

Some Proposed Experiments Relating to Taxation

by Harry Denman Smith

1887

Submitted to the University of Kansas in partial
fulfillment of the requirements for the Degree of
Bachelor of Arts

Some Proposed Experiments Relating to
Taxation

A Graduation Thesis

by

Harry Dunman Smith

K. S. U. 1887.

Some Proposed Experiments relating to Taxation

In this paper it is proposed to outline a series of experiments which the writer proposes to make in connection with the land-tax set forth by Prof. J. H. Caulfield's "Taxation - A Plain Talk to Plain People" & to point out in some measure at least what certain possible results of such experiments will suggest or prove or both suggest & prove. The reasons for making these experiments may be found in the exceedingly faultiness in practice of all systems of taxation which have yet been tried, in the very obvious hindrance in the way of the successful operation of some most ably advocated undertakings & in the hope that there is at least something better than any of the above mentioned systems.

In order to an intelligent presentation of the proposed experiments & a thorough understanding of their bearing it is necessary that we know about a land-tax - what it is & why it is urged as against every or all other taxes as the sole source of revenue to the government.

The question, what is a land-tax is briefly & easily

2.

enumerable. A land-tax is a tax on land only - it does not touch improvements. A land-tax is "a tax laid on land assessed at the value of strictly unimproved lands in the immediate vicinity."

The answer to the question why is a land-tax urged as against all other taxes as the sole source of revenue is not so brief. We can not better begin our answer than by quoting the first of four cautions which will be offered to us as we proceed. These cautions establish a standard by which all schemes of taxation must be measured for they are of universal acceptance.

First - The subjects of every state ought to contribute toward the support of the government in proportion to their respective abilities. Adam Smith who is credited with this caution as indeed he is with the remaining three added to it - "that is in proportion to the revenue which they respectively enjoy under the protection of the state". This doubtless is the conception of these vast majority of those who read & those who advocate this first caution. It is however with this added explanatory clause from the pen of its great author a paradox. "Is the ability of two persons to contribute" says F. A. Walker "necessarily in proportion to their respective revenues? Take the case of the head of a family

3.

having an income of \$500⁰⁰ a year of which \$400⁰⁰ is absolutely essential to the maintenance of ~~himself~~ self & wife & children in health & strength to labor. Is the ability of such a person who has only \$100⁰⁰ which could possibly be taken for public use one half as great as that of another head of a family similarly situated in all respects except that his income amounts to \$1000⁰⁰ & who has therefore \$600⁰⁰ which could conceivably be brought under contributions? Manifestly not." And yet the most approved systems of taxation now in use, reply to this question in the affirmative. The boasted "American System" does not stop at this but goes further & says that the day laborer is able to contribute to the support of the national government as much absolutely in dollars & cents as the millionaire. True the latter no fact does contribute more than the former but more is not required. The food & clothing that suffice ~~to~~ ~~maintain~~ & keep near the poor man is equally adequate to meet these requirements of the rich man. The utmost prodigality of expenditure practiced in this country by the rich does not serve to make the national taxes of these two classes now approximately proportional to their respective incomes - not to mention their respective abilities.

H.

Says Prof. Confield - "The man with an income of one million for annual living as such naturally would pay about one thirtieth of his possible savings toward the support of the government. The average laboring man pays about three fifths of his possible savings for the same purpose. xxx I know and several Americans, whose annual expenditures in the direct ion contributing to the national revenue do not reach \$10,000 each though each is worth \$1,000,000. In almost any city you can find two men whose living expenses are \$500 each though their joint wealth is not \$10,000. These men then pay as much tax as the millionaires; or \$1,000 pays as much tax as \$10,000,000." There is certainly no equity here.

Nor is our system of Direct Taxes although infinitely superior as regards equity to the "American System" all that could be desired in the way of an equitable taxation. These taxes are laid out both real & personal property & to say that in both cases they are unjust is putting it mildly. That the assessment of personal property as at present conducted is the worst farce, the most casual observation will suffice to convince ~~any~~ man. Men of business integrity in all cases do not hesitate to pry themselves, down & over again to escape a fair

5.

dollars of tax. An assessor in one of the richest townships in Douglas Co. Kansas is said to have reported in his personal property list only \$1500 in ready money & not a bond or mortgage.

