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by

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The war has made taxation the leading question of the day, even in the neutral countries. For the only valid arguments against heavily graduated income and inheritance taxes before the war were (1) that the rich might evade them by moving to other countries and (2) that they might prove burdensome to the nation's industry in competition with that of other nations. Now our chief competitors, which at the same time are the only foreign countries to which our wealthy classes would care to move, are going to have very heavily graded direct taxes for many years, with every prospect that they will become permanent. There is then no practical reason why a corresponding amount should not be taken from the rich in this country and expended on the general welfare, and especially on the physical and intellectual efficiency of the masses; that is, public health and public education. In this country it would be easy to raise a billion dollars a year in this way from our millionaire and multi-millionaire class and still leave the former three-fourths and the latter half of their enormous incomes.

Graduated direct taxes are the foundation of nearly every program of social change, whether the program is one of moderate reform or of radical reconstruction. Such programs have been made necessary in certain European countries because of the war. But they do not differ in any fundamental particular from similar programs drawn up before the war. For example, the British Labor Party stands now as then for graduated direct taxes, the taxation of the unearned part of increasing land values, and government ownership.

The remaining arguments against heavily graduated direct taxes may easily be disposed of. It is said that they take a part of the community's capital, and, in that measure, hamper the growth of industry. This is true. But other taxes do this in even greater degree (except the tax on land increment below referred to). It has been found in practice that direct taxes cut into expenditures on luxury more than they interfere with investments in industry. Moreover, every tax must justify itself by the use to which it is put. The purpose of the heavily graduated taxes levied before the war (and I shall show that they had gone very far) was frequently social reform as well as military preparedness. And social reform, administered as it has been in Germany, England, and Australia means social or national efficiency. It means the improvement of individual efficiency in every direction, physical and mental, civic and industrial. The London Nation calls such expenditure of the proceeds of graduated taxes, as exemplified by the famous Lloyd George Budget of 1909, "a productive outlay upon education, insurance, public health and national development."

After four years of experience, the Nation said (in May, 1914) that the Budget of 1909 had demonstrated its value in terms of better health, improved intelligence, and general welfare:

> It comes home in the improved efficiency of labor, the enlarged capacity for producing wealth, and a consequent expansion of the future **taxable capacity** of the nation.

Even were it true that we must keep the next great war in view, that need would fully vindicate every item of this expenditure on education and social reform. The sinews of war, as of peace, dwell in the health and economic strength of a nation. Doleful super-taxees may talk of excessive imposts eating into the commercial resources of the nation, and damaging trade and employment.

But what are these complaints worth? Has the policy of 1909 crippled trade? The new taxes of that year yielded no less than £27,000,000 last year. Have they driven trade out of the country? So far as the volume and profits of trade and industry are concerned, there has never been a period of such flowing prosperity for the classes living upon rents, profits, interest, salaries, and fees. Though the working classes have had comparatively little share in the enhanced wealth, employment has been fuller than usual, and the larger public subventions have contributed to raise the general standard of security. The classes called upon to bear the increased burden of taxation have not suffered. They have greatly advanced in wealth and income, and it is idle for them to raise alarmist cries.

The second argument against direct taxes, that they do not touch profits due to a rise in land values may be met still more easily. Let an additional tax be levied on such profits. This is done in two ways. In 1913 Germany instituted a heavy graduated tax on the increase in the value of all property. She had already levied a tax on the increased value of urban land running from 10 to 30 per cent., while England had levied a similar tax of 20 per cent. The Labor Party now demands a further increase of the latter tax, as well as a tax on capital—doubtless inspired by the German example. Both in Great Britain and in Germany these taxes were supplementary to the increase of graduated income and inheritance taxes, and this is true also of the new increases now proposed.

Before the imposition of the new graduated taxes the wealthy classes of Great Britain and Germany were far less heavily taxed, *in proportion to their incomes,* than were the masses of the population. This was officially acknowledged when the new taxes were imposed. Previously taxes were chiefly indirect, as, for example, on sugar. The poor consume almost as much sugar as the rich, and therefore pay approximately the same tax *absolutely.* That is, a millionaire would pay no more than an unskilled laborer receiving $500. a year. The laborer would thus be paying a proportion of his income 100 times greater than that paid by the millionaire. Few indirect taxes are as unequal as this one, but nearly all are extremely unequal.

In Germany the inequality of these indirect taxes was, and is still, so great that in spite of the radical graduation of the new direct taxes, it is probably still true that the poor man pays proportionately more than the rich. For indirect taxes have not been lessened. The same was true also of Great Britain until the present war compelled the British government not only to equalize the taxes but to take a larger part of the income of the rich than it takes from the propertyless. But it may be doubted if the present moderately high taxes on the millionaire class will be sufficient—if continued after the war—to prevent the incomes of that class from accumulating, as hitherto, more rapidly than those of any other class. In other words the present war taxes, if they become permanent and general throughout the world, may have a vast effect in stimulating governmental activities and social reform. They will have little, if any, effect—unless still further increased, in bringing about a radical redistribution of wealth. The tendency to concentration will be checked, but it will continue. It is impossible then to call this taxation, at its present level, a class taxation. It is State Socialism. But if governments remain in the hands of minorities, one of the chief results of *their* productive expenditure of such taxes will continue to be an increased individual output of the whole population and correspondingly increased incomes for the classes that control the governments.

The Present Tax System of the United States

It is impossible to estimate the exact proportion of the taxes of the United States that are direct and the proportion that are indirect. Nearly half of the total sum raised in the nation, states, cities and counties is of a mixed character. In 1913 this total was approximately $2,800,000,000 — perhaps 8 per cent. of the nation's income in that year. Of this amount direct graduated taxes take less than one-fortieth, while land taxes at a liberal estimate take less than one-fourth. Thus three-fourths of the taxes of the United States are either indirect or mixed in character, while nearly 30 per cent. are clearly indirect. That is, 30 per cent. of our taxes are paid chiefly by persons with small incomes, while another 45 per cent. are paid largely by the same class.

Two hundred and seventy-five thousand families or individuals have confessed to an income in excess of $4,000 a year, according to the 1915 report of the United States Collector of Internal Revenue. Approximately 27,500,000 other families and individuals have smaller incomes, according to the estimate of Prof. W. I. King on "The Wealth and Income of the People of the United States," published by Macmillan & Co. Thus one per cent. of our families confess to receiving approximately ten per cent. of the nation's income and probably receive considerably more. Yet only a little over two per cent. of our taxes are adjusted to fall mainly on their shoulders, while nearly thirty per cent. are borne mainly by families with smaller incomes.

Moreover, the higher prices caused by the tariff also constitute a burden that bears disproportionately on the masses. It is estimated that these higher prices cost the average family $50.00 per year, which is about three per cent. of the average income. The taxes are about $140.00 per family, or a little less than nine per cent. of the average income. Thus our taxation system costs the *average* family a total of $190.00, or nearly one-eighth of its income. But the burden falls so unequally that it may easily take twice that proportion of the smallest incomes; that is, one-fourth, and half that proportion of the largest incomes; that is, one-sixteenth. There is no way to make an approximately accurate estimate. But the figures given below strongly support this calculation. For example, the present federal income tax on fortunes of over half a million a year nets only five and one-half per cent., and it may be doubted if the general and indirect taxes paid by the owners of such fortunes would add another eight per cent., or a total but slightly over one-eighth. But these 174 multi-millionaires account for only a small proportion of the total income of the wealthy classes in America. They confess to an income of only 204 millions, while persons receiving from $20,000 to $500,000 a year confess to 1,347 millions. This latter class pays an income tax averaging less than two per cent. and a probable total tax of approximately 10 per cent. Moreover, a large part of these taxes is paid for value received. For example, the annual increase of $2,400,000,000 in land values is in no small part due to special benefits resulting to landholders from the expenditure of taxes.

