Tax Burdens and Public Expenditures

Unlike most axioms,—"the power to tax is the power to destroy," is one that seems to contain more truth than fiction, especiallyy in view of a recent decision of the Nfld Legislature to abolish the income tax law. In laying before your readers my views on this subject I desire it to be firmly understood that in no sense am I prejudiced against any political party, but that the views expressed herein have emenated from four years study and two years practical experience in this somewhat complicated field.

Taxes are assessments levied by government upon persons and property for the use of government. In ancient times regular levies were not resorted to, and in most instances the property owned by the state or ruler brought in sufficient rent or other returns and made taxes unnecessary. Fines, confiscation of property, compensation for crime, and payments of exemption from military service constituted important sources of revenue. The earlier taxes were most severe where religious worship was supported through forced contributions. Reviewing the various kinds of taxation one will find in the time of theocracy among the Hebrews a capitation tax on every male, a tribute of their first fruits and the first-born of their domestic animals, a redemption tax on first-borns of families, and tithes for the up-keep of the tabernacle and for the benefit of the poor.

Greece levied no direct taxes, but secured revenue from lands, fines, confiscations, royalties basad an a percentage of the products of the mines, capitation taxes, customs dues on imports, and excise duties and licenses on markets. In Rome, the spoils of conquered nations and the annual tributes required from them accounted for a large part of the revenue; other sources were tolls, taxes on corn legacy and hereditary duties, and sums exacted for the privilege of being a Roman citizen.

During the Middle Ages, under federal institutions, there was no system of taxation. The kings were maintained by the products of their land; in case of war, their vassals, the barons and knights, were under obligationto furnish their quota of men-at-arms equipped and provisioned without expense to the monarch, and, in turn, this military service was performed by tenants by way of rental for their lands they cultivated.

In modern times we find:

Capitation taxes, land taxes, property taxes, house taxes, stamp, taxes, excise taxes, license fees, succession taxes, customs taxes, export taxes, income taxes, capital taxes.

In England, the first income tax law was passed in 1842, and since that date no fewer than twenty one laws have been enacted and amended. Until 1918 this reservoir of enactments consisted of numerous acts, large and small, dating from 1842 onwards. In 1918 all these Acts were consolidated in the Income Tax Act, 1918, which supersedes the previous Acts as from the 6th April, 1919.

The Federal Government of Canada passed on August 17th, 1917 what was then known as the New Income Tax Bill, which was a new departure in Canadian methods of raising money for Federal purposes. In affects all incorporated companies, associations, partnerships, trustees and persons, whether male or female, having an income of fifteen hundred dollars in the case of unmarried persons and widows or widowers without dependent children, and three thousand dollars in the case of all other persons. There is a normal tax of 4% on the net earnings of all incorporated companies in excess of three thousand dollars.

Income taxes in the United States date back to the colonial period. In 1646 a law was passed by the Court of Assistants of the Mass. Bay Company whereby the produce of estates was taxed. In 1673 the assembly of Rhode Island passed a similar bill taking the profits of Merchants and Tradesmen and an alomst identical bill was passed in New Jersey in 1684. These taxes were fundamentally not on income, but they deserve mention because they show the trend toward income taxation as opposed to a land or property tax.

A further impetus was given to state income taxation in the second quarter of the nineteenth century. The period around 1836 saw the disappearance of government from the field of internal improvement, and the financial depression of 1837 left the states laboring under heavy debts. The result was the imposition in several states of an income tax.

The three main sources of revenue of the U. S. A. are:

1) Internal revenue such as that derived from income tax of net profit of individuals and organized companies, luxury tax and others too numerous to mention.
2) Customs:—which is based on the advalorem of the dollar, and
3) The Panama Canal tolls which are derived from a stated fee per tonnage on foreign ships passing through the Panama Canal zone which amounted to $123,000,000 for the year 1924. The former leading the others by hundreds of millions.

At the present time income tax laws are operative in sixteen out of the forty-eight states, most of them patterned after the Federal law. The latter rates are as follows:

Net Income	Normal Tax	Surtax	Earned Income Credit	Total Tax
$ 1,000	none	none	none	none
2,000	"	"	"	"
3,000	2%	"	$ 2.50	$ 7.50
20,000	6%	4%	12.50	1,017.50
30,000	6%	9%	12.50	2,317 50

and so on up in a graduating scale until $100,000 is reached when the rates are as follows:

Net Income	Normal Tax	Surtax	Earned Income Credit	Total Tax
100,000	6%	36%	12.50	$ 22,617 50
200,000	6%	37%	12.50	65,617.50
500,000	6%	39%	12.50	199,617 50
1,000,000	6%	40%	12.50	429,617 50

Coming nearer home to your readers, the income tax law of 1917 passed under the regime of Sir. (Now Lord) Morris.

That law under the normal tax heading, prescribed that unmarried persons, and widows and widowers without dependent children and persons who are not supporting dependent brothers and sisters under 18 years or dependent parents or grandparents, was assessed on that part of their income above $1,000 to $6,000-5%, above $6,000-8%. In the case of all other persons on that part of the income above $2,000 up to $6,000-5%, above $6,000-8%; plus a Supertax or Surtax payable in addition to normal tax above $6,000 up to $8,000-2%, and so on up in a steady graduating scale until $100,000 net profits netted an income to the government of 35%, which is $12,382.50 in excess of that levied by the Federal Government of U. S. A.

