

Economist *P. P. Vickers*

A TAX PROGRAM FOR WEST VIRGINIA P463

By H. C. OGDEN

First: A production tax of 6 per cent on the sale value at the mouth of the well of all oil and gas produced in West Virginia.

Second: An excise tax of 6 per cent on the gross revenues of all oil and gas pipe line companies operated in West Virginia.

Third: A license tax graduated in proportion to power used and degree of compression, and volume of gas pumped, for the privilege of operating gas compressing and pumping stations in West Virginia.

Fourth: A service tax of one per cent on the sale value at the mouth of the mine of all coal produced in West Virginia, the proceeds of this tax to be used for the maintenance of the State Constabulary, for maintenance of miners' hospitals, and for maintenance of the Mine Inspection Bureau. If any surplus remains, it is to be transferred annually to the general school fund of the state.

Fifth: Repeal of the gross sales tax law.

Sixth: An excise tax of one per cent on the net profits of corporations and firms engaged in manufacturing and trading, sales of farm lands or the products of the farms to be excepted.

Seventh: A commodity tax of one cent per gallon on all gasoline sold in West Virginia, the proceeds of this tax to be used for the payment of interest on the state road bonds, and any surplus to constitute a sinking fund for the retirement of said bonds.

Eighth: Reduction at the earliest possible date of the direct state tax to the constitutional requirement of one cent on the hundred dollars.

Ninth: A constitutional amendment permitting the classification of all property in the state for the purposes of taxation.

Gas a Public Property.

Above is an outline of a tax program for West Virginia, which The Intelligencer believes would meet most of the necessities of the state and would equitably adjust tax burdens. It would return to the state some compensation for the depletion of a great natural wealth, which is being rapidly taken away. It would return to the state money actually expended by it largely for the uses of a single industry; and, finally, it would serve to stimulate agriculture and promote the development of constructive industries which make for the permanent betterment and welfare of our citizenship.

This program, it will be seen, particularly contemplates special taxes upon the production, transportation and sale of natural gas in West Virginia.

Why is this particular industry chosen for special taxation?

Gas is a public property; more distinctly so in all its relations than any other important product of the state, and a study of these relations

will lead to only one conclusion; that is, that its production and sale ought to pay a large income to the state.

By a public property, we mean a property in which society, as a whole, has special moral, if not legal right of ownership. The lands upon which we live, the timber upon them, the coal, the oil, the gas, the limestone beneath the surface, are not the product of any man's labor. We may believe that they are the accidents of nature, or the creation of Providence that prepared them for the uses of mankind, but in either case the rights of society, as a whole, to their use and enjoyment are undeniable, and if, for the sake of convenience, we limit the rights of society, and by law allow individuals certain special privileges of development and use for their own profit, the whole system of ownership is merely a temporary arrangement which society, from time to time, may and can justly change, for its own use and for its own good. The man who works in the fields, plows the ground, sows the seed, attends to and grows a crop, creates something. That product of his labor is essentially and justly his because he has given to it a part of his life, and, on the other hand, he has destroyed nothing. If he has cultivated his fields wisely they are in better condition after he has taken the crop from them than they were before. By the value of the crop he has added distinctly to the wealth of mankind. He has produced the means of food and raiment for himself, his family and his neighbors. That is a constructive act, and the property elements resulting therefrom are so overwhelmingly the result of individual labor that, morally and justly, the control and ownership of that property is vested in the man who has made it.

But while society wisely encourages the farmer to grow foods and cultivate and maintain his lands in a high state of productivity, society, on the other hand, with equal wisdom would prevent the farmer from needlessly destroying his lands, and from wasting their substance.

Why?

Because the lands which the farmer cultivates were not made by him. They are given to all men by a wise Providence. They are not only for the farmer's use, but for the benefit and use of his fellow men. They are not even solely for his generation, but for his children, and his children's children, and so the destruction of productive lands in wise and progressive states is distinctly prohibited.

Like the surface which the farmer tills, minerals under the lands are public properties essentially in their natural state. They are here through the processes of nature, and society has a very clear and definite right to determine that they shall be developed and used for the benefit of society, and to lay down the terms and conditions of that development and use.

Under the above outline, the public qualities of oil and natural gas clearly appear. There are, however, other qualities which make them far more distinctly public property than either the surface of the earth or the fixed minerals under the earth. Oil and gas have no fixed location. We know how they are produced, but we do not know whence they come. We know that they flow under the earth from place to

place. They may be in one spot today and at a distance therefrom tomorrow. We know, in fact, that they may be drawn from the land immediately surrounding an oil or gas well, or they may be drawn from a distance; from the neighbors' lands on the north, the south, the east or the west; from the public highways; from the strata under the streams; from no man's land, and from the public lands. Yet ownership must rest somewhere, and if, in its original state, ownership cannot be identified by an individual, it naturally follows that ownership rests with the state.

