

The Open Court

A MONTHLY MAGAZINE

Devoted to the Science of Religion, the Religion of Science, and the
Extension of the Religious Parliament Idea

Editor: DR. PAUL CARUS.
Assistant Editor: T. J. McCORMACK.

Associates: { E. C. HEGELER.
MARY CARUS.

VOL. XVI. (NO. 3)

MARCH, 1902.

NO. 550

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CHICAGO

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WU TAO TZE'S NIRVANA PICTURE.

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THE TAXATION QUESTION.

BY JUDGE A. N. WATERMAN.

IN political economy the problem of taxation remains always the predominant issue of the day. It is everywhere the same, and the mistakes which are made in settling it are similar the world over. We have again experimented with it of late in the State of Illinois, and the bad results will become more and more apparent. Other states have passed through similar experiences, and we have not grown wiser by their example. Nor is it probable that the new states of the West, which are coming to the front, will escape the same fate, for mankind is inclined to be taught by experience only. But "experience keeps a dear school," as Poor Richard says, and it may be that a consideration of the problem may save at least some of the harm that is being done by the constant repetition of maladministration in matters of taxation.

The instance of the State of Illinois is instructive to all other states and also to other countries, and so it may serve us as an illustration of the mode of taxation as it ought not to be done.

Over the portals of every legislative chamber, and visible from the seat of each member of any body having power to levy taxes should be graven, "Governments have and can spend no money save that they take from the people."

Of all forms of oppression that from excessive taxation has been most constant and in its sum the greatest. Exhumed from the sands of thirty centuries, the records of Egypt tell what taxation, there, was when Europe was a wilderness. The falling due of the taxes came upon the nomads as a terrible crisis. For days there was nothing to be heard but protestations, threats, beating, cries of pain from the tax payers and lamentations from the women and

children. "The tax-gatherers cry out, 'Come now, corn.' There is none, and they throw the cultivator full length upon the ground; bound, dragged to the canal, they fling him in head first; his wife is bound with him, his children are put in chains."—"The stick facilitated the operations of the tax-collector, it quickly opened the granaries of the rich, it revealed resources to the poor of which he had been ignorant."

Excessive taxation contributed much to the downfall of the Roman Empire. "The arrival of the time when the general tax was to be collected was announced by the tears and terrors of the citizens." Death and confiscation of estate was the punishment to which every farming proprietor was liable who should attempt to evade taxation. The proprietor of personal property was questioned under oath; and every attempt to prevaricate or elude the intentions of the legislators was punished as a capital crime and held to include the double guilt of treason and sacrilege. If the results of such interrogation were not satisfactory to the officials, they were empowered to administer torture, and when this failed to effect the desired results "the faithful slave was tortured for evidence against the master, the wife to depose against her husband, the son against his sire."

Under such a system, how must the revenues of Rome have increased! Not so! they steadily declined. The agriculture of the provinces was ruined. Within sixty years from the advent of the Emperor Constantine, three hundred thirty thousand acres of one of the fairest portions of Italy had been abandoned. "Men produced only what would suffice for their immediate needs, for the government laid in wait for all savings. Capital vanished, the souls of men were palsied; population fled from what was called civilisation. Men cried for social death and invited the coming of the barbarians."

The French, as the English revolution, grew out of burdensome and unjust taxation.

Taxes are like and unlike the rain, they fall upon the just and the unjust; most hardly upon the just because they will not resort to devious ways to escape the imposition.

It is said by many economists that ultimately all taxation falls upon and is paid by the consumers, by those who use that which is taxed. The statement has in it much of truth; indeed, if by "ultimately" is meant "in the course of centuries" it is entirely true.

A tax levied upon an article must be paid when demanded.

Whether the owner when he sells will be able to obtain, as whether the consumer will be compelled to pay more because of the tax, is uncertain.

Taxes enter into the cost of everything consumed, so does labor; an increase in wages adds to the cost of production; but neither an increase of the wage paid to his farm hand nor an addition to the tax upon his farm can ordinarily be added by the farmer to the price of his wheat, his cattle or his butter. It often happens that owing to causes beyond the sea, with increased taxes and increased cost of labor he is compelled to sell his produce for less than he had before obtained.

The question as to upon whom the burden of taxation falls is not, taking into consideration all mankind and all time, who pays the tax? but where rests the yoke when the tax collector presents his demands? Who must find the money and pay it?

