

HENRY GEORGE NEWS

VOL. 12—No. 10

AUGUST, 1949

10¢ A COPY—\$1.00 A YEAR

Air Castles with Firm Foundations

By ROY A. FOULKE

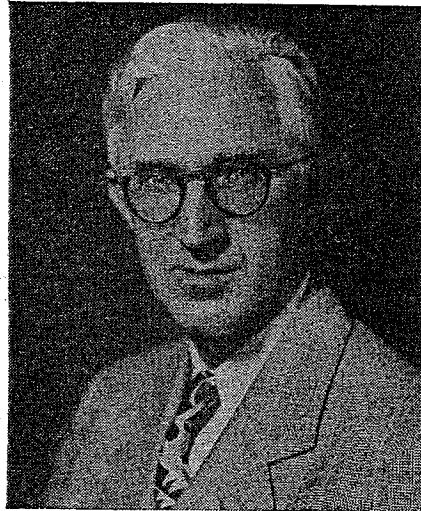
IN THE civilized world outside of communist countries, business is operated for a "profit." That is merely another way of saying that the mainspring of economic activity in capitalistic countries is the profit motive. The same motive actually exists in all communist countries. The only difference is that in communist countries, the State takes a somewhat larger percentage of the profit than in non-communist countries and, of course, they don't call it profit.

In the same year that the Declaration of Independence was penned by Thomas Jefferson, a revolutionary volume with the fascinating title of *The Wealth of Nations* was published over the signature of the Scot Professor of moral philosophy, Adam Smith. In that volume Adam Smith pointed out, over and over again, that all production is divided in three streams, one in the form of wages to employees, one in the form of rent to landowners, and one in the form of profits to the suppliers of capital.

These terms as used by Adam Smith, carry connotations which are somewhat different than their meaning in our present-day industrial life. In wages to employees is included payments to officers of corporations, to proprietors, and to partners for their service, as well as to labor. The payment of rent represents the return to the landowner on the value of the land in its natural state and without improvement of any kind, and not the payment of a monthly or yearly sum which today has generally come to include two elements, economic rent on the value of land, and a return on capital. And profit, according to Adam Smith is the sum remaining after the payment of all wages, and rent on land in its natural state, as the return to capital.

Then, Smith carefully observed 173 years ago, "When those three different sorts of revenue belong to different persons, they are readily distinguished; but when they belong to the same they are sometimes confounded with one another, at least in common language." That sage observation is even more true today than in the early days of the industrial revolution. Many business corporations own title to land which is improved with factories, warehouses, premises, or stores, so that the final "accounting" profit includes two elements, (1) a return representing rent on the value of land, and (2) a return to capital.

Henry George in Chapter I, Book III of *Progress and Poverty*, entitled "The Inquiry Narrowed to the Laws of Distribution—The Necessary Relation of these Laws" discusses this basic theory of Adam Smith in quite considerable detail. Because of the confusion in the term "profit" as used by Adam Smith in 1776 as the return to capital, and by the general public in 1879 as the excess of income over cost, Henry George decided to substitute the word "interest" in place of the word "profit" as used by Smith to represent the return on capital. It is just possible that that substitution in terms—although carefully explained with the



greatest of clarity by Henry George—has been the source of steadily increasing confusion in the mind of the pragmatic business man over the past 70 years. The "accounting" profit of business representing the excess of income over cost is a heterogeneous mathematical term and has absolutely nothing to do with economics.

Few business corporations were in existence in 1879. Not until 1886 did the Supreme Court decide that a corporation was a person in the meaning of the "due process" clause of the Federal Constitution. That decision gave an element of unprecedented security to the existence of the large corporation which was just becoming a dynamic power in our social and economic life.

In 1879 there was no firm of public accountants in the United States. The first firm of public accountants of consequence was organized in 1883 in New York City. It was not until 1896 that the accounting profession was legally recognized when New York State conferred the power upon the regents of the University of the State of New York to grant certificates of qualification. Pennsylvania followed three years later in 1899, Maryland in 1900, and California in 1901. Similar recognition was not extended by the District of Columbia until 1923.

The development of the corporate form of business organization which often owns title to land, and the evolution in accountancy as an instrumentality of business, has increased the confusion on the economic return to land, labor and capital which Adam Smith pointed out so long ago was already "confounded . . . at least in common language . . . when they belong to the same [person]."

From the viewpoint of classical economics, here is a basic reason why we fail to ascertain the exact figure of profits (keep in mind that Henry George would say "interest") under the mathematics of accountancy as practiced in 1949. This reason is tied up with the simple

fact that part of the "accounting" profits of corporations which own land on which some or all of their plants, warehouses, premises, or stores are located, is actually economic rent. Moreover, we lack even a faint idea as to what part of accounting profits represents rent earned on the value of land in its natural state, and what part represents the return on capital invested in a business including improvements to and on land. So, what we run up against today, is the confusing reality that "accounting" or the business man's profit, in addition to being a relative mathematical concept, is not economic profit, or in the words of Henry George, it is not "interest."