The Uses of Public Property.

Now, how have we, in our laws, treated public property?

Oil and gas, under ground, flow from place to place, like the streams upon the surface, and those streams upon the surface are properly regarded as the property of all who may be concerned in their use. A farmer may not dam up or stop the flow of a stream to the detriment of his neighbors who may desire to use it. The stream may not be polluted or poisoned; it may not be taken solely by any one man. When allowed to be used for specific purposes, the state very wisely lays down the conditions under which it may be so used, and if the work is of sufficient importance licenses it, and requires a revenue from it. The wild game which travels upon the surface of the earth is like public property. The owner of the land may prevent indiscriminate hunting thereupon, but the game which is born and bred upon his land may go to the land of another, and the first owner has no rights of ownership. It is public property because individual ownership cannot be fixed and identified; and as public property, the state wisely limits and regulates the amount, the degree and the period of its use.

To make an extreme illustration, if it were possible for some genius to confine and control the air which flows above the ground, the atmosphere that is necessary for the life of every living thing, and if after having so confined and controlled it, should that genius begin to dole out the atmosphere at so much a whiff to his unfortunate neighbors, how soon would all organized society rise up in revolt and destroy that power? Yet, in a measure, that is exactly what the natural gas companies have been doing for the past twenty years, and are now doing. They are developing and destroying a public property essentially for their own uses, and for their own enrichment.

The right to develop and use public property ought to be licensed and controlled by the state.

How much more ought the right to develop and DESTROY public property, as the natural gas companies of West Virginia are doing, be licensed, regulated and controlled by the state?

Natural Gas a Monopoly.

The production and sale of natural gas in West Virginia is essentially a monopolistic operation. The farmer who happens to find a gas well upon his farm, or the small producer who locates a gas property, has one customer to whom he can sell his gas. That customer is the pipe line company which happens to pass nearest to his farm. The price

at which the small producer is forced to sell, as too many people in West Virginia well know, is often destructive of all profit. The owner, however, is helpless, and at best gets a meagre rate compared with the profits of the gas line companies. On the other hand, the consumer of natural gas, whether in one of the cities and towns of West Virginia, or in a distant state, finds only one seller from whom he can buy. That seller is the gas line company which controls the franchise in his community, which brings the gas from West Virginia to his door and which, whether arbitrarily or through the processes of a complaisant public service commission, fixes the rates so as absolutely to insure a profit.

The production and sale of natural gas, in all of their processes, are purely monopolistic.

The right to maintain and carry on a monopoly is a right which is wisely limited, controlled and licensed by all progressive states.

How much more should the right to maintain and operate a monopoly in the sale of a public property be controlled and licensed by the state?

And still, how much more should the right to carry on a monopoly in the complete removal and destruction of a public property be controlled and licensed by the state?

What Gas Don't Pay Now Others Will Later.

Other conditions distinctly differentiate natural gas production and transportation from other businesses in the state of West Virginia. We are told, for instance, by natural gas companies that the supply is decreasing and that within twenty-five or thirty years, at the most, it will be entirely gone. This is one of the most common arguments that we hear, when the natural gas companies appear before the Public Service Commission for advances in the rates paid by the citizens of West Virginia.

If this be true, the more reason for an immediate, a drastic and a highly productive tax upon the natural gas taken from the ground in this state. Fifty years ago, we had in West Virginia a rich source of natural wealth, from which we reasonably anticipated a great development of industry and a great increase in the comforts enjoyed by our citizens. That natural wealth has been developed and exploited by a relatively few men. Today its production and sale in this state are more than 90 per cent in the hands of a few corporations whose ownership centers at 26 Broadway, and whose profits have gone to make up the hundreds of millions of dollars of unearned dividends which have been distributed during the past few years to the stockholders of the Standard Oil Co. The development and the taking away of this great source of natural wealth has not contributed, as was to be expected, to the creation of a great manufacturing industry in West Virginia. From its development, West Virginia, as a state, has obtained only a trifling compensation. If natural gas is soon to disappear, the sooner we begin to tax the production and transportation out of this state into other states of this great natural wealth, the better. The sooner we begin to

obtain some adequate compensation for the state treasury, for the use and destruction of a great natural property, the better. The sooner, in short, West Virginia awakes and begins to realize that hundreds of millions of dollars in natural gas have been taken away from her; that the stream is constantly flowing; that it will not last for many more years, and the sooner she begins to tax this source completely and adequately, the better.

And here is a thought which may be well borne in mind by the men engaged in other industries in this state who, fearing the bugaboo of the depletion tax, have joined hands with the natural gas companies, to prevent reasonable and fair tax legislation.

