes, and Canada imposed none, and all other things were equal, the Canadian manufacturers and merchants would have an advantage in both Canadian and American markets. Its effects as between competing individuals are the same as between competing countries. A discriminating income tax is a tax in favor of some men as against others. It puts some merchants and some manufacturers at a disadvantage in competition with others.

Almost every country imposes income taxes. But these vary and have varied with time and place. A graduated income tax—that is, a tax increasing *pro rata* to income—which is of the kind most likely to recommend itself to the Farmers' Alliance—was first proposed by Say and the French economists. But nothing is more conclusively demonstrated than its failure in practice. It took England just twelve months to get rid of it, the graduated feature of the tax being adopted in 1798 under Pitt, and abolished in 1799. And this occurred in a time of war, when all kinds of taxation are imposed and continued, regardless of effects or of the difficulties of assessment and collection.

Germany has long levied an income tax. Professor Goldwin Smith says, there is no complaint in regard to it. Austria imposes an income tax on almost all incomes, classified at different rates according to the sources whence they are derived, with the exaction of three times the amount of the tax as a penalty for making false returns. Italy imposes an income tax, but as the fiscal administration of Italy is not conducted on any recognized principles, and the tax is only one among a thousand for extracting the *lire*—from one on show-cases and awnings, to others on decrees of separation between husbands and wives, and permits for exhuming the dead—it occupies an unimportant place. Land, however, pays no taxes, incomes derivable from this source being exempt; but Italy's marvelous diversity of penalties upon the making and doing of things—together with a tariff as extraordinary as our own—is as notable as the national poverty and degradation.

Unfortunately, little can be gathered as to the operation of the tax in those countries in which "there is no complaint." It is only under representative governments that the systems of taxation in vogue become objects of complaint or criticism. It is to England we must turn if we would learn something of the mode of taxation we are considering. Even here the data are meagre and unsatisfactory.

In England the income tax yields a large revenue; yet the organized opposition to it is strong and active. Such opposition is based rather upon the necessarily inquisitorial mode of its assessment and collection than upon the broader considerations which condemn it. And the objections are strong against a system which calls for the merchant's and broker's ledger and private accounts, the amount of profit on sales, and the sum of borrowed capital, as the price of exemption from excessive overcharge. And when these business secrets are laid before surveyor and commissioners who are fellow-townsmen—perhaps actual rivals in business—the embarrassing nature of such investigation can better be imagined than described.

Mill contends in his *Political Economy* that the income tax has such objection in practice that it should be reserved only for special emergencies. But the injustice of the income tax has usually been aggravated by the fact of its being a temporary measure, and by reason of its constant modifications disastrous in effect, falling upon incomes which cease with the expiration of the tax, to the exemption of the future and larger incomes from investments in process of maturing during its continuance.

Historically, however, Mill's dictum is justified, for the income tax has never occupied any other than a subordinate place in the taxes of any country. In France the attempt to introduce it utterly failed, says Goldwin Smith; and in India it was so unpopular that it had to be abolished. In England it has been continued, but always under protest, and with apologetic explanations from every successive Chancellor of the Exchequer.

Beginning with the imposition of an income tax of four shillings in the pound, in 1689, by the English government, which is said to have borrowed it from Holland, where it had long been known to Alva and the Spanish plunderers and the tax-gatherers who preyed upon the people of the Netherlands, this particular mode of taxation has been subject to such alteration, modification, and attack as to reveal its essentially unstable character. Precisely as a tariff tax, upon which there is no practical agreement among either revenue-tariff men or the schools of ultra-protectionists, the kind and degree of an income tax among those who uphold it as a tax to be recommended in itself has been shuttlecock for every battledore. But historically, it has been either a war measure or an alternative.

The income tax was imposed by England in 1797 to defray the expenses of the war with France. It was reimposed after the renewal of hostilities following the conclusion of the Peace of Amiens in 1803, and concluded at the final peace in 1816. It was distinctively a war measure.

