

Socialist bases his demand that the State should expropriate and manage all the machinery of production.

It may be expecting too much of the minority intelligentsia that they should know what they are writing about, but they at least should know the meaning of words; what "capital" is, and what are its functions. As universally defined by economists, capital is wealth;—labor products,—devoted to the production of more wealth. To say that the interests of capital are directly opposed to those of labor is saying that the products of labor, when used in making more wealth, are injurious to the producer, or, to take a specific case, that when a farmer exchanges his surplus wheat for capital in the form of a tractor, he is creating an antagonism between himself as a worker, and as owner of a machine. The mere statement of this simple proposition should be enough to show its absurdity, yet it is on such a flimsy contention that there has been constructed the whole Socialist and Communist scheme for reforming society by government ownership and management of industry. Elementary economics will evidently not be a strong part of the *American Mercury's* message.

Why Dwelling Rents are High

FOUR important causes for the scarcity of housing accommodations and high rents in all the large cities are: (1) Foolish tax systems, that fine capital and industry for erecting new buildings, and encourage owners of valuable city lots to hold them idle for speculative purposes; (2) high interest rates on loans for building; (3) high labor costs, forced by the necessity for more wages to meet the higher cost of living; (4) high prices of building materials, due in large part to increased labor costs, higher freight rates and tariff taxes, and to some extent to price-fixing combinations in the industries supplying these materials.

The local tax factor will be eliminated when the wise men who make the laws discover that it is better to encourage industry than speculation in vacant lots. Interest rates will fall when capital becomes more abundant and the opportunities for excessive profits in favored industries become fewer. Labor costs will decline when the workers in the building trades realize that steady employment at fair wages is better than part-time work at higher rates. Lower costs of building materials will come when there is a substantial decline in taxes on railways, lower tariff rates, and the strict enforcement of laws prohibiting combinations in restraint of trade. Until these changes are brought about by an enlightened public sentiment, grumbling over high rents will be among the popular diversions.

THE Agricultural Department of Mexico is dividing up vast landed estates among those who want acreage, supplying seed, agricultural implements and even burros to draw them.

Pity the Poor Realestator!

A WORD TO GOVERNOR SMITH

ECONOMISTS may have the necessary qualifications for statesmanship but they are seldom successful politicians. Conversely hardly any politician is on speaking terms with economics. To be a good politician one must believe in the omnipotence of statute law and deny the existence of natural law. Otherwise one would be embarrassed by the demands of one's constituents to do things which are in their nature impossible. In the politician's lexicon there is no such word as "can't," though it sometimes appears there without the apostrophe.

These near-thoughts are generated by the reading of a message of Governor Smith of New York to the Legislature of that State. He deplores the increasing burden placed upon real estate and suggests that relief for overburdened real estate be provided by an income tax which may be levied by local authorities for local purposes. Hence we may look forward to a time in the not-far-distant future when we shall spend an appreciable part of our valuable time filling up income tax blanks for federal, state and local officials and making our checks or money orders to pay these imposts.

The message is an ominous phenomenon because Governor Smith, while nearly as innocent of economic knowledge as Ivory Soap is from all impurities, is far from being unintelligent. Indeed in common sense he must be ranked high among professional politicians. And he seems to possess a recognition of his identity with the common herd which is rare among men who have climbed so high on the ladder of national notoriety. But when he wanders into the (to him) unexplored wilds of economics, as he does in this case, he becomes hopelessly bogged. And in this respect he is representative of ninety per cent. of his fellow citizens.

This fact makes it all the more important that we should endeavor to point out to Governor Smith, with all due respect, why he is partially right in his diagnosis and totally wrong in his remedy.

He is partly right in saying that the tax on real estate is onerous if not crushing. But he fails to distinguish between the two elements which constitute the composite subject, "real estate," land and the improvements on land, or as we may call them in general, buildings. In so far as a heavy tax burden is placed on buildings, it tends to raise rents, to discourage new construction and to be therefore the most powerful factor in prolonging the crisis due to housing shortage; in so far as the tax upon real estate bears upon land it is wholly beneficial and merely means that the community is getting back some more of the value which it produces itself. In a word, a tax on real estate works two ways, one prejudicial, one beneficial. The prejudicial tax should be reduced or abolished, the beneficial tax should be increased and intensified. If building were

free from taxes and land were taxed up to its earning capacity we would have all the houses necessary.