The Graduated Income Tax

The advantages of the graduated income tax are no longer a matter of dispute. Nearly every one of the leading nations has been forced to adopt it. An income tax if not graduated produces comparatively little, for no country has been willing to levy a high tax against smaller incomes. Great

Britain introduced a heavy graduation in 1910. Germany, which had long employed a steep graduation in her cities and states, introduced it in her national taxes of 1913. Even France, the country *par excellence* of small and large investors, was about to put the principle into effect *before* the war and, of course, has greatly increased the rate of graduation afterwards.

The only question relates to the desirable *rate* of taxation. The present American schedule was far behind that of other leading nations even before the war. Our schedule, introduced in 1913, is *nominally* as follows:

Present United States Income Tax

From $3,000 (or $4,000 if married) to $20,000 a year..1 per cent.
From $20,000 to $50,000....2 per cent.
From $50,000 to $75,000....3 per cent.
From $75,000 to $100,000...4 per cent.
From $100,000 to $250,000..5 per cent.
From $250,000 to $500,000..6 per cent.
Over $500,000..............7 per cent.

But a married man receiving $25,000 a year pays nothing on the first $4,000, one per cent. on the next $16,000 and two per cent. only on the last $5,000 of his income. Applying this principle throughout we find that those receiving incomes over $500,000 who are taxed at the maximum rate, pay an average of only five and one-half per cent. of their incomes, while those receiving from $20,000 to $500,000 who were taxed *nominally* from two to six per cent. pay an actual average of less than two per cent. of their incomes.

The actual American tax is thus far lower than were the actual taxes paid in Great Britain, Germany and other countries *before the war*. In Great Britain the actual rate in the budget of 1910 rose from five and one-half per cent. for an income of $20,000 to eight per cent. for an income of $500,000, and these rates were raised by the budget of May, 1914, to seven and thirteen per cent. respectively.

The German income tax rates were raised to an even higher point before the war. Before 1913 this tax was applied principally for state and city purposes, rising to four and five per cent. in the states, and still higher in the cities. In the larger cities the income tax which was *added* to the state tax, was usually equal to the latter but was often twice as great. In the smaller places the town income tax was sometimes four or five times as heavy as the state tax. The income tax rate in Hamburg rose rapidly to six and three-quarter per cent. on an income of $5,000, and reached nine per cent. on an income of $50,000. The income tax rate in Bremen rose from seven and one-half per cent. on $5,000 to eight and one-half on $25,000. The near-by city of Zurich in Switzerland had a similar rate—from seven per cent. on incomes of $5,000 to a maximum of nine per cent.

A feature of all European income tax systems that will scarcely be reduplicated in America was the moderately heavy rate (even before the war) on small incomes. Often only the workingman's income was exempt and sometimes there was no exemption whatever. England exempted incomes only under $800.00. On the Continent the usual exemption applied only to unskilled labor. It usually varied from $100.00 to $225.00, and rarely rose above $300.00.

Even more opposed to democratic conceptions were the comparatively high rates on middling incomes—rates which are, naturally, bitterly opposed by all democratic parties in the countries concerned. For example, the British budget of May, 1914, taxed incomes of $4,000 approximately three per cent., and the rate rose rapidly to seven per cent. on $15,000. Incomes from $5,000 to $15,000 were divided into two classes—earned incomes and unearned (i. e., incomes received from rent, interest, or dividends). The latter were taxed nearly twice as much as the former. A similar distinction prevails in Prussia. But in both countries the rates even on earned incomes *of a moderate amount* were far higher than in America.

In Germany the rates on small incomes were far higher than in Great Britain. Thus, after exempting incomes of $225.00, Prussia took two and one-half per cent. Hamburg allowed an exceptionally liberal exemption—$400, and above that figure took one per cent. As I have shown, the Hamburg rate on $5,000, which is only a medium income even in Germany, was nearly as great as the maximum taken from the largest incomes. We may say of the German taxing system generally that the smaller incomes paid a considerable part of the tax and the middle classes paid almost as much as the rich and very rich. And the system has not been radically changed in this respect even after a year and a half of war. Nor is there any sign of the reduction of the exorbitant indirect taxes, which have been greatly augmented in recent years and have enormously increased the cost of living of the masses.

But the most radical feature of the German income tax system has not yet been mentioned, the imposition of this form of tax by the nation (or Empire) in 1913. At this time two new forms of graduated tax were introduced: (1) an income tax similar to that of the United States, but rising from one per cent. on $2,500 to eight per cent. on $125,000; (2) a heavy tax on all increments of property to be levied every three years.

If we add all these graduated taxes together we find that even before the war the larger German incomes (over $250,000) were forced to pay to nation, state, and city a total income tax that varied from 16 to 32 per cent. *plus a heavy graduated tax on all increase in property values* (not to mention their contribution to indirect taxes, land taxes and mixed taxes).

An Increased Income Tax for the United States

In view of the relatively low rates of the present income tax in this country, there is a strong movement to increase them in all sections and among all classes except the very wealthy, among whom only a few unusually public-spirited, like Andrew Carnegie, favor higher rates. Among the academic authorities supporting the movement are Professors Giddings, Seager, Cooley, Young (of Pennsylvania), Ross, Commons, Beard, Mussey, Kelsey, Davenport and Frederick C. Howe. A majority of these, together with a number of other well-known public men, have joined together to form The Association for an Equitable Income Tax (with headquarters at 320 Broadway, New York City). They demand a rate rising to 25 or 33 per cent. on incomes of over a million dollars—which is a scale intermediate between the war rates and the pre-war rates of Germany and England. But they ask for a total levy of only $300,000,000, which is less than would be secured by applying the British rate of May, 1914, to this country, and less than half of what would be secured by the British war rate, even if we moderated it radically as to middle class and lower incomes. Moreover, if the rate rose to 33 1/3 per cent. on incomes of a million, any rational graduation of the lower rates would yield a total of at least 400 millions (see rate C in the following table).

The American income tax of 1914 amounted to about 40 cents per capita of the total population, while the British rate of May, 1914, would have raised $5.07 per capita in that country. Applied to the United States, this would mean a revenue from the income tax of more than $500,000,000. But it the British schedule of that year were applied here, undoubtedly all the rates on lower incomes would be radically diminished. Unaltered, the British rates of May, 1914, applied to incomes of *less* than $15,000, would bring about $300,000,000 in this country. If we reduced these rates so as to bring only $50,000,000, the British schedule of that year thus modified would still produce nearly 250 millions (as shown under Rate A in the following table).

Rate B in the table shows how the Association for an Equitable Income Tax would probably secure a sum approximately $300,000,000.

Rate C has just been explained.

Rate D is the British war schedule applied to this country with a very radical reduction of the rates on lower and middle class incomes. The British war rates applied to this country without modification would produce (according to the above Association) nearly $1,000,000,000. According to my estimate the amount would be about $900,000,000. But $400,000,000 to $500,000,000 of this sum would be secured from incomes of less than $15,000 (a sum varying according to the proportion of earned and unearned incomes in this country, which is unknown). Reducing this amount to approximately $200,000,000 and raising $400,000,000 from the larger incomes we have the results produced under Rate D. It may be pointed out that the sum thus raised would be less than would be secured by applying the American income tax of 1866 at the present time. In that year our total wealth was about $20,000,000,000. Now it is $175,000,000,000. We secured $73,000,000 then; we could, with equal ease, secure $639,000,000 now.

I have made no use of the more radical rates proposed by leading British public men, although some of these may be adopted if the war lasts long enough. For example, Philip Snowden, M. P., proposes to take 75 per cent. of all incomes over $125,000, Sidney Webb proposes to take 75 per cent. of incomes over $50,000, while J. R. MacDonald, M. P., for many years Chairman of the Labour Party, wants to take *all* income over $25,000 a year.

