

Ephra Good -
How Pol. Ec vs. Indiv Econ.

THE COMMON SENSE OF TAXATION.

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It may seem like a truism to assert that the only fund upon which taxation can draw is that made up by the produce of the community, and that to multiply the places at which it is tapped is not to increase in capacity to yield. Yet the manner in which taxation, under our system, is spread over a multitude of subjects, and new subjects are still sought for, suggests the belief of that chief of the eunuchs who thought the weight of an obnoxious poll tax might be lessened, and his master's revenues at the same time increased, by substituting for the tax on heads a tax upon fingers and toes.

But it is probable that the disposition to tax everything susceptible of taxation does not spring so much from the notion that more may thus be obtained, as from the notion that as a matter of justice everything should be taxed. That all species of property shall be equally taxed, is enjoined by many of our state constitutions, and that it should be so, at least so far as direct taxation is concerned, is regarded by most of our people as self-evident truth - the idea being that every one should contribute to public expenses in proportion to his means, or, as it is sometimes phrased, that all property, being equally protected by the state, should equally contribute to the expenses of the state.

But under no system that any of our legislatures have yet been able to devise is all property equally taxed; nor can it be equally taxed. And if it were possible to even approximate to the equal taxation of all property, this would not be to secure that equality which justice demands. For, as is evident in the case of

mortgages, etc., to equally tax all property would infallibly be to levy a higher rate of taxation upon some than upon others; and even if the same proportion could be taken from the means of every member of the community, that would no more conform to the dictates of equality than would the levy upon each of an equal sum; for, as the demand for a sum which would not be felt by the rich man would fall with crushing weight on the poor man, so to take the same proportion of their means would be a very different thing to him who has a large surplus.

Quite as fallacious is the idea that all property should be equally taxed, because equally protected. The fact is that all property is not equally protected, cannot be equally protected, and ought not to be equally protected, if by protection anything more is meant than the mere preservation of the peace. The protection of property is not the end, it is only one of the incidents, of government. As John Stuart Mill says: "The ends of government are as comprehensive as those of the social union. They consist of all the good and all the immunity from evil which the existence of government can be made, either directly or indirectly, to bestow." And to say that governments should impartially protect and equally tax all property is like saying that the farmer should bestow the same care upon everything he may find growing in his fields, whether weeds or grain.

That there is no obligation to equally tax all property is fully realized in regard to property brought from abroad. No one contends for a tariff which should equally tax all such property. The protectionists assert that the leading idea of determining what should be taxed and what not taxed, and the different rates which

various imports should bear, ought to be the promotion of the general good by the encouragement and protection of industry. Their opponents, on the other hand, do not deny the propriety of such exemptions and discriminations. They merely deny that industry can be protected and encouraged by the endeavor to shield certain classes of producers from foreign competition; and, in the enactment of a purely revenue tariff, they would make the same kind of exemptions and discriminations, with a view to the collection of the revenue with the smallest cost and least interference with trade. Both parties equally recognize the general good as the true guiding principal in taxation of this kind.

Even in internal taxation the same principle is largely recognized. On certain businesses and certain manufactures we impose taxes not imposed upon others, on the ground that it is for the public good that such businesses and manufactures should be restricted. With similar regard to the public good we exempt certain species of property from taxation, as cotton factories in Georgia, growing crops in California, property devoted to religious and charitable uses in New York, the bonds of the United States by federal law, etc.

Evidently this regard for the general good is the true principle of taxation. The more it is examined the more clearly it will be seen that there is no valid reason why we should, in any case, attempt to tax all property. That equality should be the rule and aim of taxation is true, and this for the reason given in the Declaration of Independence, "that all men are created equal." But equality does not require that all men should be taxed alike. It merely requires that whatever taxes are imposed shall be equally

imposed upon the persons or things in like conditions or situation; it merely requires that no citizen shall be given an advantage, or put at a disadvantage, as compared with other citizens.

The true purposes of government are well stated in the preamble of the constitution of the United States, as they are in the Declaration of Independence. To insure the general peace, to promote the general welfare, to secure to each individual the inalienable rights of life, liberty, and the pursuit of happiness - these are the proper ends of government, and are therefore the ends which in every scheme of taxation should be kept in mind.