Every dollar of just taxation which natural gas escapes today will sooner or later be paid by some other interest. If the gas wells are exhausted within twenty years, as the natural gas producers say they will be, natural gas will cease to be a source of wealth of any kind in this state. The day for a return to the state treasury will have passed, and the necessary taxes to maintain the roads, the schools and the public institutions of West Virginia will be paid by the wealth here remaining.

Every dollar of just taxation which natural gas escapes today will be paid by coal, by agriculture or by some other interest remaining in West Virginia tomorrow.

Let no one be fooled as to that point, and the producers of coal and of other natural products who let themselves be deceived by the bugaboo of great depletion taxes constantly kept before their eyes by shrewd lobbyists and corporation attorneys, will wake up in the not distant future to realize that they have been playing the game of the natural gas corporations; that they have been protecting and defending them; and their defense and protection of natural gas will have been their own loss.

The six per cent rate of taxation proposed in the outline above ought to raise a revenue of approximately four million dollars per year. One-half of that revenue ought to be set aside as a permanent fund for the maintenance of the schools of West Virginia and for the upbuilding of an endowment fund that will, when natural gas has gone from us, compensate the state by its revenue earning powers for the taxes which natural gas might have paid had it remained here. That, in fact, is the true theory of the depletion taxes. No man has the right to take away and destroy natural wealth; to wipe out a useful article capable of earning and paying taxes to the state without substituting something of value for it. The natural gas millionaires have been going on year after year, making West Virginia poorer instead of richer. Whole counties in this state in which they have been active for a quarter of a century have today fewer people and less actual wealth than they did a quarter of a century ago, and the same will be the experience of other counties. West Virginia can only recoup herself at this late day by energetically and drastically taxing an industry which impoverishes the state instead of enriches it. To differentiate between such an industry and one that does enrich and increase the taxpaying power of the state, is the highest public policy.

As has been above pointed out, the production of natural gas, and its sale in West Virginia, is a purely monopolistic process. Whatever tax, therefore, is imposed upon natural gas will eventually be paid by the consumer in a large measure. The incomplete record that we have on hand would indicate that more than 80 per cent of the gas produced in West Virginia is sold outside of the state. It goes to operate the factories and warm the homes of the people of Ohio, Pennsylvania and Maryland, and, in the long run, the greater part of any tax imposed by West Virginia will be paid by the citizen of other states. There will be no inequity in this, simply because, in each case, the tax will be paid as a matter of free barter and sale, paid in the form of an amount added to the selling price of the article, and while an unjust tax would not be made just by the fact that it is, to a large extent, paid by citizens of other states, certainly a just tax cannot be less acceptable in the eyes of the people of West Virginia on account of the fact that four-fifths of the burden will come from the citizens of other states.

It may also be well to point out that the natural gas companies operating in West Virginia are the only dealers in natural products, operating on any large scale, who are guaranteed a profit. It would be ludicrous, if it were not so pitiful and so indicative of the complete subjection of this state to special interests, that a body of foreign capitalists have come into West Virginia; have seized upon a large and natural resource; have taken away hundreds of millions of dollars worth of property and have thereby impoverished the state to that degree, and lowered its taxpaying power. They have destroyed a great natural wealth for their own use and profit, and have not paid a dollar of a special tax for that privilege; and at the same time, many agencies of these corporate interests operating in this state have been continuously guaranteed a profit on their operations by the laws and the institutions of the state. We scarcely pick up a newspaper today, but we find natural gas companies in various parts of West Virginia seeking advances in service rates. Ten years ago, the average price of natural gas sold to domestic consumers was less than 15 cents per thousand cubic feet, and the average price sold to manufacturers was less than 12 cents per thousand cubic feet. Today the prices are from two and one-half to four times these figures, and these arbitrary and excessive prices have been fastened upon the people of West Virginia by the complaisance of a servile public service commission. It cannot be said justly that it costs three times as much to produce gas today as it did in 1912. Labor has not advanced more than 60 per cent, materials have not advanced that much, if we compare the figures of 1922 with those of 1912. Yet in every corner of West Virginia the tentacles of this grasping octopus have reached out to take more and more money from the pockets of the people. Its influence has reached into the highest quarters, and they have successfully forced, through the operations of public bodies, the acceptance of prices out of all proportion to any possible increase in the cost of service. Guaranteed these prices by the Public Service Commission, assured of profits, with one hand they take the property of the people and destroy their taxpaying capacity without

compensation, while with the other hand they impose upon the people of the state extraordinary charges, which their own courts guarantee and maintain.

In respect to guaranteed profits, therefore, natural gas production is in an entirely different class from any other industry, and the privilege of conducting an industry with guaranteed profits is one which the state may properly and lawfully control and license.

The Example of Other States.

