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The Causes of the Present Economic Depression

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THE TROUBLE

(a) In my opinion unemployment is created by legal interference with natural law. Under free conditions, demand for labor would always exceed supply, and wages (and interest) would be high enough to purchase the product of labor and capital applied to natural resources.

(b) In my opinion these interferences in order of their importance are:

1. Land monopoly (the private appropriation of economic rent).
2. Taxes which are not the equivalent of services rendered to taxpayer by the government.
3. Tariffs which interfere with fair exchange of products.
4. Monopolies (water, electricity, gas, telephone) operated for private profit and not for service at cost.
5. Combinations of business which function as monopolies.
6. Patents (which seldom accomplish their purpose of rewarding the inventor, but frequently increase cost of living for a generation).
7. Other and less important disturbances of equitable distribution of the products of industry including racketeering.

THE CURE

(c) In my opinion the cure can be effected by a gradual shift in our taxes so as to collect from each tax payer only the value of the services rendered each taxpayer by the government. These services are reflected more accurately by the economic rent of land (sites) than by any other method. Until the idea that citizens should pay for the cost of government according to benefits received (and not according to ability to pay), no basic improvement in conditions can be made.

1. Taxes upon products of industry increase their cost and discourage their production and

decrease the demand for labor. Taxes upon economic rent (or land values) decrease the cost of land, encourage the production of labor products and increase the demand for labor.

2. Land values are not individually produced but are a function of government, increasing with improvement in government and decreasing with decrease in government efficiency. Land values (and economic rent) increase with increase of population and with increase in the respect of that population for government; and decrease with reduction of population and with increase to lawlessness, they are not individually produced except to the microscopic extent that an individual increases the population or affects the attitude of the population toward government.

3. Improvement values on the other hand are individually produced, and their selling value depends upon cost of production (except for a small percentage of freak exceptions due to whim or antiquity). Houses are not worth more because of good government, streets, car services, telephones, etc. The cost of reproduction under such circumstances (and therefore the selling value) is actually reduced.

4. In other words, economic rent is socially produced and should equitably go to pay for the social service which causes it, while labor products are individually produced and should equitably go to pay for the labor and capital which produce them.

5. It is my opinion that a gradual shift of the weight of taxes from labor products to economic rent would increase the demand for labor and capital and so increase wages and interest while discouraging speculation in land and so again improve the condition of labor and capital.

6. High wages and high interest rates go together. Unemployed men and unemployed capital go together.

7. But it is necessary to remember that money may be paid for things that are *not capital*. Land in economic discussion is not capital, slaves are not capital, monopolies, though costing money and getting income, are not capital. These things, because money will buy them as well as capital (labor products used to facilitate production) are generally spoken of as capital. Utter economic confusion results, and the present breakdown of our economic system is a normal result.

(d) The so-called "grade tax" of Pittsburgh, Pennsylvania, is worth studying. They do not tax machinery, or stocks in course of manufacture, or personal property (except microscopically); and then over a period of fifteen years they gradually shifted a portion of the tax burden on improvements to land values by a series of ten per cent reductions in the assessed value of improvement occurring every three years. In my opinion, this system applied on the United States would gradually increase the demand for labor and capital and reduce the cost of land to industry and homes, till wages and interest would buy the products of industry and the so-called overproduction of goods was a thing of the past:

Over production of food with millions of people hungry!

Overproduction of shoes with millions of people poorly shod!

Overproduction of houses with millions of people poorly housed!

(e) A gradually abolished tariff such as James G. Blaine told his party it must adopt if it was not to be wrecked by its own device, would correct this interference with production. It could and should go hand in hand with restricted immigration till the rest of the world has raised its standard of living to ours.

(f) Government ownership and operation of the service monopolies would correct that leak.

(g) Combination in business could not exact any toll of industry if land, tariff and service monopoly were eliminated.

(h) Patents might be replaced with rewards by a commission to useful inventions.

(i) Racketeering would be less attractive when jobs were plentiful and wages high.

CONCLUSION

We have run the world for the privileged. The result is a breakdown of our economic system and the imminence of upheaval which will wreck the privileged along with their savings.

We cannot correct the evil results of monopoly and keep the present monopolies. You cannot eat your cake and have it too. Fair play would mean less billionaires but more contented citizens and a safer future.

Reprinted from *The Consensus*, published by the National Economic League, August 1931.

HOME BUILDING

Many people are wondering what Mr. Hoover's home building program amounts to. If the plan makes it easier to finance the actual building of homes, it will naturally stimulate construction work. Building materials are cheaper than they have been for some years. Even land is not being held quite so tightly to the peak prices of the recent boom. It will be possible for these home builders to buy lots for the first months of the building campaign at lower prices than they would have paid three years ago.

