

A COMING BILLIONAIRE

WHO WILL BE THE FIRST MAN TO OWN \$1,000,000,000?

Thomas G. Shearman Shows How Our Present System of Taxation Tends to Produce the Billionaire—It Robs the Poor and Makes the Rich Still Richer—A Startling Exposure of the Tariff Robbery.

More than a year ago Thomas G. Shearman had an article in *The Forum* with the title, "Who Owns the United States?" which was very widely discussed at the time. He has now returned to the same subject in its relations to taxation, contributing a very striking paper to the January number of the same periodical on "The Coming Billionaire." The present article is concerned mainly with showing how our present system of indirect taxation tends to increase the wealth of rich men, while laying greater and disproportionate burdens upon the poor. Mr. Shearman's figures are not overdrawn, and his tendency to understate facts makes the results reached all the more startling.

In the article a year ago Mr. Shearman gave figures showing approximately how the wealth of the country is divided. In the present paper he recalls those figures. They are as follows:

Class.	Families.	Wealth.
Rich.	182,000	\$43,37,000,000
Middle.	1,200,000	7,500,000,000
Working.	11,620,000	11,215,000,000
Total.	13,002,000	\$62,082,000,000

These estimates were made according to certain rules which cannot be explained within the limits of this article, but which certainly do not err on the side of exaggeration.

Using the same rules, Mr. Shearman proceeds here to show how the wealth produced in 1890 is distributed. This wealth he estimates at \$13,000,000,000, and after allowing four per cent. for repairs and replacement he finds that the net incomes are distributed as follows:

Class.	Average Income.	Total Income.
180,000	\$25,000	\$4,500,000,000
1,200,000	1,250	1,500,000,000
Working.	500	6,500,000,000
Total.	\$950	\$12,550,000,000

In treating the above figures from the standpoint of taxation Mr. Shearman reaches results which are most amazing. Without any tax at all the 180,000 rich, he finds, can save on an average two-thirds of their incomes, while the rest of the people could scarcely save one-fifth of theirs. A system of taxation, therefore, like our tariff system, which is levied upon the expenses of the people, rather than upon what they own, bears far more heavily upon the poorer people, who must spend nearly all they make, than upon the rich, who need to spend only one-third of theirs. Estimating this tax burden upon expenses at 15 per cent. the poorer classes would pay \$960,000,000 a year, while the rich would pay only \$25,000,000.

But a part of the total thus paid by rich and poor goes, not to the Government, but to a small section of the richer class itself. This part Mr. Shearman estimates at one-third, which is certainly a very low estimate. In other words, about \$400,000,000 is annually restored to the richest class. The results of this taxation may be thus displayed:

ANNUAL SAVINGS OF THE RICH.	
Natural savings.	\$3,000,000,000
Deduct taxes, etc.	-\$225,000,000
Add profits from tax system.	400,000,000
Total.	175,000,000

Natural savings.

Deduct taxes, etc.

400,000,000

Net.

\$40,000,000

In this way it will be seen that indirect taxation causes the rich to gain on other classes at the rate of more than \$2,000,000,000 each year.

But if some fair system of direct taxation according to wealth were in use, a far different distribution of the burdens of taxation and of the accumulations of wealth would be reached. Mr. Shearman makes a rough estimate that a direct tax of one and one-fifth per cent. on all property at its full value would thus be required. Then the burden of taxation would be thus divided: 180,000 rich would pay \$520,000,000, 12,820,000 others would pay \$225,000,000. If a system of direct taxation were introduced it would result in a saving to the middle and working classes of about \$750,000,000 a year forever.

To illustrate the force of these figures, Mr. Shearman takes an individual case. The owner of \$10,000,000 need not now pay more than \$15,000 a year in indirect taxes; and if he is a protected owner of mines or factories, this very indirect taxation often brings him in \$100,000 a year. On the other hand, under direct taxation he would pay \$120,000 a year in taxes, and he would get back nothing out of the pockets of other people. Mr. Shearman estimates that if the extra profits made out of indirect taxation even by a \$10,000,000 capitalist were put at compound interest at 5 per cent. it would reach in thirty-five years an amount equal to his original capital.

As there is, however, already some direct local taxation, the estimates above given must be reduced by about one-eighth, the probable proportion of such taxation to the whole volume of taxes.

In review of these remarkable figures, Mr. Shearman asks whether the billionaire will come. His conclusion is that if the existing system of indirect taxation continues, the billionaire is a certainty. If things continue as at present, at least one billionaire can be produced in forty years by merely putting money at 4 per cent. compound interest, and in sixty years several can be produced.

But Mr. Shearman thinks that the billionaire will not come, for the very good reason that our protective tariff system is doomed. The passage of the McKinley bill has set forces to work which will surely undermine it. The repeal of the sugar tax, which was intended to save the protective system will inevitably work its ruin by teaching the people by one great object lesson, the effects of protection. With the enormous permanent expenses which the Republicans have saddled upon the country, and a deficit of \$50,000,000 in the near future, no system of tariff taxation can be devised which will produce enough revenue without a tax upon sugar.

