

CHAPTER XVIII

AN OVERLOOKED CAUSE OF POVERTY

“LAWS,” says Rousseau, “are always useful to those who own, and injurious to those who do not.” A discerning political philosopher of the eighteenth century has said: “A man does not possess a demesne because he is a prince, but he is a prince because he possesses a demesne.” This is but another way of saying that whoever owns a nation rules it, and whoever rules a nation will come in time to own it as well.

It is not dishonesty so much as the myriad influences which mould men's minds that makes this true. A government of bankers honestly believes that the welfare of the nation is bound up in the welfare of the banking interests; a government of manufacturers honestly believes that the prosperity of the country is determined by the prosperity of its class; a government of railway-owners measures national well-being by railway earnings; while mine-owners, landlords, brewers, distillers, saloon-keepers, peasants, workers,—every class, in fact, seeks to mould the government to its own particular interest. This is the economic interpretation of politics.

And the ascendant class in America is a law-made class. It is not predominantly a landed class as it is in Great Britain and Russia. Neither is it a capitalist class as the socialist asserts. It is a privileged class. It includes, first, the railways and the transportation agencies; second, the protected industries, and third, the franchise and other public service corporations. The combined capitalization of these industries is not far from twenty-five billion dollars. This is more than one-fifth of the total estimated wealth of America. From one-half to two-thirds of this capitalization is the direct creation of law. It arises from exclusive grants, like city franchises, monopoly privileges made possible by the tariff, exemptions from taxation obtained through a control of the government or the right to employ some other exclusive or sovereign power. And it is to secure, protect, and retain these monopoly privileges, to collect tribute by means of them, and to capitalize that tribute in watered securities that these interests are lured into politics. It is this that has woven them into the life of the nation.

An examination of the blue-book of American millionaires will disclose that, almost without exception, the colossal fortunes which have come into existence in recent years are the creation of law. They have not been created by law-breakers. They have been created by law-makers. They have

not been acquired dishonestly through corruption alone; nor have they been acquired honestly through ignorance alone. Ignorance and design, honesty and dishonesty, have alike contributed to their creation. The proximate cause is the control of our politics by an economic class.

Let us trace some of the costs of this class control. It is most apparent in taxation. This is ever the favorite tool of the privileged orders. The total Federal revenues for the fiscal year 1908 amounted to \$601,126,118. This does not include the postal receipts. Of this sum \$286,113,130 was collected from customs duties, and \$251,711,126 from the excise or internal revenue taxes on distilled and malt liquors, tobacco, and oleomargarine. \$537,824,256 was thus collected by indirect taxes upon consumption. The tax on sugar yielded \$50,118,141; wool and cotton manufactures yielded \$63,445,017 more; while leather, hides, wearing apparel, china-ware, flax, hemp, and yarn products, iron and steel, fruit and drugs, glass ware, chemicals, wines, spirits, and tobacco yielded the greater part of the balance. We have taxed almost every necessity of life. The great bulk of the revenue comes from those articles which the poor consume. But an insignificant fraction is collected from the luxuries of the well-to-do classes. And not a dollar is taken from wealth, incomes, or inheritances direct.

It is the poor of America who support the Federal Government. It is they who pay for the battle-ships and the pensions, the internal improvements and the coast defences. Not one penny comes directly from the interests which are mainly benefited by these expenditures.

But the burdens of indirect taxation do not end with the taxes collected. This is the least of the cost. The protective tariff is not primarily for revenue purposes. It is designed in the interest of a privileged class. Sheltered behind the tariff wall, the sugar, meat, steel, coal, iron, leather, wool, copper, oil, and other combinations exact monopoly prices from the consumer of America. The amount of the tribute which is thus collected cannot be accurately known. There are over 2,000 articles on the tariff schedule. It has been estimated that the monopoly prices exacted through the duty on sugar alone amount to from \$140,000,000 to \$165,000,000 a year. Prof. W. G. Sumner of Yale University estimated that the tariff increased prices all around from thirty to forty per cent. The average ad valorem rate is 42.92 per cent. The tribute which the protected interests exact is not far from \$1,500,000,000.¹

¹The Tariff Reform Committee of the New York Reform Club, estimating the real cost of protection in its effect upon prices, says: "The total price of manufactured goods sold to final consumers in this country can hardly be less than \$6,000,000,000 and may be as high as \$8,000,000,000. If, as is reasonable and probable, their

Including the revenues actually collected from indirect taxes, every man, woman, and child is robbed of approximately twenty dollars a year for the advantage of the tariff interests. Of this three and one-half dollars reaches the treasury. The balance is monopoly cost. Every family of five pays tribute to the extent of \$100 per annum to the class which rules. The average income of the working-classes in America is below \$450 a year. The census figures place the average wage at \$432.40.¹ Even this is probably an overestimate when we consider the large percentage who are constantly out of work, and the increasing number of woman and child laborers whose incomes are very much below this figure. But these are the classes who maintain the government. It is they who consume the great bulk of the imports as well as the products of the protected industries. Out of their meagre earnings the government filches from one-fifth to one-fourth by indirect taxes and the monopoly prices which the tariff makes possible.