What effect will this have on the building program in general? Unless pocket books are even flatter than we think, it will encourage some venturesome souls to build homes. When it becomes apparent to the general public that building is on the increase, all those who have been hanging on to their vacant lots during these lean years will begin to push the price up. Some owners, through adverse circumstances will be obliged to sell at the very start, and the prospective home builders who begin operations early enough will not be so bad off, perhaps, but every succeeding builder will find that the increased demand for lots has pushed the price higher. This will go on until the increased price of building lots swallow up all the advantage that was to be gained by easier financing and things will again be at a standstill.

Even if the lumber and cement and other companies handling building materials should say: "Here, folks, we aren't selling anything just now. All this stuff is lying here idle, not doing anybody any good. Come in and help yourselves. Take what you like and build comfortable homes for yourselves and families."

What would happen? As the landowners watched the procession of trucks and sedans and stripped Lizzies going into the lumber yards for materials, they would rub their hands with glee. "Now is our chance," they would say. "No matter how many bricks and boards these people have, they can't build a house or a chicken coop without using land, and we own the land. If they want to build homes, they'll pay us for the privilege of doing so." And people would, too—these industrious home builders. They would pay the land owners an ever increasing price.

On the other hand, suppose the lot owners said: "Here, you home builders. There isn't any sale for these lots. They'er lying here idle, not doing anybody a bit of good. We didn't make them and I guess the good Lord that did intended them for you folks as much as he did for us. I don't know why you should pay us for the right to build homes on the land that God made for all. The town will look better with houses instead of weeds on these lots, and your families will have

comfortable homes. Come on and make use of this idle land."

The increased demand for building materials in such a case would undoubtedly send the price up. If enough people took advantage of this offer, and there is land enough in every community to furnish building sites for all the prospective home builders in the country, if these people began to build homes there might be such a demand for carpenters and bricklayers and plumbers and plasterers and all others who engage in the building trade that there wouldn't be enough of these merry gentlemen to fill all the jobs. Wages would probably go up. Increased wages would mean increased buying power. All these workmen would want so many things that factories and manufacturing plants would have to employ more men. Money would be brought out and invested in the production of the many articles that these people would want and buy.

If land values go up, it means increased income for the few who have land to sell or rent. These few, however, can not consume enough wealth to keep all the factory wheels turning. Though they live ever so prodigally they are too few in number to consume the enormous quantity of wealth that modern industry can produce. If, however, wages and interest are increased by reducing rents or land value, the buying power of millions, instead of hundreds, will be increased so that invention, labor saving machinery and scientific farming can scarcely keep up with the demand.

When President Hoover finds some method of restoring the land to the people, home building will take care of itself with very little trouble for bankers or mortgage holders or the home builders themselves.

ANOTHER OPINION

In making his annual address to the Cleveland Chamber of Commerce, Col. Leonard P. Ayres vice-president of the Cleveland Trust Company, said that the two great causes of the depression were the collapse of wholesale prices and the contraction of credit under pressure of the banks. Col. Ayres did not go back far enough to reach the interesting point—the cause of the collapse and the bank pressure, but he accidentally shot a bolt in the right direction. He said that if prices remain at their present level for a considerable time, "we shall have to accept much of the shrinkage in land values as being relatively permanent." He went on to say that lower levels would have to be accepted for rentals, wages, taxes, and for public, corporation and private expenditures.

If Col. Ayres would only keep in mind the fact that whether price levels go up or down, rent as well as wages and interest must come out of them, he would see that the lower the rent, the more would be left for wages and interest. It is very important that land values shrink, in fact that is the only thing that can effect our economic recovery, and the permanency of such shrinkage is the only thing that can make continued prosperity possible after we get it.

THE SCHOOL OF HARD KNOCKS

Mr. James E. Shelton, vice-president and secretary of the Security-First National Bank (these bank presidents and vice-presidents seem to have what old Tony Weller would call "the gift o' gab very gallopin'") anyway, Mr. Shelton told the Rotary Club that "We are being exposed to more education in these few years than might ordinarily come to us in twenty-five years of more normal times. It depends upon each one of us individually how much of this education we absorb."

We have absorbed one or two facts: that big business men don't know any more about the cause and cure of depressions than their humblest clerks; that hard times can come during a Republican administration and therefore is not a matter of party politics; that high tariff walls don't help international trade nor make the farmer prosperous when a bumper crop of wheat and reduced buying power of the general public come at the same time. Yes, we have learned some things, without a doubt, but we will probably have to take a good deal more punishment before we're through the course. The difference between land and labor products is one of the things we will have to learn.