As to amount of taxation, there is no principle which imposes any arbitrary limit. Heavy taxation is better for any community than light taxation, if the increased revenue be used in doing by public agencies things which could not be done, or could not be as well and economically done, by private agencies. Taxes could be lightened in the city of New York by dispensing with street lamps and disbanding the police force. But would a reduction in taxation gained in this way be for the benefit of the people of New York and make New York a more desirable place to live in? Or if it should be found that heat and light could be conducted through the streets at public expense and supplied to each house at but a small fraction of the cost of supplying them by individual effort, or that the city railroads could be run at public expense so as to give every one transportation at a very much less than it now costs the average resident, the increased taxation necessary for these purposes would not be an increased burden, and in spite of the larger taxation required, New York would become a more desirable place to live in. It is a mistake to condemn taxation as bad merely because it is high; it is

a mistake to impose by constitutional provision, as in many of our states has been advocated, and in some of our states has been done, any restriction upon the amount of taxation. A restriction upon the incurring of public indebtedness is another matter. In nothing is the far-reaching statesmanship of Jefferson more clearly shown than in his proposition that all public obligations should be deemed void after a certain brief term - a proposition which he grounds upon the self-evident truth that the earth belongs in usufruct to the living, and that the dead have no control over it, and can give no title to any part of it. But restriction upon public debts is a very different thing from restriction upon the power of taxation, and reasons which urge the one do not apply to the other. Nor is increased taxation necessarily proof of governmental extravagance. Increase in taxation is in the order of social development, for the reason that social development tends to the doing of things collectively that in a ruder state are done individually, to the giving to government of new functions and the imposing of new duties. Our public schools and libraries and parks, our signal service and fish commissions and agricultural bureaus and grasshopper investigations, are evidences of this.

But while no limit can be properly fixed for the amount of taxation, the method of taxation is of supreme importance. A horse may be anchored by fastening to the bridle a weight which he will not feel when carried in the buggy behind him. The best ship may be made utterly unseaworthy by the bad stowage of a cargo which properly placed would make her the more weatherly. So enterprise may be palsied, industry crushed, accumulation prevented and a prosperous country turned into a desert, by taxation which rightly levied,

would hardly be felt.

Now discarding all idea that there rests upon us any obligation to equally tax all kinds of property, and assuming for our guidance the true rule, that taxation should be levied with a view to the promotion of the general prosperity, the securing of substantial equality, and the recognition of inalienable rights, let us consider upon what species of property it may best laid.

To consider what is included in the category of property is to see the absurdity of saying that all property should be equally taxed. For not to speak of minor differences that arise from application and use, there are commonly included under this term things of essentially different nature. Whatever is recognized by municipal laws as subject to ownership is property. But between things thus classed together are wide differences. In the first place, there are certain of them which have in themselves no value, but are merely the representatives or doubles of property in itself valuable. Such are stocks, bonds, mortgages, promissory notes of all kinds, whether made by individuals or issued by governments to serve as money, solvent debts, book accounts, etc. These things may be to the individual valuable property, and are correctly included in any estimate of his wealth. But they are no part of the wealth of the community. Their increase does not make the community a whit the richer, and they may be utterly destroyed without the community becoming a whit the poorer. If I buy a horse, giving my note for the amount, the result of the transaction (supposing me to be solvent) is that the seller gets property to the value of the horse, while I get the horse. But there has been no increase in wealth. To the seller, my note may be quite as good as the horse, and in

estimating his wealth it may be as properly included as the horse; but if the note be destroyed, the community is nothing the poorer, while if the horse break his neck, there is a lessening of the general wealth by one horse. And so the issuance of bonds by a government, or the watering of stock by a corporation, can in no wise increase the general sum of wealth, nor will any diminution either in the amount or in the selling price of such bonds or stock reduce it. If all the governments of the world were to repudiate their debts to-morrow, an immense amount of property, now carefully guarded, would become waste paper, and thousands of people now rich would be made poor, but the wealth of the human race would not be diminished one iota.

These are truisms. Yet so widespread and persistent is the notion that all property should be taxed that they are generally ignored. Nothing is clearer than that when a farmer who wants more capital puts a mortgage on his farm, no new value is thereby created. Yet, in most of our states, both the farm and the mortgage are taxed; though so obvious is the double taxation that in some of them the clumsy expedient of making an exemption to the debtor is resorted to.

