

## XXVI.

### TAXATION AND NATIONAL DEBT.

IT has been said that there are two things certain—death and taxes. Taxes are that part of the wealth of each citizen taken by Government to be used for the benefit of all. Government, like all other service, costs money. This money comes out of the pockets of the people: there is no other place to get it. It may come by direct taxation, in which each citizen pays so much directly to the tax-collector; or by indirect taxation, such as a tax on goods bought and sold, in which the tax is added to the price and is finally paid by the man who finally uses the goods. Some one has called these the “straight” and “crooked” methods of taxation. In either case the money comes from the earnings or savings, the product or property, of the citizens; each man has less than he would have had if he had not paid the tax or the increased price.

Unless a Government has public lands or other property to sell or rent, or unless it takes away business from its own citizens by competing with them or monopolizing certain kinds of business, taxes are the only means of support for a Government. For if it spends more than it gets, and runs into debt by issuing promises-to-pay called bonds, sooner or later this discounting the future must be paid in higher taxes, unless by "repudiating" its bonds it cheats those who have advanced it money. Taxes are thus "the life-blood of a nation;" and as self-preservation is the first law of life, Government has the right to take all the wealth of all its citizens, if that is necessary. Practically, too high taxes lead people to revolt, as in our Revolution, or to dodge, as when many rich men moved from Boston to Nahant, or to cheat, as when the United States found that it got more money from a 50 cent tax per gallon on whiskey than from a \$2 tax.

Taxes used to be paid in kind—one sheep out of ten. To this day a countryman can pay his road-tax by so many days' labor on the roads, or (it is said) a merchant the 50 per cent. duty on silk by giving up one yard for every two he keeps. But, for the most part, taxes are "assessed" as so

much percentage on a money "valuation" of property; taxation, from the Latin *taxare*, to value, means, indeed, a valuing or counting. After the legislature or the town-meeting has fixed the amount to be raised, assessors or appraisers, appointed by the authorities, fix this valuation, or "doom" the property. In Boston they meet in what is called the "dooming chamber," and the famous Domesday Book was the first tax-roll and census of England. This valuation is sometimes the "fair market value" of property, which is the rule at the custom-house and in some States and cities; sometimes a half or a third of this, as in other States and cities. The mere *rate* of taxation thus means little: 2 per cent. on a valuation of a third is a lower tax and brings less money than 1 per cent. on a full valuation.

In fact, a tax is not good or bad simply as the rate is low or high, but according to how the money is raised or used. The productiveness of a tax is not its first consideration. A heavy tax may be far less injurious to a country than the blight which may result from the manner of taxing it—a blight which ruins the harvest which it cannot gather. Good government is the

best of investments; bad public service is the worst of waste. A community of high civilization pays large taxes, and profits by them; poor communities starve without them. In most cities the highest tax paid is the charge for water, but a citizen who pays \$10 a year saves much more in the avoidance of the cost of keeping his well clean, of buckets, and of labor in fetching and carrying. A good sewerage system is costly, but it saves a great deal besides doctors' bills. Good roads and streets save more than their cost in time, wagons, and horse-flesh. But a tax must justify itself by its increase of product, through greater safety, comfort, or facility. It must give more than it takes, and each person must get his money's worth of good. Taxation is robbery when it is used otherwise than for the benefit of all. The Tweed Ring in New York, capturing the city government and the taxing power, simply spoiled the people in general under forms of law, instead of picking their pockets one by one in the street. So when Topeka, Kansas, undertook to give \$100,000 to a manufacturing company to locate its shops in that city, the United States Supreme Court declared that taxation "to aid private enterprises and build up private

fortunes is none the less a robbery. There can be no lawful tax which is not laid for public purposes." Those who oppose tariff taxes intended to build up particular industries claim that these are a similar robbery of the people taxed by the increase of price. The exemption of one set of persons or kind of goods, while other competing persons or goods are taxed, also gives one an advantage at the expense of others.

The purposes for which it is generally considered that Government may properly levy taxes include the actual cost of legislation and executive work, covering public buildings as well as salaries and expenses; the enforcement of justice by courts, prisons, and police; the common defence by army and navy; public works, such as sewerage and water systems; education by means of public-schools; enterprises for the common good beyond the scope of private organization, such as the postal system and exploring expeditions; and, within close limits, the care of the defective and destitute classes.