Table I. Proposed Income Tax Rates and Their Probable Yield*

Income in Thousands of Dollars	Number of Taxpayers in each Class	Total Income of each class in Millions of Dollars	Rate A per cent	Yield in millions of Dollars	Rate B per cent	Yield in millions of Dollars	Rate C per cent	Yield in millions of Dollars	Rate D per cent	Yield in millions of Dollars	Rate B per cent	Yield in millions of Dollars
$3,000 (or $4,000) to $5,000	149,000	489	1	5	1	5	1	5	1 to 5	15	1 to 5	15
5 to 10	127,000	956	2 to 3	24	2	19	2	19	5—10	72	5—15	96
10 to 15	34,000	427	4—6	21	4	17	4—6	21	10—15	52	15—25	85
15 to 20	16,000	276	7	19	6	17	6—10	20	17½	48	25	69
20 to 50	23,000	699	7½—10	58	8—10	66	12—15	99	19½—22½	143	25—40	227
50 to 500	7,000	648	10½—13	72	15—20	114	20—33	178	25—33½	188	40—50	292
500 up	174	204	13	40	25	51	33	68	34	69	50	102
Total	356,174	3,699		239		289		410		587		888

* Rate A — British Budget of May, 1914 — moderated

Rate B — Maximum Rate of 25 per cent, total sum raised $300,000,000 as proposed by the Association for an Equitable Income Tax

Rate C — Maximum Rate of 33 per cent, as suggested by the above Association

Rate D — British Budget of 1915 — moderated

Rate E — Rate proposed by the New Statesman — moderated.

A word should be added as to the possibilities of a state income tax—a part of which might go to the cities. The yield would be highest in New York, but it would be high also in all the industrial states. Remembering that the city and state rates in Germany, when taken together, reach a maximum of from 8 to 20 per cent., such a tax might easily rise to 10 per cent. (providing, of course, that the national tax reached a maximum ten per cent. less than that suggested in the above table). The figures given by the Collector of Internal Revenue indicate that the yield for New York State would be as follows:

Proposed Income Tax for New York State

Income	Rate	Yield
$3,000 to $5,000......	1	1,000,000
$5,000 to $10,000......	2	5,000,000
$10,000 to $25,000....	3	7,000,000
$25,000 to $50,000....	5	9,500,000
$50,000 to $100,000...	6	7,000,000
$100,000 to $250,000..	7	7,000,000
$250,000 to $500,000..	8	4,500,000
Over $500,000........	10	10,000,000
		$51,000,000

The Graduated Inheritance Tax

The graduated inheritance tax is even more widely and firmly established than the graduated income tax. And before the war its rates were often even higher. It became widely adopted by a number of our states about two decades ago and has rapidly risen in its total yield for all the states. This total was only $26,500,000 in 1913, but ten years before it was scarcely one-fourth as much.

The only questions are:

(1) Are the present rates high enough?

(2) Should this tax not be nationalized or federalized, a certain proportion of it being returned to the states?

Only one state in the union (California) approximates the British rates of 1909, and no state approaches the British rates of May, 1914. Yet as early as December, 1906, President Roosevelt urged in his message to Congress a federal inheritance tax, to be "very heavily graduated above a certain point." Later he said in a speech that the whole surplus of any legacy beyond a million dollars ought to go to the government. A heavily graduated inheritance tax was proposed in the Senate in 1913 by Senator Jones of Washington and again in 1915 by Senator Norris of Nebraska. In 1916 Representatives Hull and Sabath introduced similar (though less radical) bills in the House of Representatives. In his message of December, 1915, President Wilson recommended both a federal inheritance tax and an increase of the income tax.

Senator Owen, Chairman of the Committee on Banking and Currency, introduced a bill providing for such a tax in 1909. On the last day of 1915 he gave the following interview in support of it:

"It is never a tax upon industry," he said. "It takes from no one anything he has ever had and it works no hardship on any individual. Our forefathers recognized that 'money is power' and forbade the settling of estates on a particular line of succession which would foster great accumulations of wealth.

"But the modern invention of perpetual corporations and trusteeships has made it possible to develop fortunes so vast they exercise the power of life and death over millions of men, women and children.

"More important than raising revenue is abating the menace of these fortunes. An inheritance tax will restore to the people who created these values gigantic sums appropriated either by fraud or by the permission and assistance of law itself."

The more radical argument was well presented on December 6th of the same year by the most influential newspaper of the Middle West, *The Chicago Tribune,* which represents the opposite party to that of Senator Owen:

Hereditary wealth without duties and responsibilities is a curse to its possessors and to the community. The duties and responsibilities referred to are not the imaginary duties and responsibilities we hear solemnly mentioned in this class which are chiefly the duty of maintaining one's station, of trying to distinguish one's common clay from others, and the responsibility of keeping one's fortune. That is all a mechanical process which gives no play to the imagination and no growth to heart or brain. And it produces nothing for the community which tolerates it.

The existence of the class conceiving itself an American aristocracy—which is with us based merely on the possession of money, and money acquired the day before yesterday by distinctly able, imaginative but non-aristocratic fathers—is an excrescence upon our American scheme and should be treated by radical surgery. Democracy has no place for a parasitic class. Its common tie is work and a phase of that work must be service. The egotistic activity of money-making in most cases is productive of benefit to the whole community and is necessary to it in our competitive system. But mere money-keeping, mere possession of wealth, is a dead thing, destructive of life in the possessors and a dead limb or clogged passage in the social body.

A radical inheritance tax can only mitigate this evil, but it holds an important place in any program of constructive measures which have for their purpose the evolution of a healthy and virile democracy.

The United States Industrial Commission Minority Report recommended that a tax be levied on legacies rising to 100 per cent. on all estates over a million dollars. The Report of Prof. John R. Commons recommended a tax rising to a maximum of 15 per cent., and estimated that this would raise $250,000,000 annually. Of this sum it proposed that $50,000,000 be returned to the states and divided according to population (50 cents per capita). The highest state inheritance tax at present, that of New York, gives $1.28 per capita, but the next highest gives only 68 cents, and the large majority of states get far less than 50 cents, so that this would probably prove acceptable.

In the *Atlantic Monthly* of January, 1915, Alvin Johnson recommends a rate *averaging* five per cent. on legacies below $50,000 and averaging 15 per cent. on legacies above that amount. Judging from English results this would yield $100,000,000 and $300,000,000 (i. e., a total of $400,000,000) in this country. This would require a tax on estates (not legacies) rising to

Table II. Inheritance Tax Rates Existing and Proposed

Amount of estate (or legacy in columns 1 to 4)	California	Proposed by United States Industrial Commission	Proposed by U. S. Senator Norris	Proposed by U. S. Senator Jones	England (May, 1914)	Proposed by The New Statesman (modified)
	per cent (direct heirs)	per cent (direct heirs)	per cent (direct heirs)	per cent (direct heirs)	per cent (estate)	per cent (estate)
$500—$2,500	0	0	0	0	1	0
$2,500—$5,000	0	0	0	0	2	0
$5,000—$25,000	0	0	0	2	3	5
$25,000—$50,000	1	1	0	2	4	10
$50,000—$100,000	2—3	2—5 (?)	1	5	5	15
$100,000—$500,000	6—10	6—10 (?)	2—5	5—10	6—9	18—27
$500,000—1 million	12	11—15 (?)	7	10—15	10—11	30—33
1 million—5 million	15	15	20	15—25	12—20	34—60
5 mill.—10 mill.	15	15	30	25—40	20	60—65
10 mill.—50 mill.	15	15	45	40—50	20	65—70
Over 50 million	15	15	75	50	20	75

a maximum of 50 per cent. at a million dollars, which is approximately what has been demanded by Philip Snowden, M. P., and by *The New Statesman,* which wishes the tax to produce from 300 to 350 million dollars in England.