He who pays will, if possible, add the payment to the price he asks for the article taxed, but will *he* be able so to do is the dilemma presented to *him*: not will, upon the average, such articles cost more to the millions who must use them.

If it were the case that the owner of property could always obtain therefor the increased cost caused to him by taxation, mankind are not so dull that they would not long ago have found this out; instead of which, from the subjects of the Pharaohs to the brewers of the United States, producers and owners have striven for a removal of the import placed upon their goods.

Taxes are a burden, they have never been and never will be anything else; but there is no reason why the government should insist upon the load being carried at arm's length.

The first question presented to a taxing body should be, for how little can the affairs of the state be properly and wisely carried on? Second, in what manner can this sum be obtained with the greatest fairness, the least annoyance and loss to the people?

Some economists insist that all taxation should be direct in order that the people may know just what they pay.

It is desirable that the people know what they pay in the way of taxes; but is this accomplished by direct taxation? If by "the people" is meant only those who directly pay, it is. Direct taxation compels him who hands the money to the government to reimburse himself so far as he can from those who hire or buy from him the property taxed; but the vast majority of consumers take no thought of the enhanced cost caused by taxation.

In New York City in 1895, under a direct tax upon all real and

personal property, only four per cent. of the population paid anything. In Boston only 7.27 per cent. Throughout the country not over ten per cent. of the inhabitants directly pay any general tax. Of the remaining ninety per cent. very few think of or care for the fact that a tax upon all real and personal property must ultimately effect the cost of everything used or consumed.

So far as bringing home to the consumers the fact of the burden of taxation is concerned it is of little consequence whether taxation is direct or indirect. He who hands over the money to the collecting agency is the one who most keenly appreciates that he is paying taxes. The tenant whose rent is all paid directly to his landlord feels very differently as to the tax on the realty from one who in addition to what he pays his landlord pays to the tax-collector the taxes on the property.

Whatever adds to the cost of maintaining a home, obtaining a living, producing an article or doing business necessarily affects the habits, manners, and morals of a people: taxation should be so shaped as to do this with the least possible injury.

It should not hold out great temptations to fraud nor present the constant spectacle of an escape from its direct burdens by deceit and iniquity.

Throughout the United States the most complete, the most conspicuous and the most general failure to carry out the law for many years has resulted from the inability to collect the tax on personal property.

The law of the State of Illinois has for many years been that all property, real and personal, shall be equally and directly taxed; in this respect the law is not different from that of most of the states. The result of an attempt to administer this law according to its unmistakable letter and spirit has been a complete failure. Never for any considerable length of time has personal property been actually assessed and taxed at its fair or proportionate value, as has real.

The effort to do this has been made in all sovereignties and by all kinds of men, without success. Neither the Czar of Russia, the Sultan of Turkey, the Emperor of Germany, the Parliament of England, nor the free states of America have been able to directly tax and collect from the owners of personalty as they do from the possessors of realty.

Why is this? Simply because real property can always be found, inventoried, appraised, is visible to the eye and can neither be hidden nor carried away; while all personalty is movable, can

be carried into other sovereignties and a large portion can be so secreted that no tax officer can find or learn of it.

It is doubtless the case that a number of persons residing in Chicago, are each the owner of over ten million dollars worth of stocks, bonds, cash, and evidences of indebtedness.

If we had an inquisitional system and a despotism to enforce it we might discover these hidden hordes, but we would do so only once. The next year their owners would not reside where such espionage or tax could reach them; they would have become residents of Lake County or Wisconsin or even of England.

It is quite possible to drive the owner of many bonds and much cash out of the country, but to directly and fairly tax him upon this kind of property is impossible, has never been done.

But, cries the indignant citizen, is it just, is it fair or right that old Bullion who has a million dollars of New York Central Railway bonds should pay nothing thereon, while I pay a tax of one hundred dollars upon my humble homestead worth not to exceed five thousand dollars? Let us admit that this is wrong and unjust; what then? what can be done to right the matter? Old Bullion will not submit to a tax of twenty or ten thousand dollars upon his bonds. Rather than pay this he will move away to another state or to Scotland. This will be of no benefit either to the owner of the homestead taxed at one hundred dollars or to the city. Bullion is a good neighbor, an excellent patron of the butcher and the baker, the tailor and the mantua maker; his living here conduces to the support and well-being of many industrious citizens; they do not wish to have him driven out.

But can he escape direct taxation by changing his residence? Certainly. There are plenty of communities that will welcome his coming and tacitly agree that his tax upon all his bonds shall be but a nominal sum. These communities recognise that his residence among them, because of the money that he there spends, is an advantage and that his bonds cost the people nothing.