The people of the United States pay yearly between \$600,000,000 and \$700,000,000 for their government, being from 7 to 10 per cent. of their

annual product, or  $1\frac{1}{2}$  to  $1\frac{3}{4}$  per cent. of their total property—about \$12 for each person or \$36 for each worker. Of this more than half is direct taxation for State and local purposes: according to the census of 1880 \$52,000,000 State, \$69,000,000 county, \$191,000,000 city and local, in all \$312,750,000 on a valuation of \$16,900,000,000, of which \$13,000,000,000 was real and \$3,900,000,000 personal property (the last being absurdly low, because of the difficulty of finding out about it). The purposes for which city taxes are used were illustrated by an analysis of New England city debts, which showed 20 per cent. for water-works, 15 per cent. for streets and bridges, 6 per cent. for parks and public places,  $3\frac{1}{2}$  per cent. for public buildings, 3 per cent. for fire departments, 3 per cent. for sewers,  $28\frac{1}{2}$  per cent. for refunding old debt, and 10 per cent. for railroad and other aid. The nominal tax rate of cities ranges from 80 cents to \$5.76; of States, from 10 cents to 90 cents per \$100. The National Government in 1883-84 raised \$195,000,000 by customs and \$121,500,000 by internal revenue tax, besides about \$10,000,000 from public lands and \$22,000,000 miscellaneous receipts. The national debt, the cost of our war,

which in 1866 reached over \$2,750,000,000, is now under \$1,400,000,000, costing \$47,000,000 interest, and the State and local debts (after deducting from the gross debt the "sinking funds," *i. e.*, moneys set apart to pay debts) were by the census \$1,056,000,000, costing \$60,000,000 interest, in all over \$2,850,000,000, costing about \$107,000,000 interest yearly. This is a debt of over \$45 for every man, woman, and child, involving a tax for interest of over \$6 yearly on every earner in the United States. It used to be said that "a national debt is a national blessing;" but this meant only that our war for the Union was worth in lives and money all it cost. Debt is in itself not a blessing but a curse. Taxes and debt are good or evil according to what we gain by them. Europe is burdened by debts of over \$22,000,000,000, involving a yearly tax of over \$1,000,000,000 on her hard-worked people, which represents chiefly the waste of needless war.

Adam Smith laid down four famous canons of taxation: that each citizen should pay in proportion to his abilities, *i. e.*, on the property enjoying or claiming the protection of the taxing power; that a tax should be certain and not arbitrary, the

time and manner of payment and the amount plain to all; that it should be collected when it can be easiest and as it can be easiest paid; that it should take out and keep out of the pockets of the people as little as possible over what it brings into the treasury. That is, a tax should be laid equitably and definitely, and collected with convenience and economy. The difficulties in these rules lies in their application—whether as to *methods* of taxation, direct or indirect, or as to *subjects* of taxation, which may be “persons, business, or property.”

A tax on persons is called a poll (*i. e.*, head) tax; this is a form of direct tax that has almost gone out of use except for keeping some kind of count, as in Massachusetts, Rhode Island, and Delaware no one can vote until he has paid his yearly poll-tax of \$2. A tax on business may be a license or occupation tax, such as a liquor-dealer or hack-driver pays before he can do business—chiefly used now to regulate callings partly public in their nature; or a tax on evidences of transactions, as by “stamps” on a contract; or a tax on the amount of business, as on sales. Of this sort also are tariff and excise taxes, though they seem to be



levied on property. A tariff (from the Spanish *tarifa*, a *list* of rates) is a schedule of taxes, often called duties, collected at the "custom-houses," on goods imported from other countries. In "a tariff for revenue only" duties are so low that goods are still brought in and pay revenue to the Government; in "a protective tariff" duties are so high that foreign goods are kept out, so that manufacturers may get higher prices for goods made at home, which increase the people pay, though the Government gets no revenue. Excise or "internal revenue" taxes are those collected on goods produced at home, as on liquors and tobacco. These are all indirect taxes, adding to price. They are the least disliked, simply because they are not seen, since only 250,000, or a half of one per cent., of our people seem to pay them; but they are the most costly, requiring great numbers to collect them, and the most wasteful, since each seller not only adds them in his price but adds also a profit on the tax, until the final consumer may pay on his blanket twice the actual duty.

