

TAXATION'S NEW FRONTIER

A Businessman's Study of
Dignified vs Contemptible
Taxation

JOSEPH S. THOMPSON

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DEDICATED
to
AGNES DE MILLE

Inspired choreographer and writer,
eager supporter of the vital prin-
ciple presented in this book, and
the worthy granddaughter of that
great thinker and leader in human
progress:

HENRY GEORGE

Publisher's Note

The author, Joseph S. Thompson, belongs to that breed of Americans who inspired the Horatio Alger stories so popular at the turn of the century. Alger's heroes were strong-minded young men who made their way up the ladder of success despite the handicaps of early poverty. Although the formula of "from rags to riches" is vastly oversimplified, its broad outlines fit the pattern of our own author's long and distinguished career.

A native and lifetime resident of San Francisco since 1878, he claims descent from the "pick and shovelry of the Irishstockracy." If the phrase reflects a healthy dislike of snobbery, it also reveals a deep affection for a people who helped to build the America he loves. The contribution of the Thompson family did not end with Joseph, the first-born. It included his sister Kathleen, who as Kathleen Norris became one of the country's best-loved and most prolific novelists.

Mr. Thompson's introduction to industry dates back to 1895. As an employee of an electrical firm he learned to install some of the first X-ray machines used in California. Other assignments called for the installation of storage batteries in early models of electric automobiles as well as

in the gun emplacements at the mouth of the Columbia River.

This exposure to the potentials of electric power made a profound impression on the lad and he decided to learn the business of power transmission "from the ground up." His next job provided that opportunity in a very literal sense. It found him digging pole holes and climbing poles for a predecessor of the great Pacific Gas & Electric Company before moving on by rapid stages to the post of Division Superintendent.

At this period of his life, disaster struck. In attempting to board a train, his arm was badly mangled. Although amputation was necessary, ten days was all that he could spare the hospital for its ministrations. Self-pity was something foreign to his nature. He accepted the inevitable and went forward as though nothing had happened.

In 1906, a brief nine months after the loss of his arm, he was ready to test his wings as an entrepreneur in the production of high-voltage switchgear. With four young associates, whose interests he later acquired, he organized the Pacific Electric & Manufacturing Company. Here he began to show signs of the inventive ingenuity and the business acumen that propelled him to the top. He mastered the rudiments of bookkeeping by studying textbooks in his spare time. He familiarized himself with the intricacies of patent procedures, using the government's manual as a silent mentor with such good effect that he was able to secure many patents on his own devices without recourse to expensive professional counsel.

In 1928, 51 per cent of the company was sold to the Gen-

eral Electric Company. The 1929 stock market crash and the depression years that followed made all parties concerned amenable to another change. When Thompson proposed, in 1936, that General Electric resell their interest in the company to him personally, at book value, the offer was accepted. It was a dramatic moment for him when Gerade Swope, after examining the statement, said briskly, "Let me see. We lose a quarter of a million dollars by that. Well, so do you. What cash payment can you make?"

"Anything less than 10 per cent would probably be undignified," replied Thompson. "Oh, at least that," said Swope, and on that note the bargain was sealed. In 1953, when Thompson and his associates again sold Pacific Electric, he stayed on as President until the formation of the Federal Pacific Electric Company, where he also served in the same capacity.

At a dinner given by the company in October 1956 to mark his fiftieth year as President, those who paid tribute to him said:

"Joseph S. Thompson symbolizes the spirit that has made America great . . . [his] dreams . . . grew as fast as the infant electrical industry of which he was so firmly a part . . . now [the enterprise he founded] includes 12 manufacturing plants whose output grosses more than \$50 million annually and stands with the greatest in the electrical industry . . . tonight, he joins ranks with only a handful of American industrialists who have been so honored . . . the future of Federal Pacific Electric is unlimited, thanks to the pioneering spirit, personal integrity, inventive genius and genuine love for life that is Joseph S. Thompson."

On the attainment of his eightieth birthday, Thompson resigned from active duty and was promptly elected Honorary Chairman of the Board.

During the fifty-odd years since he planted the seeds of this success story, he not only found the time to serve his industry and the general business community, but to think long and deeply about those forces that act as a brake upon the economy. His first published work appeared in 1942 under the title, *More Progress and Less Poverty*—a title reminiscent of his interest in the works of the great American economist and social philosopher, Henry George.

Partial retirement from the business scene has enabled him to re-examine this subject and to incorporate his findings in *Taxation's New Frontier*. "This country," he maintains, "has reached a point where it must make a fresh appraisal of its tax policies."

We believe that the author's views, buttressed as they are by such a wealth of practical experience and the absence of selfish motives, merit the attention of all thinking people. It is with a deep sense of privilege, therefore, that we offer this book to a discerning public.

THE PUBLISHERS

Preface

To begin with, a word about people. It is generally agreed that people are funny. Even the author of this book. He wastes good-sized sums of money quite cheerfully, but he saves gem clips and paper napkins and tucks hors-d'oeuvre toothpicks in his dinner-coat pocket "just in case."

Many of us are like the Irishman who said, "I'm perfectly willing to be *convinced*, but I'd like to see the man who could convince me." Many of us are label thinkers, cliché thinkers, pat-phrase thinkers, and we all take too many things for granted. For example, you are quite sure that you know the name of the animal from which we get our greatest supply of milk. Of course, the cow. What cow? The cow moose or the cow whale or the buffalo cow? What is the name of that familiar animal in all our dairies, of which the bull is the male, the calf is the young, and the cow is the female? Just as the mare is a female horse, so the cow is a female—what?

We all think the sun rises in the morning in the east. But the sun doesn't rise. We rise, and in the west. If we live at the equator we come whirling toward the sun, or toward where we can see the sun, at the rate of one thousand miles an hour. The sun remains in relatively the

same place it was in when we whirled away from where we could see it last night.

Occasionally even the most conservative of us will quite positively say that there is something "radically wrong," but if it is suggested to him that therefore we should do something "radically right," he shies away from that dread word "radical" as though you had suggested the value of a stimulating attack of hydrophobia.

To be radical means to go to "the root of the matter," and this book is an attempt to set things radically right. Some of you will rage at it; some, like a little old lady of the author's acquaintance, will say, "Oh, I'm sure there's a fallacy in what you're saying. I can't see what it is, but I'm sure it's there," and some of you will start singing about it. And the moral of *that* is: Keep an open mind.

The author is indebted to Miss V. G. Peterson, Mr. Robert Tideman, and Mr. Harlan Trott for very helpful contributions to the preparation of this book.

Joseph S. Thompson

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As we were and as we are

America has grown and developed and become the greatest industrial nation on earth. Our living conditions are the highest in the world. But the American people are mainly descendants of Europeans; they are in nowise superior to their ancestors. It is obvious that certain conditions and advantages that were not present in Europe or anywhere else must have contributed to this development.

A few of the more important of these conditions are easily apparent:

1. There was no aristocracy.
2. Religion had no part in government.
3. Free public schools were early established.

4. Taxation was negligible.
5. Free land was abundantly available.

A sixth factor—honest money—might be included, but the earlier financing was at times open to criticism, and prosperous times beget confidence, which is money's basic strength.

What might be thought to be a seventh factor—natural resources and raw materials—is part of, and included in, the land.

Concerned as we all must surely be with America's eminence, strength, and comfort, the questions naturally arise:

1. Are all these conditions essential to America's continued greatness?
2. Do all these conditions exist today?

You may be one of the millions of Americans who rejoice in our national strength, who are confident of our greatness, who are certain that the American Way (though you probably would have difficulty in describing it) is the only proven correct one and that we need only to continue as we are and all will be well.

Perhaps it has never occurred to you to weigh the difference between "as we are" and "as we were." But two things have happened in the last fifty years that sharply split "as we are" from "as we were," and those two things mean frustration and drag in our progress. They mean that the most we can look for is to coast on with the gradually declining impetus left to us by the freer days. They mean that we are no longer able to save and develop the safeguards for our future, that we are discouraged in every ef-

fort to be independent, and that we are more and more retreating into jobs that offer the most hope of "welfare" pensions in our old age.

This is our fate unless we properly deal with the two following evils:

1. The Sixteenth Amendment, written into our Constitution in 1913, permitting levying of the income tax
2. The disappearance of free land

You have grown to citizenship too late to enjoy the advantage that existed when a man could keep his private property, the fruit of his energy, management, service and labor, and his capital, which is his stored-up labor; and America grew because there was incentive to work and to risk capital.

You have grown up too late to enjoy the advantage that existed when a man dissatisfied with conditions in one place could "patent" a homestead without having to pay someone else to get out of his way; and America grew because land was free or because, other land being plentiful and population scarce, land could not be held at a high price.