Arrangements of this kind are continually made whenever there is a serious and persistent effort to directly tax intangible property. George Gould has become a citizen of New Jersey, because in New York the authorities insisted upon taxing the large amount of railway stocks of which he is the owner.

There are also sovereignties where the attempt to directly tax stocks, bonds, mortgages, and credits has been after long experience abandoned.

There is much force in the assertion that all property ought to

be equally and directly taxed; the statement appeals to one's sense of fair dealing, it seems to be right and just, and is. The objection to the attempt to do this, for it has never been more than an attempt, is not that such method is unfair but that it is impractical; results in inequalities, in a general evasion of the law and all the demoralisation consequent upon an attempt to run counter to human nature.

The indignant citizen here asks if the well-to-do portion of mankind are so dishonest that they will resort to fraud to escape the payment of a fair tax. The well-to-do citizen wishes to know what is meant by a fair tax, and if it is fair that merely because he has come to Chicago to live, he should be made to pay two per cent. upon the par value of his bonds when in Podunk, his former residence, he was taxed only upon his household furniture, horses, and carriages; and he says it is fair that I give in and pay upon my ten thousand of credits when my next door neighbor who has fifty thousand, pays upon only five.

The excuse that if the evidence is forthcoming that his neighbor has fifty thousand, he will be taxed at that sum is unavailing. He replies that he is not an assessor nor an officer of the law; neither does he wish to make an enemy of one who lives near to him.

He feels willing to pay a fair tax, but that it is unfair that he should pay upon all his credits while most men pay upon only half of theirs; that this is neither just to himself nor well for the state.

In this city of the many thousand owners of investments in building societies and possessors of savings in banks, how many have gone to an assessor with a truthful statement of these sums, that they might be taxed thereon? The law requires that this be done. Who does it? Are all these people dishonest? By no means. Most of them are willing to be fair, but not to pay that which thousands escape.

But why continue to state the reasons which have made the attempt to directly tax intangible personal property a failure?

Is it necessary to explain why men cannot live without eating? Is not the result of experience sufficient?

It is true that something may be and is realised by this form of taxation. Estates in probate, in the custody of the law, as the heritage of infants, imbeciles and other wards, as well as a proportion of that owned by citizens too conscientious to endeavor to conceal that which the law requires them to disclose. The amount thus reached continually decreases.

The injustice of paying when others do not, saps the moral strength of the best, so that the sum of the tangible property taxed, instead of increasing with the added wealth of the community, diminishes.

One of the favorite methods for directly taxing credits is to provide that the amount of mortgages shall be deducted from the assessment of the real property upon which they are, and such sum assessed against the mortgagee, he being, it is said, the real owner. This seems fair and is. Theoretically there is no valid objection to it. It is merely unwise, and instead of relieving the owner of the realty from his burden, adds to it.

The money lender, either as a condition of his loan, requires the borrower to agree to pay the taxes on the mortgage, and secures such promise as he does the loan, or if such agreement be by law forbidden, increase the charge for interest, enough to assure him against taxation; and in doing this the lender, especially if he be a foreigner, takes into consideration the fact that direct taxes may be imposed for the purpose of enhancing the value of the real property: as for roads, parks, boulevards, fountains, statuary, etc.; that none of the enhanced value goes to him, the mortgagee, but all to the mortgagor, who, if he can compel the foreigner to pay half the cost thereof, will turn a handsome penny.

The consequence is that such laws always result in loss to the mortgagor.

It must be borne in mind that taxation affects business; that commerce may be destroyed by taxes; a notable instance of which is that the immense issue of state bank notes in circulation in 1862 was taxed out of existence.

As a business proposition it is not very clear; why, when we are anxious for the investment of foreign capital, we should say to the citizens of Massachusetts, if you lend in this state any money upon mortgage you will be taxed upon it, here, notwithstanding you may pay taxes upon it at the place where you live.

Most kinds of tangible personal property, not representative merely, but the thing itself, often can be directly taxed with approximate equality.

In agricultural communities the horses, cows, sheep, swine, farming implements, household furniture, crops, etc., are objects, the value of which is well known and which cannot be effectually hidden.

In large cities no one person is capable of making a correct estimate of the value of the great variety of personality. Hundreds

of experts would be required, and they would have to make long and careful search that nothing escape them.

Practically with all large mercantile and manufacturing houses the statements of, and the showing made by the books of the owners must be taken.