Legacy or succession taxes, levied in England, are taxes on property received by bequest, usually heavier according to distance of relationship. In-

come taxes are another tax on property—a proportion of the yearly earnings of each person. When the lower incomes are exempted—as during our war \$600, and afterwards \$2000—this tax is one on superior power, *i. e.*, brains, or capital, exempting labor. These are hard taxes to levy justly and to collect fully—people do not tell the whole truth, and object to having their affairs “spied out;” also many cannot really fix their income in money—so that they were given up soon after the war. Taxes on property are accordingly chiefly direct taxes on personal property (movables) and real property (buildings and land). The first are so hard to fix that they become a farce; while the wealth of the country has been steadily increasing, the valuation of personal property shows a falling off. Thus the realty valuation of New York City is nearly \$1,000,000,000, while personal property under \$200,000,000 is all that is found to tax. Under the personal property tax, also, the mistake is often made of taxing evidences of debt as well as wealth; of taxing a mortgage of \$5000 in addition to the \$10,000 house it is on, though there is in all only \$10,000 of property to tax. Taxes on real property are thus becoming

the main element of Government revenue, since land and houses cannot run away or hide, and their value is easily determined.

The old system of taxation was to lay a tax on everything—"infinitesimal taxation," and, as Colbert put the "art of taxation," to "so pluck the goose [*i. e.*, the people] as to get the most feathers with the least squealing." A self-governing people ought, on the contrary, to have the simplest possible system of taxation, so that they may look taxes squarely in the face and make sure that they get the worth of each cent they pay. The New York State Commission of 1870, in the famous reports of Mr. Wells, recommended, accordingly, that State taxes be confined to (1) a tax on corporations having a monopoly, as gas companies, which cannot remove; (2) a tax on land and buildings; (3) a tax based on a valuation of three times the rental value of the house in which a man lives, in lieu of tax on personal property, on the ground that a man's wealth and income are fairly tested by the cost of his residence. Other economists, among them John Stuart Mill, favor the laying of taxes chiefly upon land, especially on the valuation of unimproved land in the neighborhood. This

system—taxing unused land as much as used—would prevent the accumulation of vast estates of land held unused “to wait a rise,” and would throw the burden of taxation upon city landholders, whose land has risen in value chiefly by the “unearned increment” from the progress of society, while relieving farmers who by improving their land are doing service to society. Mr. Henry George’s proposed system carries the idea of land taxation still further; he would lay a tax equal to rent (using the word in the economic sense), and thus take the whole of the “unearned increment” for public purposes, leaving to the landholder only the earnings of his labor, capital, and brains.

The taxing power of a Government does not go beyond its own boundaries. A country, or State, or city which overtaxes or misuses taxes, drives wealth and population outside its boundaries beyond its taxing power, and so increases the burden on each person who remains. As it is found that taxation bears not so much upon the value of business done as upon the profit made, a very slight change will drive manufactories, for instance, from one town or State to some other town or State where the tax conditions may be more favor-

able. "Never tax anything," says a modern authority, "that would be of value to your State, that could or would run away, or that could and would come to you." The American people will probably come, within a generation, to the simplest form of taxation, levying a single tax on land, at its fixed place, not where the owner lives, by which probably the national as well as State and local taxes will be collected on one system by the same tax-gatherers, half-yearly or quarterly, and each tax-payer will know all he pays and how it is spent.

Legislation in the form of taxation has always a strong indirect effect in directing consumption from or into certain channels, and the objects and methods of taxation must always be brought to this economic test. The thing which is taxed, or the form of industry which is taxed, is put at a disadvantage beside that which is not taxed, with the result of increasing price and so decreasing demand. The statesman whose sole purpose is to raise revenue cannot overlook the fact that the method and subject of taxation greatly influence the every-day life of his people, especially since the cost of government is sometimes ten per cent.

of all expenses. A tax on liquor has been a favorite tax because it increases the cost of drinking; on the other hand, it has a tendency to promote the adulteration of liquors, and so to poison those who will drink anyway. There is a popular cry to tax luxuries, but it is always difficult to draw the line between necessities and luxuries; thus people are divided as to whether tea and coffee ought to be taxed or not taxed.

Taxes, as an item of distribution in business reckonings, belong in part to wages, so far as the Government is preventive, and is paid for public service as a watchman is paid, and in part to interest, so far as the Government is constructive, and furnishes roads, bridges, and other capitalist elements in production. A constructive Government easily becomes a paternal Government, fathering all sorts of enterprises. The tendency of the exercise of the taxing power is, in fact, to make a Government paternal. The comparative usefulness of preventive and paternal functions in Government is rather outside of Economics, but it may be noted that this seems to vary with the development of a people: a Government which takes upon itself wide constructive work being the most useful

in communities in which, as in India, the body of the people lack mobility, organizing capacity, and foresight, and look to Government to supply this lack of mastership, and least useful in communities which have these qualities in high degree, are their own leaders, and are self-regulating. A paternal Government is always in danger of making wholesale mistakes, and doing harm instead of good accordingly.