The California rates are higher than those of any other American state, except for the smaller estates—for which they are less than in other states. For example, Minnesota takes from direct legacies one per cent. on amounts over $3,000, while New Jersey takes two per cent. on amounts over $5,000. The Minnesota rate on a direct legacy of $100,000 is also the same as that of California; namely, three per cent. Beyond that point the California rates are higher, though New Jersey taxes direct legacies beyond $250,000 at the rate of four per cent.

The British rate is on estates. The corresponding American rates can be obtained only after they are divided by the average number of direct heirs. If we take this number to be three, the step to the next higher rate will occur at one-third the amounts stated in the table. For example, the British Government's six per cent. rate, if applied to legacies (instead of estates), would begin at $33,000 instead of $100,000. It must also be noted that Great Britain *adds* a legacy tax of five per cent. to the estate tax.

The probable yield from these rates may be fairly closely approximated by assuming that the larger fortunes are distributed in the same way as the larger incomes. On this assumption the relative amounts raised in America from estates over $100,000 would be divided approximately as follows:

$100,000 to $200,000.......31 per cent.
$200,000 to $400,000.......21 per cent.
$400,000 to $2,000,000......22 per cent.
$2,000,000 to $20,000,000...20 per cent.
Over $20,000,000.......... 6 per cent.

Thus, on estates over $100,000 the California schedule would yield at a rate of seven per cent., that of Senator Jones nine per cent., the British prewar schedule (adding five per cent. for the legacy tax) 15 per cent., and the schedule of *The New Statesman* 45 per cent.

The New Statesman estimates that its method would raise between $300,000,000 and $350,000,000 in Great Britain, which would probably mean between $500,000,000 and $600,000,000 in the United States.

Possibly this sum could be raised more easily if, instead of reaching a maximum of 75 per cent. and taxing fortunes of $1,000,000 at the rate of 34 per cent., the maximum were reduced to 50 per cent., and if this maximum were reached by fortunes of $1,000,000. Such a schedule would also be more likely to raise the outside estimate of $600,000,000 a year. It might begin to vary from *The New Statesman* schedule at $100,000, when 20 per cent. could be taken, instead of 18. The scale would then advance five per cent. for each additional $100,000 up to $500,000, when it would be 40 per cent. At $750,000 the rate could then be 45 per cent., and at $1,000,000 it would reach the maximum of 50 per cent.

A Program of National Efficiency Based Upon Graduated Taxes

America is in a position to raise from $1,000,000,000 to $1,500,000,000 a year from graduated income and inheritance taxes through the further application of a principle already established in this country, and without extending that principle beyond a point already well tested by other governments. Undoubtedly the motives guiding these governments and the purposes to which the taxes have been devoted have not always been progressive. The chief motive has been expediency; other forms of taxation were not sufficiently productive, or could not be sufficiently extended without crippling industrial capital or industrial labor. Too heavy taxes on smaller incomes and inheritances would have had the same damaging result. There can be no question that this consideration formed the chief motive behind the introduction of the new graduated taxes in England in 1909 and in Germany in 1913—since the amounts so raised were only a minor part of the total of the new taxation, and indirect taxes and taxes on small incomes and inheritances were retained and even increased.

Moreover, the purpose of the new taxes was exclusively military in Germany and largely military (or naval) in England. But a distinction is to be noted between the two cases. The new English taxes were to have been used partly for the purposes of social reform; that is, for education and insurance. It is true that in 1909 new indirect taxes were levied in sufficient amount to pay the cost of these measures; i. e., the cost fell upon the masses themselves. But the budget of May, 1914, proposed a further increase of graduated taxes—largely for the purpose of social reform—without any such increase of the taxation of the masses (either by direct or indirect taxes).

In Great Britain, then, as in Australia, New Zealand, and several other countries, the policy has been established of devoting the proceeds of graduated taxation largely to social reform.

The "taxation of the rich for the benefit of the poor" had so well demonstrated its practicability and value to the nation by May, 1914, that even *The London Times* endorsed the radical extension of the principle in the new budget. The London *Nation* remarked that this method of improving the national efficiency through "raising the earning power and the physical and intellectual forces of the nation" was approved by all parties—though, of course, many wealthy taxpayers were still bitterly opposed to it.

But there is another purpose to which the proceeds of graduated direct taxes may be put, which is neither so conservative as military expenditures nor so progressive as social reform; namely, the reduction of other taxes. This policy is advocated by several political groups for widely different motives. Free traders or low tariff advocates want to use the new taxes in order to reduce or abolish the revenue obtained from protective tariffs. Prohibition advocates expect to reduce or abolish the revenue obtained from the taxing of alcoholic drinks, and many German and British Socialists wish the new taxes to be used largely for these same purposes on the ground that it would reduce the cost of living of the masses.

Unquestionably the first really heavy graduation of income and inheritance taxes introduced in this country—if not for war purposes—will be due partly to these motives. If the taxes on alcoholic drinks continued to be increased the drinking would thereby be diminished and revenue correspondingly reduced. The raising or lowering of the tariff is so important in its effect on industry that no nation can afford to regulate it primarily with a view to any increase of governmental revenue—and no nation not on a free trade basis attempts to do so. And when it is noted that the working people of free trade Britain are little better off than those of high-tariff Germany or France, we can see that the lower cost of living in Great Britain, due to a lower tariff, results chiefly, though not entirely, in a correspondingly lowered wage. This is especially true of the semi-skilled occupations that employ three-fourths of the working people. We cannot therefore agree with the German Socialists when they attach to the lowering of the tariff on food and other necessities even more weight than they do to social reform, or with Philip Snowden, M. P., of the British Labor

Party when he proposes to use nearly half of the proceeds of the heavily graduated taxes he advocates for the purpose of abolishing all indirect taxes in Great Britain except those on alcoholic drinks and tobacco. Desirable as this object may be for a country resting on an economic basis of free trade, as Great Britain was doing at the time Snowden wrote his "Socialist Budget" (published by Allen in 1907), it is less important—both from the democratic and the national point of view—than the raising of the physical and intellectual level of the nation by means of the great social reforms.

The efficiency of a nation may be raised by governmental expenditures for the material development of the country as well as by expenditures for the development of its people. But such governmental enterprises—canals, roads, re-forestation, irrigation, reclamation, etc.—usually represent a very conservative investment and may properly be paid for, as they usually are, by governmental loans, or by the profits from other governmental enterprises—the government thus proving its commercial soundness as it goes along. For example, governmental profits from governmentally operated railroads can be, and often are, used for such purposes. Expenditures for the physical and intellectual development of the people are also a paying financial investment, but the full return comes in less rapidly, and is more difficult to estimate in strictly economic terms.

Moreover, governmental industrial enterprises should not be relied upon, as a rule, to produce a regular surplus beyond paying the interest on the loans by which they are initiated. For to produce such a regular surplus as is required by a program of social reform would mean that the government was charging for its services (for example, in the form of railroad charges) higher rates than were strictly necessary. This would be nothing more nor less than a form of indirect tax, which would be reflected in an increased cost of living. It is because the German government uses the railroads for this kind of indirect taxation that the German Socialists demand that the costs of the present war shall not be paid for by the further nationalization of industry but by greater income and inheritance taxes.

Governmental industrial enterprises as well as the ordinary expenses of government may also be provided for by a tax on land values. This is often a proper tax for such purposes because governmental expenditures are largely of a local character—and the rise in land values, which, though partly due to the progress of the nation and to the natural advantages of location, is partly due also to the efforts of the local community. On the other hand it is generally agreed that social reform must be very largely on a national scale, as otherwise the high taxes levied to finance it would hamper the more progressive localities which paid for its development in competition with the less progressive, while the more efficient population which results would be drawn away from the localities where it was trained to other places less well provided with trained labor. Graduated income and inheritance must be levied nationally for the same reason, even if a part of the tax is returned later to localities for expenditure. For the wealthy may easily change their legal residence when these taxes vary from locality to locality.