There seems to be no good reason why property received as the result of the death of its former owner should not be subject to a succession tax. Nor is there any sufficient reason why any real property not fully owned, governed and controlled by, and for the equal benefit of, the people, should be exempt from taxation. In other words, all real property owned or controlled wholly or in part by private persons or corporations should be taxed.

Taxes should be imposed and collected with perfect fairness and with as little annoyance and disturbance of business interests as is possible.

As to this it must always be borne in mind that it is not so much fairness in the imposition of the tax as the fairness that can be realised in its collection that is of the greatest importance.

The trouble with a tax levied equally upon tangible and intangible property is not that such levy is unfair, but that unfairness and inequality are inevitable results of the attempt to collect it.

An income tax may be as just as any, provided there be included all incomes, the tax upon which will exceed the cost of collecting. The difficulty with such an impost is that it cannot in this country be fairly collected; and that the attempt to collect necessitates inquisitorial methods so odious that they will not here by long endured.

In England, where incomes are much more steady and where the administration of the law is removed from political influence and measurably above the sway of popular passion, an income tax can with approximate fairness be collected from estates in court, from great corporations, from the holders of official positions, from the owners of very large landed estates and such merchants and manufacturers as are too honest to attempt to conceal the true condition of their affairs. The number of these continually diminishes and the income tax has by every Chancellor of the Exchequer from Gladstone down been regarded as one to be removed as soon as the exigencies of public affairs do not demand its continuance. An income tax exempting all incomes below four thousand dollars is neither just nor fair, but is class legislation of a vicious kind. A just income tax exempts none save those so small that the tax realised will not pay the expense of collecting.

The history of our legislation concerning taxation is illustrative of the prevalence of the legislative idea that whatever the law commands will be done, and the universal indifference to disobedience and evasion of statutes.

The constitution of the State of Illinois has for more than fifty years declared that "The general assembly shall provide such revenue as may be needful by levying a tax by valuation, so that every person and corporation shall pay a tax in proportion to the value of his, her, or its property."

During all this period it has been notorious that at no time has every person and corporation paid a tax in proportion to the value of his, her, or its property; while for most of the time not only has no effort been made to obey the constitutional mandate, but laws have been enacted and are in force expressly designed to exempt and which have exempted certain kinds of property from taxation.

Under this constitution a curious condition arose. The legislature, fearing that taxation might become oppressive, for the protection of the people, by statutory enactments, *restricted* the power of the various municipalities to tax, to certain fixed percentages, which in the aggregate amounted to ten per cent. As the actual collection of such a tax would have amounted to confiscation, the gradual increase of the percentage of taxation was, in open disregard of the law, met by a gradual reduction of the value placed by assessors upon real property, and an ignoring of the existence of the bulk of personal property; so that upon the average a tax of one per cent. per annum was paid upon real property, and very little upon personal.

The law all the while required each person to each year give in a verified list of all his personal property, with a statement of its fair cash value. Had any person in the City of Chicago done this, he would have been taxed ten per cent. upon the full value of his personal property—the law for most of this period made it unlawful to exact more than seven per cent. interest—one loaning money would, under the plain requirements of the statute, have been compelled to pay a tax of three per cent. more than the greatest interest he could lawfully obtain thereon.

Nobody obeyed the statute which commanded him to make a true schedule of all his personal property, with a truthful statement of the value of each article. To have done this would have been ruin. None of the assessors obeyed the law which commanded each to make a list of all property, real and personal, in his dis-

tract, and to affix thereto a statement of its fair cash value. Each assessor before he began his work solemnly swore that he would do this, and at its conclusion again swore that he had done so. Everybody knew that this was not done, and the Supreme Court, in the teeth of the unmistakable requirement of the statute, declared it unnecessary.

It was found to be a great deal easier by universal acquiescence to ignore the law than to change it, and so the entire people deliberately resolved to disobey the statute.

At the present time in Chicago real property is assessed at its full cash value; this value is then divided by five, and upon the one-fifth thus obtained taxes are assessed.

Such personal property as can be found is assessed in the same manner, but as a great portion of the personalty cannot be found, many people pay taxes upon all the personal property they have, and many others who have vastly more pay on none or very little.

If a man to-day had fifty thousand dollars worth of Chicago city bonds of a recent issue, he would receive from the city as interest thereon fifteen hundred dollars per annum. Under our system of taxation the net income he would have therefrom for the support of his family would depend very largely upon where he lived.

