

## The Ultimate Causes Of Unemployment

THE attempt to cope with the business depression and unemployment by "publicity" which denies the facts, and advertising to "keep up courage" and "buy now," has failed. "Buy now" advertising has not helped the two-days-work-a-week coal miner to obtain food, clothing or adequate housing, the farmer to buy needed farm machinery, clothing or fuel, nor the clothing workers, idle or working but two or three days a week, to buy fuel, food or shelter.

Apparently there are but three other activities for ameliorating the existing business depression and resulting unemployment, namely: (1) Organized relief for the unemployed and their dependents; (2) A vast increase in public expenditures for permanent improvements; (3) Organized efforts to limit the production or importation of commodities and labor in order that an artificial scarcity may increase prices.

Relief work is necessary, but it does not eliminate the cause of business depression. Those who are not lacking the necessities of life may prefer our haphazard "American" relief measures to the English unemployment insurance. A real objection to both is that an intense interest in *relief* tends to divert attention from efforts to remove the *cause* of its necessity.

### BOND ISSUES COSTLY

The childlike faith in the efficacy of a great increase in public expenditures for permanent improvements as a means of eliminating unemployment and dispelling the clouds of business depression is doomed to disappointment. Such construction must be paid for, either by taxes levied currently or by bond issues which will increase future taxes not only by the amount actually spent but by the interest paid on the borrowed money, thus doubling the final cost to the taxpayer. The belief that prosperity can be developed by governments going into debt for new construction is all too common. The temporary appearance of prosperity while vast expenditures are being made may last long enough to influence the next election, but the final effect is bound to be disastrous. This belief is no different from the notion, recently popular, that permanent prosperity would result from getting everyone with a prospective income deeply in debt for an automobile, a radio and new furniture.

The organized effort to increase the prices of commodities and services has an extraordinary popularity. It appears in many forms. The Federal Farm Board tried to make agriculture prosperous by reducing the production of wheat and cotton so that scarcity prices would prevail. Labor unions without exception have attempted to secure prosperity for their members by reducing the hours of labor and increasing wage rates; and in many cases they have limited the output per man hour. Farmers,

horticulturists and manufacturers have succeeded in increasing the taxes on imports to enhance the prices of their products, and voters generally have endorsed the most drastic restriction of immigration in order to make labor scarce. Efforts are made to reduce the output of oil and natural gas to make oil and gas scarcer and higher priced. The merger of competing corporations followed by a reduction in output and higher prices for products is an approved business activity. Land owners have been notably successful in establishing and maintaining conditions which make land, needed for use, artificially scarce and artificially high priced.

### LAWFUL AND JUSTIFIED BUT LIMITED IN RESULTS

All these efforts are for the most part respectable, respected and conducted in conformity with law. One is not justified in finding fault with manufacturers, farmers and wage earners who, themselves the victims of existing conditions, attempt by lawful means to make that which they have to sell artificially scarce and high priced. They are compelled to do so in our present economic environment as a matter of self-preservation. Unfortunately, this scheme of promoting business activity and providing jobs for the unemployed by making commodities scarce and high priced does not work except to a very limited extent.

John L. Lewis succeeded in maintaining the highest mine wage scale in history in the unionized bituminous coal fields from 1921 to 1927, but the earnings of the miner were less than they would have been had the wage scale been reduced 20 per cent, and the union was nearly wrecked.

The Stevenson plan to limit the shipments of rubber did advance the price of rubber temporarily, but ultimately brought disaster to the rubber planters. The Brazilian coffee valorization scheme did yield a profit for a time to the coffee planters, but it finally failed and caused a political revolution. And then the Federal Farm Board tried the same plan to relieve our wheat and cotton growers; this effort will surely increase our taxes and just as surely fail to relieve the farmer.

As the attempts to secure prosperity by making commodities scarce and high priced have always failed, should not some study be given to the problem of how to reduce the costs of production and distribution and thus make it possible for part-time workers and all others with lean purses to buy and consume more and thus increase the effective demand for commodities? If this were accomplished, more of the unemployed would be given an opportunity to work, and their increased buying power would be reflected in a further increase in business activity. In most of our basic industries costs have been reduced, but competition has in many cases forced prices below actual costs and many productive enterprises have been compelled to shut up shop. Unfortunately this is not a theory but a condition which confronts our basic industries—agriculture, mining, metallurgy, manufacturing and transporta-



tion. Each in its own sphere has done what it could to reduce costs, and although prices in many cases are below actual costs, they are still beyond the purchasing power not only of the unemployed but of the part-time workers, of farmers and of other victims of existing conditions.