But once sugar is cheapened by the abolition of the tariff tax on it, nobody will ever venture to reimpose the tax. The party that would do it would be voted out of existence at the very next election.

The Republicans, therefore, have themselves made some form of indirect tax, perhaps the income tax, inevitable. The last election has doomed the wool

tax, and the wool growers have threatened that the tax on woolen goods shall follow the tax on wool. Blaine's reciprocity, too, is going to take the wind out of the protection sails. Altogether the outlook for the protective tariff system is extremely gloomy, and as the reign of the extortioner is fast drawing to a close the billionaire will not come.

TARIFF LETTERS TO FARMER BROWN.

NO. 13.

Does a Protective Tariff Restrict Exportation?

DEAR FARMER BROWN: In discussing my last letter the question whether the tariff restricts foreign trade, I confined myself entirely to one side of this trade, that of importation. According to promise, I now take up the other side, that of exportation—Does the tariff hinder us from selling our products abroad?

Many protectionists profess to believe that we have no need for a foreign market, and contemptuously ask, with ex-Gov. Foraker of Ohio, "What have we to do with abroad?" Some seeker for protection said before McKinley's committee last year that we ought to eat all our beef at home, instead of selling our surplus beef in Europe. The *American Economist*, the organ of the Protective Tariff League, prints an article to show what we are losing by selling the greater part of our cotton in Europe instead of manufacturing it ourselves. This paper scorns the idea that we need a foreign market at all; it ridicules the idea that we can compete in the world's markets, pretends that those markets are comparatively worthless anyway, and yet faces about and tries to show that our tariff does not in any measure prevent us from selling our products abroad.

Contempt for the foreign market, however, is rapidly passing away, even among stanch protectionists, as is shown by the popularity of Blaine's tame reciprocity scheme. The great farming masses of the land are fully awake to the importance of a foreign market for "another bushel of wheat and another barrel of pork."

But to the main question—how does protection cut us off from the foreign market for our products? It does this in various ways.

In the first place, if a tariff wall was put up so high that no foreign goods at all could come into the country, all of our exports would have to be paid for in money. But it would be impossible for foreign countries to stand the drain upon their currency which this would cause. Our total sales in foreign countries for the fiscal year ending June 30, 1890, amounted to \$789,000,000. If foreign nations should have to pay us this vast sum of money every year their money would soon be exhausted, and trade with us would cease. But what is still worse for us, if this enormous volume of money were added every year to our currency, our money would soon become so plentiful as to lose its present value; in other words, the price of everything we have to buy would go up enormously.

On this ground mainly the revenue reformers lay down their proposition, that we must buy from foreign nations if we wish to sell to them.

This proposition does not mean necessarily that our purchases from any one country must balance our sales to it; for it is a current custom in foreign trade that the merchants of one country exchange bills with those of a second country to wipe out debts with those of a third country. In this way our large purchases of coffee and rubber in Brazil are largely paid for by sending our farm products to England, the English merchants, in turn, settling with the Brazilians by shipping them manufactured goods of various kinds.

Again, if we could realize the protectionists' ideal of selling as much as possible to foreigners without buying anything from them, another serious difficulty would arise. If ships had to come empty across the ocean for our products, those products would have to pay double freight to get into European markets. On the contrary, when we buy largely in foreign nations many ships come to our shores laden with goods, and these ships are anxious to get cargoes to take back. This was well illustrated during the first week of last October, the last week of the old tariff law. An extraordinary number of ships were entered at the port of New York, and the exports of American products were enormous. Many ships were competing for return cargoes that the charge for freight from New York to European ports reached a very low figure, there being some cases, indeed, where grain was taken free as ballast.

Now it is clear that the cheaper ocean freights are the cheaper will our products be put down in foreign markets, the greater will be their sales, and the more successful will be their competition with the products of rival nations. But grain which has to pay two freights is necessarily sold at a higher price, and the consumers of grain will buy elsewhere if possible.

Considerations of this kind have already found expression in England, which takes by far the largest part of our exported products, particularly farm products. When the McKinley bill was passed the London *Economist* commented upon that unwise measure by saying: "Many of the staple commodities we now import from the United States we can buy elsewhere, and if the cost of production in the States is enhanced, as it must be under the new tariff, these other markets will become the cheapest for us to buy."

Yet when Democratic opponents of our high-tariff system say things like these, they are denounced as "enemies of American industry" and as "serving European interests."

States as an excuse for the high duties they are trying to enact into law. Many of those duties bear heavily upon our farm products. In Spain there is also an agitation for a higher tariff, and again the McKinley law of the United States is offered as an excuse. While the McKinley bill was still under discussion Spain laid a duty upon our flour which practically excludes it from Cuba, where we had a growing trade.