It takes hard work to make an easy living.—Hubbard (Ore.) *Enterprise*.

The next war, we presume, will be a war to end peace.—Tampa *Tribune*.

Business will improve soon, if only to escape the remedies offered.—Canton *Repository*.

Fire prevention slogan: "A match may be down but not out."—Florence (Ala.) *Herald*.

According to treasury statements, there is too much red in the red, white and blue.—American *Lumberman*.

As we understand Shaw, the Russian system is ideal if you are a rich playwright living in England.—Manila *Bulletin*.

What the country seems to need is rigid economy coupled with a tendency to free spending.—Boston *Transcript*.

For the last five months Chicago has been paying its school teachers in script. But Chicago's bootleggers continue to get cash.—San Diego *Union*.

American investments abroad total more than \$15,000,000,000. So, in minding its own affairs, the United States must be greatly interested in other countries.—Christian Science *Monitor*.

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FOR THOSE WHO BELIEVE IN GOD

Some people still believe in God. It may be a bit oldfashioned, but they will do it. They even believe that God created the fruitful earth for the benefit of mankind. A few think that He made it for the benefit of all; the majority hold the opinion that He created it for the use of a few—those who arrived first, either by pioneer emigration, by the overland limited or by the stork express. This priority gives the possessor of the earth the right to charge any later comer for the privilege of living at all, for obviously, he cannot live unless he does use the earth.

When horses and oxen are running free, they nibble the herbage where and when they please, obtain their own food without help. When they are cut off from pasturage, shut up in stables or corrals, they must be fed. It is the same with men. When the Indians roamed the plains, they chased the buffalo or hunted the elk or set their tepees where they pleased. When the White man came, he took what land he wanted, unmindful of the Indians' rights, and confined that noble Redman's activities to very limited territory, the reservations. He could no longer hunt where he chose, and until he had learned to till the soil, he was fed by Uncle Sam who supplanted the Indians natural food with the flour sack and pork barrel. When men are cut off from their natural source of supplies, they must be fed.

Today, millions of men are cut off from the earth, the bountiful land that God intended for all, and like the stabled ox, they must be fed, fed by the Community Chest, the Salvation Army, the government itself through the use of unemployed bonds. Some think they are so smart that natural laws can be disregarded, that the earth may be appropriated by a few while the many are bled almost to the point of death for the opportunity to earn their mess of potage. Is this what God intended when He created man and bound him unalterably to the solid earth for the term of his natural life? Blinded by ignorance, selfishness, indifference, men have persisted in

trading in God's precious gift, the land, as if it were a common man-made commodity.

Some have prospered by this trading, this land monopoly. Yes, but for every ounce of wealth they gained, someone lost, someone earned what he didn't get, someone was hampered in his business, someone went ragged and hungry.

God doesn't balance His books every day, but when He does, He makes a thorough job of it. He is balancing His books now. A writer on the Los Angeles Times said in an editorial: "You cannot break the Ten Commandments, but if you do not keep them, they will break you." That is a significant thought. People have tried to break God's economic laws. They can't do it, and the laws are breaking them. The poverty and misery in the world, the hunger and want, much of the sin and crime is a result of trying to break those economic laws.

The old year has proved the fallacy of old contentions that a country, rich in natural resources can build permanent prosperity, comfort and happiness, while the benefit of those natural resources is being diverted into the private pockets of a few. It is a beautiful system for the five hundred and four individuals who received incomes mounting into the millions last year, but what of the six million men that received no incomes at all. What good did God's fruitful earth do them? Why were they denied the right to its benefits?

Step out on the new year with the firm conviction that the philosophy of Jesus Christ is true and that it is intended for our day and age just as much as for the days when he walked the streets of Old Jerusalem. The brotherhood of man is not a figure of speech, it is an economic truth. It must be recognized and our social life and laws made to conform to it if we are to attain the comfort and contentment that we have a right to expect. "Love thy neighbor" is worse than a meaningless phrase when you take part of what that neighbor has produced for his right to use the land that God created for all. Prayers become blasphemy when charity feeds the poor and fertile lands lie idle. The service of the church becomes a hollow mockery when it preaches the gospel of love while it countenances the greed that allows a few to fence in God's priceless gift, the land, and charge their brothers for the right to bare existence.

Every period of prosperity has been built on false principles, and the working of God's economic laws has brought it down. It has brought this latest period down, and it will bring down the next and the next until men are willing to conform to these laws. Nothing else will answer. These laws cannot be broken, but they will break you. The brotherhood of man must be made the basis of our social laws as well as the subject of our sermons.