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American Taxation

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PREFACE

Astonishing confusion of thought prevails on the subject of taxation. It's not so complicated as some writers make it. Our effort is made herewith to present it simply, hoping to have readers realize the need for a change more in conformity with American ideals.

J. S.

AMERICAN TAXATION

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It is impossible to talk taxes without talking government. One is justified in saying: No taxes, no government; no government, no taxes; which is to say, if we had no taxes governments could not exist, and if we had no governments, no taxes would be necessary. All of us agree that society cannot exist without government, therefore taxes are a necessity. For just what food is to the human body, taxes are to government, and just as the human body can sustain life for a long time on poor food taken irregularly at wrong times and in wrong proportions, so government can be sustained for an indefinite period upon bad taxes that are oppressive, unjust, badly collected and in many respects injurious; but as bad food finally breaks down the health of the body, so do bad taxes ultimately destroy the health and sometimes even the life of the body politic.

It is asserted that Rome owed its decline to bad systems of taxation as much as it did to slavery itself. Gibbons says the society which was the Roman Empire was disintegrated and unmade, the productive activities of her people were suspended by the unwise use of taxation during the fourth and fifth centuries.

In A. D. 311 Constantine visited the city of Autun, remitted the arrears of tribute and reduced the capitation tax by 28 per cent. "This tax," says Gibbons, "was so extremely oppressive either in itself or in the mode of collecting it, that, whilst the revenue was increased by extortion, it was diminished by despair; a considerable part of the territory of Autun was left uncultivated; and great numbers of the provincials rather chose to live as exiles and outlaws than to support the weight of civilized society." (Decline and Fall, Vol. 1, Chap. XLV.)

At that time the 100 per centers were hollering the loudest and the tax gatherers were so cruel and unjust in their extortions that the popular morale was destroyed, patriotism killed and it became a matter of indifference to the people under which taxing machine they lived. The same spirit was shown in our own country after this last war, when it was often said, "What's the use of trying to make money in your business when the government comes along and takes it away again?" Let this spirit become general and what happened to Rome will happen here. It only emphasizes the truth of the saying, "The power to tax is the power to destroy." This power when used wrongly permits tyranny and robbery, all the more dangerous because carried on under the guise of law and stamped with the insignia of justice.

Now the sickness of the body politic is shown and known as inequality (especially shown in the unequal distribution of wealth), due largely to systems of taxation that invade natural rights. Wherein lies the difference between our form of government and every other form of government? And what is the object of government, anyhow? The difference, it seems to the writer, lies in the assertion we make that governments derive their just powers from the consent of the governed. In no other country is this assertion made, search through their literature from beginning to end and you will not find it, it is peculiarly American. It shows that governments are secondary; and that the governed are primary; that natural rights were before governments and that governments are organized solely for the maintenance of natural rights, or, as some say, equal human rights. This doctrine of natural rights is enunciated and emphasized in the history of this

country by its founders and no clearer expression of it can be shown than that contained in the declaration of the bill of rights, which states that all are born equal and are endowed with certain inalienable rights. All other ideas of government are based upon the aristocratic and paternalistic concept which assumes that some people are born to govern the rest, or, as Jefferson put it, as though they were born booted and spurred, to ride the rest of humanity.

These two ideas of government are constantly striving for supremacy in society at all times. The fact is, there never were but two kinds of government in the world since there was a world, and there can only be two kinds, no matter how long the world lasts: the paternalistic, on the one hand, and the democratic, on the other. Between the two extremes are various gradations called by various names at various times, but the thought is ever the same. Such cries as, "That form of government is best which governs least," are but expressions of a belief in a democratic form. Those cries were much in use in the early history of our country, and the conflict between the two is still going on.

There are people today so imbued with the paternalistic idea that they would, and do, seek to regulate us in our private, personal habits, forgetting that whatever virtues we possess are not produced by government, that really government is but the expression of both our virtues and our vices and not the cause. The simplest definition of democracy can be expressed by saying "The democratic idea as applied to government demands that equality of fundamental rights be recognized as a natural endowment, to be protected as a public duty," fundamental rights meaning the right to life, the right to liberty, the right to own property and the right to make a contract. The right to the ownership of property rests on the proposition that to the laborer belong the fruits of his toil (meaning labor in the fullest sense recognizing that the man who shoves a pen is as important as the one who shoves a jack plane); managerial ability is labor as well as mechanical ability, and whether the fruits are the result of one's own efforts or are the result of a contract or are a gift, they belong to the individual as against all the world, and no other individual, no mob, no taxing power has any right to take of these fruits without the owner's consent, unless the taxing power can show that the one taxed is its debtor. And right

here let me say, no one escapes taxes. I may own fifty houses, live in one and rent the other forty-nine; all the expenses on the forty-nine, including taxes, are paid by the tenants.