And finally, we may, with propriety, point to the examples of more progressive states than West Virginia in the treatment of those engaged in the exploitation and development of their natural resources. No fewer than a dozen states have set the wise example of imposing special taxes upon the production and transportation of oil, of natural gas, of iron ore and of anthracite coal. Of iron ore and anthracite coal, West Virginia has none, but it has oil and gas, and while we have long had before us the example of states like Ohio, Oklahoma, Louisiana and Texas imposing special excise taxes upon oil and gas production and upon the revenues of oil and gas pipe line companies, we have never had the courage to follow these wise examples. It is an ironical fact that the natural gas of West Virginia which pays no tax here, pays a tax as soon as it crosses the river and enters into a pipe line in the state of Ohio; that the product which Ohio takes from us in order to run her factories and warm her homes, free from tax in this state, begins to contribute to the treasury of our neighbor state as soon as it crosses the border line. Probably the most striking cases of wise and successful taxation of the development of natural resources are the iron ore tax imposed by the state of Minnesota and the anthracite coal tax imposed by the state of Pennsylvania. Minnesota is a great iron ore producing state, with relatively a small number of iron furnaces in the state. Its situation as to iron is almost the same as West Virginia as to oil and gas. It produces the iron ore which goes out of the state for manufacturing plants in other states. West Virginia produces oil and gas, which goes out of this state, largely for the uses of other states.

Unlike West Virginia, Minnesota has wisely kept in her own hands, the absolute ownership of a large part of her mineral lands. These lands have not been exploited by individuals for their own benefit, but have constantly paid a royalty on ore production to the state of Minnesota, and to the magisterial districts and counties in which they are located. Moreover, Minnesota has provided for the classification of property for taxation. Her ore lands have, for many years, been taxed at a rate of 50 per cent. higher than other properties, and finally two year ago, the Legislature of Minnesota enacted another revenue measure imposing a 6 per cent. production tax on the value of all iron ores produced in that state. From these resources Minnesota supports her school system, and not only that, but returns to many fortunate townships enough taxes, almost entirely to relieve those townships from taxation of any kind. From that tax it has created a great fund, the revenues of which will in years to come assure that the schools of

Minnesota will be maintained for the uses of the people of that state almost entirely, without a new burden upon the citizenship. Minnesota has been wise in her day and generation, and it is a bitter reflection that West Virginia, with like opportunity, has failed to do likewise.

Louisiana during the past eight or ten years has become a mineral producing state. The report of the State Treasurer for the year 1922 shows that the taxes collected by that state, particularly applicable to oil, gas and timber yielded to the state treasury, \$1,719,713.15. In commenting upon this statement the State Treasurer says:

"We do not keep the several items separated, but nearly all of it is for oil."

Further commenting the State Treasurer, who appears to be an official above the average in vision and in concept of public service says:

"This tax only began during the year 1920, and as to my opinion of it, I have to make the following statement: If there is one tax on property that should be collected before any others, it is a tax on the natural products of the soil. If politicians had the courage to face the opposition of the corporations they would collect every dollar of taxes, and run the state government on these natural products of the soil, and relieve the farmer and other poor people of an unjust burden.

"Nature placed these items in a store house that belonged to no individual and certainly inherently the property of the state itself."

The state of Texas in 1921, collected from the production or pipe line taxes on oil and gas, \$3,854,107.98, in 1922 it collected \$2,668,698.76. In further commenting upon this statement the Comptroller of that state says:

"There is now pending in the Legislature, now in session, of this state, a production tax law which cures the defects in the other laws and raises the production tax of crude petroleum from 1½ per cent. to 3 per cent. which has passed the House of Representatives and is now pending before the State Senate."

The state of Ohio, a state so close to us that its example ought easily to be known, has, for many years laid an excise tax on natural gas at the rate of 1.2 per cent. on gross receipts. This tax in 1920 yielded \$623,362.31; in the year 1921, \$714,718.73, and in 1922, \$667,723.28. Additional to this a tax of 4 per cent. is laid on the Intra-State Gross receipts of oil and gas pipe line companies and a further tax upon the gross earnings of these companies is laid for the maintenance of the Public Utilities Commission of the state.

Very recently, the state of Pennsylvania has followed the example of Minnesota relative to her anthracite coal. Pennsylvania has the largest deposits of anthracite coal in America, and the bulk of her anthracite goes out of the state. It goes to New York City, to Boston and to the other great cities of the north and northeast. In this particular, it is again like the oil and gas of West Virginia. Pennsylvania has imposed a production tax upon anthracite coal. The tax has been contested, but it has been found to be constitutional, and Pennsylvania begins now to obtain revenues for that great state from

the anthracite coal which is being taken away from her, and which will never brought back. This tax is $1\frac{1}{2}$ per cent. of the sale value of the coal, washed, screened and prepared for market. It is estimated by Governor Pinchot that the anthracite coal tax will this year return over six million dollars to the state treasury of Pennsylvania.

