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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

feeding hogs—that it goes the length and breadth of our country and round the world and back again; that it is the problem of the city dweller and factory worker just as much as it is the concern of the farmer or rancher, he will know that the old ideas of land tenure and taxation belong to the days of the wooden plow and hand flail and should be discarded with as little compunction as were those outgrown tools.

FACING OUR DIFFICULTIES

Last April, Andrew Mellon in addressing the Pilgrim's Society in London, said: "In America we are facing our difficulties frankly and, while conditions there are serious, they are neither so critical nor so unprecedented as to justify a lack of faith in our capacity to deal with them in our accustomed way."

In our accustomed way! By trying to solve our problems in the same old way, we have let the country slip further into the depression. As our columnist, Harry Carr says, we have discarded whale oil lamps, but we are trying to run the country on a whale oil basis. No other country in the world has made such progress in its methods of production and manner of living, but in our handling of economic problems, we cling tenaciously to the methods our forefathers used.

The first generation or two on our shores could afford to make mistakes in their conception of political economy. They could do a good many wrong things and not be greatly hurt, for the vast American continent spread out before them, luring them on to cheap or free land when they found jobs getting scarce in the centers of population. It was good land, too, some of the best in the country. There is cheap land now, and a very little free land, but it isn't much good. It isn't worth the struggle.

With this loss of natural opportunities, we are facing our problem with an entirely different setting from that faced by our forefathers, and we need new methods of handling the situation, not "our accustomed way."

In June, Owen D. Young voiced the opinion that we might have to put extraordinary powers in the hands of our President to handle affairs in this crisis. "The insistent call for leadership and for central planning which is arising on all sides is the instinctive call of the masses for integrated responsibility and power in this highly specialized world of ours." Mr. Young believes that we need some centralized authority with power to act, and in that phrase, "integrated responsibility," is a hint that we'd like to have some one to blame if the schemes didn't turn out well.

As a matter of fact, it is high time that individual citizens harried their individual souls and accepted a little of the responsibility themselves.

It is better to have a poor plan than none at all, for the plan can be changed or discarded. The important thing is to realize that the whole responsibility need not be left to the politicians and statesmen. The embattled farmers have stopped talking and started to act. Their plan may have dire, unforeseen results, but at least it shows the world that they mean business; that they do not intend to have their homes taken away from them by tax collectors or mortgage holders.

We talk and talk about government expenditures and say over and over that they must be reduced, yet they go right on climbing. Some day we are going to say: Stop! The *Brooklyn Eagle* calls our attention to the fact that the farmers in rebellion are mostly of pure American stock. It is "the Spirit of 1776."

Perhaps we have not been divorced from the land long enough to lose our spirit, but you remember what happened to Antaeus, the giant who was called upon to defend the Pygmies against Hercules? In the struggle, that famous strong man discovered that every time his adversary touched the ground, he seemed to renew his vigor. At last Hercules seized Antaeus around the waist and held him aloft away from the ground. "The giant struggled with all his might to get free; but Hercules held him fast, and felt him grow weaker and weaker, now that he was no longer sustained by his mother Earth, from whom he derived all his strength, until at last his struggles ceased, and he hung limp and lifeless in Hercules' crushing embrace."

Let's not stay in the crushing embrace of land monopoly until we hang limp and lifeless.

GOVERNMENT LEECHES

Jobs are hard to get during so-called prosperous years. Personal ability goes a very little way. The opportunity simply isn't there. Isn't it the most natural thing in the world for the relatives and friends of every office holder in the country to ask him for the best jobs he can give them with the government, federal, state or local as the case may be? Isn't it also natural that he should want to do the best he can to provide for them? The salaries do not come from one individual or company. It is so easy to reach into the public till for one more salary, so hard for cousin Ann and sister Sue to find work.

Stop haranguing the politicians, Mr. Taxpayer. Change the tax system so that natural opportunities will be opened up to all alike. Jobs will be plentiful and there will be no occasion for these leeches that are such an unnecessary expense to the government. Like most of our social problems, we try to solve it by beginning at the top instead of at the bottom. As long as jobs are scarce, many people will rush to take advantage of any opportunity that offers—public office, racketeering or highway robbery.