A general notion prevails that taxes are paid for the use made of governmental services.

It is said the automobilist uses the roads, therefore let him pay for them. If this notion is correct, then bachelors who do not use the schools should not pay school tax, or those who never have a fire should not pay for fire department, and so on for all other public services. Taxes are paid for the privilege to use. Consider a member of a club, he is entitled to all the privileges of the club and for that he pays his dues (tax) whether he uses them or not. What the privilege is worth in society is shown by the value of locations occupied.

At the present time taxes for building and maintenance of roads are collected principally from a gasoline tax which is finally paid not by the owner of the automobile but by his customers. It can be safely asserted that 90 per cent. of gasoline is used in business machines. Every ten-ton truck or five or two or one ton truck uses per mile much more than private cars and must inevitably get its expense of doing business, including the tax, from its customers, the consumer; every taxicab, every express wagon, every bus, every delivery truck, every doctor's and lawyer's auto must be maintained by their customers, patients or clients. Moreover, all automobiles used in business are going six days a week, whereas private cars won't average more than two days a week, thus showing the still greater use of gasoline by machines used for business purposes. The tax is paid by the customers. They are taxed not knowing it, the debtor relationship being ignored completely.

The one and only thing that shows the debtor relationship of the individual to the taxing power is the value of the location he occupies in a community. Location value is an absolutely sure reflection of the worth of government. To ignore the debtor relationship in apportioning taxes and to apportion them on any other basis is to ignore a person's natural right to his property, which is taken away because the taxing authorities are given the power to take it. By the exercise of this power they deny the right of ownership to property as between the taxpayer and the taxing powers. But before going into this phase of the sub-

ject let us consider that there are some who deny there are such things as natural rights. For instance, some contend that questions of right are questions of expediency. They hold only that to be right which from experience appears to them to be wise. They say, further, that the distribution of wealth is a matter of human institution only, and that society collectively can do as it likes with things privately owned; it can place them at the disposal of whomsoever it pleases and on whatever terms it chooses; that even what a person has produced alone by his individual toil unaided by anyone he cannot keep it unless it is the will of society that he should do so. Today 90 per cent. of taxes are collected in accordance with this paternalistic or socialistic idea.

There should be a clear distinction drawn as to what are the legitimate functions of government. No government has any right to coerce an individual with regard to his individual concerns. What a person makes in his private business, either in a partnership or in a corporation, individually or professionally, is a matter of private concern. Yet we see our systems of taxation (notably the income tax) ignore this and make public what should be kept private. In addition it arms with inquisitorial powers the tax office, which is permitted to pry into private affairs where by right it has no business. The thought back of it is paternalistic.

An effort is made through super-taxes to equalize wealth. The cry being that taxes should be levied according to a person's ability to pay, one may well ask, does the taxing power give me my ability? Usually if I have ability to accumulate I will also have ability to shift the tax to somebody else having less ability. The result is that the people are in reality taxed not according to ability to pay but to their inability to avoid paying. This is shown clearly by Otto H. Kahn, of Kahn, Loeb & Co., in a little booklet entitled "The High Cost of Living," in which he says that the investor, in order to recoup a portion of his income tax, demands securities yielding much higher rates of interest than formerly, thus enhancing the cost of capital; and I say when the cost of capital is enhanced, the cost of the commodities that this capital enters into is enhanced also, and is finally paid by the ultimate consumer.

If it is fair and just and were possible that the rich simply because they

are rich and are able to pay should pay all taxes then ours would be a government of the rich for the rich and by the rich (if riches are ill gotten, stop the ill getting) instead of a government of the people for the people and by the people. If one belongs to a club or lodge or a church or any kind of an organization one should be willing to pay his fair share towards the support of the organization according to benefits conferred. Simply because I have \$6 more than you, who only have 60 cents, is no reason why I should pay 10 times as much as you. The only fair tax is one which is apportioned according to benefits conferred as shown by location values.