The Auditor General of the state of Pennsylvania, Samuel S. Lewis, says regarding the anthracite coal tax:

"As to the revenue yielded by this tax, approximately \$3,259,000 represents the total of accounts settled from the period from July 1st, 1921, when the Acts became effective, to December 31st, 1921, or an annual yield of six and a half million dollars computed on this ratio. The yield for 1922 is expected to approximate \$5,000,000 in view of the general suspension of work in the industry during a large part of the year, as production is calculated to have decreased more than thirty per cent. from 1921."

What Ohio, Oklahoma, Louisiana and Texas have done with oil and gas; what Pennsylvania has done with anthracite coal; what Minnesota has, with great wisdom and success, done with iron ore, West Virginia today, before it is too late, should begin to do with the oil and gas produced in this state, thus assuring in the years to come, when this natural wealth is gone forever, we will have something in our schools, in our institutions and in our public funds to compensate us for the complete removal and destruction of a great natural resource

One Place and One Time to Tax Gas.

Finally, another thing which differentiates oil and gas production from any other productive industry is this: As we have stated, oil and gas are transitory properties, flowing under the ground and not capable of identification as belonging to any individual. That being the case, they are never taxed or, at least, never adequately taxed, until they are captured and brought to the surface. The mouth of the well is the only place at which they can be valued and at which they can be taxed by the authorities of this state. Under the ground they are unknown quantities. Above the ground they soon pass out of the jurisdiction of West Virginia. Therefore, the only available point of taxation is the mouth of the well, and the only adequate time of taxation is at the time of their appearance and valuation at the mouth of the well. Coal, limestone, timber, are natural products like natural gas, but they are all fixed to the soil and can be identified as the property of individual owners, and as such, for many years, they have been paying taxes and contributing to the support of the counties and the state, before they are developed or turned into commercial use. There are coal properties in West Virginia that have paid taxes for perhaps fifty years and will continue to pay taxes for perhaps another fifty years, before the coal is brought to the surface of the earth and turned into commercial value. Limestone property may have the same experience. Timber may stand for an indefinite time. Its owners pay taxes every year to the state and the county, and those taxes often accumulate for long periods before the property is finally realized upon. But this is not so with oil

and gas. Under the ground they are not located, and they pay no taxes, or only an indefinite and inadequate amount. Above the ground they pass away and do not remain to add to the material wealth of the state. The only time, therefore, at which they can be adequately taxed is the time of their appearance and valuation at the mouth of the well, and that rate of taxation should be fixed for the purpose and with the thought of acquiring from these properties all that will be required to recompense the state for their removal and destruction. That is the justification for a high rate of taxation at the mouth of the well, and it may be indeed questioned whether the 6 per cent rate suggested in the above outline of taxation is at all adequate and just as applied to this general industry, or at all commensurate with the value of the privilege which is exercised by oil and gas companies and oil and gas pipe line companies in traversing the state, isolating its natural wealth, and removing and using it for their individual profit.

These reasons point with irresistible force to the just conclusion that natural gas and oil at the mouth of the well are proper subjects for taxation, standing distinctly separate and apart from any other products either natural or manufactured. They point with irresistible force to the thought that West Virginia has too long missed an opportunity to care for her schools, to provide good roads and to contribute in all things to the betterment of her citizenship from a source of wealth which has been depleted constantly by reckless speculation and exploitation. It is not too late to begin a wise and effective tax program. The beginning, so far as the principle of depletion taxes is concerned, should be with oil and natural gas, and ought not to be in the least degree inferior to the rate above suggested.

Let us hope that it is not too much to expect from the Legislature of 1923, affirmative action.

Let us hope that this Legislature will show a keener conception of its responsibility to the people of the state than many of its predecessors have. As a matter of fact, instead of West Virginia's licensing and regulating the natural gas monopoly, natural gas regulates and has regulated West Virginia. Instead of West Virginia sharing a measure of the wealth flooding the coffers of the natural gas producers and sellers, West Virginia has gotten nothing. Instead of the people of West Virginia having their burden of taxation lightened by the development under monopolistic conditions of a great natural property, they are compelled themselves to bear the greater burdens of state government and to provide the machinery by which the exploiters of that property fasten their excessive charges upon our own citizenship. Instead of West Virginia developing great manufactures as a result of the possession of this wealth, it has let it go away to build up the manufactures of more progressive communities.

Let us hope that the hour has come when the men sent to Charleston to represent the citizenship of this state will realize that their first duty should be to enact wise and careful legislation, not only lightening the burdens of every working man, of every farmer, of every small

merchant, of every manufacturer and mine owner in the state of West Virginia, but contributing to the upbuilding of a great fund which will in years to come, when natural gas has gone, assist in the maintenance of our schools, the upkeep of our roads and the general betterment of our citizenship.

