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PRIVATE MONOPOLY AND THE LAW

In his message to Congress on June 19th, President Roosevelt asked for a tax measure that would yield increased revenue and, presumably, bring about a social readjustment in the matter of wealth distribution. Perhaps it was the heat or the Fourth of July speeches or just plain orneriness, but the benevolent slogan, "share-the-wealth," soon changed to the ungracious cry, "soak-the-rich," a malicious thought very appealing to the under dog—but gentlemen, gentlemen! We aren't throwing any Christians to the lions this season. There is too much bitterness, too much class consciousness in most schemes for social betterment.

The President is right when he says: "Social unrest and a deepening sense of unfairness are dangers to our national life which we must minimize by rigorous methods." He seems unaware of the real significance of his words: "People know that vast personal incomes come not only through the effort or ability or luck of those who receive them, but also *because of the opportunities for advantage which government itself contributes.*" A little later he adds this choice bit: "Size begets monopoly." He should have stuck to his first idea.

Nowhere in his message does Mr. Roosevelt indicate that he understands or appreciates the nature of monopoly and its real import in our economic life. Apparently, he sees nothing unjust in a social system that gives to some individuals advantages not enjoyed by others. "Wealth in the modern world," said Mr. Roosevelt, "does not come merely from individual effort; it results from a combination of individual effort and of the manifold uses to which the community puts that effort. The individual does not create the product of his industry with his own hands; he utilizes the many processes and forces of mass production to meet the demands of a national and international market . . . the people in the mass have inevitably helped to make large fortunes possible."

If the masses had such a large part in the production of this enormous fund of wealth, why

have they not had an equally large share in the product? How come that this wealth flowed in such large portions into the hands of a few? As long as that point is ignored, neither Mr. Roosevelt nor Huey Long nor anyone else can help the nation to share the wealth that it produces. The idea of establishing social justice by levying taxes on fortunes born of privilege, is as crude as would be that of a criminologist who might propose to check crime by allowing a burglar to keep part of his stolen goods if he would turn over the rest to the authorities. It isn't a question of "sharing wealth," anyway. The problem is to remove the barriers that now prevent the worker from possessing what he produces.

Last month, *Tax Facts* carried a review of a very remarkable book, "Public and Private Property," by John Z. White. In that book, Mr. White explained clearly and logically the very thing that has so befuddled President Roosevelt and his critics. Failure to distinguish between what properly belongs to the individual and what is naturally the property of the government, makes it impossible for the President to offer a tax plan based on scientific principles; to define correctly what is private and what is government business; or to explain how it is possible for wealth to become concentrated in the hands of a few.

There are, Mr. White points out, some situations in our economic life that cannot be met by the individual, therefore are, by their very nature, the business of organized government: "mutual defence, or the police power; property in land, or exclusive possession; and the highway, or right-of-way, are necessary to civilization, and can be established and maintained by public authority only. The three powers thus indicated are the primary powers of government. If in any degree they are placed in private possession grantees necessarily hold power to levy tribute unless the grant is fully guarded in the public interest. For instance, the private armies that have disturbed China and the robber barons of middle Europe exercised the police power and

made of it something other than a defensive agency.

"Such use of the police power is now illegal in civilized states, but title to the more valuable lands has gradually passed into the hands of a relatively few. Land holding has become not only an agency for security of possession, which is its legitimate purpose, but also a lever for extracting tribute in the form of ground rent.

"Modern American highways, too, that were established for popular convenience, have been turned over to railway lords, who have over-capitalized and sold them in the form of stocks and bonds. Surely it is as plain as anything can be that the police power, the holding of land and the right-of-way or path of trade are all necessary public functions. They originate, as industrial instruments, in the exercise of sovereign power. No other agency is competent to institute and maintain them.

"If, then, we can assert that police power, land holdings and highways are public or political matters, it follows that legal adjustment of these to the advantage of some must burden others. Such disposition is, of course, a blunt invasion of the equal political status that is the necessary condition of a genuinely democratic society."

Yet Mr. Roosevelt would make social adjustments by taxing the incomes, gifts and inheritances of those who enjoy these advantages from government. He would not disturb these privileges, but let them go on taking toll from the non-privileged members of society. We are quoting from Mr. White's book because, in these first chapters, particularly, he treats in a masterful way the very problem that has completely stumped the President of the United States.

"Sovereignty is the supreme mastery, dominion or power of the whole people acting unitedly. It presupposes organization, and such organization, of course, acts according to its major impulse. It may establish and maintain justice, or it may levy tribute and impose tyrannical regulations. But it is the only power that by any possibility can secure freedom to individuals, protect their rights, maintain public authority and guarantee justice in public administration. . . .

"Thus in the exercise of the police power we delegate authority to officials and theoretically hold them to account. We also delegate authority to railway corporations, but do not, as we should, hold them to account for the value of the rights of way that have been placed in their possession. Instead we permit them to capitalize these public rights and sell them on the market. Still less have we guarded the sovereign power expressed by land holding. Here as elsewhere it is proper to delegate the administration

of sovereign power, but it is the height of absurdity to permit the value of that power to become the source of private wealth. . . .

"When public wealth, issuing from the exercise of sovereign power, is made the source of private fortunes, the germs of dry rot are planted in the body politic, and time only is needed to mature the crop. Small movement in this direction produces but slight effect, but once begun tremendous energy is required to stay its farther march.

