

# TAX FACTS

Published in  
the interest of

SOUND ECONOMICS

and

AMERICAN IDEALS

Vol. XI

Los Angeles, California, January, 1933

No. 9

## THE SCIENTIFIC TAX

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The matter of balancing the government's budget, should, in principle, be no different from that of any well conducted business or family.

In actual practice the methods are widely different. In the case of the business or family the expenses are based on the income, whereas the government operates in just the opposite direction—it first figures out how much it wants to spend and then throws out the drag net to pull in the money.

This policy is the logical outgrowth of the universally accepted theory that people should be taxed on their ability to pay. It throws the door wide open for all kinds of propositions, both wise and foolish and these are pushed without limit until the people revolt, as they are doing now. Public revenues in this country as in all others, are raised, on the principle of plucking the most feathers from the goose with the least squawking.

Such an utterly senseless method carries in its wake no end of trouble. It causes constant wrangling among the law makers who know little or nothing of the science of taxation; it results in injustice and inequity to the taxpayers; it requires a vast horde of assessors, collectors, investigators to say nothing of the enormous expense of maintaining this huge and cumbersome machine in continuous action.

Most people think that so long as taxes have to be paid, it makes no difference where they come from. But that is a fatal mistake. A horse cannot even drag a two hundred pound load if tied to its leg, whereas it could easily be carried if properly adjusted on its back. Taxation is the power to build or destroy. It is the most important function of government, and yet it is a subject about which not only our law makers but the voters in general are in a dense fog.

The time is coming, however, and its advent will probably be hastened by economic necessity, when we shall awaken to the fact that there is a natural source from which all public revenues should be derived, which will function with a

maximum of efficiency with a minimum of expense.

Economic or ground rent is the true source of all public revenues. It is a community product resulting from the presence and activities of *all* the people and is not the result of individual effort. It is easily ascertained, cheaply collected, fair and just to all, cannot be evaded, or shifted to the tenant, and automatically supplies a fund, fixed and determined in advance, that is available for government expenses, and beyond which it cannot go.

A correct principle of taxation is one that is levied *not* on a person's ability to pay, but on the value, to the taxpayer, of the services rendered to him by the government, and that value is automatically determined by the value of the land he uses or occupies. Land increases in value as population grows and the need for public improvements becomes manifest. City land is far more valuable than land in the country, on account of the many advantages for social and business activities, to say nothing of parks, libraries, police and fire protection, paved and graded streets, etc. Land values, therefore being a social product should be used to pay for public improvements.

But the taking of land values would go much further than simply providing the wherewithal for the expenses of government. It would destroy all incentive to monopolize the bounties of nature which is the greatest curse of modern civilization, for no one could afford to hold valuable land out of use and, at the same time pay its full rental value to the community. No one would own land except for use, and that would open up unlimited opportunities for the profitable employment of labor and capital.

It has been said that the government of any country, at any time is exactly the kind it deserves—no better or worse. If someone could wave a magic wand that would arouse public interest in economic questions, it would not be

long before we would witness a decided change for the better in the economic conditions under which millions of people are unemployed and living in poverty and the constant fear of poverty which is almost as bad.

Every government is but an expression of the will of the masses, and is therefore built from the bottom up and not from the top down. Correct thinking must precede right action, from which it follows that for a long time our work will have to be done along educational lines.

### NO PRODUCTION COST

Part of our trouble in discussing economic problems lies in our careless use of words. A California realtor, Ivan Thorsen, is quoted in the *Los Angeles Times* as saying: "The trouble is that in dealing with land we have failed to distinguish between cost and value. We have been measuring it like merchandise, assuming that the selling price has a fixed relation to the production cost."

Mr. Thorsen is not the only one who has been guilty of such misleading phraseology. We know well enough that Mr. Thorsen means the price we paid for our lot when he speaks of the cost of production, but the use of such a term as applied to land is not only incorrect, but it helps to keep alive that misconception of land in the popular mind, the idea that there is no important distinction between land and the products of labor.

Produce: pro-ducere: to draw or lead forth. To produce an article of any kind, a thimble or a steamship, we draw material from the earth itself and shape it to the form we wish. The material, wood or stone or metal, ceases to be "land" and becomes a labor product or "wealth." Who "produced" the vacant lots and farm acres that California realtors unload on unsuspecting tourists? Nobody produced them. They were here before the dinosaurs. The earth was created, not produced. There is no cost of production to be reckoned with when we consider land, the passive element in production. What Mr. Thorsen refers to as the cost of production, and what is usually called the selling price of land, is the tribute that one person pays to another for the possession of a certain plot of ground that belongs to him just as much as to the other man in the first place.

As long as people cannot, or will not, distinguish between the earth, itself, and the things that we make with human labor, they will see nothing wrong in buying and selling and speculating in land as if it were merchandise. Land is not a product of human labor, and it must not be treated as such.

The value that attaches to land is a human value in the sense that it springs from man's desire to use particular portions of the earth's

surface. This plot of ground will yield a man a greater return for the same amount of labor than any piece of land that he can get free of charge. He can give a part of his labor's produce for the privilege of working on it, and still have more return for his labor than if he went out into the wilderness of sand and thorns and free land. The part of his labor or the product of his labor that he is willing to give for the use of this particular piece of land is the value or economic rent of that land. If he can produce only a little more than he could working on free land, he will not give up much of his produce to pay for the privilege. The land, then, has little "value." Some merchants pay enormous rentals for the privilege of using lots in busy downtown sections of our cities. We sometimes read in the paper that a certain downtown corner has been leased for a long term of years at a very high rental. Someone has decided that he can pay that rent and still earn enough on that particular corner to yield him a better income than if he leased a lot farther from the center of activities.

As long as these choice spots of ground are limited, people will pay for the privilege of using them. Our whole trouble lies in supposing that one individual has the right to confer this privilege upon another and collect the rental for his own use. Really, it is only the community that has any moral right to grant this privilege, and consequently, it is only the community that has the right to collect the rent. If it actually did this, it would not need to levy taxes for its support. If it did this, no individual would be taking part of another's produce for granting a privilege to which he never had any moral right.

Since the landowner did not make the land there is no cost of production to be considered, and it is very confusing to use the term, but there is land rent and it should have a very important place in our thoughts and in our discussions of our economic problems.

### IN ARGENTINA

"At 36 $\frac{3}{8}$  cents a bushel, growers were breaking even because rentals and farm values were off more than 50 per cent in the last three years, with a further decline possible." This is in Argentina. When American farmers learn that their sole business should be raising crops and not speculating in land; when they learn that the rental value of land cannot be added to the selling price of wheat nor keep the selling price from tobogganing most disastrously (they have found this out already); when they understand that they must meet the competition of foreign growers in foreign markets; when they realize that they cannot sell enough products to make a respectable living on rented or heavily mortgaged farms—in short, when they know that the land problem is something more than planting corn and