#### LABOR HOUR THE FAIR UNIT OF VALUE

Undoubtedly, most industries have become more efficient, but have the final costs of their products to the ultimate consumer been reduced to such an extent that the prices are lower than they were, say, thirty years ago? If we were to compare dollar prices we would be using a variable which would confuse the issue. Let us take what is fairer as a unit of value—the labor hour. The Iowa farmer gives more labor in exchange for a farm wagon at the country store than he did thirty years ago. The bank clerk in New York City gives more hours of labor for a ton of anthracite, for a quart of milk and a loaf of bread and for the monthly rent of his four-room apartment than he did thirty years ago. Excepting automobiles and other recently invented products, about the only important commodities or services of which we can now buy more with the proceeds of an hour's labor are gas and electric power, and yet the prices of these services are being attacked by politicians while Congress raises the price of sugar and shoes, of lemons and lumber, and the Farm Board spends millions in its attempts to raise the price of cotton and wheat. Evidently the honest and earnest efforts of primary producers to reduce costs to consumers have failed. But why?

Our great locomotives now pull trains of more than 5,000 tons of coal; thirty years ago 2,000 tons was a heavy train. With the new tool steels, from four to eight times as much metal is cut per hour with one tool as was cut thirty years ago. Man has solved the problem of reducing the direct cost of production, but the indirect costs both of production and distribution have tended to grow faster than the direct costs have been reduced. To this general statement there are a few notable exceptions, generally in the newer industries where scientific discoveries and mechanical inventions are still able to reduce direct costs more rapidly than our "fundamentally sound economic system" has been able to increase the indirect costs.

#### INDIRECT COSTS: LAWFUL AND CRIMINAL

There are three indirect costs, two lawful and respectable, the third criminal, which tend to grow faster than direct costs can be reduced by the combined efforts of scientists, inventors, engineers and business men. They are: taxes on industry and its products and on earned incomes; ground rent and royalties, or in their capitalized form, land values; the toll of rackets.

Business men generally have refused to give any serious thought to the important subject of taxation except for attempts to reduce their own direct taxes or to have taxes

imposed on competing products or services. The great bulk of our taxes are indirect taxes, "crooked taxes," finally paid by ultimate consumers after many increments which add vastly more to the cost of commodities and services than the amount of the taxes paid. The increase in taxes, direct and indirect, on our railways is a main cause of the increase in passenger fares and in freight rates. The increase in the efficiency of transportation equipment and management has more than offset the increased earnings of railroad employees. But the pyramiding effect of indirect taxes on railroad operating and maintenance expenses, combined with the enormous increase in the direct taxes paid by the carriers, has made necessary greatly increased freight rates. Our Western farmers are the victims of their political leaders who were largely responsible for the great increase in railroad taxation, which is reflected in the increased freight charges on their products and in their purchased commodities. Up to the present time, scientific discovery and invention, together with improved business methods, have made it possible for the gas and electric utilities to reduce their costs somewhat more rapidly than the increase in the burden of taxation levied upon them. But the time is not far distant, if the present tendency continues, when, like the railroads, they will be compelled to increase rates to provide revenue to carry the added burden of direct and indirect taxes.

#### TAXES CAUSE SCARCITY, INCREASE COSTS

There are but two kinds of property which can be taxed—the kind that gets its value primarily from the labor required to produce it, and the kind that gets its value from government. A tax on the first kind of property tends to reduce its quantity and increase its price—the heavier the tax, the higher the price; the higher the tax on building materials and buildings, the less houses we have and the more they cost, and the more acute does our housing problem become. The tax on gasoline and the tax on Jersey cows both increase the cost of the baby's milk, and yet, very curiously, nearly all our taxes, including corporation income tax, are of this kind. They make commodities we need for consumption scarcer and more costly.

Taxes on the other kind of property, the kind that gets its value from government, have exactly the opposite effect. The higher the tax, the lower will be the price of each parcel of this class of property, and the easier it will be to buy it. The most important kind of property in this class is land—land, including all natural resources but excluding any values produced thereon by labor. The higher the tax paid by the land owner, the less desirable is ownership except for use. Taxes on land values, unlike taxes on commodities, are paid by the owner and cannot be added to the rent collected for the use of the land. For the landlord who rents to the highest bidder is necessarily limited in the amount that he can charge for the use of his land, by what the lessee can pay, and the lessee cannot pay more merely because taxes on the land value are increased. It



follows logically that if taxes on a given piece of land are increased, the net revenue to the land owner will be reduced thereby and the selling price of the land will decrease accordingly.