It was imposed again in 1842 by Sir Robert Peel, to meet the deficit anticipated from the reduction of duties upon imported wheat and cereals. It was this time imposed as an alternative, and not as a tax possessing in itself any advantage.

The income tax in England has been subject, as I have said, to constant modification and attack; but the more radical readjustments which have been proposed have been unheeded. Gladstone, in 1874 offered to repeal it altogether; and he must have accurately estimated the feeling in regard to it, for with the change of government in that year, under Sir Stafford Northcote, it was reduced to the lowest figure since its imposition in 1842; and exemptions were extended to incomes of one hundred and fifty pounds, which was fifty pounds greater than under the old law.

It has been repeatedly proposed to exempt what have been called "precarious incomes," by those who have realized the injustice and impolicy of taxing all incomes—even so-called industrial incomes—equally, without reference to the source from which they are derived. But for practical consideration, as subjects of legislation, stable and precarious incomes would cease

to be matters of distinction. Some incomes are more precarious than others, but under such a law they would multiply rapidly in the tax returns, and stable incomes would grow exceedingly scarce. It is to be hoped that in any income tax which may replace the tariff tax in the United States all incomes arising from earnings will be exempt. This will mean the placing of a provision in the system which, cutting off the principal source of revenue supply, will contain the seeds of its own abolition.

The Commissioners for Her Majesty's Inland Revenue (28th Report), in reply to the objection against a tax which does not discriminate between incomes arising from investments and those derivable from labor, says that "realizable," or stable, incomes are charged with other burdens besides the income tax. But it would be extremely difficult for them to prove that the incomes earned by labor are not also charged with other burdens. Her Majesty's Commissioners do not undertake to prove this, and the opportunity of being enlightened from so high a source is denied us. The contention, therefore, that the income tax is unjust because levied without discrimination upon the earnings of brain and muscle, equally with the profits of investments, must be allowed to remain as part of the indictment against this method of raising revenue.

Gladstone was the unsparring critic of, and dextrous apologist for, the income tax. That it is a tax, the retention of which serves a good purpose as a deterrent to war, which the creation of bonded debt encourages, is one of the recommendations urged for it by the English statesman. But this is true of many other taxes, though probably not true of a tariff tax, the beneficiaries of which would, no doubt, eagerly arm themselves to preserve; but it is not a good reason for retaining an income tax in preference to all other modes of paying as you go.

The income tax, at all events, is not a sneaking and surreptitious tax, like some others. But it is almost equally demoralizing. At the very time of its introduction into England, Sir Robert Peel stigmatized it as obnoxious and inquisitorial, and a tax which ought to be reserved for war. Its operations in England amply justify what J. R. McCulloch says of it—that it is "a tax on honesty, and a bounty on, and an incentive to, perjury and fraud."

The ingenuity of man has been at infinite pains to improve the parts of an intricate machinery of taxation unsound in the principles of its construction. The mode of assessing and collecting the tax is in itself no ordinary mode of machinery for fiscal purposes; and for guarding against failure or fraud the experience of nearly fifty years has given England a system which extorts admiration, but under which, nevertheless, failure and fraud continue. One of the reports of the Inland Commissioners says: "The claims to compensation which have arisen out of a recent extensive demolition of houses in a certain district by the Metropolitan Board of Works have given the usual evidence of the frauds which prevail under Schedule D."—*i.e.*, the schedule under which industrial incomes are taxed on a basis of self-assessment. These local compensation claims seldom fail to reveal the existence of wholesale frauds in the tax returns.

Its inequality is clear. The variations in the schedule from year to year are an indication of this. "It is evident that, as far as the principle of taxing all incomes equally (irrespective of the source from which they are derived) is concerned, the tax is practically a failure," says John Noble, in his work, "The Queen's Taxes."