You have grown up thinking that surely the men who adopted the income tax and inheritance tax policies and the men who wrote our tax laws of today had some degree of intelligent knowledge of economics. But there is no evidence or indication of intelligence in their actions.

All that can be said in defense of the legislators of 1913 is that they were too limited in vision to foresee the ra-

capacity of their successors and the ruinous evil of their creation.

And all that we can be saying soon to the tax authorities of today is, "Ye have sheared the wool from the goose that laid the golden egg until ye have pumped it dry."

The following study of the five factors listed (aristocracy, religion, schools, taxes, and land) may contribute to finding the answer to the two questions presented (Are these essential? Do they exist today?) and, if we find that they are truly vital, the answer to the additional question: Can we eradicate these two evils (destructive taxation and costly land) that beset us?

Aristocracy, church and school

Aristocracy consists of a propertied and a titled class (their property usually being the land and the perquisites that go with landlordism) and of certain levels of people useful to them, with a fringe of associates who descend from former members of the propertied class. The men who constructed our American government were of a very high order of mental superiority, so high that they did not permit establishment of titles or an aristocracy. And there could be no landed aristocracy until the frontiers were reached and land monopoly could come into being.

This largely explains why there developed in America no deference to any class deemed superior because of birth,

caste, or property. It is erroneous to assume that the good fortune and the mental attitude of Americans are due solely to the widespread diffusion of washing machines and automobiles. America's greatest blessing is the comfortable easiness with which all individuals deal with each other, respectful of ability and achievement but void of deference. The importance of this great feature cannot be sufficiently emphasized. Speaking in general, America is one vast "middle class," and it is in proportion to the percentage of the population that forms the middle class that the standard of living in a country exists. Where the middle class is small, the standard of living is low.

The lack of inhibitions is a priceless, though often unrecognized, contribution to mental serenity.

The absence of established castes has contributed enormously to the powerful force of incentive. Incentive—the only hope of a free future.

Fortunately, the freedom from aristocracy exists today; it is very likely that it will continue, and it should, as it is essential to America's greatness. This should not for an instant be thought to imply that no Americans should become rich and prominent. All Americans should be as free as they once were to advance themselves to this condition as a reward for the service that they and their capital render. This can be achieved without the establishment or continuance of privilege.

CHURCH AND STATE WERE KEPT DISTINCTLY SEPARATE

Though there was much dispute and dissent, it is to the credit of the Pilgrims that they brought the principle of unqualified freedom of worship with them, despite their inconsistency in applying it, and it is a measure of the high intelligence of our Founding Fathers that they erected a wall between church and state and prevented the establishment of a state religion.

"Freedom of worship" has been jokingly rephrased as "freedom from worship." The real freedom, of course, is freedom from any possible dictation by anyone as to the action or thought on the part of anyone else with regard to religion. Authoritarian religion with political power would bring bloodshed in America as it has invariably brought bloodshed everywhere else.

Freedom from religion in government does exist today, and we must make sure that this condition will continue, for we can be positive that it is essential to America's greatness.

FREE PUBLIC SCHOOLS WERE EARLY ESTABLISHED

Our free public school pattern began to develop while we were young in our colonization of the New World and accounts for our literacy, in turn a contributor to our prosperous democracy. There can be no denying or even minimizing the propriety of a department of our government financing the development and sustention of as

through a public school system as all the requirements would indicate.

In the writer's opinion such a department should be on the local level for taxation reasons, if for no other; but, however financed, the public schools are a bulwark of our culture, for it has been a long time since the standard of education in this country stopped at mere literacy.

As the purpose of this book is the study of government income rather than expenditures, we can simply say of our schools that they still contribute splendidly to the greatness of our country.

It is evident that, of the five conditions listed, the first three have not changed enough to have affected the strength and progress of America, and that the changes that have taken place in the other two must largely account for the evils that confront us.

Our study, therefore, will be concentrated on *taxation* and *land*.

Taxation

As long as taxation is believed to be, and is accepted as, the means of securing public revenue, perhaps it should not be surprising that ignorance of the subject is placidly indulged in by almost all of us and that taxation is shrugged off as inevitable and therefore to be patiently endured.

But we are all grievously injured by our acceptance of this belief and by our failure to realize that the securing of public revenue is but a small part of the effects of taxation—the least important part—because taxation is the social power that most affects the comfort or misery of everyone; that destroys the incentive to create, serve, and produce where it could stimulate it; that fines the industrious and the thrifty where it could reward them; that fosters fraud, creates privilege, and acts as a constant drag on human progress.

The dictionary defines taxation as "the raising of revenue by the levying of compulsory contributions," and naturally we understand this to mean the (legalized) raising of (public) revenue. But as this definition would also describe robbery, blackmail, and extortion, it might be useful to recognize that taxation is something far more fundamental than just the securing of public revenue.

Taxation is inherited from the days of irresponsible power. It is arbitrary and the product of opinion unguided by any scientific or even common-sense standards, and therefore is indefensible in logic, justice, or sound business principles—to say nothing of ethical principles. The means of securing the necessary public revenue for the great United States of America should be dignified, nonfluctuating, and simple in structure and so demonstrably and evidently honest, logical, and justified that it would be removed from the field of political meddling, whim or opinion.

Without going into the detail of the history of American taxation, it can be summed up in two periods:

1. Before the enactment of the Sixteenth Amendment to the Constitution, permitting levying of an income tax
2. After the enactment of the amendment

Before the amendment there was some hope of developing a sane and incentive-preserving system, but there was blundering and groping and dullness. No thought was given by the lawmakers or the general public to the question of whether there was such a thing as *earned public income*; such a thing as a publicly created income or source of revenue.

After the establishment of the Sixteenth Amendment a cancerous, bloated, politician's plunder era commenced in which we commit, as a mass, crimes that would see each one of us in jail if performed as an individual.

It is true that many of the irritating taxes of today are not the spawn of the Sixteenth Amendment—they are products of the ignorance of a true sense of *thine* and *mine* and *ours*. Then there are taxes such as the tax on theater tickets, originally levied because we thought that amusements should be suppressed while our soldiers' lives were at stake (the boys themselves are paying that tax now), and the fining of travel today so that it will not interfere with the movement of our troops *twenty years ago*. And as there is no sane gauge, criterion, or standard to go by, these war-born taxes are rarely discontinued.

A striking example of the haphazard, illogical freakishness of our present tax infantilism glares out in the utterly unfair treatment of the lessee as compared with the buyer of a house. To illustrate: The Blank Building and Loan Association owns two identical houses, side by side, each worth \$30,000. Mr. Allen buys one of the houses and pays \$10,000. The Association retains a 66% per cent ownership, on which Mr. Allen pays interest: *deductible* for Mr. Allen.

Mr. Bowie moves into the other house as lessee for an agreed period. The Association retains a 100 per cent ownership, on which Mr. Bowie pays interest: *not deductible* for Mr. Bowie.

Try to think up a common-sense or a scientific reason for that discrimination, particularly when it would be logical to assume that Mr. Allen would be likely to be more financially comfortable than Mr. Bowie.

Wine is an important California product, but the criticism of California wine is that it is too young, and wine needs aging. California county assessors place a taxation value on all the wine inventory in a vineyard each year, so that to age wine five years would mean that the same wine would be taxed five times, whereas in any retail store where their inventory is turned over many times in a year only one of the many inventories is taxed. There are other stimuli, even perhaps more pressing, for the too early movement of wine, but this one is cited to illustrate the complete lack of logic or science in the practice of taxation.

One can easily bring to mind many other absurdities such as, for instance, the ruling of the Revenue Service (sic) permitting a "short-term" termite-injury repair cost to be deducted from income, but forbidding deduction if the termites have been more deliberate and the damage has developed over a "long" period. Under another ruling there is "no tax on swimming pools if children are admitted and there is no dining or dancing," but these are trivial compared with the basic heinousness of the income tax, the sales tax, the personal property tax, and the inheritance and gift taxes.

It is these major burdens that concern us, and it is impressively evident that the taxation structure under which America advanced so brilliantly does not exist today and obviously cannot be now depended on to insure America's future greatness. Until the evil law permitted by the Sixteenth Amendment is repealed and an intelligent public revenue system is instituted, our greatest asset, *incentive*, the builder of America, will be discouraged to the disappearing point.

The income tax

The income tax is frequently condemned by competent and informed commentators, even by one who was at one time the Collector of Internal Revenue. It is an outrageous, thievish, unjust, unintelligent punishment of those who perform service or invest their capital. Levied with no thought or study of the question as to whether the income which is taxed is received as a tribute to privilege or as a recompense for service, it is chiefly designed to hit any head that rises above the average.