In the case of expenditure for primary and secondary education a part of the tax is necessarily handed over to the local government. In England there has recently been a rapid increase of these contributions of the national government to local authorities under the name of "grants in aid." The new land tax there is national, except in so far as a part of its proceeds is thus distributed as grants in aid. In Germany the new imperial tax on the rise in land values is somewhat similarly divided, the states securing 10 per cent. and the cities 40 per cent. of the total proceeds of the tax.

In the United States, the annual land rent is estimated (from the Census statistics) at $3,700,000,000 and the annual increase in land values at $2,400,000,000. The present taxes on land, as distinct from buildings, have been estimated at $650,000,000 a year. The possibilities of increasing the tax on the increment, which is called unearned because it is due to social progress and not to the individual effort of the owner, are very great—but not so great as the above figures would seem to indicate. The larger part of the annual rents and increment now falls to the owners of small homes, farms, and other small businesses, which it is not proposed to tax. Moreover, while the land taxes are now extraordinarily low in some places, a very considerable part of the annual increment is already taken by city and state in those populous centres where the land is chiefly owned by the wealthy. Nevertheless the land tax has usually been increased at the same time as graduated taxes, which it admirably *supplements* in many ways. It could be safely increased everywhere (always exempting small properties) and very greatly increased in many states of the union. But there is practically no tendency to nationalize it. For these and other reasons already referred to it cannot at present *replace* graduated direct taxes as a sufficient means of social reform. The land tax, however, is as important and as indispensable as the graduated tax. In its collection it is just as practicable and social, and it is capable of becoming no less productive.

That the scientific development of the physical and mental efficiency of a population of 100,000,000 will require vast sums is evident at a glance—$100,000,000, for example, would mean only $1.00 per person and could not accomplish very much. Ex-President Eliot of Harvard has written a book to show that we should, and could, spend at least four times as much as we do at present on our public schools. The present expenditure is $500,000,000. If we were merely to double this (in the shape of a federal subsidy to the states) we should scarcely be able to provide a sufficiency of school accommodations and of teachers—the average class being at present fully twice as large as educational efficiency permits. To provide also for the additional trade, industrial, and vocational education required by the increasing economic competition of the better trained nations of Europe, would be very difficult—though, perhaps, not impossible—to effect out of this same sum.

Perhaps a quarter of a billion would be required for another form of expenditure which amounts to a subsidy to the propertyless masses to enable them to keep their children in school. This is the chief ground for the Mother's Pensions now being widely adopted by the states. If the national government is to subsidize secondary and higher education also it would have to make it economically possible for more than the upper tenth of the population to take advantage of the former and for more than the upper fiftieth to take advantage of the higher institutions, as at present. This would require that the tuitional scholarships now common in this and other countries should be made maintenance scholarships (sufficient to fully support the student) and should be greatly increased in number. As the number of these scholarships made possible by the expenditure here suggested would not be sufficient to provide for more than the most talented tenth of the children of the public schools they would repay the nation manyfold. Nor would either of these expenditures for maintenance be a sheer cost to society, even at the beginning. The children are clothed and fed in any case. The proposed subsidy means merely that society would temporarily lose the pittance they might be earning if at work instead of being in school.

The scientific foundation for the improvement of the nation's health seems to be governmental insurance against sickness, accidents, and invalidity—not the backward German system by which the government bears an infinitesimal part of the cost, but the progressive British system by which it pays a very considerable part—without relieving employer and employee of a substantial share of the responsibility. This puts an automatic pressure on all administrators and governmental bodies to erect institutions and organize medical attention in every way that promises to improve the public health. It is estimated (by Alvin Johnson) that to apply the present incomplete British system to America would cost $150,000,000 a year. A satisfactory system, with sanitaria, hospitals, etc., would probably cost a quarter of a billion dollars, ($250,000,000). It is hardly necessary to say that the enormous saving in life, health, and industrial efficiency would repay the expenditure over and over again—even judging by the narrowest economic standards, such as doctors' bills and time lost from employment.

Thus the expenditure of this first billion dollars, taken exclusively from the rich, might almost double the physical and intellectual efficiency of the whole nation, to say nothing of the vast increase of personal happiness.

All the great industrial nations are moving in this direction. Judging by the progress of other countries as well as that of our own, then, there is no reason to doubt that the above program will be carried out—and within a very few years. Its very adoption will demonstrate that political power will have passed forever out of the hands of the plutocracy. And when it is put into effect it will hasten far greater reforms of the same character, and will open the way for a complete process of social reconstruction.*

*Copies of Section II can be obtained from the INTERCOLLEGIATE SOCIALIST SOCIETY, 70 Fifth Avenue, N. Y. City, at the following rates: 5c. a copy, 5 for 20c., 10 for 40c.

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Who Gets America's Wealth?

By William English Walling

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Who Gets America's Wealth?

By William English Walling

Each year the American people produce an enormous national income.

Who gets it? How much goes, on the average, to the capitalist, the wage-earner and the member of the middle class.

Each year this national income increases even more rapidly than the population and the rapidly-increasing cost of living. How is this improvement divided?

Is it divided with approximate equality among large and small capitalists, upper and lower middle classes, skilled and unskilled wage-earners?

What classes are getting a larger and larger part of the national income, and what classes are getting a constantly smaller share?

A recent statistical work by a highly conservative authority allows us to give an approximate answer to all these questions (The Wealth and Income of the People of the United States, by Professor W. I. King). Its statistical conclusions are in accord with those of previous authorities as well as with those of the recent work on Income by the radical Professor Scott Nearing.

Professor King, basing his calculations on official statistics, estimates the present total income of the people of the United States at thirty and one-half billion dollars—*more than twice the highest recent estimates of the incomes of Great Britain and three times the best estimates of the national income of Germany.*

Financial Secretary Montague estimates British income at $12,000,000,000 annually, Finance Minister Helferich estimates German income at $10,000,000,000 annually. A difference in cost of living, however, must be allowed for. This would, in effect, approximately equalize German and British income. It also suggests that the *real* income of the United States, measured by purchasing power, would be only about twice that of each of these countries, or equal to the income of both put together.

The Growth of the National Income

The following table shows that the total national income has grown so rapidly that there is constantly a larger product *on the average* for every individual in the country, notwithstanding the rapid increase in population and the still

Table I. The Growth of the Income of the People of the United States

Year	Total Money Income in Millions of Dollars	Average Family Money Income	Index of Price Level	Purchasing Power	Increase in Purchasing Power of Average Family Income in Decade
1870	$6,720	$889	221.6	401	
1880	7,391	735	132.4	555	40 per cent
1890	12,082	941	113.6	828	53 per cent
1900	17,965	1,109	101.7	1,090	37 per cent
1910	30,530	1,494	126.5	1,181	13 per cent

(See King, op. cit., p. 129)

more rapid rise in the cost of living. In the language of the statistician the *real* per capita income (or the purchasing power of the average income) has steadily increased.

The purchasing power of the money income of the average American family more than doubled in twenty years (1870 to 1890).

From 1890 to 1900 the purchasing power of the average American family increased nearly four per cent each year.

From 1900 to 1910 the rate of increase was much smaller, but it was nevertheless 13 per cent.