The fifty thousand being divided by five he would be taxed upon ten thousand dollars.

The rate of taxation is as follows:

North Chicago,	.0881 $\frac{7}{10}$	tax on \$10,000 assessment.....	\$881.70
South Chicago,	.0836 $\frac{7}{10}$	" " 10,000 "	836.70
West Chicago,	.0924 $\frac{7}{10}$	" " 10,000 "	924.70
Hyde Park,	.0836 $\frac{7}{10}$	" " 10,000 "	836.70
Evanston Dist. 3,	.0814 $\frac{1}{10}$	" " 10,000 "	814.10
Cicero Dist. 1,	.1046 $\frac{1}{2}$	" " 10,000 "	1046.50
Schaumburg,	.0254 $\frac{1}{10}$	" " 10,000 "	254.10

From his fifty thousand dollars of city bonds his net income would be, if living in

North Chicago.....	interest \$1500, less tax \$881.70=	\$618.30
South Chicago.....	" 1500, " " 836.70=	663.30
West Chicago.....	" 1500, " " 927.70=	575.30
Hyde Park.....	" 1500, " " 836.70=	663.30
Evanston Dist. 3.....	" 1500, " " 814.10=	685.90
Cicero Dist. 1.....	" 1500, " " 1046.50=	453.50
Schaumburg.....	" 1500, " " 254.10=	1245.90

If finding such income insufficient for the support of his family he took up his abode in London, he would not be taxed upon his

bonds as such, but would pay under, owing to the South African war, the abnormally high income tax of one shilling in the pound of his income in excess of eight hundred dollars.

His income upon his \$50,000 of bonds being \$1500 per annum, there would be deducted from this \$800, leaving \$700 upon which he would annually pay \$35, leaving his net income in London \$1465.00 against

\$663.30 in South Chicago
 618.30 in North Chicago
 517.30 in West Chicago
 663.30 in Hyde Park
 685.90 in Evanston
 453.50 in Cicero
 1245.90 in Schaumberg.

Manifestly it is for the interest of the owner of these bonds to live in London, and clearly the people of Chicago do not desire that he should live in their city, else they would not by taxation drive him out.

Just why the people should desire to drive away the possessor of bonds, stocks, or notes, is not very clear. The advent of another barber, druggist, merchant, undertaker, or doctor might by those of his calling be unwelcome in any place; he would be a rival; but the man living upon his income, carrying on no business, is a customer only. All who do business seek for customers; numerous places advertise attractions in the way of mountains, sea, springs, parks, drives, bathing facilities; seeking thus to draw thither those who have money to spend. What would be thought of Saratoga, Newport, Baden Baden, or Long Branch if the authorities should announce that visitors would be required to make a schedule of their personal property and would be taxed upon the amount thereof as fixed by the local assessors for the proportion of the year they remained in the city?

If it would be unwise to tax a mere visitor for three months upon the amount of his stocks, bonds, and notes, why is it wise to tax a mere resident of one or more years upon the same property?

If a person owing real property in Boston were to reside in Chicago no one would think of taxing him here on his Boston real estate; all would perceive that this would drive him away. Why is it then that taxing him upon bonds, etc., which have no locality, are as likely to and may as well be kept in New York as elsewhere, does not always drive him away? Simply because the fact of the ownership of such property is not often disclosed.

The effect of our law is to drive away the citizen who will not conceal his shares, notes, and bonds, evade taxation thereon, and keep the man who successfully hides his personal effects.

Taxes are imposed upon intangible personal property not because of business considerations, but as a matter of sentiment.

The feeling is strong that every one should pay in proportion to the value of all his property. The feeling is proper and just; if such result could be realised without disastrous result to the interests of the community, there would be no valid objection to the law.

It is because such law cannot be fairly enforced, and because its enforcement would drive away many whom it is for the interest of all should remain that such law is not only unwise but disastrous and demoralising.

A person having a collection of paintings and other works of art and a library the value of which is one hundred thousand dollars, removing from London and taking up his residence in Evanston, carrying there his collection and library, if the law is enforced, must pay an annual tax of \$1628.50 for the privilege of there keeping such personal property.

While if, to the delight of the people of Cicero, he takes his pictures and books to that suburb, he will be taxed thereon the sum of \$2093.00. Evidently Evanston and Cicero do not expect to have owners of such property make their home in either of those places.

Is Chicago determined by taxation to drive away all such private collections?

If not, why is a similar rate of taxation thereon maintained?