As a report submitted to a Congressional Committee in 1955 by Mr. William J. Grede as President of the National Association of Manufacturers puts it:

The present income tax law has grown from 31 words to more than 440,000. It is so complex that the average citizen must seek legal aid in computing his obligation. It is so complex that even after he has obtained such aid, the tax collector very often differs in his interpretation of the law and in such a case the burden of proof falls on the taxpayer. It is the only instance that I know of in legal experience that the individual is "guilty" unless he can prove his innocence. We have a tax system at present which penalizes most the individual who wants only to sell his personal services and ability for a wage or salary. It is a law aimed at mass effect, showing no consideration for the problems of the individual, and when the law loses respect for the individual, the individual loses respect for the law.

And the multiplication of words above referred to is due to the compounding of evils based on the fundamental evil of arbitrary confiscation.

Anywhere in tax law reporting, one can find at random such linguistic monstrosities as:

MEASURING CASUALTY LOSS OF LIFE TENANT OF RESIDENCE: Tax Court had allowed deduction of portion of loss allocable to tenant's life estate, not to exceed basis. Yardstick was actuarial life expectancy applied to total loss (Bliss, 27 TC 770). The Commissioner acquiesced; the taxpayer appealed. Now the Second Circuit reverses: As a matter of "practical common sense" the entire burden of the loss fell upon the life tenant, hence she can deduct the entire loss. The Court noted that under the will the remainderman could not "prove any loss" to them, nor had they asserted any. Therefore the caveat by the Court: The decision is confined

to the "unusual facts"—no general rule is established (6/18/58).

"No general rule is established!"

It is strange indeed that, while the debtors' prison has long ago been abolished throughout the civilized world and man can no longer be sent to prison for failing to pay obligations which he willingly assumed and entered into, he *can* be sent to prison for failure to pay levies which he is forced to submit to, levies of arbitrary amounts for which he receives no benefits of his own choosing or commensurate with the amount he pays.

One of the extremely offensive features of the income tax is the fact that it is in the interest of the tax collector to be inquisitorial and dictatorial about the details of conducting business. All businessmen are subjected to the degrading assumption that they would cheat and misrepresent if given the opportunity, and as a matter of fact many of them are inclined to do so because they instinctively feel that the law is so arbitrary and unjust that any form of combating it is desirable. A more intelligent government-income procedure would be one without either stimulus or opportunity to falsify.

This intrusion by government is illustrated, for example, by notices which are sent out to employees by large companies, warning the employee that his expense accounts must be capable of being scrutinized by government officials and must satisfy these officials. The company does not state to its employees that it will disallow certain items, but it is necessary for it to warn them that while the company may be quite willing to accept them as part of the cost of

doing business, the government will not permit it to, because to do so would reduce the amount of tax that the government can take away. The company must thus warn the employee that if the government disallows these expenses, such of them as have been paid by the company become extra compensation to the employee and therefore ends as a part of his income on which he must pay a tax. This subjection to the opinion of a tax-record examiner may be visited on the employee long after he has imagined that his tax burden for the year had finally been lifted.

A feature of the law which has been challenged as being unconstitutional is the forcing of employers to function as tax collectors. All employers are subjected to expense and annoyance in the form of bookkeeping, refunds, complaints, and reporting, to name a few, by this needless intricacy of improper taxation.

Housewives, too, under the Federal Insurance Contributions Act, are forced to become tax collectors and to submit reports to the government, under pain of accusation of fraud, which must be bewildering to most of them. It is safe to say that in the majority of cases, in order to spare herself the embarrassment of attempting to explain this delegated paternalism, the housewife quietly pays the employee's portion of the tax. This, of course, means that she is paying more to the employee than she has reported—the full pay, whereas there should have been a deduction from it—so (with the kindly permission of the Income Service, it is true) she innocently perpetrates a fraud at her own expense.

These levies for Social Security are not, strictly speaking,

an income tax. They impose and enforce frugality upon us, providing for our old age. Thrift and frugality through self-control are seemingly outmoded virtues, but since our provision for the future seems to have to be done *for* us collectively rather than *by* us individually, it is quite reasonable to assume that it could be done more simply by direct appropriation from the established income of the government.

The capital gains tax is designed to cover income of a special type and deals, in many cases, with income which is not, strictly speaking, directly earned by the recipient.

Capital gains result from the enhancement of the value of securities, the result of actual or hoped-for increase in the yield of land value or labor production, or often, of course, of both together.

Setting aside for the moment the difference between land value and human effort, and assuming that an investor risks his capital by the purchase of the securities of a production company and that the securities increase in value so that, should he sell them, he would secure a profit—isn't that what we want to have happen? Doesn't that encourage investment and initiative?

Income and capital gains are not the proper sources of government revenue.

The sales tax, property tax, and tariff

THE SALES TAX

The sales tax, or a uniform manufacturers' excise tax such as that which, incredible as it may seem, is recommended by the National Association of Manufacturers, is a burden on consumption and a fine assessed against the consumer for being a user of a manufacturer's products. How the N.A.M. could recommend an excise tax on their own products is an example of flesh-flagellating masochism that can only be explained by the complete lack of understanding on the part of the Taxation Committee and its staff of the fundamental fact that a tax is a powerful economic determinant that should be scientifically approached.

It would seem as though the intelligent thing for the N.A.M. to do would be to employ a panel of tax experts which might put an end to the frequent loose and baseless observation that "no practical alternative to the present tax hodgepodge has ever been disclosed."

The sales tax is a burdensome impropriety which, like the income tax, has developed a maze of rulings, annoyances, complications of bookkeeping, and petty meddling by government officials without the justification of a proper relationship between the payer of the tax, who receives no *quid pro quo*, and the governing body that collects it.

The sales tax increases the cost of living most for those who can afford it least, and like any other legal ruling that offends justice, it begets its own brood of venalties. It drives business from the area in which it is levied and is resented not only by those who must pay it, but by those upon whom the task of collecting it is arbitrarily imposed. It allows the public to be cheated, often innocently by shopkeepers who cannot take time to calculate the tax precisely when they are ringing up a sale, and because of its complexity, opens the way for unscrupulous gouging. The following news item illustrates part of what I am trying to point out:

OVERCHARGES ON SALES TAX TOLD

SACRAMENTO, Dec. 17 (AP)—Are you being charged more sales tax than the law allows? Are the merchants pocketing the extra pennies?

State Consumer Counsel Helen Nelson says she has been getting many complaints to that effect.

She took the problem to the State Board of Equalization, which collects the sales tax. The Board said it

knew of some abuses, but is practically powerless to prevent them.

The Board decided to cooperate with Mrs. Nelson in drafting laws to cure the three main complaints:

1. Tax collected on untaxable items, such as most labor.

2. Charging tax on each individual item purchased rather than on the total.

3. Using inaccurate charts to determine the tax.

On the first point, Board Chairman John W. Lynch said the State is now suing one firm which collected between \$50,000 and \$100,000 on untaxable labor. But he noted that some labor is taxable, such as *making up drapes for a home.* (!!)

On the second point he said present law doesn't prohibit collecting tax on individual items.

As to the tax charts, they are all unofficial, and Lynch said law doesn't permit the Board to distribute an official one. (!!)

Mrs. Nelson noted that most charts call for 4 cents tax on an 81 cent purchase, which is 4.9 per cent.

THE PROPERTY TAX

Taxes on capital investments, like all other taxes, act identically as a fine, and we, by habit, follow the remarkable procedure of fining the people who, by investing their capital in buildings, tools, and inventories, improve our country. We seem to think that if we levy a tax without intending to punish, it will *not* punish, but if we levy it with intent to punish, it will punish.

It is true that all investments are served and protected by publicly financed agencies, such as the police and fire departments and the water and sewage systems, and that

without them operation would be hazardous and insurance would be prohibitive. But in the end it will be found that such services do not always increase the value of the building or inventory, which is fixed by its cost, but that they do increase the value of its location.

THE TARIFF

Tariffs on importation are, of course, frankly imposed to discourage importation. Many years ago the slogan of the Republican party, favoring a high protective tariff, was "Protection for American Industry." That of the Democratic party was "Tariff for Revenue Only." But each, of course, meant "prevent importation."

While we can differ on the merits of destroying trade with other countries, it is hard to understand those who see value in repressing our own industries. It would be infinitely more intelligent to lift the tax burden from our industry, whereupon perhaps we could compete with foreign manufacturers and maybe, in time, the absence of a tariff would reduce the general cost of living.