(the protected) goods are worth twenty per cent. more in the home market than they would . . . command in our markets were there no tariff-protected trusts and monopolies in control here, then we are paying something more than \$1,000,000,000 for our tariff whistle. This is the cost at wholesale prices. At retail prices the cost of 'protection' is probably \$1,500,000,000, or \$1,600,000,000. This is about \$90.00 per family for our entire population."

¹The census for 1900 gives the total average number of wage-earners in the United States as 5,373,108 and the total wages paid as \$2,324,453,993. The average wage for the country was therefore \$432.40 for the year.—United States Census, Vol. VII, p. xlviii.

We hear but little of this burden. The consumer cannot trace his falling standard of living to its source. There is no paid lobby, no press, no spokesman for those who only toil. Now and then there comes a protest against this inequity. "The tariff has built up an aristocracy already quite as numerous as were the refractory slave-owners in the South," says the Hon. John Bigelow of New York. "It has built it up, too, by privileges quite as unjust and as exclusively for money's worth, but a thousand times more lucrative to its beneficiaries than slavery ever was. The consequences are that it has divided our people into two classes—one, of the people who have more wealth than they know what to do with or how to give away, and another, of bread-winners, who, if they lose a day's wages, even by illness, have to go in debt for their next day's expenses. The increased cost of living compels an increase in wages from time to time, but always the cost of living increases faster, until now the food of the proletariat has reached famine prices in most of our large cities and is daily increasing. With food enough produced in the United States to nourish twice its population, the average wage earner can lay up nothing, can provide few privileges for his family and practically no recreation." ¹

¹ Extract from published letter from Hon. John Bigelow to Governor Hughes of New York, November 25, 1908.

In a letter to the Committee of Ways and Means, hearing evidence upon the present tariff in November, 1907, Mr. Charles Francis Adams of Boston said: "Speaking after the manner of men, they [the protected interests] are either thieves or hogs. I myself belong to the former class. I am a tariff thief, and as such I have a license to steal. It bears the broad seal of the United States, and is what is known as the 'Dingley Tariff.' I stole under it yesterday; I am stealing under it to-day; I propose to steal under it to-morrow. But, on the other hand, I am also a radical tariff reformer. I would like to see every protective schedule swept out of existence."

Not only does the protective tariff impoverish the people and promote corruption, it encourages extravagance as well. The carnival of expenditure, to which we became accustomed during the Civil War, and which has continued ever since, is directly traceable to the system of indirect taxation. In 1860 the total ordinary expenditures of the Federal Government were but \$63,130,000. By 1900 they had shot up to \$487,713,000. By 1908 they had still further increased to \$659,196,000. While the population increased 178 per cent. expenditures increased over 1,000 per cent. A war and a naval programme has been entered upon, whose cost to the nation is now \$294,000,000 a year. The annual expenditure for pensions, even

with the war half a century away, amounts to \$154,000,000. The pension bill is higher to-day than it was ten years ago.

We have reversed every principle of sound financing. We do not collect what we reasonably need; we spend what the tariff, designed in the interest of a class, produces. An expenditure of nearly \$350,000,000 for war, navy, and pension purposes would meet with a far different reception were taxes laid upon wealth rather than upon consumption. The cost of the government would probably shrink to one-half its present volume were privilege taxed instead of labor. For direct taxes compel caution, scrutiny, and responsibility. Indirect taxes breed extravagance, corruption, and war. Congress would not even consider a ship subsidy bill if privileged wealth paid the cost of it all. War would come to an end to-morrow were those who benefited by its happening compelled to pay for its maintenance. There would be no need of peace conferences were the government to make forcible requisition on wealth before it made requisition on human life. Were the billions expended annually on the armaments of the world collected from direct taxes upon the land, upon the railways, upon incomes and inheritances, every agency of public opinion would be on the side of peace. Were the rich and powerful classes the first to suffer from a declaration of hostilities,

the press and every agency of public opinion would be on the side of arbitration. Then there would arise a demand for the settlement of the disputes of the world that would be irresistible. Then the financiers, who find in war a source of profit to themselves, would coerce their rulers into a concord of nations. For war only persists because the privileged orders are able to throw its cost onto the defenceless members of the community.