Mr. Babson, the eminent statistical authority, in one of his bulletins, says: "Taxation and its effects on commodity prices and living costs are matters of too little general intelligence. For the majority of voters this field is left free to some who confuse it with propaganda for or against some issue at election time." He says that by a natural law of readjustment in the long run taxes tend to distribute themselves over the whole community, no matter where the effort was made to collect them in the first place. It is a false theory that taxation can be used as an economic highwayman to bludgeon the rich so as to accomplish a permanent redistribution of wealth, and it is surprising to find authorities agreeing that the tariff is a consumption tax and yet protesting against a sales tax on the ground that it puts a special burden on the consumer. What should be fixed in the public mind is this truth, that what governments pay out the consumers pay in. The only levy that can be depended on to lie where the government puts it is the inheritance tax; a dead man cannot pass it along. I say this is the meanest kind of a tax, for it amounts to taking the penny off a dead man's eye. For just at the time the family needs the money the most, the taxing authorities come along and reduce their income to one-third, on an average—they practically put a pocket in the shroud so they can rob the dead. It being the case that taxes are paid by the ultimate consumer, then the problem of taxation revolves around this question: What is the proper measure to use in apportioning taxes to each consumer? In everyday talk we say we tax sugar, tea, coffee, houses, lots, stocks, bonds, etc. Now, as a matter of fact, we do nothing of the sort; what we really do is we tax persons. Persons pay all

taxes, and the items mentioned are merely measures used to apportion taxes to persons. In 1920 the Federal Government collected from the citizens of the State of Maryland \$1,085,000 from the consumption of candy, near-beer, ice cream and soft drinks. In all seriousness it can be asked, Does the consumption of candy, near-beer or ice cream show the consumer's debtor relation to the taxing power, and should not that relation be shown? If the taxing power puts its hand into one man's pocket and takes out \$500, and into another man's pocket and takes out \$100, don't you think the man who pays \$500 has a right to ask why he should pay \$400 more than the other? And what will the answer be today? "You get more, therefore you should pay more," or "You use more candy or tobacco or ice cream," etc., when the proper answer would be "Because you owe more." Suppose I should put a pistol to your head and demand your money, under threat of bodily harm, what would my relation be to you? Wouldn't it be that of a robber to a victim? But suppose I met you and presented you with a bill showing you owe me \$500. The relation then would be that of a debtor to a creditor. Now, when any government, federal, state or municipal, demands your money or property without using a measure which establishes your debtor relationship to them, then that government is in the first category and its act becomes robbery under the form of law.

The only thing that shows your debtor relation is the value of the location you occupy. If one lives in the woods or in a desert, no value appears. An acre of land in Atlantic City, on the Jersey Coast, is worth more than a thousand acres in Arizona. A sixteenth of an acre of bare rock in New York is worth more than a thousand acres in Manitoba. Where people live together in close association as they do in New York, there is a profit in that association and that profit is called rent or location value, which is rent capitalized. This value is a reflection of governmental worth which furnishes streets, schools, police and all utilities found necessary to be publicly carried on. All its activities are reflected in location values. By eliminating from the assessable basis all items of value except location value you have each one paying as he receives. A just formula for taxation purposes would be for everyone to contribute to the support of government according to the

value of the privilege he enjoys under that government.

"It can be asserted that the privilege of land holding and nothing else increases in value as the result of governmental expenditure. Products, or what is produced, and privilege in land constitute all actual property. The value of labor is shown in the price of products. The value of public service is shown in the privilege of land holding. All values are either labor values or land values. Labor value comes as a natural right, land value comes from a legal privilege, the value of labor is the value of something produced, the value of land is the value of the opportunity to produce." (From "Taxation," by John Z. White.)

"Former Governor Smith Heads Firm Putting Up 80-Story Building," is the title of an article in a daily paper. Mr. Smith said it will be close to 1,000 feet high, the equivalent of the length of five city blocks. It can house at one time, he went on, more than 60,000 people, enough people to match the population of the City of Troy, three times more than the population of the City of Watertown, 10,000 more than there are in the City of Binghamton and three times as many people as are found in the largest village of the State.