Edward Peragallo traces the use of double-entry bookkeeping back to Genoa in the fourteenth century and then states that its origin must have been of a considerably earlier date. The mechanics of modern accounting, however, have been developed almost entirely since Henry George put *Progress and Poverty* on paper in 1879. So here is confusion which accountancy—and as currently practiced accountancy is a relatively new institution—has brought to business operations, to the present-day reasoning of labor leaders and pseudo-economists, by the simple fact that such mathematics as has been developed for and by accountancy is radically different than the mathematics which might have been developed in keeping with "classical" economics with its division of all income in the three well-defined streams.

Perhaps some day the Department of Commerce will enlarge its research on national income to develop a series of data giving the value of land in its natural state, county by county in the United States, so that imputed economic rent for all corporations, for all unincorporated business enterprises, for all individuals including farmers and home owners may be determined year by year. This would finally make it possible, after the discussions of generations, to have basic facts showing how much, and what proportion of our national income, year after year, falls into the three streams: wages, rent and profit or, as Henry George would say: wages, rent and "interest." Perhaps such knowledge, when it is available, will have as great an impact on our economic thinking on the taxation of human effort, as the Einstein equation has had on science and philosophy.

Now, let me discuss briefly the unprecedented growth in the number and types of new local taxes. In Henrik Ibsen's play, "The Master Builder" one of the characters asks the great architect if he can build a real castle in the air. The architect replies, "Yes. One with a firm foundation under it."

Henry George built a castle in the air in 1879, a castle with the firm foundations of the lore of history, of unexcelled logic applied to economics, of the great morality of the man of Jerusalem, of natural economic justice. The firm foundations still stand as the State demands

(Continued on Page Two)

more and more taxation, more and more kinds of taxation, and more and more of the work of human hands.

In the four years which have transpired since the end of World War II there has been a shift away from the so-called "property" taxes, that is, taxes on land and improvements, to an infinite number—and it is truly infinite—of new miscellaneous taxes by local taxing units. There exists a general wide-spread feeling, due, I should say, to the fact that a tax on land values has not been popularized to the masses, that the current trend toward new forms of local taxation is necessary. One author recently wrote, that property tax yields have not increased rapidly enough to "keep pace with urban needs."¹ Another student of current modes of taxation writes, "While the burden of the property tax is often not as great as the rate would seem to indicate since assessment ratios are generally low, it is neither equitable nor feasible to continue to pile the increasing cost of government upon the real property owner."² We have failed to popularize the natural right of man to his own labor, and the fact that a tax on land values is the only tax which cannot be passed on to the consumer. When studies of current trends of local taxation by specialists make no mention and indicate complete ignorance of the fact that the economic rent on land will go a long way to solve the problems of justice and economics, and simultaneously will provide the funds, with plenty to spare to pay for all legitimate needs of governmental units, we have hardly lived up to our heritage.

Let us look briefly at this surprising current trend in the new sources of local taxation. Pennsylvania in 1947 gave local units the power to tax anything not taxed by the state! This power applies not only to cities, large and small, but also to boroughs, townships, and school districts.

As of May 2, 1949, a little over two years after this legislation was enacted, 762 local units were levying 967 different taxes. Of the 967 different taxes, 252 were per capita taxes, 187 were severance and related taxes, 171 were amusement taxes, 161 were wage or income taxes, 88 were taxes on mechanical devices, 28 were mercantile license taxes, 23 were deed transfer taxes, and 57 were miscellaneous levies.³ Included in the miscellaneous taxes are a number of taxes on the processing and transportation of coal, on dumping mine refuse, on mine props, and on other mining operations. In various places, it is said that different types of taxes on mining have been imposed by adjoining boroughs and school districts, with the result that the same ton of coal may be taxed several times.⁴

New York State in 1947 gave authorization to counties to impose a 2 per cent retail sales tax, a 3 per cent tax on food sales in "luxury" restaurants, a 5 per cent tax on admissions, and a tax of not more than \$10 on the use of passenger cars and trucks. Cities of 20,000 to

1,000,000 population were given authorization to impose a tax of 1/10 of one per cent on gross receipts of business, and also any of the county taxes not utilized by the county in which the city was located.

Over 100 cities in California now impose sales taxes. This tax, among other local units—not counting states—is also used by such widely separated units as New York City, New Orleans, Denver, Syracuse, N. Y. and Erie and Monroe Counties in New York.

An effective city income tax was first levied by Philadelphia in December, 1939. In 1946, Toledo followed. This movement really gained momentum in 1948 when the Ohio cities of Columbus, Springfield and Youngstown began to use this means of raising funds. Louisville and St. Louis also came around. And as I have already mentioned 161 local government units in Pennsylvania now have wage or income taxes!

This brief summary, and I can assure you it is a brief summary and not a complete picture of the spread and variety of taxes which are springing into existence month by month in states and local units in all parts of the country, gives you an idea of the importance of the existing movement to determine and to tax new sources of revenue, not because it is just, but because it is possible.