THE INHERITANCE AND GIFT TAXES

For many years the acquisition of wealth, based on a lifetime of service and not on privilege, was supposed to be an admirable achievement and the hallmark of good citizenship. Personal sacrifice on the part of the head of a family and often his wife to avoid becoming public charges and to protect their children was praised, and we used to approve the giving of gifts to those we loved and bequests to those we sought to provide for.

But we know better now. We know how to handle the kind of citizen that still thinks that way. We have the inheritance tax and the gift tax. And with them these virtues have become punishable offenses.

The inheritance tax has hatched a foul brood of Tax Commission rulings, of court decisions, of High Court reversals, of decisions one way by one United States Court while decisions another way were being handed down by another United States Court. We are reminded of the couplet, "Oh, what a tangled web we weave when first we practice to deceive!"

As to the gift tax, it is in force to insure that all that a person owns, or owned, will be taxed when or before he dies. If a father gives a home to a daughter he loves, the law can only see him doing it "in contemplation of death" to cheat the tax collector. True, he built it, maybe with his own hands. True, he paid taxes on the income out of which he built it. True, she will pay taxes on it. But the great, dignified United States and also his home state select the time of bereavement for one of its harshest inflictions.

The inheritance and gift taxes are evil and unjust under the present conditions, and the only thing that gives them a vestige of justice is that estates frequently carry the privilege of collecting a value that should justly be the property of the public. If this privilege were not present, such taxes would be, and are, stark, clear cases of strong-arm robbery. The government is degraded when it stands like a greedy ghoul at the side of the coffin.

Sales, personal property, gifts, and inheritances are not the just and proper sources of public revenue.

Taxes that are levied to discourage

Since taxation is a powerful agent of destruction, equally discouraging to what is good and to what is evil, when it is desired to destroy anything it is easy to tax it out of existence. This fact is illustrated by the "jitney-bus" development in San Francisco many years ago. Automobiles were beginning to be more plentiful. Many people owning them saw opportunity to earn a few dollars with their cars by operating them in the streets as "jitney buses." ("Jitney" was the current slang term for a five-cent piece.) This practice filled the major streets with cars picking up and unloading passengers and made great inroads on the street railway company. The whole thing, although in many cases

a convenience to the people, was easily "cured." A substantial license fee, which is a form of tax, was required of anyone wishing to operate a jitney bus, and the number was soon reduced to about a hundred. That "the power to tax is the power to destroy" was here made sharply evident.

Tobacco is heavily taxed, liquor is taxed out of all proportion to its initial cost, dogs are taxed—all as repressive measures. So it is evident that the people's representatives can punitively repress any activity they choose by taxing (fining) it.

There has been frequent expression of the opinion that taxes should not be used as sociological tools, that there should be no attempt to correct offensive conditions by taxation. Persons expressing this opinion do not seem to realize that the alteration of sociological affairs is inextricably bound with taxation and that a tax, as a fine, powerfully alters sociological conditions, whether it is intended or not, and that unwise taxation, instead of not affecting, can and does *create* offensive conditions.

How obviously more intelligent it would be, therefore, to refrain from fining the activities that are beneficial.

Could a tax program encourage?

President Eisenhower, in a budget message to Congress, wrote:

We must develop a system of taxation which . . . will not discourage work, saving and investment. . . . Our system of taxation must not only provide our government with the resources to be strong for freedom's sake, but also enable our people to apply their initiative and industry fruitfully in an economy that is itself free and strong.

This means taxes so adjusted as to fall where payment is least harmful and so planned as to create jobs and expand the income of the mass of the people.

This advice was ignored by Congress. The great law-making machine creaked on with the same old methods, the same old bumbling, the same old fixities and prejudices. The same old complexities and intricacies were jumbled and muddled around. No pretense was made or suggestion presented that there might be such a thing as Political Science—a reducing of the problem to its basic integers, an analysis, a drawing of conclusions from established facts, and from this the formation of a revenue program consistent with the dignity of a great nation, though there is ample material at hand for such a study.

To develop a system of government revenue for the United States of America that combines dignity, stability, and simplicity would mean that we could retain the priceless advantages with which we started and give a final answer to the questions with which we are faced.

In the simple nature of things it is obvious that the course to pursue is to lift the tax burden from all that is good and, if there is to be any taxation at all, to levy it on those things that are harmful.

But if, in seeking to establish this encouragement to industry and service, it were to be found that there is a source of income, created by the public, that *must be paid*—that cannot be evaded or avoided, that is being paid now, concurrently with the taxes—and if it were to be developed that this revenue which must be paid was really the property of the people, wouldn't it be the intelligent thing to turn it in to the treasury of the people? More particularly, wouldn't it be *our duty* if we were convinced that it was now passing into the wrong hands?

What a marvelous justification of the Sixteenth Amendment it would be if, when Congress used its newly conferred power to levy taxes "from whatever source," it had chosen a publicly created source instead of a privately created one!

We are going to see if there isn't just such a source, and when the American people fully understand that there is a way far superior to the present hodgepodge, the day will come when they will put it into effect. Where there's a will there's a way!

Land

Of all the factors which contributed in its beginnings to the advancement of America, by far the most important was the fact that land was available in such abundance that no man had to pay another for permission to use it. Amplifying this point, it is worthwhile to know what Adam Smith said on the subject in his *The Wealth of Nations*:

Every colonist gets more land than he can possibly cultivate. He has no rent, and scarce any taxes to pay. No landlord shares with him in its produce, and the share of the sovereign is commonly but a trifle. He has every motive to render as great as possible a produce, which is thus to be almost entirely his own. But his

land is commonly so extensive, that with all his own industry, and with all the industry of other people whom he can get to employ, he can seldom make it produce the tenth part of what it is capable of producing. He is eager, therefore, to collect laborers from all quarters, and to reward them with the most liberal wages. But those liberal wages, joined to the plenty and cheapness of land, soon make those laborers leave him in order to become landlords themselves, and to reward, with equal liberality, other laborers, who soon leave them for the same reason that they left their first master. The liberal reward of labor encourages marriage. The children, during the tender years of infancy, are well fed and properly taken care of, and when they are grown up, the value of their labor greatly overpays their maintenance. When arrived at maturity, the high price of labor, and the low price of land, enable them to establish themselves in the same manner as their fathers did before them. . . .

There is an interesting juxtaposition in the fact that Adam Smith's book was published in 1776, the same year that the Declaration of Independence, citing complaints against George III, included one of "raising the conditions of new appropriations of lands." Colonists were concerned that the major proportion of the produce of land should stay in the hands of the producers. In the maintenance of free land at the frontier, the colonists saw a natural safeguard of the rent or price that could be demanded for land in the settled territory.

The first settlers of New England used the method of dividing the land which had been used many centuries earlier when their ancestors divided the land of Britain,

giving to each head of a family his town lot and his seed lot, while beyond lay the free common. The impressive plentifulness of land in America obscured the danger of monopoly in individual landownership, even when tracts were small, which must eventually result when land became scarce. In his great book, *Progress and Poverty*, Henry George pointed out that, when Americans did become accustomed to the idea of private property in land, they still did not grasp its essential injustice; "the continent [has seemed] so wide, the area over which population might yet pour [seems] so vast . . . In short, the American people have failed to see this essential injustice because as yet they have not felt its full effect. . . ."

At the time when land was available in such abundance that permission to use it did not have to be paid for, the settler had great freedom. If he was not satisfied where he was, he could simply move on and homestead somewhere else. This, in turn, held down the valuation of the land he vacated. The general rule that land-value curves and population curves are parallel applied. But in early America the rise in land value was long delayed because of the leakage of population to the free land.

Cost, title, and price

In itself, land has no cost value. Nobody ever made a square inch of land. If you are now thinking, "But there *is* made land," the phrase means that some form of labor has been applied to a particular site.

Cost means human effort. If you think in terms of "cost of land," what you are thinking about is payment for *title* to the land. Title is a legally created privilege, which could be a good one but is now applied most improperly.

"Title" is proper, just, and fair when it is applied as meaning "the right to exclusive use after payment of land rental." It is improper, unjust, and unfair when it is applied as meaning "the legally created and conferred individual

privilege of collecting (for individual benefit) a publicly created value."

Land titles always and only describe sites with boundaries. There are sites out in far parts of the world that have no value whatever, simply because no people are there. Immediately they are populated, land values appear and rise.

"Price" is an altogether different thing. When we read in the newspapers that land prices have gone up, we take the phrase for granted, even construing it as favorable. Yet all that it really means is that, while contributing nothing himself, someone is going to be able to say, "Pay me more to get out of your way."

Land prices have gone up. What does that mean? Why do land prices go up? Does it cost any more today to make an acre of land than it cost ten or one hundred years ago, or could anyone make an acre of land then or today? Of course it means that land *values* have gone up.