These are some of the costs of the tariff. It is not an isolated fiscal question. It is not alone a social question. The tariff is woven into every fibre of our politics, from the smallest hamlet to the United States Senate. Quoting again from the letter to the Ways and Means Committee of Congress, Mr. Charles Francis Adams says: "Meanwhile let me add, without any doubt in my own mind as to the accuracy, and I may say the moderation, of the statement, that in the heyday of its strength and arrogance the old slave power of the South was never so strongly entrenched in its position, so defiant in its attitude, so corrupting in its influence, so difficult to be overthrown, or so utterly insatiable in its demands and so unscrupulous in its methods of satisfying those demands, as are to-day the combined tariff-protected interests of the country. An overgrown octopus, their tentacles are all-pervasive, as, from the self-interested point of view, their arguments are convincing."

A superstition has been created about the policy of protection which poisons every agency of public opinion. It prevents its free discussion in the press, the university, or in business circles. The ghost of hard times is held up before the working man and the farmer, the shopkeeper and the manufacturer. The most scandalous abuses may not be corrected, for fear of opening up the whole schedule. For, once the principle of protection is questioned, the entire superstructure may be undermined by inquiry. The scandalous extortions of monopoly go on unrebuked, because of the multitude of noisy interests which make use of its power to protect themselves from disturbance.

The protected interests obtained their control during the Civil War. They have never been dislodged. In a sense, they are now subordinate to the railways, the transportation and the franchise corporations, which have been invited to a share in the plunder. With them are allied the banking and financial institutions, which own the public service corporations. In the West the land and timber thieves are a part of the system. The railroads, running into every state in the Union, form the foundations of the merger. They lend the West and South to the designs of the privileged East. Their attorneys are active in local politics. They are to be found in every state legislature. They mould public opinion and draft party platforms.

They are a hireling class and justify their actions by the serviceable ethics of the common law, which commands a lawyer to represent whatever client demands his services.

The railways are drawn into politics by the very nature of their business. They are quasi-public agents, they enjoy a portion of the sovereignty of the state. They are the highways of modern civilization. The franchise corporations are natural monopolies. They are made monopolies by law. They occupy public property. Like the railways and the protected interests, they are drawn into politics, not to protect their property, but to protect their privileges, which in these instances are the privilege of being a monopoly. They can only avoid regulation or ownership by controlling the government from which they draw their life.

We have seen that the capitalization of the railways has increased from \$10,635,008,074 in 1897 to \$16,082,146,683 in 1907. During the same period their gross earnings have grown from \$1,122,089,773 to \$2,589,105,578, while net earnings have increased from \$369,565,009 in 1897 to \$840,589,764 in 1907. Like rent, the earnings of the railways and the public service corporations grow with population and industry. They need only provide the service; the demand increases with each passing day. This increased capitalization, earnings, and dividends is largely society's contribution to their own-

ers.¹ For, while railway mileage increased but 22.2 per cent. from 1896 to 1906, railway dividends increased by 200 per cent.

And it is to protect this "unearned increment," this social value, from taxation and regulation, that the railways find it necessary to become the government. The monopoly tribute which they exact in excessive rates and charges is not less than \$300,000,000 a year. Measured by a fair return on the actual capital invested by the owners in the property, it is probably twice this sum. The tribute of the other public utility and franchise corporations is \$200,000,000 more. This is the annual cost of the private ownership of the highways and the public service corporations of the nation.

The local taxing authorities are controlled for the same purpose. Not content with exemption from Federal taxation, privilege has evaded the bulk of its local taxes as well. The amount of the evasion is colossal. For the year ending June 30, 1903, the

¹This social value, this unearned increment, which railways enjoy is recognized by privilege. It is the basis of the constant watering of securities. Wall Street occasionally expresses it openly, as in the following editorial from *Moody's Magazine* for January, 1909. It says, page 6: "There can be no cessation of this steady growth in value of railroad property in a large sense as long as the population of the country increases, rights of way and terminal sites grow in value, and natural resources are opened up and developed. . . . Like the public utility corporation which enjoys a perpetual franchise, and like the owner of realty in the heart of a growing community, every year must automatically add to the equity back of railroad securities, despite government regulation or other ordinary legislation."