But there is another important respect in which the tariff hinders exportation. The tax upon the raw materials of manufacture adds so greatly to the cost of the finished product as to exclude it from the foreign market. The tax on wool increases the cost of making cloth, and we can export no woolen cloth or clothing to other countries. A great exporting merchant of New York has pointed out that in those manufactured articles in which the labor cost is greatest he can offer successful competition in foreign markets, while those in which the cost of the raw material is greatest he cannot successfully sell abroad in the face of foreign competition. In proportion, then, as the tariff increases the cost of production, in like proportion do we shut ourselves out from successful competition in the world's market. Yours truly,

RICHARD KNOX.

RAILROAD LABOR.

Wages Differ Greatly on Our Railroads—The Bearings of This Fact on Protection to Labor.

The protectionists claim that it is our tariff which causes higher wages in the United States than in Europe, and that if the tariff were wiped out wages with us would at once sink to the European level. But if there is any warrant for such a claim the protectionists ought to be able to explain why it is that wages differ so widely in different parts of our own country.

The fifth annual report of the United States Labor Commission, Mr. Carroll D. Wright, is devoted entirely to railroad labor, and this document gives some facts as to wages which ought to prove very puzzling to protectionists. The following table displays the difference in wages paid to railroad employees:

AVERAGE DAILY RATE OF WAGES.

New England.	Northwest.	Pacific.	Average.
England.	States.	Canada.	Ohio.
Brakemen.....	\$1.80	\$1.26	\$1.86½
Conductors.....	2.85	2.59½	2.91½
Engines.....	2.95	2.95	3.00½
Firemen.....	1.89	1.73	1.79½
Laborers.....	1.51	1.23½	1.31½
Tele. operators.....	1.42½	1.34½	1.50½
Switchmen.....	1.78	1.27	1.53½
Northwest.	States.	Pacific.	Average.
Brakemen.....	\$1.85	\$1.75½	\$1.78
Conductors.....	2.92½	2.83½	3.00
Engines.....	3.55	2.79½	3.22½
Firemen.....	2.04	1.90½	1.79½
Laborers.....	1.51	1.27½	1.57½
Tele. operators.....	1.87½	1.38½	1.43½
Switchmen.....	2.30	1.52½	2.20

These figures are collected with absolute impartiality, and can be implicitly relied upon. They show that wages for precisely the same labor have by no means sunk to the same level even in our own country. Firemen, for example, earn \$1.29½ a day in Georgia, \$1.90½ in the Northwestern States, and \$2.04 in Texas. In the Northwestern States engineers earn \$2.79½, but in New England they get \$3.32½, and in Texas \$3.55. Ohio pays its brakemen 6½ cents a day more than New England does, but New England pays its switchmen 29½ cents more than Ohio. Engineers in New York get 35½ cents a day more than in the Northwestern States, but switchmen are paid 88½ cents more in the Northwest than in New York. Throughout the table similar differences and cross differences are found, and nowhere is there uniformity.

Railroad employees have better facilities than any other class of laborers to inform themselves of the condition, wages, etc., of their fellow workmen in other parts of the country; they have fewer local ties to bind them to any one place, and can easily begin life in another part of the land, yet the firemen earning only \$1.29½ in Georgia do not rush off to Texas to earn \$2.04. Common railroad laborers do not desert Texas, where they get \$1.21 a day, to compete with the same class of laborers in the Pacific States, who earn \$1.87½.

There must be something wrong in the protectionists' wages theory.

Hard on Manufacturers.

In discussing the mower and reaper trust, the Cincinnati *Commercial Gazette*, the leading high-tariff organ of Ohio, displays a very poor opinion of our business men. It says: "If business men would be less savagely ambitious, less rapacious, less malevolent toward their neighbors, and would be satisfied with the fair and decent earnings of their endeavors," etc.

This is a rather harsh opinion, but it is no more harsh than that expressed by Senator Plumb in his attack upon the McKinley bill. The Kansas Senator said: "Merchants go down; farmers fail everywhere. They do not expect to be exempt from chances of this kind. The manufacturer is the one person who insists that he is never to fail so long as laws can be written and passed putting duties enough upon the articles which he manufactures to enable him to make a profit."

The Senator, in the same speech, quoted approvingly a business friend of his from Chicago, who assured him that "the American manufacturer does not manufacture anything he cannot make a certain and great profit on, and that he stands out of the way of the foreign manufacturer as to other articles on which he cannot make satisfactory profits."

Yet when Democratic opponents of our high-tariff system say things like these, they are denounced as "enemies of American industry" and as "serving European interests."

Still Fighting McKinley.

The Farmers' Alliance is not letting up in its opposition to our McKinley high tariff taxation. At the recent meeting of the Minnesota Alliance at St. Paul the following tariff resolution was adopted:

"We demand that the war tariff, which has too long survived the object of its creation, shall be radically revised, giving very material reductions in the necessities of life and placing raw material on the free list, to the end that we may compete with the world for our market, and that such luxuries as whisky and tobacco shall in no measure be relieved from internal taxation till the high protective tariff has been wholly rid of its extortions, and we especially denounce the McKinley bill as the crowning infamy of protection."