Land *values* have gone up. What could that mean but that locations have become more desirable? Locations certainly couldn't become more desirable because they suddenly developed, out of nothing, some quality they did not have before. And now, of course, you are thinking: "Yes, but suppose you discovered gold or oil, or found that certain plants would grow. Wouldn't that raise the value?" Before answering that question it must first be recognized that while that may be true of a great many pieces of land, it is not the case with vast areas—for example, New York City. Business locations there have become more desirable because the opportunity to do business is greater where

there are more people, and the convenience of living near where you do business has made certain home areas more desirable.

The opportunity to do business does not flow from any other cause than an increase in the number of people. As the population grows, the opportunity to go into business grows. As the opportunity to go into business grows, the need for a suitable site grows. A suitable site usually means a place where you have the least difficulty in doing business with the greatest number of people. Therefore, land value, which is really land-title value, is location value, and location value is based on nothing else but the presence of the people. Therefore, location value is *people* value. Land, land-title, site, location, people—it is all *one* value: *people*.

Now, to answer the question regarding the presence of potentially valuable raw material. It must first be understood that minerals (gold, oil, water, iron, uranium, gas, copper, etc.), the natural forests, and the power of descending water are all part of the bounties of nature for which no man can claim credit or reward, and all require the touch of labor. And be reminded that "labor" includes all man's efforts: from scratching his head to determine whether he will invest a million dollars, to spitting on his hands preparatory to grasping a shovel.

But it is *people* that make oil valuable—not the "owners" of an oil-well site. And it is *people* that make gold valuable—not the "owners" of gold mines. And it is *people* that give value to a forest—not the "owner" of the forest.

These people need not be on the precise location. The

people of Stockholm and Copenhagen give value to the great water power that drives electricity generating plants in Harspranget six hundred miles to the north.

Of course the drillers of an exploratory oil well (the capitalists, the management, and geologists) should be richly rewarded in proportion to the great risk in professional reputation and the enormous financial risk. Parenthetically, it might be noted that this does not apply to offset wells and that sensible taxation would doubtless reduce the forests of unnecessary wells in most fields.

The prospector who discovers gold or any mined mineral should also be rewarded sufficiently to stimulate prospecting. Perhaps in such cases, where pioneering and discovery are involved, something like a patent covering a period of years might be established, taking the form of a remission of the land-rental increase that would be the result of the discovery.

In economics, all the bounties of nature are comprised in the classification: *land*. And all the activities of men are comprised in the classification: *labor*.

And in all common sense, *land value is people value*.

Once we grasp this idea, we realize that every individual—and this includes every baby born in your local hospital today, as soon as the doctor picks him up by his little feet, slaps his little fanny, and starts him yelling to close his little ductus arteriosus—adds value to the land.

The presence of people raises public costs as well, but the point is that the mere presence of people of whatever degree of self-support or lack of it raises land values. It is probably true that the type or nature of the people has some

effect. The higher their wealth and productivity level or average, the greater the desirability of location among them, but it is *their presence* that in the end makes "land values go up."

It is frequently claimed that it is the presence of the public that gives *everything* value, not only the land; but the difference between land value and every other value is that the *presence* of people is the *sole* cause of land value. The presence of the public also makes shirts valuable, but the presence of the public, solely, doesn't create the shirts. Some individual or some group had to contribute labor, capital, and enterprise as well. It costs something to supply a shirt. It is interesting to try to list all the people who as silkworm tenders and teamsters and bookkeepers and warehouse builders and weavers and pattern designers and dye makers and so on and so on had something to do with turning out one necktie.

To make the land? No one at all.

Is it not reasonable to say, then, that:

The private collection of land rental, a publicly created revenue, is wrong?

The public confiscation of privately earned income is wrong?

Is it not also reasonable to say that our proper procedure—in fact, our duty—is to:

Publicly collect the land rental, the true public revenue?

Leave privately earned income in the earners' hands?

Rent, wages, and interest

There seems to be a general ignorance of the basic and diametric difference between rent and interest. This difference is best illustrated by the fact that rent *creates* land value, whereas interest certainly *does not create capital*. Rent is what people will pay for the exclusive use of land.

In the case of capital, the yield is fixed by the value of the capital furnished. In the case of land, the yield fixes the value of the land. Or, put another way, of capital: The value fixes the yield. Of land: The yield fixes the value.

Those who claim that land rental is interest wind up with the self-stultifying, ring-around-the-rosie formula: Rent is interest on the capitalized value of itself!

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It would be just as intelligent to say that alimony is interest on the capitalized value of a divorce.

If that is economics, then, as Irvin Cobb used to say, "I'll take sarsaparilla!"

Land, as a site, produces nothing without the application of human effort. Land containing raw material has an integral rental value for which no individual deserves unqualified reward. Capital, on the other hand, is the result and the surplus fruit of human effort, industry, and creativeness and is entitled to a full reward, tempered by competition, when put to productive use.

Land is not capital, though it is true that land users list their land as one of their capital assets and that it has cost them some of their capital to secure it. It is also true that there are billions of dollars, now usefully invested, which originated through the appropriation of this surplus fruit of human effort in the form of land rental.

But behind these two truths is the further truth that the money secured by the private collection of land rental, or traffic in the privilege of collecting it, is money diverted from the hands of the producer into the hands of a privileged person who contributes only *his permission* to apply labor and enterprise to the land.

Since it is impossible to conceive of any process by which the private collector of rent could take credit for the presence of a site, there must be something on which he bases his claim, and that thing is the title deed: the legalized privilege of claiming tribute. And all title deeds can be traced back to conquest or the arbitrary assumption of ownership.

In medieval days the princes and nobles waged their regional wars to wrest from each other the power to levy tribute from the humbler inhabitants of the lands they fought over. Higher nobles conferred land sovereignty on those who had been of service to them, with callous unconcern for any rights of the underlings in their principalities. And to this high-handed procedure we can trace all the land titles of today. This fact is noted by the great philosopher, Herbert Spencer.

In short, much of the money now invested usefully is money appropriated, through privilege, from useful producers in the past, and this practice is vigorously active today.

So, broadly, for the moment ignoring the source of capital, the private return from capital is a reward for *stimulating* industry. The private return from land rental is a reward for *obstructing* industry, for after industry has paid private rental, it then has to pay taxes on its activities to replace the rent which should have been the public income.

Land rent, nature's bounty enhanced by the presence of people, and wages and interest, the fruits of human labor and thought and creativeness, are separate, distinct, and opposite revenues. Opposite in their sources; opposite in their effects; opposite in their justifiable possession. One is yours *and* mine; the other is yours *or* mine.

The word "interest" has sometimes been used to describe all the yield of capital, but, in all references in this book, interest is the amount paid by a borrower for the use of capital. This payment, in legitimate and routine business

channels, ranges around five per cent per annum. The current rate is easily ascertainable.

Manifestly, no borrower would assume payment of interest to a lender if he expected the borrowed capital to yield him only the same amount that he would be paying. He expects to use the capital to advantage, which means that it must bring him something more. That something more is *profit*. And profit is the chief incentive to investment, to borrowing, and to interested, stimulated labor.

It should be "as plain as a pikestaff" to even the most casual reader that the interests of the wage earner and of the supplier of capital run parallel and that both suffer by the land-rent tribute. When it is realized that it can easily cost \$100,000 to furnish the equipment for one job, it is in the worker's interest to encourage capital and to become, himself, a capitalist.

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Quid pro quo in taxation

The word "tax" will bear close scrutiny, since we are so much given to the use of clichés, pat phrases, slogans, and "label" thinking, and since we take so many things for granted. No one dropping a coin into a parking meter considers that he is paying a tax. He knows he is getting a privilege for a period of time, in the form of a contractual agreement with his fellow users of the thoroughfares. He does not pay any more to park a luxurious car than he would to park a "jalopy." *He is paying rental for the use of a convenient location.*

And so, as an exact parallel, payment of the land rental for specific areas, even though collected by an official des-

ignated as the tax collector, is in principle and fact *payment for something the payer receives*. He receives and holds title to the exclusive use of the area as long as he pays the "taxes," so called. If it were clearly understood that land rental is in precise relationship to the value to the user of a piece of land, one could see that it is *diametrically different* from a tax on income, improvements, and inventories, with no *quid pro quo*, no equal "value received." It might be claimed that the present-day taxpayer does receive certain public services, but it has been frequently shown, and it is obvious after a moment's thought, that these services all reflect themselves in the value of the land and its consequent yield of revenue. Not only is the present taxation on income, improvements, and inventories a drain on these good results of production, but in the end, under the present system, the money taken, insofar as it is used for the benefit of the city, county, state, or nation, increases the yield to holders of land titles. Hence it is perfectly logical to say that general taxation should be abolished or used only as a repressive measure, and that the public collection of the entire rental of land is *not taxation at all* and should become the major source of public income.