But it is manifest that property of this kind is not a fit subject for taxation, and ought not to be considered in making up the assessment rolls. It has in itself no value, It is merely the representative, or token, of value - the certificate of ownership, or the obligation to pay value. It either represents other property, or property yet to be brought into existence. And, as nothing real can be drawn from that which is not real, taxation upon property

of this kind must ultimately fall, either upon the property represented, in which case there is double taxation, or upon those whose obligations it expresses, in which case men are taxed, not upon what they own, but upon what they owe; and all cumbrous devices to prevent the unjust effects of such taxation, like other complications of the revenue system, simply give to the stronger and more unscrupulous, opportunities of throwing the burden upon the weaker and more conscientious. Property of this kind ought not to be taxed at all. Property in itself valuable is clearly that with which any wise scheme of taxation should alone deal.

To consider the nature of property of this kind is again to see a clear distinction. This distinction is not, as the lawyers have it, between personal property and real estate. The true distinction is between property which is, and property which is not, the result of human labor; or, to use the terms of political economy, between land and wealth. For, in any precise use of the term, land is not wealth, any more than labor is wealth. Land and labor are the factors of production. Wealth is such result of their union as retains the capacity of ministering to human desire. A lot and the house which stands upon it are alike property, alike have a tangible value, and are alike classed as real estate. But there are between them the most essential differences. The one is the free gift of nature, the other the result of human exertion; the one exists from generation to generation, while men come and go; the other is constantly tending to decay, and can only be preserved by continual exertion. To the one, the right of exclusive possession, which makes it individual property, can, like the right of property in slaves, be traced to nothing but municipal law; to the

other, the right of exclusive property springs clearly from those natural relations which are among the primary perceptions of the human mind. Nor are these mere abstract distinctions. They are distinctions of the first importance in determining what should and what should not be taxed.

For, keeping in mind the fact that all wealth is the result of human exertion, it is clearly seen that, having in view the promotion of the general prosperity, it is the height of absurdity to tax wealth for purposes of revenue, while there remains, unexhausted by taxation, any value attaching to land. We may tax land values as much as we please, without in the slightest degree lessening the amount of land, or the capabilities of land, or the inducement to the production of wealth, and decreasing the amount of wealth. We might take the whole value of land in taxation, so as to make the ownership of land worth nothing, and the land would still remain, and be as useful as before. The effect would be to throw land open to users free from price, and thus to increase its capabilities, which are brought out by increased population. But impose anything like such a taxation upon wealth, and the inducement to the production of wealth would be gone. Movable wealth would be carried off, immovable wealth would be suffered to go to decay, and where was prosperity would soon be the silence of desolation.

And the reason of this difference is clear. The possession of wealth is the inducement to the exertion necessary to the production and maintenance of wealth. Men do not work for the pleasure of working, but to get the things their work will give them. And to tax the things that are produced by exertion is to lessen the inducement to exertion. But over and above, the benefit to the

possessor, which is the stimulating motive to the production of wealth, there is a benefit to the community, for no matter how selfish he may be, it is utterly impossible for any one to entirely keep to himself the benefit of any desirable thing he may possess. These diffused benefits when localized give value to land, and this may be taxed without in any wise diminishing the incentive to production.

To illustrate: A man builds a fine house or large factory, in a poorly improved neighborhood. To tax this building and its adjuncts is to make him pay for his enterprises and expenditure - to take from him part of his natural reward. But the improvement thus made has given new beauty or life to the neighborhood, making it a more desirable place than before for the erection of other houses or factories, and additional value is given to land all about. Now to tax improvements is not only to deprive of his proper reward the man who has made the improvement, but it is to deter others from making similar improvements. But instead of taxing improvements, to tax these land values is to leave the natural inducement to further improvement in full force, and at the same time to keep down an obstacle to further improvement, which under the present system improvement itself tends to raise. For the advance of land values which follows improvement, and even the expectation of improvement, makes further improvement more costly.