Coal.

During the agitation for a special production tax in this state, coal, for some reason, has been continuously connected by some people with oil and natural gas. The Intelligencer has many times pointed out that the coal industry stood on a different footing from the gas industry, and The Intelligencer believes today that the strong arguments for a special tax upon oil and gas do not apply with the same force to coal, and perhaps never will.

In the tax outline above we have not contemplated and do not contemplate a production tax upon coal. A determined effort will, of course, be made by the friends and agents of oil and gas in the West Virginia Legislature, and the halls of the Legislature abound with those friends and agents, to confuse this issue. A determined effort will be made to force home the thought on every coal operator in West Virginia that the depletion taxes, in some way or other, mean his destruction. This bugaboo has been held up to the coal industry so often and with such effect that we may be reasonably sure it will be continued to be used. But let no one be deceived.

Every potent reason for special taxation upon oil and gas, with one or two exceptions, fails to apply to coal. Here are the differences.

While, essentially, coal and gas are both natural properties, belonging, in their original state, to all society, there the point of resemblance ceases. Oil and gas, under the ground, belong to no one and are never identified for ownership. They pay no taxes, while in that state. Coal, under the ground, is identified by its location; its ownership is fixed, and it pays taxes continuously long before it is brought to the surface. The qualities of public ownership which continue as to oil and gas up to the very moment they are brought to the mouth of the well, have long ceased to exist as to every acre of coal in West Virginia. The coal acreage in this state has long been identified for taxation. It has long been contributing to the upkeep of the state. It has long been traded in by individuals who have bought it at fixed prices. The quality of private ownership has long been established as to coal, and the quality of public ownership has long since disappeared.

Coal, moreover, is a strictly competitive industry. The coal operator of one county competes with the coal operator of another county, competes with his neighbor a few miles away, and competes with the coal operators of distant states. Coal enjoys no monopolistic privileges, and is, therefore, not subject to the license taxes and regulation that naturally and properly pertain to the operation of a monopolistic industry.

And, finally, coal does not have the power or the capacity to pass on the tax to the ultimate consumer. Whatever tax is imposed upon coal in West Virginia will eventually come either from the coal operators themselves or from the miners who go down in the mine. It can

come from no other sources, and a tax on coal, therefore, is distinctly a tax upon a West Virginia industry instead of a tax upon foreign consumers; a tax upon an operation that employs labor in West Virginia and which otherwise contributes to the support of West Virginia citizenship, and the development of West Virginia wealth. Moreover, coal is not passing rapidly away from us to the extent that oil and natural gas are. Coal will be with us long after oil and natural gas have gone, if the oil and gas authorities are to be believed. Coal for the next hundred years will be paying its burden of taxation in West Virginia, and helping to maintain our institutions. Every dollar of taxes that oil and gas have escaped in the past will, sooner or later, become in part a burden upon coal. Every dollar of just taxation which they escape now will sooner or later become, in part, a burden upon coal, and because coal will be here, like our farms will be here, like our manufacturing plants will be here and like all other fixed and creative industries will be here, we can well afford to differentiate, at the present time at least, in favor of coal, and other creative industries, while we lay a proper and just burden upon destructive industries dealing in resources that will soon be gone forever.

A Service Tax.

In the consideration of coal, therefore, we have suggested only what is properly termed a service tax, a service tax which calls upon this great industry to pay the state of West Virginia for the actual service that the state renders it, and in so asking, nothing is sought from the coal industry that is not already cheerfully paid by other industries. The banks of West Virginia pay for bank inspection, and for the banking department. The insurance companies pay for their insurance inspection, and the insurance department. Even the practitioner of medicine and the dentist who follow their professions, by virtue of a permit of the state, pay for the expense which the state undergoes in order to provide proper examination and inspection. The hotels of the state pay for the support of the hotel inspection department, and so on through all the vast variety of service which, for one reason or another, the state renders to special industries, but for some reason the coal industry of West Virginia has never looked with favor upon a proposal to collect from it the funds necessary to maintain the mine inspection department, the miners' hospitals, and much less to contribute any additional sums for the support of the state militia, the state constabulary, or the state's criminal charges. The tax suggested by The Intelligencer would not, in many years, return to the treasury of the state of West Virginia the amounts which from time to time, during the past quarter of a century, the state has spent for various purposes directly connected with the operation of our coal mines. It will, at the present time, more than pay for the charges of the departments outlined, but will not leave a very great surplus above the expense of those departments, and the transfer of that surplus into the school fund of the state will be only a small contribution to the cause of general education, which certainly is as insistent in the coal communities of West Virginia as in any other parts of the state.