railways of the country paid in taxes the sum of \$57,797,737. In the year 1904 their commercial value, as ascertained by the Census Bureau, was \$11,244,852,000.¹ The total taxes paid amounted to but one-half of one per cent. on this value. Were the railways assessed as are the farmer and the home-owner they would have paid from \$168,672,000 to \$224,897,000.²

The evasions of the express, telegraph, sleeping-car, pipe-line, fast-freight, telephone, street and interurban railway, gas, water, and electric-lighting companies are equally colossal. They, too, are assessed on but a fraction of their value. Only in rare instances are their franchises taxed at all. Prior to the passage of the franchise tax law in New York in 1903, the public service corporations of the state were assessed on their physical property. This law increased their valuation by \$235,000,000 in New York city alone. The constitutionality of the law was contested from court to court. It was finally affirmed by the Supreme Court of the United States.³

¹ Commercial Valuation of Railway Operating Property, Bulletin 21, Bureau of the Census, p. 8. This year is taken rather than a later one because of the census valuation of 1904.

² Estimating ordinary taxes at one and one-half per cent. and two per cent., respectively.

³ The capitalized value of the street and electric railways of the country in 1902 was \$2,308,282,000 or \$139,778.7 a mile. (Bulletin of the Census, Street and Electric Railways, p. 11.) This is from two to three times their cost of construction. They paid in taxes, but \$13,078,899 or approximately one-half of one per cent. on their

In 1905 the United States Steel Corporation paid in taxes but \$3,646,490. Its capitalization was \$1,637,811,000. The taxes paid were a trifle over one-fifth of one per cent. on the value. Were the Steel Trust taxed at the average rate of other property, it would pay into the treasuries of the various states at least \$20,000,000, or six times its present taxes.

Were we to add to these losses those of the coal and the iron, the oil and the gas, the copper and other mining monopolies, which are still assessed as farming land and which have passed under the control of monopoly, we should have a total of tax evasions by these interests in the neighborhood of \$100,000,000 a year. If to this were added the evasions of the railways and the public service corporations, the grand total would amount to not far from \$250,000,000 a year. It may exceed this figure.

These are some of the spoils of privilege. These are part of the tribute of monopoly. On the one hand, a control of Congress. On the other hand, a control of the states and the cities. Above is a cruelly unjust system of indirect taxation which

valuation. They escaped from forty to fifty millions in taxes. The total capital of the telephone companies in 1902 was \$348,031,058. The total tax paid was \$2,944,281, or less than nine mills upon their capital value. (Bureau of Census, Bulletin on Telephones and Telegraphs, p. 16.) In the state of Ohio alone it has been computed that the public service corporations, including the railways, escape taxation on a billion dollars of value and evade the payment of from fifteen to twenty millions annually.

exacts from one and a half to two billions annually from the consuming class; below is an equally unjust system of local taxation which increases the burden by at least a quarter of a billion more. In nation, state, city, there is a resistance to regulation and ownership and a ceaseless struggle for still further privileges.

When it is borne in mind that the total annual production of wealth in America is \$18,540,345,312,¹ the cost of these law-made privileges is apparent. The burden of indirect taxation, of monopoly rates and prices, and the evasion of local taxes, all made possible by the control of the government by these privileges, is equal to one-eighth and possibly one-sixth of all the wealth there is to distribute. It probably exceeds the total amount distributed each year in wages to American labor.²

Herein is an overlooked cause of poverty. It is not the chief cause. That is to be found in the private ownership of the land and the burden of rent which it involves. But when we consider that these taxes must be paid from out the current wealth that is produced, and that the bulk of them are paid by those who toil, the reduction in the standard of living of the mass of the people is obvious. Nearly all of the Federal revenues come

¹ Census estimates of 1900.

² In 1900 the total wages paid in America amounted to \$2,234,453,993.—United States Census, Vol. VII,

from the poorer classes, for the tariff and the excise taxes are adjusted to the articles of universal consumption. They would yield but little revenue if this were not true. The monopoly charges of the interests protected by the tariff reduce the standard of living still further. They, like the Federal and the local taxes, are collected from consumption. They enter into the cost of every article that we consume. They are collected over and over again in the process of production and distribution. They are paid by pennies, dimes, and dollars, and chiefly by the poor.

Privilege, untaxed on what it owns, thus levies a double tribute upon humanity. It compels the consumer to maintain a government whose expenditures are largely devoted to the promotion of its interests, while, in addition, it compels him to pay excessive prices for all that monopoly produces and all of the services which it renders.