Profits levied on the net incomes (by net income I mean, that portion of the gross income which remains after all proper deductions have been taken into account) of individual and companies ought to continue, because it is fundamentally different from other established forms of taxation, such as excise, property and inheritance taxes (the latter also known on taxes on decedents estates), in that underlying theory of the tax is based on the assumption that the taxpayer shall contribute to the cost of government in proportion to the gain or profit he has realized either through a return or yield on wealth or because of productive effort.

The income tax is assumed to meet one of the principle canons of taxation in that there can be no tax, due without a corresponding ability to pay.

Not many decades ago, expansion in govermental disbursements was almost universally deplored and in some instances was considered an omen of impending disaster and national decadence.

As the prevailing economic theories of any given period are in a sense the product of, or, are largely influenced by contemporaneous economic environment, the explanation for this rather narrow conception of public finance is not difficult to trace. In those days the economic horizon was limited, resourcefulness grew slowly. But as the democratic spirit develops and as control over society begins to be vested in the masses of a larger scale, a change is manifested in the Nature, composition and, totality of the public outgo. As the industrial revolution extends its influence and commerces increases, population grows and becomes more and more concentrated in larger urban centers.

Increase in governmental functions and growing population are not, however, the sole causes for the growth in public expenditures. Better quality as well as larger quantity in public services is demanded. It is not only necessary to provide good roads but it is required that they furnish smooth riding surfaces. Paved streets and roads, piped water, extensive sewerage system, street sprinkling and lighting, snow removal, police and fire protection, care of the homeless and sick, general health and sanitation measures, the demand for public school education in well ventilated, well-lighted structures that make an appeal to the artistic sense of the community, and for adequate equipment and a well-trained staff of instructors, becomes more and more customary adjuncts of an industrialized society.

As wealth and income of nations rise on the great scale witnessed in a decade before and during the World War, individuals begin to translate into their conceptions of public service the grade and quality of services received in their private capacities. Extreme prosperity breeds recklessness, extravagance and wastefulness in private economy. These influences readily infect the public economy, and once they take hold they are difficult to dislodge. The poitical system that has grown up in Newfoundland during the last two decades does not readily countenance violent changes in public functions and does not easily yield to such pressure as operates in a private business enterprise, where the condition of the ledger immediately determines expenditure policies, and profit is a dominating consideration.

Still another important factor, although insidious and persistent, which explains the rising level of public outgo over a long period of time, is the falling purchasing power of the dollar. The increase in supply of gold and credit media has operated to reduce the value of gold and hence to raise all prices in terms of the common standard. Since the Government are purchasers of materials and services, human and otherwise, it is inevitable that the decline in the purchasing power of money be reflected in the fiscal accounts, although the effect shows a considerable lag.

Now I come to the second phrase of this Article, namely with reference to the recent loan floated in London. According to the Daily News, of Feb. 25th, the lowest bid received was that from a New York firm. Why the Executive powers accepted a bid in London which was 2 1-2 points over the New York tender cannot be intelligently questioned by one who is separated from the scene of action by nearly two thousand miles of ocean span. It may be that certain purchases have to be made and that they can be secured in the London market at a cheaper rate than in New York market. If so, is justifiable.

Many are probably wondering where all this wandering will eventually carry the ship of state. Contemporary writers have predicted universal bankruptcy and a return to a Crown Colony.

Incurrence of indebtedness on the part of governmental authority should not of itself become an object of condemnation. This method of financing the needs of a community or country and defensible as in the case of private economy. It would appear, for example, preferable to finance by bond issues a project of improvement the benefits from which are continuous over a long period of time than to place the entire burden on the present generation of taxpayers and raise the funds by advalorem taxation.

In fact, the existing burden of taxation may be so high that the only alternative is the utilization of the borrowing power of the country if a necessary improvement is to be installed.

In either case, the cost must be defrayed out of taxes in the long run, but the distribution of the expenditure assumes a more equitable form if all those who enjoy the facilities afforded by the outlay share equally in its cost, other things being equal. The natural corollary to this proposition is that it would be wholly unwise to extend the term of a bond issue beyond the potential life of the improvement; otherwise the annual benefit derived from it by a future generation of taxpayers will involve a double cost, if the improvement is replaced.

In the last analysis, therefore, the growth of public indebtedness in and by itself should neither be deplored nor inspire fear and anxiety as to the outcome. The only matters to be considered are, whether the object of the expenditure itself is a wise one in serving a distinct public need, whether the project is well-conceived and efficiently and economically executed, whether it is undertaken at a propitious time, all things considered, and whether the country is not overexerting itself in incurring the indebtedness. There are periods when a country, just as an individual, may be so heavily loaded down with its usual recurring charges that it ought not to undertake fresh burdens, no matter how laudable or desirable may be the purpose of the contemplated expenditure. In private economy it is not considered desirable to borrow for consumption needs, but only for capital pur-

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