Gasoline Tax.

The purpose of the gasoline tax is to produce approximately one and a half to two million dollars a year. No one has enough information to fix with exactitude the return from this tax. In all probability it will exceed one and a half million dollars, and possibly reach two million. This tax is justified by conditions with which we are well acquainted. The upkeep of our roads, to say nothing of the interest on the road bonds, will, within a few years, cause a charge of five to ten million dollars upon the taxpayers of the state. It is proper that a large proportion of this tax should be borne by those who use the roads most, and the measure of gasoline consumption is a very correct measure of the amount of road use. The well to do citizen who takes pleasure in his high-powered automobile probably gets no more satisfaction out of his Sunday ride than the owner of the modest flivver, but he does do a great deal more damage to the roads, and he does indirectly cost the state more money than the owner of the flivver, and, through the gasoline tax proposed, he will pay in proportion to his use of the public highways. On the other hand, the poorer citizen, who does not enjoy either the use or the luxury of the auto, will, of course, pay none of the gasoline tax directly and little of it indirectly, which is, under the circumstances, altogether equitable. The gasoline tax ought to be, and probably will be, a fixed part of the tax program of the future, and ought, in the course of time, to furnish a great deal of money that will be necessary for the upkeep of the splendid new road system which we are beginning to build.

Gross Sales Tax.

The arguments against the gross sales tax have been presented so often and so conclusively that it is hardly necessary to go into them at great length at the present time. It is a tax upon the operations by which men are employed; upon the processes of commerce, and upon all the transactions that, in the long run, make for the increase of wealth and the diffusion of general prosperity. Moreover, it is a tax upon active money, a premium upon idle money. The owner of one thousand dollars hidden away in some tax-free security, or savings bank account, directly pays no part, so far as that thousand dollars is concerned, of the gross sales tax. The moment he brings the thousand dollars out of hiding and puts it to work for his own good and the good of his fellow men, it begins to pay the gross sales tax. If used to buy materials for manufacture, it pays the gross sales tax; if it returns to its original owner and is again used to pay for labor, it pays the gross sales tax; if it is used to build a home, it pays the gross sales tax, and, in short, if it is used in any process that makes for the betterment of society it is subject to the gross sales tax, and when it ceases to be useful, and ceases to be productive of good, it escapes the gross sales tax.

A policy of taxation based upon the active industries of the people can only be justified by extreme need. If we did not have many better and more logical means of taxation than the gross sales tax, or if the better means were all exhausted, and the state were in dire need, it might resort to taxation of that kind, but it is an unwise policy, hurtful

to the development of industry and hurtful to trade, and if continued on through the course of years, is bound seriously to affect the development of the constructive industries of the state. Instead of taxing heavily the transactions which make for the general employment of labor, it should be the policy of a wise state to lessen the burdens upon those transactions, and many of our more progressive and wiser states have done that very thing. In the state of Pennsylvania, to a large degree, the buildings, the machinery and the materials used in the employment of labor are exempt from most of the county, city and state taxes. The writer of this article knows of two institutions of about the same size and importance employing a large number of working men, one doing business in the state of Pennsylvania, and one in the state of West Virginia. The total state, county and city taxes in West Virginia in each case are from three to five times as much as the total of the same taxes in the state of Pennsylvania. In two businesses, each doing a business of about one hundred thousand dollars a year, of which the writer has knowledge, the differences in the taxes between the two states is over one thousand dollars in favor of the Pennsylvania plant against the West Virginia plant. This discrimination, or disadvantage, continuously applied for many years inevitably gives to a Pennsylvania industry a very great advantage over competitive industries in other states, and undoubtedly accounts in a great measure for the enormous industrial wealth which the state of Pennsylvania has accumulated during the past half century. Without radical changes in our state constitution it is impossible, of course, to introduce the Pennsylvania system of taxation in West Virginia, but certainly it is not a wise policy on the part of the state to place its heaviest burdens upon those constructive industries which make for the employment of labor, which do not destroy natural wealth; which, on the contrary, create permanent communities with substantial homes, and all conditions which make for good citizenship. Its policy should be to encourage those industries and to compensate itself, as the state of Pennsylvania is now doing, for the exploitation and destruction of its natural wealth and for the enjoyment of special privileges.

Direct State Tax.