Ethics

Is it proper and just that only holders of land should pay the cost of government? To answer a flat "Yes" hardly suffices. It is more enlightening to point out that every living person is a user of land. Even if you live in a tall apartment building (instead of a farmhouse) and earn your living in a big office building (instead of building roads) you are occupying a portion of the earth's surface during every instant of your life. Since we are all users of the land, all entitled to be on earth, those who wish to occupy a specific area should recompense the rest of us for the space from which, because they occupy it, we are excluded.

If one could not have exclusive possession of a portion of the earth's surface, it would be impossible to conduct a

business or to maintain a home. But, once having agreed to pay his fellow man the land-rental value of his holding, the holder of a site should not then be *fined* by taxes on those investments installed on the site that are referred to as improvements. On the contrary, he should be encouraged in every way to improve the site as fully as possible.

Our accepted habit of thinking makes us readily approve the idea that birth under certain circumstances entitles a fortunate person, not only to the area he occupies, but to the privilege of charging other people for his permission to occupy an area which, insofar as his having contributed anything to it, they are perfectly entitled to occupy without his permission. Under such conditions he is a landlord, the lord of the land, part of a landed "aristocracy," a very different thing indeed from being a land user or occupier.

As occupants of the land, we all participate in payment for its use. Insofar as the rental is concerned, the landholder, or landlord, is collecting a publicly created revenue. Insofar as the same person may have placed buildings, machinery, or other improvements on the site, although said to be collecting rent, actually he is collecting a properly earned interest on his investment, *plus* the site rental and perhaps a profit. His income, therefore, can be divided into (1) earned interest on his investment in goods, labor, management, and creativeness, and (2) an unearned payment to which he is not entitled, for exclusive occupancy of the site.

We should make a clearer distinction between *rental* and *hiring*. In studies of economics, rental is *land rent*, and that only. You can hire capital—a harvesting combine is capital, as is a computer or a furnished room—and your payment is interest and perhaps profit to the owner. But you rent land.

For an investor who suitably improves a site to which he holds title, discontinuance of taxation on his improvements can in most cases be found to more than offset his payment of full land rental. But what of the innocent owner of land under lease or held as an investment who in a period of ten years would find his or her whole income and the sale value of his or her title perhaps greatly reduced?

The answer to that question involves the whole question and can perhaps best be supplied by first answering a few other questions. Is the purchaser in good faith of a stolen violin or painting entitled to keep it? Or to be recompensed for what he paid to the thief? Is the inheritor or purchaser of the stock of an enterprise which has failed entitled to recompense from the public? Presuming Prohibition to have been a beneficial act, should those who were ruined by its passage have been paid? And when Prohibition was repealed, presuming that, too, to have been a beneficial act, should the people who were ruined—and there were some—have been paid? In short, when the world moves ahead, or even just along, some people are bound to lose by it. But in this case, even the losers would be benefited in the long run.

The overwhelming majority of landlords are high-minded people, utterly unconscious that they are improperly appropriating public funds, and to accuse most of them of intentional wrong would be rank injustice. Naturally, therefore, the subject of compensation at once arises. Suppose some physician, high in his profession, generous with his skill but still well paid, were to invest in land for the benefit of his family—in dense ignorance of the fact that he was launching them as leeches. Would it be fair to render

them destitute? Of course they might be looked on as heirs to an investment that did not pan out as profitably as was anticipated, which is the present fate of many innocent heirs of stocks and bonds. But as this is called a radical change, suppose someone were to suggest that they should be looked after. Suppose he were to suggest that they be given a life income, which in the case of the wealthier landholders might be, for example, \$5,000 per month from the public treasury. Imagine the outcry from all of us. What! Give someone all that public money for nothing? It would seem foolish, but they are getting that now, and some are getting a hundred times that for nothing.

A Mr. Rothbard has asked: "What of the pioneer? Why should anyone find new sites and bring them into use, when the gain will be confiscated? And how moral is this confiscation?"

Increase in the land-rental tax proportionate to increased population is not confiscation. Too many people fail to realize that if the pioneer is alone on a piece of land he lacks many services, conveniences, and gainful opportunities. As people assemble near him, however, all these opportunities develop. It is these people and the opportunities they create which raise the value of the land. In short, people gathering about the landholding of a pioneer *bring its increasing value with them.* (This has nothing to do with the fact that some of us might wish to pioneer in order to attain solitude in complete isolation. But as population increases, this becomes a rarer and more expensive luxury.)

For the most part, it must be remembered that *the people bring the rising value with them.*

Distribution of rent

It would seem proper, just, and businesslike that, wherever land is used, the occupant holding title should pay the land rental, appraised by means presently in use. If he occupies it for business use, the rent would naturally be charged by him as an expense of doing business, *but it would be the only charge*. There would be no tax on his services or capital to charge to the cost of doing business. So charged, it would appear in the price of his product or service and thus be widely distributed. Naturally, hotels, apartment houses, and houses built for hire would be classed as business enterprises, and it would be proper for

a person improving on a piece of land to receive a full return on his investment of capital.

A homesite, while bringing no return to the occupant, does provide him with exclusive privileges and, to the extent that he is desirous of occupying an area, there would be no criticism of his occupying a very large area if he paid the rental into the public treasury. As population about his acreage would, in the nature of things, increase its value, it would be proper for his assessment and the consequent rental to rise gradually. But he should not be punished (by a tax, fine, or any other form of levy) for the expenditures he might choose to make in building a home.

There are still in this country large estates which are gradually becoming surrounded by smaller holdings and very frequently are not taxed as site in proportion to their growing value. There are also large tracts of land that are put to minor use, which, if properly assessed, would soon be relinquished and made available for the best usage.

An unfortunate feature of the holding of land by private interests is that the more widespread the holdings of under-used land by an individual or group, the easier it is for the individual or group to sit as obstructionists for a long time, preventing a normal distribution of population.

An illustration of this is interestingly spread before the eye of the passer-by in the little town of Brisbane, south of San Francisco. Brisbane is a cluster of modest homes, all set within a few feet of each other. Yet immediately adjacent to Brisbane and close to the great city of San Francisco is the very attractive Guadalupe Valley, belonging to a large estate so amply comfortable that it does not have to

consider the triviality of taxes assessed against it by the county, particularly as *local taxes* are deductible from *income*. The result is that this valley, logical site for many pleasant homes, is occupied solely by an old quarry and undoubtedly will continue to be so occupied until the estate finds it sufficiently profitable to sell or—if the county should acquire the wisdom to tax it logically, intelligently, and justly—sufficiently unprofitable to continue to hold it. One could multiply by hundreds the examples where groups of citizens are kept huddled between large unused acreages.

Examples of the beneficial effects of public vs. private collection of land rental are cited in a later chapter. There has also been published a splendid booklet with illustrations, titled *Municipal Improvement and Finance, as Affected by the Untaxing of Improvements and the Taxation of Land Values* (New York: Harper & Bros.). Ample evidence of its immediate value is given by the author, H. Bronson Cowan, Secretary and Research Director of the International Research Committee on Real Estate Taxation, with figures and the statements of officials in various cities in countries where the system has been adopted for local revenue, such as the following from Johannesburg:

In a letter from the Chamber of Commerce, dated April 9, 1953, the secretary, Mr. H. S. Mabin, M.A., stated: "The Johannesburg Chamber of Commerce strongly favors the rating of land values only. We are of opinion that this system has had a good deal to do with the development of Johannesburg into the premier industrial and commercial city of the Southern African subcontinent."

In 1948 the Chamber gave evidence before the Transvaal Rating Commission in which it said: "The Chamber believes that the site-rating system affords greater recognition of the principle of taxation in proportion to ability to pay than does any other rating system . . . (a) It discourages sites being held vacant or underdeveloped. (b) As improvements are not taxed, the owner of the site is encouraged to expend more capital and thus construct a better or more commodious building. . . (c) The property . . . of the lower income groups contributes much less proportionally . . . than the wealthier members of the community. . . . (d) Since the rating system operates successfully in Johannesburg . . . the Chamber sees no reason why the ordinance requires amendment.

"The ratio between value of improvements and site value in Johannesburg is lowest within a radius of one mile from the City Hall, where it averages 0.7 to 1. . . . It is 1.8 to 1 between the one and two-mile radii, and 1.85 to 1 in the rest of the municipal area. . . . Thus [under the site-value system] the central area bears, in proportion to its total valuation, a higher share of its rates than the suburbs.