The effect of state and local income taxes is injurious even to the real estate interests themselves. There is no moral odium attaching to persons, who desire to escape onerous taxation on their incomes, moving into states or communities where the burden is lighter, and all experience shows that such evasions continually occur. As people of large incomes are best able to evade the payment of such a tax, it would normally happen that New York would cease to be the legal domicile of many of its present wealthy citizens. Such a movement would depress realty values, so that, probably, in the long run, the landowner would lose more by falling value than he would gain by reduced taxation.

Then Governor Smith seems to share the delusion that rents would generally be lowered if taxes were reduced. In fact, experience has shown that this is only true in certain cases. During the period from 1900 to 1915 taxes in New York rose continuously without affecting rents, because there was a surplus of houses and it was not until the housing shortage came, which incidentally was not due, to any considerable degree, to taxation, that rents began to rise appreciably. The truth is that the tax upon vacant land in New York is and has been high enough to cause owners to seek buyers and has thus in a great degree offset the effect of high taxes on buildings.

With all due humility, we would suggest to the Governor that he send a message to the Legislature urging the adoption of concurrent resolutions and laws to require that for purposes of taxation the State should require the splitting of real estate into component parts (1) land and (2) buildings and other improvements on land, that land should be taxed as heavily as it can bear and buildings and improvements be taxed not at all or as lightly as possible; for we may have had some burdens imposed on us by the war, which, as they produced no benefit, may have created no land value, and which may therefore for the time being have to be paid by other taxes than land value taxes.

If the Governor would adopt such a policy, the office which he holds would soon become a couch of roses rather than a bed of thorns. He would cease to be confronted by conflicting interests, which almost dismember him and force his conscience into shapes that no well regulated conscience was ever calculated to assume. He would cease being worried over the fact that real estate has had to bear the greatly increased cost of local government. He would know that it ought to, because it gets all the benefit.

In spite of the burdens which appal the Governor, more people seem to be going into real estate for investment purposes than ever before. Every year sees enormous advances in the assessed value of real estate. The handicap has not yet begun to tell appreciably on the speed of the horse. And the more land values rise the more the worker must pay.

We feel quite sure that the Governor could understand all this if he could only take a day off and get his mind down to it. But it is probably a good thing for his political ambition that he hasn't and won't. Even a glimpse of the "Cats" whiskers has a depressing effect upon a man's political fortunes, unless he acts as if he never saw them. We urge upon Governor Smith the sententious wisdom of Governor Ensley, of Tennessee, not because that gentleman was the wisest of Americans, but because having been a Governor his dicta may be presumed to appeal more forcibly to another Governor than would the words of a mere ordinary person. Governor Ensley said, "Don't tax anything of value that would come to you if you do not tax it or that will go away if you do." All "the law and the prophets" on the subject of taxation are contained in these few monosyllables, intelligently apprehended. They should be cast in bronze and imbedded in the walls of all the legislative chambers in the land. That would not prevent the maxim from being disregarded any more than the duplications of the Gettysburg Speech have prevented it from falling to the level of an elocutionary exercise, which causes us to wonder how a mere railsplitter could frame those majestic cadences out of common words. But it might inspire some pensive legislator to investigate the meaning of the simple phrase and then might be built a bridge to span the chasm which now yawns between politics and economics.

The Dismal Science

POLITICAL economy has been called the "dismal science." Perhaps not many know who it was who said it, or where. The author of the phrase is Thomas Carlyle, and it was applied to Social Science, rather than to what is distinctively known as political economy. It occurs in an article contributed by Carlyle to *Frazer's Magazine* of December, 1849, under the objectionable title, "Occasional Discourse on the Nigger Question." It may be said that Carlyle had a blind side and this was strongly exemplified in his view of the slavery question. But here is the quotation:

"And the social science, not a 'gay science,' but a rueful, which finds the secret of this universe in supply and demand, and reduces the duty of human government to that of letting men alone, is also wonderful. Not a 'gay science,' I should say, like some we have heard of. No, a dreary, desolate and indeed quite abject and distressing one; what we might call, by way of eminence, the dismal science."

"THE large additions to the wealth of this country (England) have gone neither to profit nor to wages, nor yet to the public at large, but to swell a fund ever growing even while its proprietors sleep—the rent roll of the owners of the soil."

PROF. J. E. CAIRNS,
Some Principles of Political Economy.