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THE UNTAPPED SOURCE

Balancing the budget has become a great national sport. In an English weekly, *John Bull*, Viscount Snowden, former Chancellor of the Exchequer of the British Government, proves himself the only statesman, probably in the world, who has the intelligence and the courage to say what ought to be done.

"There are only two ways in which a budget can be soundly balanced. The first is by promoting measures which will improve trade and increase taxable profits and income. The second is to apply unearned social values to public purposes. It is with this latter method I wish particularly to deal." Land values have increased enormously even during the industrial depression, points out Snowden. Much of the land has been held out of use, thus escaping taxation entirely—and there are vacant lot owners in this country who seriously believe vacant land should be exempt from taxation, or nearly so! Viscount Snowden says: "The Ratepayers have had to make up for this exemption of a privileged class by higher rates on their property."

In the leading article of this issue of Tax Facts, Mr. E. B. Swinney explains carefully the same point that Viscount Snowden made in his article, and we add the words of the British statesman for emphasis, in the hope that if we keep saying it and keep saying it, it may finally impress our readers as a thought worthwhile. There are a number of men in public affairs who understand the land value tax, or pretend to. It is astounding that not one of them has the courage to come forward at a time like this when the country is in such dire need, and say boldly what the trouble is and how it can be corrected.

Snowden says: "Taxpayers grumble about enormous taxation; ratepayers about the burden of rates; drastic reduction of essential public services is being demanded; and all the time there is the potential source of public revenue in these land values waiting to be taxed and rated.

"In the Budget of April, 1931, I made a modest effort to deal with this question. The proposals met with strong opposition. In one division the bill came within two votes of being defeated. Every section which had some vested

interest in land fought the proposals vigorously, and tried to get exemption. . . . The first move of my successor was to propose to repeal the Act, but finally it was decided to 'suspend' the valuation. All the machinery for the valuation was scrapped; the special staff which had been engaged for the work was dismissed. This potential source of revenue was abandoned, and taxes on the people's food and other necessities were substituted for it . . . to balance the next Budget soundly, new taxes may be needed. The Chancellor dare not increase the income-tax.

"If he had not killed the Land Valuation Act there would have been the revenue from the land taxes available for him.

"That is a tax which, unlike the import duties, would not 'add burdens on industry and prejudice the export trades.' It would bring down the cost of land, throw it open for use, cheapen the cost of houses, and stimulate employment.

"By strangling the land taxes the Chancellor has deprived himself of one fruitful and just source of revenue. He has done this to entrench the landowners in their monopoly. They are to continue to appropriate socially-created wealth, whilst the rest of the community are to bear ever-increasing taxes on the necessities of life."

The tragedy of the situation lies in the fact that millions of unemployed and of those living on starvation wages would defend with their very lives this system of land monopoly that has robbed them of their birthright—and this is just as true of the boastfully "free" Americans as it is of liberty-loving Englishmen.

Neither our President nor our Congress could, at this time, start the country on the road to recovery or raise any special fund for balancing the budget by relieving the unemployment situation by taxing land values, but while Washington is discussing the income and the sales tax, it certainly ought to mention the land value tax and not act as if there were not a single man connected with the government who understood the subject of taxation. Industry is not so thriving that it can be expected to flourish under a still heavier burden of taxes. And is there anyone who really enjoys paying an income tax?

The Alexander Hamilton Institute tells us that Federal, State and local expenditures "represented 37.7 per cent of the income of the American people in 1932, as compared with 15.3 per cent in 1929, and 8.5 per cent in 1913." Yet the return from taxes was not sufficient to meet the expenditures of government, and our budget is not yet balanced. Must this go on forever? Must we always bow under the yoke of monopoly and privilege? Is it so hard to see that the basic principle of our tax system is wrong and we can never have true prosperity until that is changed?