The economic justice of Henry George has been largely an intellectual movement in the United States, and especially so since George died while carrying on his campaign for mayor of New York City. Its appeal has been clear logic to the thinker, to the student, to the individual who would take the time to absorb the background of knowledge so essential for an absolute understanding of George's premises

The Conference Issue

The article by Roy A. Foulke is the complete text of his talk entitled "The Theory of Corporate Income," which was enthusiastically received by a large audience of Georgists at the Commodore Hotel on July 22. Believing that our readers would be interested in the New York conference proceedings, we have given this issue over entirely to the various addresses, and are indeed sorry that so much good material had to be condensed into so small a space.

Among the many visitors to the conference were: Ann Ross of Arden, Elizabeth Angell of St. Louis, Jessie Matteson and Mrs. John L. Monroe of Chicago; Marion H. Smith of Grand Rapids; Una E. Miller of Summit, New Jersey; Dora G. Ogle and Gertrude E. Mackenzie of Washington; Mrs. Joseph F. Reis of Tarrytown; Lucia Cipolloni of Philadelphia; Ethel Lyman Stannard of Hartford; and Mrs. V. S. Grier and Gladys Stilwell of Montreal.

Also, Gilbert M. Tucker of Albany; Walter R. Demmler of Pittsburgh; Mr. and Mrs. Philip Cornick of New York; Henry George Atkinson of Alpine, New Jersey; Robert Tideman of Chicago; Robert D. Benton of Delaware, Ohio; L. T. Recker of New York; Carey Richard Colburn of Long Beach; M. S. Lurio of Boston; Mr. and Mrs. Ellis R. Jackson of Hamilton, Ohio; Dan Brink of Oak Ridge, Edward Ummer of Pittsburgh, James A. McNally of Hartford; Alfred N. Chandler of Maplewood, New Jersey; Mr. and Mrs. Stanley Bowmar of New York; and Mr. and Mrs. Wilfrid Harrison, formerly of London, now living in Summit, New Jersey.

and deductions. The Georgist movement is essentially of this character today, as is evidenced by the fact that the greatest progress in recent years has been through education, through the organization and teachings of the Henry George Schools in classes and by correspondence in 22 cities in the United States and Canada.

The time comes, however, when every intellectual movement, to become effective, must become a practical movement by providing greater appeal, by simplifying intellectual processes so they may be readily and easily grasped with little and possibly by no mental effort, more and more rapidly by an ever-widening circle. It also means enlarging channels of education and propaganda as rapidly as an organization can be expanded and manned and as rapidly as funds can be obtained to support the expansion.

The first practical step in this direction was recently taken by the trustees of the Robert Schalkenbach Foundation. At a recent meeting, the trustees voted that a yearbook would be compiled and published to provide full information, first regarding all Georgist organizations in the United States, and then throughout the world. The yearbook would gradually be enlarged to include up-to-date information on enclaves in all parts of the world where the taxation of economic rent or any portion thereof is taken by the community, basic information regarding land value assessments in different states and communities where land is valued separately from improvements, data to be used by all who are interested in combating the increase in the number of forms of local taxes, a compendium of up-to-date information and facts which is needed by Georgists in the preparation of addresses, magazine articles, petitions to local taxing boards, and units, and by non-Georgists to understand the practical aspects of and developments in the taxation of land value.

Here is a great movement which will succeed if it reaches the masses of the people in a form to be clearly understood by them, that all taxes, in any and every form, except the taxation of economic rent, is a tax on human effort. The only way in which the taxation of human effort can be relieved is to enlist growing support for the taxation of land values. The appeal, if properly put, assures increasing acceptance. It has all the essential characteristics of a real "grass-roots" movement, and especially so under the prevailing pressure to increase the forms of local taxes, and in every possible way to obtain increased funds, except taxes on land values. The appeal has no social, racial or religious boundaries.

If the taxation of economic rent with its shattering accompaniments is to become something besides exercises in mental gymnastics, something besides theories of ethics and economics, something for the masses instead of the occasional intellectual, castles in the air with firm foundations must be created. The answer is the building of an effective organization, state by state, county by county, city by city, local unit by local unit, which can be effective locally in raising the banner and in obtaining experience and widespread support on local levels. Here is the arena where a great part can be played in the onward march of the years, and if that part is played successfully, move on to other levels.

Remember, every reality was once a castle in the air.

1. *The New Look in City Taxes* in "Tax Policy" Dec. 1948, p. 3 (Published by Tax Institute, Inc., New York 7, N. Y.)
2. Pelletier, Lawrence Lee, *Financing Local Government*, pp. 14-15 (Municipal Research Series No. 12, Bowdoin College, Brunswick, Me., 1948).
3. Compilation of the Pennsylvania State Chamber of Commerce, Harrisburg, Pa.
4. *Preservation of Local Self-Government*, by Welles A. Gray, Director, State Division, Pennsylvania Economy League, Inc., in "More State Aid or More Local Taxes," p. 4 (Published by Tax Institute, Inc., New York 7, N. Y.)