

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