"During the first six months of 1948, 52% of the total revenue from rates was collected in a radius of one mile from the City Hall, and 61% within a radius of two miles. Had a flat rate basis been adopted . . . the comparable percentages would have been 39% and 50%. . . ."

Between 1921 and 1950 three government-appointed commissions in the Transvaal Province reported favorably on the site-value system.

The situation in Canberra, described as a city unique among the capital cities of the world, is also very interesting:

Canberra is the young and growing capital city of the Commonwealth of Australia. From its inception it has been developed on model lines. The site of the city contains forty-two square miles. It, and the land in the surrounding Federal District, is owned by the Government. Thus the people of Australia will not have to expend millions of dollars in future years to acquire land for the expanding needs of the Federal Government. All increases in land values accrue to the nation. When selected in 1909 as the seat for the national capital it was a sheep ranch. There was a scattered population of 1,921. By 1947 the population of the Federal District was 16,000 and in 1955 approximately 30,000. All residential and business sites are owned and leased from the Government. The first auction of leases was held in 1924. Residential leases realized \$2.40 to \$15.36 and business leases \$29 to \$278 a foot frontage. In 1951 the cheapest residential lease sold for \$816. Business leases sold for \$2,880 to \$7,800. Increases in land values have been so great that government sources estimate that ultimately they will offset the entire cost of establishing the national capital. Canberra has become one of the most beautiful cities in the world.

The Canberra system of government ownership and leasing is near enough to the taxation of land rental to be illustrative of the beneficial results which can confidently be expected under the system here advocated, and confirms the gratifying effects in places where the system is in operation.

Attempts to refute

Innumerable attempts have been made, and will continue to be made, to refute the principle that land rental, being publicly created, should be a source of public income. Sixty years ago, in the Introduction to his *Public Finance*, Professor Carl C. Plehn stated, "Henry George's Single Tax, although still disapproved, is much more sympathetically treated." His own disapproval, as in so many cases, consisted largely of quarrel with the word "single." There are several pages devoted by Professor E. R. A. Seligman, in his *Essays on Taxation*, to fighting the word "single," and several more were used to explain that land

rental is not elastic and therefore cannot be "played off" against other taxes.

Critics have argued that if land rental were the major item of public income, the rapacity of the state would tend to force rent out of the zone of renter-fixed government income and into the zone of politically enacted overcharge. But if all land rentals were part of the public record, as they should be, the governing body would have to raise all rates in proportion, as there would be no opportunity to discriminate, and this could result in a public protest on the one single issue in which all users of land (and that means all of us) would be united. And, whatever the excessiveness of the land rental, the skillful, intelligent, industrious, and creative occupant of a given area could not be penalized for being enterprising, as he would not pay any more per foot of occupied location than his adjoining neighbors with equal locational advantages.

This point is important. To illustrate it, let us assume that there are seven equally valuable sites adjacent to each other, and they are occupied by A, B, C, D, E, F, and G. Let us assume that D performs far more valuable service, manages better than his neighbor on either side, and that consequently his income is several times that of his neighbors. Under the present tax system, he would be penalized severely for his success. Under a sensible one, in which he paid in land rent an amount exactly equivalent to that paid by his neighbors, if a political regime envious of his success were to attempt to raid him by raising his land rental they would also have to raise the land rental of A, B, C, E, F, and G. There would naturally be very vigorous protest at

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the departure from normal economic rental that such procedure would represent.

Professor Harley L. Lutz, an economist associated with the National Association of Manufacturers, has stated: "In order to stimulate improvements by individuals, such long-term agreements to pay the rental would be necessary as to be in effect ownership." This is precisely what would be the case, and a user of a site could be looked upon as the owner as long as he pays his taxes, just as he is the owner today as long as he pays his taxes. Payment of the land-rental value into the public treasury would be a form of long-term lease, the term to be as long as the lessee desired it to be, the rental to be periodically adjusted to fit the economic situation of the times.

It is claimed that improvements increase the value of the land (recently, in New York, the assessor raised the taxable valuation of a site because a new building had replaced an obsolete one), but in most cases the value of the land continues to rise long after all the improvements have become out of date; have been, in prudent accounting, depreciated off the books or have even been completely destroyed. Very often old "improvements" are a liability on account of the cost of their removal.

Frequent reference is made to the desirability of "spreading the tax burden across the board." Even if you do not admit that site rental is public property and that the reward of labor and capital is private property, what logic has this phrase "across the board" if there is a proper income that the public should collect?

As individuals, we do not let other people collect our

income while we "spread the burden" of our upkeep "across the board" by borrowing, begging, and stealing. But as a public body, we do just that.

Again, many critics deplore "seeking to concentrate" on land "owners," but when *you* collect *your* earned income, are you "seeking to concentrate" on anyone? Would the *public* collection of the *public* income mean "seeking to concentrate"—or exercising sound business sense? Can one think that the charge for theater tickets is "seeking to concentrate" on theater-goers?

It has been claimed by Professor Lutz that "the lot of the masses has steadily improved under private ownership of both land and capital, and the places where this lot is still an unhappy one, with ever more dim prospects, are those where there is the maximum of state ownership of the means of production, including both capital and land."

This statement presupposes that there are only two types of places: those where land and capital are in private hands, and those where land and capital are in the hands of the state. This is too simple a division and should be broken down into a listing of three types of places: (1) those where land and capital are widely distributed in private hands, notably such countries as our own, Western Europe, Canada, South America, Australasia; (2) places where land and capital are in the hands of the state, such as China, the Soviet Union, and the unfortunate satellite states; and (3) such countries as Saudi Arabia, Egypt, India, and many of the smaller Middle Eastern states, where the land is owned by a minute fraction of the inhabitants, where there is no native capital, where the "per-

petual poverty of the masses" still exists and the condition of the people is even more wretched than it is in Russia and China.

The sharp distinction between the small group comprising the owning class and all the rest of the population could be easily looked upon as one of the major reasons that, for example, Saudi Arabia is a decadent area, contributing nothing to the comfort or culture of the world, void of capital because the owning class can denude the enterprising individual who might attempt to accumulate and use capital. It is evident that Saudi Arabia has deteriorated from what was at one time a mentally vigorous country. We owe much of our mathematical and astronomical knowledge to the Arabs, as such words as "azimuth," "zenith," "nadir," and the like, give evidence. His ownership of vast areas of land makes it possible for Saud, the ruler of Saudi Arabia, to secure so tremendous an income, with a minimum of development, that he is not concerned with the proper use of the land.

As ARAMCO built a pipeline as long as the state of California across Saudi Arabia, there frequently occurred the need for water. Caravans had crossed the desert for centuries, their line of march arranged for arrival at one natural water hole, usually a small pond, which the camels trampled, fouling the water with urine, and then on, at chance-determined distances, to the next oasis. The American oil company dug wells where water was needed and put in concrete basins, which has had its effect on the caravan routes. These wells were dug with capital. The water was necessary to progress, the building of the pipe-

line. Saud did not need to invest any capital in digging the wells, for by simply appropriating a major part of the meager production of a tremendous area, his income is all that he could wish.

Saudi Arabia, China, the Soviet "Republic"—in fact, none of these countries has any place in the discussion of a sensible tax policy for us, except to illustrate that the evils of both are avoided by the public collection of land rental and the leaving of capital and the means of production in private hands—in the hands of those who made them and who have immediate personal reasons for handling them intelligently and economically.

We find it frequently pontificated that the tax law is not a proper instrument either for correction of such degree of income inequality as may be incompatible with the best interest of productive efficiency, or for weeding out the wrong kinds of big incomes. Yet it is the tax law, more than any other force, that causes income inequality and creates the wrong kinds of big incomes.

With respect to unearned increment, one critic makes the statement: "The increment is said to be 'unearned' because it stems from the growth of civilization rather than any productive activities of the site owner." The words "said to be" could very well have been left out, for their author should not admit ignorance of the fact that increment is not earned by the site holder.

One is puzzled by this explanation of the poverty of backward countries which appeared recently: "Capital is the product of human energy and land . . . and *time*," which was coupled with the advice that "these people

should save, the savings being invested to build the great structure of capital; and when this is done, after years of saving and investment, India and China too could achieve our living standards.”

If there is any one thing of which the backward nations have had plenty, it is time. China, before the Communists, and India had a form of civilization when we were catching rabbits with our hands and eating them raw. But their civilization included vast landowner-rulerships; the owners did not have to consider capital, and the mass of the tenants were forced—as many are still being forced—to live all their days without the incentive of hope of advancement, eking out a living after the rent and tax collectors had taken away most of the fruits of their toil. Slaves cannot save.