It has been the declared policy of the Republican party in West Virginia to keep the direct state tax at the lowest possible minimum. That policy was solemnly declared and adopted by the Republican state platform of 1904. It has been reaffirmed by many successive governors and has been, The Intelligencer believes, more than justified by results. Within the last few years, however, we have seen a drifting away from that policy; a tendency towards the acceptance of the direct state tax as a substitute for any and all other inconvenient forms of taxation. When our legislatures have been unable to agree upon better tax methods they have readily fallen back upon the direct state tax as the last resort. Every argument which held twenty years ago against the direct state tax holds today. Every reason why that tax should be abolished entirely or kept to the lowest possible figures still holds today. The inequities of the direct state tax between counties are just as ap-

parent today as they were twenty years ago. We cannot measure property in fifty-five counties by fifty-five different yard sticks, and in spite of the arduous efforts of our tax commissioners, and in spite of local attempts at equalization, these fifty-five different yard sticks continue to work differently, to double the burdens of the direct state tax in some counties as compared with the burdens in other counties. It is still a notorious fact that property of the same class, cattle on the farm, grain in the barns, lands and manufacturing plants are assessed, in some counties, more than 50 per cent higher than they are in adjoining counties. In spite of the very great zeal of our present tax commissioner, the reassessment of 1922 has resulted in inequalities, which have been the cause of most serious discontent in some of the most important counties in the state.

The inequities of the direct tax system are by no means confined to the differences between counties. The inequities as applied to different individuals are even greater and more apparent. The direct state tax and our method of assessing by county assessors are relics of the time when nearly all property was in land, when even the value of improvements was small, when cities and towns were unknown. Under those conditions, the county assessors, might reasonably fix uniform property values with some accuracy. That has entirely changed. Today cities and towns dot the state. Big mining plants and manufacturing plants appear in many counties. Great stores, hotels, banks and like institutions abound. It is a fact that when one of our great manufacturing plants such as are to be found in Wheeling, Charleston and Huntington, wishes to establish a credit, it generally employs a company of trained appraisers. Those trained appraisers come into the plant and work for weeks to make an accurate valuation of its property; and the company does not think it out of the way to pay many thousands of dollars for such work. Yet our state yearly commits the absurdity of giving this work of appraisal to assessors, often untrained and inexperienced, who are expected to go into these large establishments and fix a fair valuation upon them, with a few hours' examination. The results are as we all know. The honest factory owner, the honest mine owner, fixes a valuation on his property which the assessor is morally bound to accept, and the dishonest owner does likewise. A premium is put upon low valuations, a penalty upon integrity. On the other hand, the average assessor can look upon the small farm, the home of the working man, the small stock of goods of the country merchant, and make a very accurate estimate of their value. The result is that they go upon the tax books at approximately 100 per cent of their worth, and, in the long run, these small properties bear burdens of taxation out of all proportion to the much larger properties which the assessors are unable to assess accurately.

More serious still is the effect of the direct state tax as applied to intangible property. Under the operations of our tax laws in West Virginia, enormous sums of intangible property have practically disappeared from the tax duplicates. Consider how the direct state tax affects savings in banks. Few banks pay more than four per cent interest. One

thousand dollars in a savings bank has an earning capacity of forty dollars. There is no question about the value of that account. When returned for taxation, it is one thousand dollars, no more or no less, and if returned for taxation in the average West Virginia city it pays a tax of from twenty to thirty dollars, or from one-half to three-fourths of its total earning capacity. The logical result of such a tax policy is to prevent the return of this money for taxation at all. The savings bank depositor is made, by the force of circumstances, a tax dodger, and a criminal before the law. Under present conditions, we cannot classify property for taxation. A very strong sentiment has developed in favor of such classification. An amendment to our state constitution, allowing the classification of property for taxation, may to some extent reduce the inequities and inequities of the direct state tax, but that amendment may not pass, and the legislation under it may not be effective for many years to come. Under present conditions, except as a matter of the extremest emergency, the direct state tax ought to be kept at a minimum figure.

The Intelligencer has sought to outline and justify a system which will be a long step forward towards equitable and just tax conditions in West Virginia. No tax laws passed today will meet the requirements of our state for all the years to come. From time to time, conditions will change. Some sources of revenue will dry up, and other sources will appear.

At the present time, and for present conditions, a system of taxation which aims to recover from one of our great industries engaged in the depletion and destruction of natural wealth, a reasonable compensation for the state, ought to commend itself to our legislators.

A system of taxation that seeks to recover from another great industry a reasonable return to the state for actual cash expended on its account ought to commend itself to our legislators.

A system of taxation that aims to wipe out an irritating and unwise gross sales tax ought to commend itself to our legislators.

A system of taxation that aims to reduce the inequitable direct state tax ought to commend itself to our legislators.

The broad principle that a great source of natural wealth which belongs, in its original state, to all the citizenship of West Virginia, should not be exploited by private enterprise without returning a liberal amount to the state for the privilege of such exploitation, is one that cannot be controverted. If our legislators have a vision of service to their constituents, and courage to do their duty, the result will be creditable to them, and honorable to the state. They will furnish West Virginia the revenues which it needs, and they will in no small degree correct a condition of injustice that has been for many years a shame and a disgrace.