An income tax is certain to exempt wealth. Gladstone has repeatedly declared that on the lower class of incomes the tax is fully and accurately levied; and, as an English writer says, "it is overwhelmingly energetic in minutiae." When the United States exempted incomes below \$1,000. it was discovered that only 259,385 persons in a population of 40,000,000 were in receipt of incomes in excess of that amount; when exemptions were raised to \$2,000, the number of persons who paid the tax was reduced to 116,000, and subsequently fell to 71,000. (Lalor's "Cyclopedia of Political Economy.")

In whatever way the income tax is assessed, inequality must result. To assess by arbitrary estimate is taxation by blackmail; to base assessment on returns of the payer is to leave the truth-teller helpless and at the mercy of the liar. It is either taxation by guesswork or taxation by spies.

It was at the conclusion of the Crimean war that the income tax, increased to pay the expenses of the war, aroused the hostility of the commercial classes of England. We can understand this if we bear in mind the words of a well-known English economic writer, R. Dudley Baxter ("Taxation of the United Kingdom"): "Too large an assessment is often made to keep up appearances;" or the comment of Lorin A. Lathrop, formerly United States consul to Bristol: "Many men in business are said to overpay rather than appeal."

It will appear from this that the income tax fails practically to meet the recommendations accorded to it in theory, as most nearly approximating to Adam Smith's maxim, that "the subjects of every state ought to pay to the support of government as nearly as possible in proportion to the revenue which they respectively enjoy under the protection of the state."

In 1860 the Liverpool Financial Reform Association proposed in lieu of the income tax what they call a "wealth tax." Just how they proposed to levy and collect this I do not know. But it is this same association which to-day is favorably inclining to a ground-rent tax in lieu of all other taxes; and whatever view we may take of the real or assumed defects of such a tax, it argues a tendency to simplify the theory and application of taxation, and to reduce to a definite and general principle the confusion of present methods.

Now another, though perhaps smaller, question arises. An income tax is popularly supposed not to distribute itself. It is one of the few taxes which, like the Single Tax, do not increase prices. It is, therefore, one of those methods of revenue raising which is called a direct tax. Economists are in general accord as to the truth of this. They agree that income taxes are not paid in increased cost upon articles consumed. This is true.

But is it true that an income tax cannot be shifted? Leaving out of consideration the fact that fines upon industry—*i. e.*, all taxes to which an income tax is not exceptional—must reduce wealth by limiting enterprise, and is

therefore, in its ultimate effects, the same as increase of price, which reduces opportunity and lessens supply, let us inquire if an income tax may not be shifted by an employer upon labor.

The reply will of course be that it cannot, as the wages of labor are fixed by the market rate, and that an employer of labor will lose his employees the instant he attempts to reduce their wages below the market rate. He cannot, therefore, make his labor pay his income tax. Now, this is true of all occupations in which the rate of wages is determined by the quantity and quality of work, and in which the number of men engaged is sufficient to establish a general average of efficiency, and to make a more or less fixed remuneration per unit of work performed. In these trades there is a standard of wages which an income tax would not injure. It is true of all mechanical trades, of the generality of clerks and salesmen, and of some classes of professional men. But it seems to me to be not true of all unfixed occupations, such as private secretaries, housekeepers, governesses, clergymen, private tutors, etc., etc. What, for example, is the market rate of wages for private secretaries? Their wages are governed not so much by average efficiency, as by the ability of the employer to pay. An income tax would lessen this ability.

Let us not leave the argument here, but press it home. A natural objection will be that if private secretaries' wages could be reduced, they would be reduced now, and the employer would not wait for an income tax to reduce them. This is a fair and reasonable objection, and looks plausible. But let us suppose the case. You are an employer of labor, and your income is next year subject to a tax. Your first effort will be to make up that tax in whatsoever way you can, in reduction of wages wherever you may. This is entirely natural, and is an evidence not so much of the hardness of a man's heart, as of the impolicy and injustice of such taxation. No man but feels dimly conscious that every tax of this kind is an assault upon his property rights, as it unquestionably is. He shakes it off with perfect ease in most cases, and always with entire freedom of conscience.