Even in the case of property which is open to inspection by the assessor there is abundance of inaccuracy arising from mere in judgment & no death of injustice from official corruption.

Again property is continually being taxed twice, - three four & more times - although in different states - in the same year. This comes about by the property's being taxed in our state & the credits or some of credits being taxed in another or several other states. "It is worthy to be remembered" writes Prof. Caulfield "that a careful avoidance of double taxation would set free nearly three fourths of that which we now tax as personal property".

Let us now turn to real property taxation. First it well to notice, that real property includes both land & fixed improvements. The same difficulties, only in a lesser degree attend the taxing of the latter than we have barely hinted at attending the taxing of that class of personal property which is open to inspection. Instances of blunders in the assessment of buildings to the extent of twice or even three times their value are not wanting.

As for the tax on land itself its approximate accuracy is the greatest source of its injustice - other taxes being as they are. The man whose property is largely personal - consisting of bonds, mortgages, notes, money, plated ware, jewelry &c. can & does as a rule escape taxation in any large part where the man, the bulk of whose wealth is in land the value of which is notorious (as it always true) must not only carry his own proper burden but must stagger along as best they can under the added weight of the burden shifted by the other. Where the merchant & banker are concerned dishonesty & trickery and at a premium & pretenses fall upon honesty whereas in the case of the land holder neither honesty nor dishonesty avails anything. The county records tell how many acres of land he owns, & all his neighbors know its value.

Thus we have seen that next to nothing can be claimed for the equity of taxes on either expenditures or accumulations & that the very accuracy of the tax on land is rendered pernicious by association with them. Poll-taxes, license & occupation taxes make not the shadow of a pretense to equity. A business involving an investment of \$500 pays as much license as one involving an investment of \$50,000. The occupation tax has a like indifference to amount

of investments & profits & the fall-tax ignores all distinctions of ability of all sorts.

Now it is said that the want of equity in all these methods of raising revenue is only an apparent one, that taxes "diffuse themselves" - i.e. it matters not on whom a tax is laid directly ultimately the burden is apportioned by the necessary operations of trade according to the several abilities of the citizens. This in the light of facts & right reason is the grossest nonsense. Taxes diffuse themselves so far as they are diffused at all along the lines of least resistance which means that they ultimately fall upon the weak - the poor - the ignorant - in short upon those least able physically mentally economically. As a comment on the "diffusion" of our taxes I call attention to the fact that nine tenths of all ~~direct~~ & by far the major portion of all direct taxes are paid by the farmer & the mechanic.

How ~~can~~ it be brought about that the subjects of the state shall meet the expenses of the state more nearly in proportion to their respective abilities? Some economists advocate an income tax. This although as we have seen it does not realize the standard of our first canon is the most unexceptionable tax of all in theory. But experience proves

S.

That such a tax always has been & always will be
one of the most unfair & demoralizing that can be
levied. For this there are several reasons. Pro-
ductions are generally personal property & therefore
a tax levied on them is subject to all the objections
which meet every attempt to tax personal property. xxx
Even more fully & thoroughly honest it would be
almost impossible to secure equity in this process.
Many individuals & families are so situated that
they can with difficulty determine their income.
Furthermore men's standards of value differ greatly.
In practice, an income tax would be even worse
than the present certainly defective enough personal
property tax. There are many times when the disclos-
ure consequent upon the inquisitorial process
necessary to the enforcement of such a tax would bring
utter financial ruin to our business men.