See how unjust and short-sighted is this system. Here is a man who, gathering what little capital he can, and taking his family, starts west to find a place where he can make himself a home. He must travel long distances; for, though he will pass plenty of land nobody is using, it is held at prices too high for

him. Finally he will go no further, and selects a place where, since the creation of the world, the soil, so far as we know, has never felt a plowshare. But here, too, in nine cases out of ten, he will find the speculator has been ahead of him, for the speculator moves quicker, and has superior means of information to the emigrant. Before he can put this land to the use for which nature intended it, and to which it is for the general good that it should be put, he must make terms with some man who in all probability never saw the land, and never dreamed of using it, and who, it may be, resides in some city thousands of miles away. In order to get permission to use this land, he must give up a large part of the little capital which is seedwheat to him, and, perhaps, in addition, mortgage his future labor for years. Still he goes to work; he works himself, and his wife works and his children work - work like horses, and live in the hardest and dreariest manner. Such a man deserves encouragement, not discouragement; but on him taxation falls with peculiar severity. Almost everything that he has to buy - groceries, clothing, tools - is largely raised in price by a system of tariff taxation which cannot add to the price of the grain or hogs or cattle that he has to sell. And when the assessor comes around he is taxed on the improvements he has made, although these improvements have added not only to the value of surrounding land, but even to the value of land in distant commercial centers. Not merely this, but, as a general rule, his land, irrespective of the improvements, will be assessed at a higher rate than unimproved land around it, on the ground that "productive property" ought to pay more than "unproductive property" - a principle just the reverse of the correct one; for the man who makes land productive adds to the general pros-

perity, while the man who keeps land unproductive stands in the way of the general prosperity, is but a dog-in-the-manger, who prevents others from using what he will not use himself.

Or, take the case of the railroads. That railroads are a public benefit no one will dispute. We want more railroads and ~~want~~ them to reduce their fares and freight. Why then should we tax them? for taxes upon railroads deter from railroad building, and compel higher charges. Instead of taxing the railroads, is it not clear that we should tax the increased value which they give to land? To tax railroads is to check railroad building, to reduce profits, and compel higher rates; to tax the value they give to land is to increase railroad business and permit lower rates. The elevated railroads, for instance, have opened to the overcrowded population of New York the wide, vacant spaces of the upper part of the island. But this great public benefit is neutralized by the rise in land values. Because these vacant lots can be reached more cheaply and quickly, their owners demand more for them, and so the public gain in one way is offset in another, while the roads lose the business they would get were not building checked by the high prices demanded for lots. The increase of land values which the elevated roads have caused is not merely no advantage to them - it is an injury; it is clearly a public injury. The elevated railroads ought not to be taxed. The more profit they make, with the better conscience can they be asked to still further reduce fares. It is the increased land values which they have created that ought to be taxed, for taxing them will give the public the full benefit of cheap fares.

So with railroads everywhere. And so not alone with railroads, but with all industrial enterprises. So long as we consider that community most prosperous which increases most rapidly in wealth, so long is it the height of absurdity for us to tax wealth in any of its beneficial forms. We should tax what we want to repress, not what we want to encourage. We should tax that which results from the general prosperity, not that which conduces to it. It is the increase of population and increase of wealth. It is not that the land of Manhattan island is now worth hundreds of millions where, in the time of the early Dutch settlers, it was only worth dollars, that there are on it so many more people and so much more wealth. It is because of the increase of population and the increase of wealth that the value of the land has so much increased. Increase of land values tends of itself to repel population and prevent improvements. And thus the taxation of land values, unlike the taxation of other property, does not tend to prevent the increase of wealth, but rather to stimulate it. It is the taking of the golden egg, not the choking of the goose that laid it.

Every consideration of policy and ethics squares with the conclusion. The tax upon land values is the most economically perfect of all taxes. It does not raise prices; it may be collected at least cost, and with the utmost ease and certainty; it leaves in full strength all the springs of production; and, above all, it consorts with the truest equality and the highest justice. For, to take for the common purposes of the community that value which results from the growth of the community, and to free industry and enterprise and thrift from burden and restraint, is to leave to each that which he fairly earns, and to assert the first and most compre-

hensive of equal rights - the equal right of all to the land on which, and from which they must live.

Thus it is that ^{the} scheme of taxation which conduces to the greatest production is also that which conduces to the fairest distribution, and that in the proper adjustment of taxation lies not merely the possibility of enormously increasing the general wealth, but the solution of these pressing social and political problems which spring from unnatural inequality, in the distribution of wealth.

"There is," says M. de Laveleye, in concluding that work in which he shows that the first perceptions of mankind have everywhere recognized a most vital distinction between property in land and property which results from labor - "there is in human affairs one system, which is the best; it is not that system which always exists, otherwise why should we desire to change it; but it is that system which should exist for the greatest good of humanity. God knows it, and wills it; man's duty it is to discover and establish it."

Signed: Henry George.

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