The class of men who at the last would pay the income tax would be the class that employ private secretaries, and similar specialized labor, the wages of which are variously determined by exceptional ability, personal attachment, or accidental causes, rather than by competition. An income tax would reach this class by inducing employers to reduce their wages. It would reach them not as individuals only, but as a class, and tend to lower their wages to a fixed maximum. And while the wages of men engaged in such occupations would fall, it would not clearly appear that it was they and not the employers who were paying the income tax. It ought not to be forgotten that much of the missing wealth of the poor is to be sought for in the attempts to reach the rich by taxing them.

The retrenchment of expenses which the income tax would make desirable to all, and necessary to many who would pay it, would act in this way: The wealthy man would make his first retrenchment in club expenses, and the wages of waiters and attendants at these resorts would fall; in his yachting

expenses, which would reduce the wages of captain and crew; in his kitchen, which would reduce the *chef*, for while Vanderbilt with his princely income could still continue to pay for such services the sum he is said to pay to one individual—ten thousand dollars a year—the men of smaller incomes, striving to maintain their position in the fashionable world, would reduce the wages to the class of employees who receive compensations solely determined by the vanity of social considerations. Much of the income tax, though by no means all of it, would be shifted upon the shoulders of these relatively highly paid but deserving classes of laborers. I do not wish to exaggerate the importance of what I regard as the inevitable shifting of a portion of this tax, and I urge it merely in refutation of the belief generally entertained that it cannot be shifted.

We have seen how in England the income tax supplied the place of a protective tariff. It seems ungrateful to quarrel with a tax which has served such a good purpose in the past and may serve the same good purpose again. All the disadvantages, moral and material, which pertain to such a tax might be undergone to put a stop to the practice of legislators who present sophistical pleas in behalf of American labor, as an incident of recreation from the more serious business of incorporating into the laws of taxation acts of national larceny. All the disadvantages of such a tax are small in comparison to the unavoidable eleemosynary incidence of even a revenue tariff. And if this tax is to serve, as now seems probable, as a battering-ram to beat down the gates where the steel-rail lords, the coal barons, the jute-baggers, and all the other *chevaliers d'industrie* levy toll upon every toiler in shop and factory, upon every Western farmer in his wheat-field, upon every black son of the South in the cotton lands beneath the broiling heat—then to quarrel over weapons seems an almost criminal folly.

It will be remembered how, in the Presidential campaign of 1876, the mad political processions, with the banners and torchlights which make democracies ridiculous, kept step to the cry, so well attuned to marching feet, "Sammy, pay your income tax." And the great public would never have known—nor, indeed, have greatly cared—whether Mr. Tilden had paid it or not, if the charge had not been brought against him by officers of the Government for the purpose of injuring his candidacy. And even had he made his returns with the most scrupulous fidelity to truth, the charge might still have been yelled by noisy throats in political parades as a catching campaign cry. It is no minor argument against the income tax—against all taxes the returns of which are not readily verifiable—that they admit of just such charges in times of political excitement, and for partisan purposes urge men to magnify the evils of tax evasion in the individual, which is a common practice among the many.

To persons of a deficient comprehension of public morality, the income tax seems a justifiable method of getting something out of the rich man's coffers. To persons who take predatory views of taxation, the question as to what right the public has with the rich man's wealth will seem like the query

of an idiot. And yet, if there is such a thing as national or public morality, it is an extremely pertinent question.

The idea seems to be almost universally shared, that an income tax is a just tax because levied only upon those able to pay it. This is no proof at all of its justice, any more than Dick Turpin's practice of taking from the rich to give to the poor is an adequate defense of Turpin's profession. Its advocates may talk of its justice, but the advocacy is full of a greedy snarl. "What tax," says the *New York World*, "is at once so just and so likely to commend itself to the Farmers' Alliance and the other fresh forces in politics, as a tax upon the large incomes of the rich?"