#### INCREASE LAND-VALUE TAXES

From these two obvious truths the deduction is clear that we can reduce the cost of commodities by reducing taxes on labor products and earned incomes and increasing the taxes on land values. It is difficult to find any ethical justification for levying taxes for the benefit of the community on property values which the community itself did not produce. On the other hand, land values are produced not by the owners but by the community, and the right to own land is derived from the government. Land values increase with population, with stability of government and with all public and private improvements. Is it not a bit inconsistent to make betting on horses a crime while we encourage the more harmful gambling in land values by allowing such community-produced values to go to and be retained by lucky or shrewd speculators?

But disregarding all questions of ethics or of economic justice, the evidence is convincing that the cost of all commodities would be reduced by decreasing taxes on labor products and earned incomes, and increasing taxes on land values.

So long as land values are increasing or are expected to increase faster than interest charges and taxes, no pressure is brought to bear upon the owner either to use it himself or to let someone else use it. As no one can engage in any kind of work or even live without access to land, is it not obvious that the vested right inherent in our land system to put a fence around a piece of land and refuse to use it, or to let any one else use it, without paying yearly to the State, which grants this right, the annual value thereof, is an effective means of making land for use artificially scarce and artificially high priced? But so long as we maintain conditions under which it is increasingly profitable to keep some land out of use and other land only partially used, will not conditions tend to become worse?

#### INFLATED LAND VALUES RETARD BUSINESS RECOVERY

Commodity values and security prices have been fairly well deflated, but land values, especially in our cities, resist deflation, and these inflated land values are unquestionably a powerful retarding influence to any healthy business recovery. It is not necessary to levy a heavy tax on a factory, an office building, a stock of merchandise or any other kind of property which is the product of human labor, to compel the owner to use it in the service of the public. The owner of a factory loses money unless he produces goods which people desire, at a cost at which they will purchase. The owner of an office building loses money unless he provides satisfactory accommodations at a price tenants are willing to pay. For a merchant, losses are inevitable unless he offers such merchandise as his cus-

tomers desire at a price they will pay. An increased tax on land values would either compel owners to use their land or else reduce the price to someone else who would use it. As land cannot be used without employing labor, the effective way to provide jobs for the jobless would be to increase the tax on land values while reducing the tax on all labor products.

#### TOLL OF THE RACKETS

The third unnecessary burden on business which greatly increases the cost of commodities and services—the toll of the rackets—is attracting much attention. A racket may be defined as an illegal method of collecting tolls from industry and commerce. From time immemorial illegal commerce has paid toll to racketeers, and the racket which exacts tolls from legitimate commerce is not altogether new, but it is better organized than ever before. The methods of mass production, of business organization, of well directed publicity and of a competent legal staff are now being employed with marked success, and in some cases reformers who are so dominated by their emotions that their minds have become atrophied, combine unknowingly with racketeers to support the same legislation and to elect the same candidates to public office.

There are two reasons for the development of rackets. Many who are denied the opportunity to engage in useful work can find employment at good wages in such activities. Doubtless more men are given steady work at living wages by the numerous organized rackets than by national, State and local unemployment committees. The second reason for rackets is that our system of taxation provides a perfectly legal and respectable method of collecting tolls from commerce and industry without performing any service, one which has as inevitable by-products idle land and "a reserve army of labor"—men unable to find work—varying from about one million during periods of business activity to possibly six millions in the present period of business depression. It is easy for one who is out of work and sees wealth being absorbed without service by lawful methods, to try to "get his" by illegal means. Is it reasonable to believe that more policemen, sterner judges and more severe punishment will eliminate rackets unless we first eliminate our lawful, respectable method of getting something for nothing, which denies to many the right to work and to enjoy the fruits of their labor?

#### WOULD MAKE MORE JOBS

A reduction of taxes levied on industry, its products, and incomes derived therefrom, combined with an increase in the taxes on land values, would make more jobs available and would reduce the incomes received by land owners for which no service is performed, thus tending to eliminate the two most important causes of racketeering.

