THE NATIONAL ISSUE

Arguments on both sides *of* the question

THE INCOME TAX

An Impartial Statement of the Problem

1. It has nowhere been contended that at the present time the income tax is needed for revenue. Our federal coffers are filled to overflowing, and in the States the need is not so much for more revenue as for more equality in taxation. Is it then desirable to levy a tax for purely social purposes? Even if we answer this in the affirmative, the further question arises, Would not this social end be better attained by a graduated inheritance tax?

2. Should the income tax be a national or a State tax? There are undoubtedly embarrassments on both sides. If the nation does not need the tax for revenue purposes, it may be asked, Why should the tax be a national tax? On the other hand, it is unquestionable that the difficulties of administering an income tax grow in proportion as the area becomes smaller. The economic life of the nation has outgrown State barriers, and the dangers of evasion are multiplied by confining the tax within State lines. Perhaps a way out of the difficulty may be found by creating a national income tax, but by providing that the nation should turn over to each State the proceeds of the tax collected within that State. This raises the problem not alone of the desirability of this method, but also of its constitutionality.

3. Even if the tax is desirable as a national tax, the further problem arises, How can such a tax be imposed under the decisions of the Supreme Court? Is it necessary to have a constitutional amendment, or is it possible to devise some form of income tax which would not be obnoxious to the federal constitution and would accomplish the ends desired?

4. How far is the income tax needed to round out the American system of taxation? It is acknowledged on all sides that the general property tax is a failure in our American states and cities. How far would an income tax work better than our discredited personal property tax, and how can the income tax be made to fit into our general framework of taxation?

5. When once this broad question has been answered, further points present themselves which, although seemingly of minor importance, yet go to the very heart of the scheme. Among these is the problem of administration. Shall the tax be levied in the form of a direct tax upon a man's entire income, or shall it be assessed upon the sources from which the income is derived? Shall we derive the tax from the person who receives the income, or from the person who pays the income? This first method, which was our scheme during the Civil War, has long since been abandoned in England. The second method, known as the stoppage-at-the-source idea, whereby the income is classified by schedules, is the one which has made the English tax a success. How far is the English method applicable to American conditions?

6. The next problem is as to whether all incomes should be taxed alike, or whether there should be a distinction between incomes derived from labor and incomes derived from property.

7. The final problem is that of the rate. Should the exemptions be small, as is the case abroad; or should they be high, as in the national bill of 1894? Furthermore, should the rate be uniform, or graduated so that the tax should fall with greater severity on the higher incomes? Does equality mean a proportional rate of taxation, or does equality imply a progressive rate?

Before an income tax scheme can ever become a practical measure in the United States, it will be necessary to have the fullest discussion on each of these points. Without a decision of these problems an income tax must be either very incomplete or a failure.

EDWIN R. A. SELIGMAN.

The Affirmative

By Benjamin R. Tillman

THE people are bound without delay to consider, and are now considering, the question of equality in sharing the public burdens and the necessity for relieving the taxpayers from unnecessary or unjust burdens. The idea that taxation should be borne largely by capital rather than by labor is immensely popular, resting as it does upon the solid foundation that the Government should be supported by the wealth which receives its protection and fostering care rather than by labor. The poor man, in the event of war, will have to bear arms to support the Government and defend the nation without having any stake in the country, other than those of the mere citizen whose patriotism and sense of duty would make him fight.

Justice of the Tax

THE inherent justice of an income tax cannot be disputed, and its constitutionality was never questioned until 1895, when, in reaching its decision, the court, as then constituted, divided four to five. The four justices who sustained the tax stood by the decisions of the court for a hundred years, while the five who decided it was unconstitutional, had to override what was thought to be well settled principles of law. The question is not a practical one, unless Congress shall reach the conclusion that the complexion of the court having been changed by death and retirement, the constitutionality of such a law might be sustained at this time. There are many who think that the court itself needed amendment rather than the Constitution, because on the rehearing it was understood that one of the Justices, who when the case was first argued had stood for the constitutionality of the law, changed his opinion. The line then between its constitutionality and its unconstitutionality is not well or deeply drawn, and would appear by no means to be indelible.