"A right-of-way granted to a public utility corporation is such a public power. Wealth issuing from this source should be paid into the public treasury. It cannot too often be said that a grant of this character is a delegation of sovereign power, and that delegation of sovereign power is not a contract.

"It does not follow that private administration of such a grant should be unrewarded. A grant of this kind is often made with the intention that it shall be administered privately, but it is always subject to Hale's Rule, which requires public regulation and control.

"The profits that issue from the private administration of such an enterprise properly reach private pockets, but the grant itself is not a product of private effort. On the contrary, it is wholly of public authority.

"The matter to be determined is the value of the public power involved. This value grows with advance in productive power, which comes with greater population and improved processes and management. The value of the New York Central Railway grant, for instance, is now much greater than it was in 1860. This is true because the more people there are to serve in a given territory, and the better the equipment and management of the railway, because of invention and growing knowledge, the more a right-of-way through that territory is worth.

"Wise policy, of course, dictates liberal treatment of such public utility corporations, but this does not mean the nearly complete surrender to them that has often occurred. The value of such a grant should periodically be determined, and that value subjected to a tax that will absorb its monopoly force; or rates of service should be reduced to a point that will produce only legitimate profits for the private enterprise.

"In the latter case no tax would be levied, and it is the policy to be preferred, because it fulfills the purpose of the grant by serving the people at lowest cost for satisfactory results.

"To charge higher rates and then to recover the public value by taxation would be to take two bites at a cherry that may more readily be disposed of by one. In any event rates are subject to regulation under Hale's Rule.

"Land grants are subject to the same reasoning, with the exception that the state must recover the public value by taxation. Ground rent cannot arbitrarily be limited, as can the rates of public utilities. After the war some European states attempted arbitrarily to do so, and merely added to existing confusion.

"Such collection of rent is a tax only in form. In fact, it is collecting payment for public services rendered, for which land holders always collect full value from land users.

"As the establishment and maintenance of private possession of land is, commercially, the most valuable of the public's contributions to productive process, it is evident that this collection of ground rent is of highest economic importance. If we are to maintain property rights in their fullest integrity this public right must be fully conserved.

"Failure at this point has been the great blunder in all attempts to establish democratic societies. Such societies are necessarily defective unless they are supported by democratic states, and these are possible only through the application of sound law. . . .

"Private monopoly does not exist unless created by law. If the state does not create it, producers can only swap products with each other. This means, because of invention, an ever mounting standard of living and greatly increased leisure; in other words, human betterment. If this is not the legitimate purpose of invention and toil, pray what may that purpose be?"

Mr. White further points out that: "The value of land should, and normally would, express the worth of the public contribution to the wealth and security of the people. By present practice, however, it also measures the worth of public power as an agency by which wealth may be taken from one citizen and given to another, and, in addition, the speculative value of such power. This is private taxation." Because this publicly created wealth goes into private instead of public treasuries, the government finds it necessary to make levies for revenue "upon property that is the legitimate reward of private contribution to productive process."

It is most unfortunate that the President and the Brain Trust and the majority of voters are content to remain in ignorance of these fundamental principles of political economy. There are two big, healthy lion farms in this county. Sometimes we are sorely tempted to start throwing the Christians—but not because they are Christians.

A man who can write humor can demand a good salary, declares an editor. Yes, to be sure—but can he get it?—*Los Angeles Times*.

The American Child

"It is clear after 30 years of experience that we cannot expect the juvenile courts as now organized to prevent delinquency. Evidence has accumulated year after year that failure to meet fundamental community needs explains much delinquency and unhappiness among children and crime and inefficiency among adults. Because of the lack of economic security in the family life, because of our failure to provide adequate homes for the lowest-income group through a public housing program and increased recreational resources as well as more and better social and psychiatric services for children, we are making little headway in preventing delinquency among children."—Grace Abbott, Chief of the Children's Bureau, Washington.

The Income Tax

"It is difficult to understand," says Mr. E. C. Alvord, United States Chamber of Commerce, "why development of a large industry through income and ability should be regarded as something approaching an offense to be punished and the income be confiscated." Perhaps, Mr. Alvord, it is for the same reason that taxing bodies consider it an offense to build a house or a fine office building or to improve your property in any way, thus employing labor and stimulating industry. To be a hero in their eyes, you must devote your lot to rag weeds, burdocks and such.

Forgive Us Our Debts

On July 1st, we started our new fiscal year with a deficit of more than \$31,000,000. The new budget is the largest in California history, \$372,000,000, averaging \$62 for every man, woman and child.

Ghosts

Mr. Roosevelt would check the inheritance of wealth and power by taxation, but how is he going to keep dead folks from telegraphing? The Senate Lobby Committee investigating the telegrams to Congress opposing the utility bill finds that phone books and mailing lists were convenient sources for signatures. One gentleman had been dead for two years. His telegram should be disregarded. It's bad enough to be bull-dozed by living politicians and monopolists, but if Caligula and Henry the Eighth are going to horn in, something ought to be done about it.

If a law be bad, it is one thing to oppose the practice of it, but it is quite a different thing to expose its errors, to reason on its defects, and to show cause why it should be repealed, or why another ought to be substituted in its place.—*Thomas Paine*.