There are two classes of causes of business depression and involuntary unemployment—proximate causes which are many and which differ from time to time and from



place to place, and ultimate causes which are constantly functioning to close the door of opportunity to workers, to reduce the rewards and increase the hazards in the performance of the service functions of production and distribution. Of these two kinds of causes, the former, which is relatively unimportant, has practically monopolized the attention of the students of the problem and of economists and politicians who are actively interested in ameliorating conditions. The methods actually employed and those commonly suggested, both to relieve the suffering caused by unemployment and to combat its contemporary and proximate causes, generally ignore the ultimate causes. Nay, more, they commonly tend to increase the hazards and curtail the natural rewards for the performance of the service functions, while reducing the risks and increasing the rewards for the successful performance of the parasitic function of absorbing community produced wealth.

#### RECAPITULATION

To recapitulate:

1. Relief is inadequate and, even with the most intelligent and sympathetic administration, tends to detract from the self-reliance and self-respect of its recipients.
2. Heavy public expenditures to be paid for by taxes on productive enterprises and its products will only result in a temporary appearance of prosperity to be followed by a still worse depression.
3. Restricting production and artificially maintaining prices, while at times highly profitable to the small minority who have the legal privilege of exploiting the natural resources and consequently the labor of the country, are total failures as methods of providing the jobless with opportunities to engage in useful industry.
4. High taxes on labor products and incomes, high land values as reflected in increased ground rents and royalties, and the heavy toll of the rackets have increased the cost of commodities and services and have reduced the opportunities for honest, productive work.
5. The above indirect costs would be reduced by lowering all taxes on labor products and service incomes and increasing the taxes on land values.
6. A reduction in the cost of products would increase demand and thus stimulate production and distribution, and so provide jobs for the unemployed.

#### WHY NOT TRY THE ECONOMIC METHOD?

The methods of organized charity and of political interference with the performance of the service functions having failed to solve the unemployment problem, is it not advisable to consider trying the economic method? Relieve industry and its products from taxes and tax the idle land into use, and involuntary unemployment on a large scale will tend to become as rare as yellow fever. The mosquito which infects the body politic with the social disease of involuntary unemployment is our system of taxing industry, thrift and enterprise, thus confiscating for community

use a substantial and steadily increasing percentage of the natural rewards for the performance of the service functions, while permitting land owners to collect and retain the community produced wealth of ground rents and royalties, the total of which is constantly increasing, and in exchange for which, land owners, as such, perform no service.

WARREN S. BLAUVELT.

## Your Work and Mine

ADDRESS BY BOLTON HALL, OCT. 12, 1931, AT THE SIXTH ANNUAL HENRY GEORGE CONGRESS AT BALTIMORE

WE have been divided—divided between those who, headed by the London *Land and Liberty*, advocate the "step-by-step" method of restoring the land to the people, taking a penny in the pound at first, and those "one-steppers" who, with the *Forum* of Stockton, Calif., ask for the immediate collection of all rents of land apart from any improvements to be used for all public expenses.

We must not forget that the great obstacle to our immediate success is ignorance and indifference. Anyone who brings attention to the right of the use of the earth is helping both methods. Besides that, each person must work in his own method. If we could not do that, the most of us would not work at all.

We have been handicapped by putting the financial or tax side of our moral reform first. The masses do not even know what their taxes are, and do not realize that they pay almost all of the taxes.

For myself, I find a new inspiration in saying that the land belongs to the people morally, and even legally, and that we should take its rent instead of taxes. Everyone can understand that, and it raises no difficulties of what taxes are or who pays them. This is the simple presentation.

Production is simply the application of manual or mental labor to land and other natural resources. A house, for example, is merely land changed in form. The bricks are clay, the mortar is limestone, the cement is clay and silicate—all burned with coal. The wood is trees, the metal is ore. All materials come out of the land, and if we check or stop the production of any of them or the exchange of any of them, building is checked. The same with machines and the materials that are worked up by machines.

Is not then waste land one of the greatest wastes—whether it be the poorly worked farms, idle water power, or ten-thousand-dollar buildings on million-dollar sites?

Every year the necessity grows for more expenditure of tax money; every year the State is compelled to assume new duties. Concomitantly with this there is a vast increase in the value of land, caused by the increase of population and of accessibility of the land. Every increase in the population, every road, every church and school—in short, every advance, whether social, mechanical, educa-