TABLE II. The Total National Income of the United States in 1910 Divided into Rent, Interest, Profits and Returns to Employees

	Millions	Per Cent.
Wages and Salaries	$14,304	46.9
Interest	5,144	16.9
Rent	2,674	8.8
Profits	8,408	27.6
Total	$30,530	

(King, op. cit., p. 158)

Professor Nearing shows (see Income, p. 73) that approximately 10 per cent of the total wages and salaries in manufacturing industries in 1910 went to the higher and middle salaries. We may estimate that this proportion holds — approximately — in other branches of production. Nearing says:

The Census reports the payment of $4,366,000,000 for services in the manufacturing industries. Of this amount, $939,000,000, or more than a fifth, was expended for salaries. Officers of corporations received a quarter of this salary expenditure; superintendents and managers another quarter, and clerks and other subordinate employees received a half.

TABLE III. The Change in the Percentages of the Total National Income Received as Rent, Interest or Profits, and Wages or Salaries

	Wages and Salaries	Rent, Interest or Profits
1870	48.6	51.4
1880	51.5	48.5
1890	53.5	46.5
1900	47.3	52.7
1910	46.9	53.1

(See King, op. cit., p. 160)

We see [from Table IV] a very rapid increase in the proportion of the national income going to wages and salaries during the period 1870-1890, and still more rapid decrease from 1890 to 1900, when the present ratio (*i. e.,* that of 1910) was approximately attained.

Changes in Profits and Wages

Wages and salaries nearly doubled, measured by their purchasing power, from 1870 to 1890.

Profits per capita nearly tripled, measured by their purchasing power, from 1880 to 1900.

From 1870 to 1910, while real wages increased 122 per cent, real profits increased 213 per cent.

From 1880 to 1910, while real wages increased 64 per cent, real profits increased 235 per cent—or nearly four times as rapidly.

We may conclude from this table that the owners of property (in the form of capital) have a vast advantage over the wage and salary earners.

TABLE IV. Increase in Real Profits Compared with Increase in Real Wages and Salaries (Per Capita)

	Real Wages	Per cent Increase	Profits	Per cent Increase
1870	179	—	224	—
1880	244	+35	212	—5
1890	350	+43	368	+26
1900	410	+17	607	+65
1910	401	—2	711	+15

(See King, op. cit., p. 168)

The reasons for this condition of affairs are thus summarized by Nearing (op. cit., p. 159):

> First, property income enjoys priority in its claims upon the proceeds of industry. Second, the vicissitudes of industry affect property income less sharply than they affect service income. Third, income-yielding property is relatively permanent. Fourth, income-yielding property exhibits a tendency to concentrate in the hands of a small fraction of the people. The total effect of these characteristics of property income is stupendous. The priority, regularity, permanence, and concentrability of property income combine to place the owners of modern income-yielding property in a position of economic security that surpasses the fondest dreams of past ages.

Yet a rapidly growing proportion of the population of America, as of all other modernized countries, receives its income chiefly, if not exclusively, from salaries or wages and not from property. This is shown by Table V.

We note that the wage-earners have for forty years constituted approximately sixty per cent of the population that is gainfully employed.

It is impossible to estimate the exact number of families of retired capitalists; *i. e.*, of those who live chiefly upon property income without being engaged in any business. But even with the addition of these, that part of the population which receives its income chiefly from property (rent, interest, or profits) will be *little more than one-fourth the total.* Yet rent, interest and profits—as we have seen — are drawing *considerably more than half the nation's annual income.*

Moreover, the proportion of those living chiefly from property is rapidly falling, while the salaried class is showing an amazing increase.

The proportion of the population living chiefly upon salaries has increased nearly three-fold in the forty years before 1910 and doubled from 1890 to 1910.

The salaried are apparently destined alone (without wage-earners) to outnumber the active capitalists—whether small or large—by the year 1930.

In order to be able to subdivide the higher salaried from the clerks, and skilled from the unskilled labor, we may use Table VI.

Wages

The amounts actually received by wage-earners have been studied by Professor Scott Nearing. The studies of Streightoff and others, he says, have shown that it requires from $750 to $1,000 (according to locality) to afford a decent standard of living to a family of five in the United States. We must hold this in mind in reading the following summary of wages received:

TABLE V. Persons Gainfully Employed in the United States (in millions)

	Active Capitalists		Salaried		Wage-earners	
	number	per cent	number	per cent	number	per cent
1870	4,3	35	0,8	6	7,4	58
1880	5,6	33	1,3	7	10,5	60
1890	7,1	31	1,8	8	14,4	62
1900	8,7	30	3,2	11	17,2	59
1910	9,3	25	5,9	16	22,2	59

(King, op. cit., p. 264)

The expression "active capitalists" refers to persons engaged in business—called by economists "entrepreneurs."

"The great majority (almost nine-tenths) of the adult males receive wage rates of $1,000 per year, or less. An equal proportion of females receive less than $750. The wage rates of four-fifths of the males fall below $750; a third below $500. Among female wage-earners

TABLE VI. Employees Engaged in Manufacturing, 1909

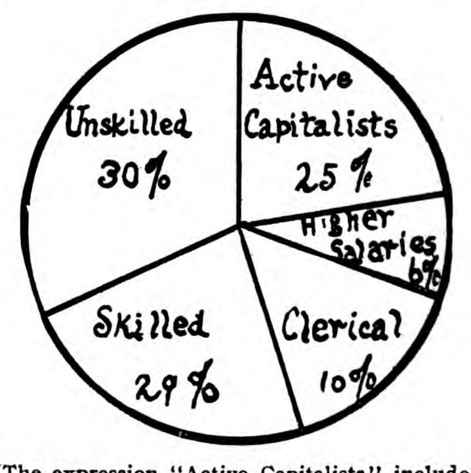
	Number	Per cent
Officials	213,908	2
Clerks	576,359	5
Skilled	4,929,366	46
Semi-skilled operatives, laborers and apprentices	5,050,205	47

(Nearing, op. cit., pp. 56, 64)

the scale is much lower. Three-quarters or four-fifths are paid less than $500 per year. These statements make no allowance for unemployment, which is a constant irreducible factor. Unemployment due to lack of work alone is generally met with. Add to this the unemployment produced by sickness, accidents, and other personal causes, and the proportion is still higher." (Op. cit., p. 106.)

Clerks are paid but slightly better. "Those clerical occupations for which data are available pay wages at a rate that does not differ materially from the ordinary wage rates of semi-skilled and

Division of the Numbers Gainfully Employed in 1909



[The expression "Active Capitalists" includes even the smallest farmers and shopkeepers who operate their own businesses] skilled labor. Three quarters of the male clerks receive less than $1,000 per year, while less than 10 per cent are paid more than $1,250. For females the rates are much lower. The proportion of women who receive less than $750 for clerical work is approximately the same as the proportion of men who receive less than $1,250." (Op. cit., p. 81.)

If we measure the wage-earner's condition by what he can buy with the wages received it has deteriorated greatly since 1900. This is shown by the study of I. M. Rubinow, based on the statistics of the U. S. Bureau of Labor (see *American Economic Review*, December, 1914).

It will be noted that prices have risen approximately twice as rapidly as wages.

Prices increased 60 per cent in 14 years.

decrease for this later period; namely, 2 per cent each year.

Mr. Rubinow explains that during this period the average size of families was falling slightly while the number of women contributing to the family budget rapidly increased. He concludes that this enabled the average wage-earner's family slightly to raise its standard of living in spite of the fall of real wages. But we must remember that the homes and children were deprived of just that amount of much-needed labor, represented by these women's and girls' absence. And while the increase of women's labor is rapid, the fall in the size of families is less than 3 per cent in ten years — which would have but a slight effect.