We now come to the consideration
of a land-tax only as a remedy for the existing evils
already mentioned. What are its possibilities & prob-
abilities in the way of mitigating these? We have noted
that the majority of taxes make no pretense to equity
& that the theoretically most equitable is practically
scarcely better than the most. Does the proposed
land-tax promise more? To this we must answer

both no & yes. No - because it requires that land-
 holders pay all the taxes. Yes - because (1) As between
 land-holders & land-holders there would exist approxi-
 mately perfect equity. This we can see at a glance,
 for secretions is impossible, & the value of unim-
 proved land is too notorious to admit of either
 fraud or error in valuation. (2) "Two factors deter-
 mine whether a tax is paid by the consumer or producer
 viz: - whether the only source of supply is the taxed
 one & whether the increase of price passes the
 demand. This principle, so generally received as to
 render needless any thing more than the statement
 would seem to warrant the belief that a land-tax
 would distribute itself to some extent; probably to
 a greater extent than we now think & doubtless
 enough to relieve any apparent inequalities." (3)
 All middle-men - bankers, merchants millers & carriers
 of all kinds would be freed from taxation. Competi-
 tion would force prices down at least to the ex-
 tent of the tax burden removed from these lines of
 trade & industry. It is readily conceivable, & very
 probable that such competition would force prices
 even lower. Now as a consumer the farmer & land-
 holder who ever he be reaps a benefit just here.
 He receives back the tax he has paid for the consumer

in lowered rates on business, transacted for him by the banker. The grocer makes returns with the sale to him of every pound of coffee, & the miller in the grinding of every bushel of wheat. The community at large so far as they are consumers like him share the good results of the system. Any enhancement of prices, in the hands of the farmer is counteracted by the passage of his products through lines of freely competing traders. There all too briefly are the promises of a land-tax in point of equity.

The sacred canon is that the tax which each is bound to pay should be fixed & not arbitrary; the time of payment, the manner of payment & the amount to be paid ought to be clear & plain, to the contributor & to every other person. Adherence to this canon is the best guaranty of governmental probity & not until we ceased to mislay men, as our agents are, we prepared to abate from it a single jot. Yet in our tariff system we have violated it in every clause, neither the time of payment, the manner of payment nor the amount to be paid is known to the individual contributor much less to every other person. Such a condition of ignorance on the part of the mass of our people precludes the pos-

sibility of protection against official corruption, & most terrible inequality. The difficulties of valuing personal property & improvements make taxes on these, to fall very short of the standard of certainty set up by this canon. In the land-tax line, the possibility of the closest approximations of this standard. Not only would each know the time & manner & amount of his own payments but by a moment's calculation that of each of his neighbors. Every man in the district could know immediately the cost to himself of the reinforcement of every measure for which his representative in Congress voted. By the use of statistics easily obtainable, he could ascertain very shortly the proportions of tax which would fall upon his district & his State, as well as upon every other in every other State in the Union. By adopting a land-tax the problem of taxation would become one of easy & satisfactory solution, to the simplest mind of our people.

The third canon says that every tax ought to be levied as nearly as possible in the manner & at the time most convenient for the great mass of contributors to pay it. To generalize, - Small & frequent levies are best in point of facility of collection; but the cost of assessment of property now taxed is too

great to be often repeated. This would be obviated by the simplicity & consequent cheapness, of assessment of a land-tax. Further on we shall see this more clearly.

Fourth - The levy should be made so as to take out & keep out of the contributors' pockets, as little as possible over & above what it brings into the public treasury; & so as to remain in the hands of the government as short a time, as possible. This means simply the least possible cost of collection consistent with right methods as determined by the cautions before quoted & no great surplus of unexpended income, which is always dangerous in that it is a constant & efficient bribe, to reckless & fraudulent legislation, & general official dishonesty. The superiority of a land-tax is in the fact of its extreme simplicity. That there would be a saving here by its substitution, for other taxes no rational mind can question.

Now finally & more directly to the question - why is a land-tax urged as against every & all other taxes as the sole source of revenue to the government.

We advocate a land-tax because ~~it~~

1. - It promises to be far more equitable than any or all other taxes.

13.

2. - Land is more easily & accurately assessable than any other commodity. It can not be hidden away - its value is well known. The inquisitorial process so necessary to run a partial reform of the personal property & income taxes, is an almost unbearable nuisance, in the case of the former & may prove ruinous, in the case of the latter. Land taxation involves no such process, error & fraud are next to impossible.