Here we have a city under one roof, and the management furnishes everything the average city furnishes.

The aisles are the same as streets.

Elevators are the same as street cars.

They furnish water and sewers.

Heat and light, janitor is the same as a garbage man.

Watchman the same as policeman.

Roof garden the same as a park.

Library for use of tenants.

Hospital rooms and nurses, and there is only a simple charge, namely, the rent.

The occupier of the building isn't asked what he is worth or what income he makes. He pays according to the location he occupies. This method is simple and is handled economically and is fair. What a mess would ensue if the management should undertake to charge according to a person's worth or according to income; what a number of lies would be told.

This method could and should be used by our taxing authorities. The present method in use makes an effort to ascertain the worth of the taxpayer and fails miserably. The resultant ef-

fect produces unequal burdens so that even measurably fair and effective administration is unattainable and great injustice ensues. The total amount any man must pay for the opportunity to live in society is made up of his taxes plus rent. Therefore more taxes means less rent. Consider if Mr. Smith should charge the tenants special taxes for elevator service, light, heat, watchmen, water, sewers, etc., would it not reduce the rent he would receive from his space? Just as the rent would be diminished in his case, so is it diminished in the larger community by the imposition of the various taxes now collected for the use and ownership of goods and the carrying on of business. Mr. Smith finds it wiser and fairer to put a single price (tax) on each tenant's location. Any other charges would only reduce the value of his space.

Leading thinkers in the past have held this view:

In a reprint edited by Dr. Jacob H. Hollander, of Hopkins University, "The Nature and Progress of Rent," by Thomas Robert Malthus, he says at the very outset of his essay, "By the economists rent is so pre-eminently distinguished that it is considered as exclusively entitled to the name of riches and the sole fund which is capable of supporting the taxes of the State and on which they ultimately fall." In one part of Adam Smith's "Wealth of Nations" he says the more the inhabitant is obliged to pay in taxes the less he would be inclined to pay for the ground in the way of rent. Though the landlord is in all cases the real contributor, the tax is commonly advanced by the tenant to whom the landlord is obliged to allow it in the payment of rent. Nothing can be more reasonable than that a fund which owes its existence to the good government of the state should be taxed peculiarly or should contribute something more than other funds towards the support of that government."

Where, it can be asked, are the highest land values? In the cities.

Who occupy the most valuable locations? Wealthy people. (Young Rockefeller occupies a million-dollar site in New York). So that incidentally the tax would be paid by those with more ability to pay measured by what they owe, as shown by the value of the location they occupy.

There is only one value that shows what the privilege of living in a community is worth, and that is location

value. Where close association exists, rent is high and is the tribute which natural laws levy upon every occupant of land as the market price of all the social, as well as natural, advantages attaching to a location, including one's just share of the cost of government. It is therefore just that in apportioning taxes only that value that reflects social services shall be considered in fixing the assessment. By this means each one pays the worth of the privilege of occupying a certain position in the community. He gains a certain profit by occupying that position, made possible by governmental action which furnishes security of tenure in the first place, and he should pay the value of what he receives.

It is often asked, "Are the land values of the country sufficient to meet the full demands of taxation." The answer is simple: the land values of the country equal the rent received by the land owners plus the revenue of the Federal Government, plus the revenue of State, counties and municipalities, plus the unrealized value of undeveloped land for which there is a demand. In other words, taxes and rent are what is paid to live in society. The whole problem of taxation hinges on the method of apportionment; what is paid in one form today will be paid in another form tomorrow, distributed according to what is owed. With the repeal of the multiple system and the substitution of one tax directly on land values, capital and labor, freed from the taxation that checks enterprise and diminishes energy, will, in full co-operation with land when the producing machine is allowed to run full, result in abundant fruitfulness, tending to prevent unemployment. The demand for land would increase. This would find expression in an increased value of land generally and a tendency to put available land to its full use would ensue. Improvements would be free from taxes, sites held undeveloped for speculation would pay more taxes and would press for use, creating a fuller and steadier demand for both labor and capital, with ensuing higher wages and greater production and a consequent higher standard of comfort. The repeal of all the various forms of indirect taxation now in use, with their consequent interference in private affairs, is much to be desired, to the end that equality of fundamental rights may become a fact instead of a theory. So the American idea of government can exist.