We must conclude that the standard of

TABLE VII. The Fall in Real Wages (1900—1914)

Year	Weekly Earnings	Retail Prices	Purchasing Power of Weekly Earnings
1900	103.2	103	100.2
1902	109.1	114.6	94.3
1904	111.6	116.2	96
1906	117.9	120.3	98
1908	121.4	130.1	93
1910	125.7	144.1	87.2
1912	131.6	154.2	85.3
1914	134.1	163.2	82.1

(Rubinow, article above cited)

The purchasing power of the wages received decreased

(1) From 1900 to 1914 by 18 per cent;

(2) From 1904 to 1914 by 14 per cent;

(3) From 1906 to 1914 by 16 per cent; *showing the most rapid rate of*

living of the average wage-earner's family has probably deteriorated in this period (1900-1914).

But the study of the division of the national income on the above lines is unsatisfactory for two reasons:

(1) Many wage- and salary-earners are at the same time receiving a small income from capital.

(2) Many small capitalists (for example, small farmers and shopkeepers) receive practically no income from their capital, but only the equivalent of a wage or salary.

In a country where probably 99 per cent of the adult males in good health have a gainful occupation and where they probably receive at least 90 per cent of the national income there is another criterion more valuable than the *nature* of the source of income, namely, its amount. It is more important, from the point of view of most practical persons, to know how many receive incomes *of a given size* than it is to know whether these incomes are derived ostensibly *as wages and salaries or ostensibly as income from property.*

The new national income tax has allowed the collector of internal revenue to estimate approximately the number and amount of the larger and medium-sized incomes, and Professor King has combined these figures with others taken from official sources to give a very complete estimate of the division of the national income, classified according to the amounts received.

A very large proportion of the lower incomes are received by unmarried men

TABLE VIII. Distribution of Income Among the Families of the United States (1910)

Family Income (or Individual, if unmarried)	Number of Families (or Individuals)	Total Income of Group
Under $500	4,668,000	$1,939,000,000
$500 to $ 800	9,735,000	6,665,000,000
800 to 1,000	4,999,000	4,465,000,000
1,000 to 1,200	3,428,000	3,734,000,000
1,200 to 1,500	2,413,000	3,150,000,000
1,500 to 2,000	1,265,000	2,144,000,000
2,000 to 3,000	717,000	1,726,000,000
3,000 to 4,000	271,000	923,000,000
4,000 to 8,000	284,000	1,520,000,000
8,000 to 20,000	111,000	1,351,000,000
20,000 to 100,000	50,000	1,982,000,000
100,000 up	3,560	1,008,000,000

(King, op. cit., pp. 224—226)

and a considerable proportion of the lowest incomes by unmarried women. This necessitates the following supplementary table in explanation of the four lowest groups of the above estimate:

TABLE IX. Distribution of Income Among Families and Individuals of the United States in 1910

Income	Single (in thousands)	Number Families (in thousands)	Total Receiving (in thousands)	Total Incomes of Group (in millions)
Under $500	3758	910	4668	$1,939
500— 800	3605	6130	9735	6,665
800—1000	1259	3740	4999	4,465
1000—1200	728	2700	3428	3,734

(King, op. cit., p. 224)

According to this estimate, if the income of the country were divided equally among the heads of families, each family would get about $1,670 a year. This would mean allotting all the single persons to families until their marriage. If they are counted as separate economic units in every case, the family heads would receive only about $1,250, while the single persons would receive about $800.

It is evident from the above tables that the income of the United States is very far from being thus equally distributed. To bring out its distribution more clearly let us give another and briefer table, summarizing those just given [Table IX]:

We see from this table that the only one of these groups receiving anything like its proportionate income is the lower middle class. However we may regard the upper middle class as consisting very largely of older salaried, professional and business men who—beginning with an income considerably less than $1,200—are constantly attaining to one of from $2,000 to $4,000. We can do this with all the more probability of striking the truth as to a very large part of this class because it is little more than one-fourth as numerous as the class below it, (the lower middle class). It is not likely that this condition would be greatly changed by the most radical reforms or even by a social revolution, since Socialists do not demand equality of incomes.

The real social problem (expressed in its income aspect) lies in the fact that *the half million at the top receive more than one-third as much as the twenty-three millions at the bottom.*

This situation is brought out in the following figures, where the lower class is that receiving less than $1,200, the middle class from $1,200 to $4,000, and the upper class more than $4,000 a year.

The average income of the lower class is $731 a year; the average income of the upper class is $13,170—or 18 times as much.

Undoubtedly a large proportion of the most talented and valuable members of the community, those to whom it would pay to give the largest incomes in any form of society, are in this upper class. But it also contains a large proportion of idlers. We may assume that, on the average, its members should receive the income of the upper middle class ($3,000 a year). This would allow for a certain proportion of $5,000 and $10,000, and perhaps even a few larger incomes.

TABLE X. Division of Income of the United States into Four Classes.

	Number Receiving (Families or Individuals)	Per Cent.	Total Class Income (in millions)	Per Cent.
Lower Incomes—under $1,200	22,830,000	82	$16,703	55
Lower Middle Class Incomes—$1,200 to $2,000	3,678,000	13	5,294	17
Upper Middle Class Incomes—$2,000 to $4,000	988,000	3	2,649	8
Upper Class Incomes—above $4,000	445,000	1.5	5,861	19

There would remain a total of $4,500,000,000 to be taken by the community to be used for community purposes. And, indeed, it is upon this very fund of surplus wealth that England and Germany recently began to draw in their preparations for the present war, and are drawing still more heavily in order to carry it out.

American Conditions Compared With Those of Europe

The conditions we have been describing are not peculiar to the United States; they are the characteristics of modern industrial society. A brief comparison will show interesting and important differences. But the similarities will be seen to be still more fundamental, and the conclusions and remedies must also be similar.

In the United States the upper classes, forming 20 per cent of the population, receive 47 per cent of the nation's income; in Prussia these upper classes receive 51 per cent of the nation's income.

The richest class in the United States has about twice the average *money* income of the richest class in Prussia.

The lower middle class and poorest two-thirds of the population in the United States have almost three times the average money income of the corresponding classes in Prussia, or about twice their real income (measured in purchasing power.)

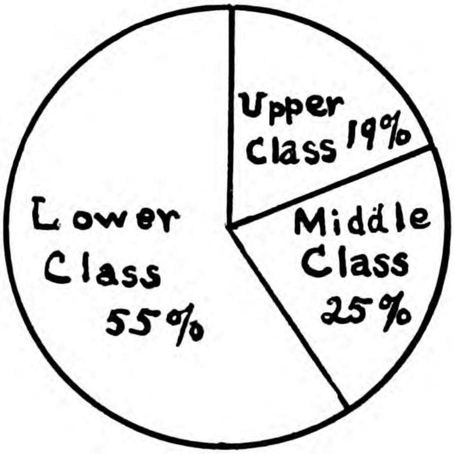
Table XII shows that in all these countries the two upper classes constituting 20 per cent of the population own from 90 to 95 per cent of the wealth [90 per cent in Prussia and France, 95 per cent in England].

The figures for Wisconsin (1900) indicate a similar situation in the United States to that of Prussia and France; *i. e.*, the upper 20 per cent in Wisconsin also owned 90 per cent of the wealth.

The still greater concentration in England is exclusively among the richest 2 per cent; the upper middle class, on the contrary, controlling a far smaller proportion of the nation's wealth than the same class in Prussia, France, or Wisconsin.

The poorest 65 per cent and the lower middle classes own about the same proportion of the nation's wealth in each instance except England. Together these poorer classes owned approximately 10

Percentage of Total *Income* Received by Each Class

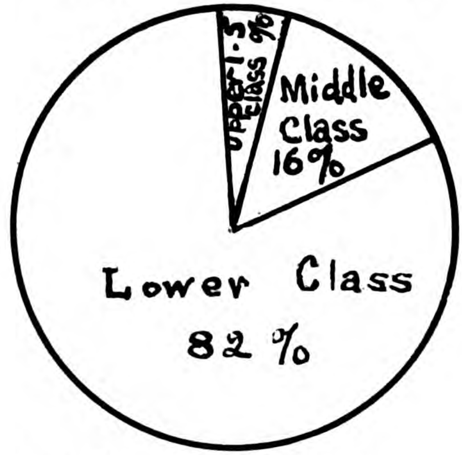


Lower Class—less than $1,200 a year
Middle Class—from $1,200 to $4,000 a year
Upper Class—above $4,000 a year

per cent in Prussia, France and Wisconsin—but in England less than 5 per cent.