3. - The cheapness of assessment permits frequent levies & light taxes which means easy & prompt collection & no surplus of hundreds of millions in the national treasury to tempt to national debauchery & ruin.

4. - People would be able to determine accurately & without delay just what the laying & collecting of a tax ought to cost - whether 25% of the tax laid is too much or too little for its collection. (This is the price we pay for the collection of our national tax)

5. - Production would be quickened by the removal of taxes from manufacturing commercial & transportation enterprises. - The rate of interest would fall - the desire to accumulate would have full unhampered play & the increase of wealth would be

stimulated rather than prevented.

6. - "A tax on land even the highest would not affect the number of acres in existence - evidently it could not; nor the power of the land which are not at all reached by the assessor or the collector; nor the inducement to use land except as this is brought by an increased demand for all that land could produce or sustain. It is even supposable, that we take the entire rental value of land each year by taxation, which Mr. Henry George points out as being equivalent to the government's assuming entire ownership of the land & leasing it rather than selling it, yet the land would remain just as desirable, because just as useful as before. Probably just as much of it would be cultivated. xxx It is not difficult to tax a manufacturing interest to death - capital disappears as levies increase, & few would dream to save if the government took each year even a fourth part of the results of frugality." (J.H.G.)

7. - A land-tax would discriminate in favor of saving thrift-improvement & against carelessness & sloth. 100 acres of land without buildings - unfenced & uncultivated would pay the same tax that the same or a like 100 acres in the immediate vicinity would pay with buildings, fenced & in most thorough cultivation. Can

we doubt that the result of such an order of things would be to give the people generally better houses, better furnishings & better & more economicalness of every sort! Can we doubt that the farmer would have better & more machinery & that his methods would be greatly improved?

8. — A land-tax would tend to discourage speculation in land, which is a mighty — unsettling factor in the economic world. No man could afford to own 4,000 acres of ~~uncultivated~~ & utterly unproductive land in the heart of a new & growing state. No man could sit idly by for 7 or 8 years only to reap at their close the results of his hardworking & thrifty neighbor's toil & care. Land would not go butaxed because unimproved.

The foregoing are a few of the considerations, which have united to suggest the following experiments. It is proposed to assess Johnson Co. Kansas, & to make a trial levy of a tax the amount of which shall be sufficient to meet the revenue requirement of the county for a limited space of time, this requirement to be determined by official statements, & at the present rate of taxation in the estimated average value of unimproved land in each township is noted. This can be done save in exceptional cases without the assessor's

leaving the office. In cities, & towns the estimated average value of unimproved lots in each block is taken. To make up the assessment valuation for the county, the number of acres in each township is multiplied by the per acre valuation in each township & the number of lots in each block by the per lot valuation in each block. By adding these products we obtain the county aggregate. The rate of tax is found by dividing this aggregate into the total tax. The amount of each man's tax will be determined by multiplying together the number of acres or lots he holds the per acre or per lot valuation, & the rate as just established. A comparison of this product with the tax each now pays will indicate something of the extent to which a land-tax would discriminate in favor of improved properties, as against unimproved. To make a table of such comparisons will be a part of our work. If it shall appear from such a table that a land-tax would impose less burden upon thoroughly well improved ground than is imposed at present, very much of the good which it promises would have its realization, in practice assured. This is not a bare possibility. Experiments made by Prof. Canfield in Douglas Co have so shown a contrary result appearing might & would it is

17.

probably indicate nothing in disparagement of a land-tax. The reasons for this opinion we have already noticed under the discussion of the first canon.

From these experiments we shall be able to calculate the possible saving to the people of a land-tax in the matter of assessment & collection. Any benefits which shall be shown to accrue to the people from this source will be multiplied by the extension of the tax to purposes of state & national revenue, for our assessment & our collection will suffice for all taxes laid.

Our work will include much in the way of detail which we have not time space to present. It's results will perhaps be meagre in comparison with what could be desired - ~~that~~ could be expected to be scarcely more than suggestive. ~~The~~ only convincing test in a matter of taxation is actual trial of even the most promising system. A land-tax might bring us more & less than we have hoped.

Henry D. Smith.