The justification most frequently urged for an income tax is, it seems to me, its fullest condemnation. Taxation has its ethics; how can it be right for the public to take from a man merely because he is rich? Are riches a crime? Are rich men, *per se*, a danger to the community? That there are men richer than they ought to be, is true; that great riches united with great poverty, menace civilization, is true; that the constitution of society is such, that taxation is such, as to unjustly swell the incomes of the rich, is also true; but is an income tax therefore a just tax? Think a moment. There are men of large incomes who earn them. Howe, McCormack, Goodyear, Edison, are men who returned to society every penny they received a hundred-fold. To deprive them of any portion of their income is not only unjust, but impolitic. We want more Howes, Goodyears, Edisons, McCormacks; and their fortunes can scarcely be too large. Society should hold out every inducement to searchers for the secrets of nature, who harness the elemental and mechanical forces to do man's bidding, who prepare the way for the time when mankind, raised infinitely higher, and resting from merely physical labor, shall devote the godlike powers of mind to the solution of the deeper problems of their spiritual being.

A tax on incomes? The income of the coupon cutter and the inventor! The income of the Astors, whose land earns money while they sleep, and the income of the man whose genius shall reduce the cost of making aluminum, thereby revolutionizing a thousand processes of manufacture! The income of the man whose capital earns his money, and the income of the man whose brain earns it! The income of Carnegie and of Dr. Shradly! Of Mr. Gould, and Bell of telephone fame! Lump all these results of exceptional abilities and legislative monopolies together, call them incomes, and then swoop down upon them with a tax!

The objections against an income tax may be thus summed up:

In its theory (as a mode of encouraging a more equitable distribution of wealth), fallacious.

In its discrimination, unjust and impolitic.

In its operation, unequal.

In its practice, inquisitorial and corruptive.

The reasons which appear to justify an income tax arise from a superficial analysis of the social problem—from that superficiality which concerns itself



with the flowering effects rather with the causes at the root. This superficiality it is which urges governors and legislators, who have not the inclination nor indeed the leisure for the study of these problems, to seek a remedy for the inequalities in taxation in more rigorous measures of assessment and collection, with a vain hope of doing, under a republican form of government, with only the power of civil courts, what Rome with her tremendous military organization, with rack and thumb-screw, and England, under King John, with her inquisitorial surveillance and bodily persecution of the rich Jews of the kingdom, signally failed to accomplish.

The problems now crowding in upon the republic are not to be solved through any additions to or changes in the restrictive measures by which the nation has so long cramped and curbed its energies, taking an eagle for its symbol and moping like a snail, singing of liberty and binding itself with tariffs, claiming to be a refuge in which all are equal before the law, yet giving out manufacturing and trade monopolies to eager and greedy almoners more lavishly than even good Queen Bess had dared.

The republic has come to the parting of the ways. As it turns from the darkness of tariff laws, let it set its face fairly and fully towards that liberty in which no man's earnings shall be subtracted from, and all the natural and helpful activities of society be left to do their perfect work, free from governmental interference, which shackles the strong arm of labor, burdens trade and commerce, destroys individual integrity, and alone prevents the republic from taking the position among the nations of the earth to which her natural advantages so justly entitle her.

### MR. BRYAN APPROVES THE INCOME TAX.

"The income tax has been opposed by men who would have their taxes increased and by men whose taxes ought to be increased. \* \* \* The reason why unjust taxation continues is that those who receive in large quantities exert an undue influence upon legislators, while those who pay, each a small amount, are often indifferent to the exactions."

But this is not the only reason why unjust taxation continues. If those whose opportunity and duty it is to know something of taxation would inform themselves on the subject they would better qualify as teachers of the people, who would then know where and at what to strike.

The socialist insists on co-operation under artificial laws forgetting that co-operation under natural law has never yet been tried.