The estates of the upper middle class in England, on the other hand, are nearly

Percentage of Population in Each Class



Lower Class—below $1,200 a year
Middle Class—from $1,200 to $4,000 a year
Upper Class—above $4,000 a year

twice as large as corresponding estates in Prussia, while the estates of the rich are more than three times as large. French estates occupy a middle position in each case.

TABLE XI. Money Income by Classes of the People of the United States and of Prussia in 1910

Classes	Country	Average Income per Family (estimated at 5)	Percentage of Total Income Received by Class
Richest 2 per cent of population	U. S. Prussia	$16,980 8,230	20.4 24.5
Upper Middle Class 2 to 20 per cent	U. S. Prussia	2,470 1,015	26.8 27
Lower Middle Class 20 to 65 per cent	U. S. Prussia	1,570 570	14.2 12.7
Poorest 65 per cent of population	U. S. Prussia	985 370	38.6 35.8
All Classes	U. S. Prussia	1,660 670	100 100

(King, op. cit., p. 235)

If the income of the two upper classes varies approximately with their property, then the richest class in England is considerably richer than the corresponding class in the United States. (The Wisconsin figures indicate that British estates of this class are 34 per cent greater than those of Wisconsin.) The average upper middle class income in England, on the contrary, would be about 20 per cent less than that of the corresponding class in the United States. (The Wisconsin figures show a 24 per cent inferiority of British estates in this class.)

In the two lower classes we can be certain that there is little relation between property and income, since income here comes chiefly from wages and salaries.

After the War

It is evident then, that the United States can secure more through the taxation of the upper classes than can any of the countries of Europe. They have already gone far, and must go farther, in the graduated taxation of incomes and inheritances, in the taxation of the increase in ground values, in the nationalization of industries in order to secure additional income.

The war has not only demonstrated what can be done (over one-third of the highest incomes are now taken in Great Britain), it has removed the only important arguments against such taxation. All that scientific opponents have been able to urge against such taxes is (1) that if the rich are heavily taxed they will leave the country. They will no longer be able to take refuge in Europe after this war. Then we are told (2) that the national fund of capital—or at least its annual increment—might be diminished, so that industrial progress would be checked, and the nation would

TABLE XII. Distribution of *Property* among Classes in Prussia, France, and England (1908, 1909 and 1909 respectively)

Class of Population	Country	Average Money Value of Estate	Percentage of Total Wealth Owned by Class
Richest 2 per cent of population	Prussia	$59,779	59
	France	85,500	60.7
	England	181,610	71.7
Upper Middle Class 2 to 20 per cent	Prussia	3,445	30.6
	France	4,602	29.4
	England	6,670	23.7
Lower Middle Class 20 to 35 per cent	Prussia	743	5.5
	France	1,052	5.6
	England	979	2.9
Poorest 55 per cent	Prussia	153	4.9
	France	186	4.3
	England	133	1.7
All Classes	Prussia	2,026	
	France	2,817	
	England	5,067	

(King, op. cit., p. 96)

be handicapped in competition with others where the rich were not so heavily taxed. After the war there will be no such nations.

Moreover governments can supply capital as well as individuals can, witness the state railways of Germany, which have largely paid off their debts and are used to produce money for government objects (up to the present, unfortunately destructive rather than productive—but there is no reason why it might not be otherwise in the future). Indeed it is so easy for the government to produce income and capital for itself in this way that the German Socialists are afraid that their present reactionary government will endeavor to use this method of raising the money to pay for the war; *i. e.,* by nationalizing industries and increasing prices to the consumer, instead of raising it by graduated taxation of the rich and well-to-do.

Then there is taxation of the rise in land values—England and Germany were already beginning to take a large part of the urban rise *before* the war—25 per cent in England, and a little less in Germany. Dr. King estimates (op. cit., p. 158) that rents rose in the United States $1,278,000,000, or nearly 100 per cent in the decade 1900-1910. The governmental income from this source could *increase* by $100,000,000 *each year.*

To nationalize railroads and other monopolies at a reasonable value would leave existing incomes untouched, as would the governmental appropriation of the *future* rise in land values.

Add to these measures an income tax rising rapidly to fifty per cent and a national inheritance tax, as proposed by Chairman Walsh and the labor members of the recent United States Industrial Commission, which also rises rapidly until it confiscates all legacies over a million dollars, and we have a program of taxation that would soon overcome that extraordinary contrast between the incomes of the masses and those of the upper class which we have described.

But such a social or national taxation policy would do more than remedy the disparity of incomes. It would abolish our plutocratic *government.* For, as King says, "whoever controls the property of a nation virtually becomes the ruler thereof," and so "there is a strong demand among non-Socialists that wealth should be widely distributed." These same principles apply also to income.

But even this is not the heart of the matter. Just as the policy of nationalization will strengthen the nation by organizing its material production, providing for roads, canals, reclamation, and scientific experiment, so the policy of graduated taxation will furnish the means not merely to increase the income of the lower classes, but to increase their efficiency as the human units of industry.

A Socialist Budget

Even an undemocratic country like Germany expends considerable sums to increase the industrial efficiency of her lower classes, and so to improve the efficiency of the nation as a whole in its competition with other nations. Moved by her example and the need to compete with her, more democratic nations can and will go much farther. Already little Australia has surpassed her—under the control of the Labor Party—with a few years of effort.

What would $4,500,000,000 annually taken from our upper classes [see above] accomplish in the development of the greatest of all natural resources, the people themselves?

Let us divide this sum roughly into nine more or less equal parts of half a billion dollars each—approximately our present public school expenditure.

(1) In the first place one-half billion should go to double present expenditures on the public schools—Charles W. Eliot says four or five times the present amount should be expended. It would double the number of teachers—making maximum classes of twenty—build more buildings and allow the *average* school at least to approximate (though not to equal) the better private and public schools of to-day.

(2) Another share would go to mothers' pensions and so settle forever and in the only scientific manner the problem of child labor, as well as that of the hardest worked, worst suffering, and most valuable of all our social units, the working-class mother.

(3) The next half billion should go to secondary industrial, agricultural, and commercial schools.

(4) The fourth half billion should go to higher technical schools.

(5) Another half billion should go in the form of scholarships to enable *all* the children of the people who had shown exceptional talents of any character to get a secondary education, and to have a more equal opportunity compared with other children to secure a higher education also. Thus two and a half of our four and a half billions will have gone to education and to children.

The rest should go to health and the industrial efficiency that accompanies it.

(6) Half a billion at least would be required for housing and sanitation. (A large part of all these expenditures could be best administered by municipalities or other local bodies, which might be allowed a corresponding part of the income tax, as in Germany.)

(7) Another half billion would be required for hospitals, sanitaria, visiting and school nurses.

(8) Sickness, accident, and retirement pensions in industry could take another half billion. These would add to efficiency by providing an automatic stimulus for the improvement of health, prevention of accident, and postponement of the invalidity of old age.

Add to these reforms a minimum wage law and an eight-hour day and we have a complete program aimed at *individual* efficiency, a program which usually goes under the name of social reform. It is that side of the whole program of *national* efficiency or state socialism which touches the individual, the other side being the governmental organization of industry through nationalization and other methods of government control.

Some of the countries of Europe now have the greatest stimulus—necessity—urging them to lead in carrying out this program. The greatest opportunity—both because of our wealth and because of our democratic form of government—lies with the United States.