The arraignment of the majority of the court in the dissenting opinions of Justices Harlan and Brown has been rarely, if ever, equaled in severity by any similar utterances ever made from the supreme bench, and there can be little doubt that if a national crisis arose, demanding immense expenditures of money, the sentiment of the nation in favor of an income tax would compel a return to the original and long sustained attitude of the court on the subject.

What was once thought by the ruling powers to be a measure of national safety was to obtain from the court the reversal of the decision that Congress could not make greenbacks a legal tender for private debts. This had been decided by the Supreme Court, four to three, Chief Justice Chase, who had issued the greenbacks, leading the four. As soon as the membership of the court had been sufficiently changed, by adding new judges, another case was brought on, and the decision reversed by a divided court. Not content with this, when the membership had been further changed, a third case was brought on, and the congressional power to make greenbacks a legal tender was asserted, with only one Judge dissenting, and will never again be denied.

The decision that an income tax is a direct tax, which, like a head tax, must be apportioned throughout the Union according to population, is a palpable absurdity; for a tax upon the varying incomes of different individuals, the gross amount of which cannot possibly be determined beforehand, cannot possibly be apportioned according to the whole number of all the people, like a capitation tax. To make Section 9 of the Constitution read, "No capitation or other direct tax and no tax upon the incomes of individuals shall be laid, except in proportion to the total population of the country," is a legal conceit which will not last twenty years from its first promulgation. It will go the same way as the adverse Legal Tender decision went.

Capital Should Pay

A FUNDAMENTAL American principle is the equality of opportunity and equality of burden. Invested capital, aside from paying as taxes its proportionate share of itself for ordinary purposes, should be made to contribute to the support of the Government a part of the increment coming to its owner. A man with one hundred thousand dollars' income can better afford to contribute half of that income to the support of the Government than can a farmer contribute fifty dollars out of one thousand dollars, derived wholly from his labor. The first will still have ample means to live in luxury and reinvest some of it; the other will have to economize to support and educate his family.

Another thing; immense fortunes are the most dangerous things in a Republic, and it will take both a graduated income tax and a graduated inheritance tax to prevent the inordinate growth of wealth in the hands of a few, and to compel a reasonable redistribution of the wealth of the country.

The Negative

By Andrew Carnegie

AN income tax is sometimes proposed as one of the best possible modes of correcting the uneven distribution of wealth; but of all taxes this is the most pernicious. It demoralizes a nation. Mr. Gladstone, one of the greatest financial ministers, advocated its abolition in Britain, alleging that it made a "Nation of Liars." During the Civil War, we had such a tax and paid it loyally; but public sentiment demanded its repeal, and it was the first tax remitted when war ceased—justly so becaused it penalized the honest citizen. Its imposition would be strenuously opposed unless it were graduated and the exemption line placed high, so that the tax should be restricted to the few enormous fortunes.

Inheritance Tax the Thing

THE Supreme Court has declared such a tax to be unconstitutional. No great gain would result to the State from it compared to what would accrue from the easier plan of exacting heavy taxes at death. The date of collection matters little, so that the payment is certain at last. Such proportions can be exacted as are deemed proper from time to time, until it is generally agreed that great wealth at last pays its fair share to the people of the nation, who were so highly instrumental in creating it or from whom it was gathered.

The collection of an income tax would require a large trained body of permanent officials to collect from indignant, discontented people, naturally resenting intrusive inquiries regarding their private affairs. The honest would always pay, the dishonest would usually escape. Much better that corporations should be required to pay a dividend tax to the nation which would be really a tax upon incomes. It is by doing so that Britain realizes such enormous sums from its income tax. Were she to attempt to collect these direct from each individual, it would be found much less productive. So should we find if we made the attempt. There is no reason for so doing. Every dividend paying corporation can be made the rigid collector of income tax for the Government.

The millionaire is the best bee in the hive as a honey gatherer. He is also the most economical and costs the least to support, for as a rule he consumes upon himself a smaller percentage of his gatherings than any other member. He takes precious good care of the honey. It would be folly