From an entirely different angle comes the criticism: “No doubt the advocates of government collection of land rental would hire an army of tax assessors. But the assessment is purely an arbitrary act; and, being under the control of politicians, it becomes a purely political act as well. It cannot be determined by outside observers,” which suggests that there are not thousands of competent appraisers constantly at work fixing very precise values for taxation and real estate transactions. They may be “outside observers,” though it can be noted that they earn enviable fees. The real question is: Which taxation system would be more likely to require “an army of tax assessors”:

1. a system based on land-rental value, or
2. a system based on a small part of land-rental value,

In California, New York, and many other states, separate assessment of the land is standard practice. It requires prodigious irresponsibility to pronounce that the routine and familiar practice of land appraisal can be turned into a "fatal flaw." But one undaunted critic so pronounces. Appraisals of land values can always be made in round figures, with a certain plus or minus flexibility, provided they are uniform, and it is misleading to imply that people who want to simplify and construct a justifiable tax system would "no doubt" want something which, in reality, they are intelligently trying to do away with.

But the newest, most delirious flight into the blue empyrean of economic phantasmagoria is the following: "The owner of land *does* perform a very valuable productive service, a service completely separate from that of the man who builds on, and improves, the land. The site owner brings sites into use and allocates them to the most productive user. He can only earn the highest ground rents from his land by allocating the site to those users and uses that will satisfy the consumers in the best possible way."

Here we have the capsheaf of economic legerdemain. *The function of the landlord is allocation!* Here is the suggestion that a wise and beneficent individual is guarding the site until the proper user steps up and presents himself!

When it is remembered that many landlords own

and on building value, inventories, household property, automobiles, jewelry, sales, café programs, transportation, paintings, bank balances, gifts, bequests, incomes, cigarettes, and liquor?

brothels, poolrooms, horse parlors, and dog-race tracks; that many others sell or lease their property through agents and have no knowledge of the buyer's identity; when landlords are governed only by their desire for the highest income or profit from sales—to set land speculators up as wise and benevolent administrators is ridiculous. And to say that the landlord's allocating of it is an essential to "the efficient use of available land" is to indicate that to some "economists" there *must* be a private collector of rent, or land will not be used. Of course we should not blame the landlord *so long as we are content to pay tribute* to these public-spirited "allocators" who, in their all-wisdom, decide the location of our slums, our tenderloins and other blighted areas. In any seriously offered economic study this accolade for usefulness conferred on landlords must be viewed (in the words of one reader) as "the fluffiest curlicue atop the miracle whip of the whole economic concoction."

It would seem needless to say that the selection of a supermarket site is done by supermarket experts, not by landlord "allocation."

One or two statements in Henry George's great book, *Progress and Poverty*, are commonly misunderstood. When he stated, "We must make land common property," what he meant—for his context so indicated—is, "We must recognize that the rental value of the land is publicly created." To some his phrase suggested nationalization of the land, which of course, in the sense of governmental operation, has no part in a sensible tax policy.

On another page he states, "It is only necessary to con-

fiscate rent," and many people are justly alarmed at the word "confiscate." But again his context makes it very plain that what he meant was the *collection* of rent. Confiscation is an extremely offensive and therefore provocative thing, for it indicates punitive seizure and forfeiture. If you agree that money honestly earned is confiscated when arbitrarily taken away from the earner, or, in short, that the income tax is a confiscatory measure, you should be ready to agree that land rental, being *publicly* created, would not be *confiscated* if it were collected by its creators. The two phrases quoted have been the target of criticisms which never have considered the context.

Is it too late?

To those who believe that this would all have been very good if we had started that way but that it is too late now—that fortunes are no longer made in land—the following items may cause them to revise their beliefs.

Take the Polk farm near Montreal for example. The purchase price was a few cents an acre. As the members of the family passed on, Mrs. Polk, left as sole owner, was offered a sum she considered fabulous, \$145,000. In approximately 80 years the value of the farmland had increased thousands of times. Before the developing company could begin its developing, the very brokerage firm which had engineered the sale of the land bought the property

for itself, paying \$195,000 for it—\$50,000 more than Sarah Polk had received. The brokerage firm consulted a building contractor, who, looking for land to develop, persuaded the brokerage firm to sell for \$355,000 in cash. Subsequently, the building contractor found a quick turn-over preferable to long-time investment and resold the land for \$395,000. Or one could read in a Seattle newspaper of the "Dream Deal" of Mrs. Della Whitmore of Seattle, who is busy planning a new home after getting \$1,430,000 for real estate she paid less than \$3,000 for about 20 years ago.

In the January 1959 issue of *Fortune* magazine, there is an article about the Bahamas, where land bought 25 years ago for \$3,000 "might bring" as much as \$120,000; and property on Bay Street in Nassau—little Nassau—ranges from \$3,000 to \$10,000 per front foot.

But the capsheaf of splendid studies of the vital importance of taxation in our economics appears in the August 1960 issue of *House & Home*, presenting the remarkably intelligent findings of "America's No. 1 housing economist," Miles L. Colean, and two of America's foremost land economists—Professor Ernest M. Fisher of Columbia University and Professor M. Mason Gaffney of the University of Missouri.

If we were to begin now to correct this land situation, we would be beginning much too late, but not *too* late.

It is never too late, if it is within the bounds of the possible, to right a wrong.

Nationalization

The fear has often been expressed that public collection of land rental would be or would result in land nationalization.

That depends on what is meant by the term "nationalization."

If it were to mean that the government would operate or control land, prescribing its use, allotting it as in the U.S.S.R. to state-selected users, issuing permits to do this with it and prohibitions against doing that with it; if it arrogated to government the right to stick its shovel into the user's affairs, capriciously or through some crooked deal displacing him in behalf of some political favorite—certainly if the public collection of land rental involved these

evil things, the whole idea would be utterly repugnant and its proponents, being sound, sensible citizens, would be the first to reject it. But the simple collection of the land-rental value—without disturbing our titles, without interfering with our use of the land we occupy, without *fining* us for putting a building on it or otherwise improving it, without inquisitorial snooping into the figures of legitimate business and service, is quite another matter.

If by nationalization is meant simply the paying of the land rental, it is not very different in this respect from the present system, because at present our land, our improvements, and our incomes are all subject to a *first lien of the government* for tax collection. To put it another way, if you were to try the simple experiment of failing to pay your current property taxes for a year or two, you would find that your land, your house, and your very bed were already “nationalized” quite as much as land would be if *only land rent* were to be collected by the government.

But the reader may insist, “Still, the land would belong to the state!” No, the land would belong to the title holder, just as it does now, as long as he paid his land tax into the common treasury for the good of all. But if you prefer to contend that the land would belong to the state and not to you and that you would only be renting it—where’s the harm in that? Any argument against that is equally applicable to the present, because you are now no more than renter. If you do not pay your taxes, out you go! Rockefeller built Rockefeller Center on rented land. San Francisco’s largest office building, the Russ Building, was built on rented land.

Irresponsible taxation

It is interesting to consider that there is no ceiling to the income tax, either national, state, or, as may soon be the case, city and county. Nor is there anything to assure us that the sum of the three could not easily or even greatly exceed one's total income. It is perfectly feasible to assume that as the lower political subdivisions recognize the unlimited field they may all soon be entering, they will enact that no one political unit's income tax can be deducted from the income taxed by the other two.

An explanation by some political economist of the laws (not the enactments) fixing the limitation of the "take" by income taxation would be very interesting. In all that he

has read, the writer has never found mention, much less an explanation, of any scientific or defensible yardstick other than old Collis P. Huntington's "all the traffic will bear."

So long as we dignify, protect, and nurture an element in our economics which is dead wrong, we are making ourselves co-conspirators of those fiscal authorities whose seeming intention, as evidenced by the system's working, is to tax our magnificent American business structure out of existence. In effect, one is told today: "Build and strive to the best of your ability, but do not expect to get ahead." The free land is gone, and free enterprise—useful free enterprise—is succumbing to political strangulation and will soon be gone.

Trying to visualize the essential idiocy of permitting such "power to destroy," one remembers the plight of a motion picture actor of standing and dignity whom the government went so far as to order to sell his house to pay his taxes. Where was he to go? What was he to use for money? Even selling his house, on which we can presume he would have to pay a capital gains tax, was going to leave him owing the government a balance which, in view of the number of productive years presumably left to him, he could never hope to pay off.

Our classic definition of the government is that *government is the people*. But those of us who see a logical, just, and altogether better way to provide the resources for carrying out legitimate public purposes also see in episodes such as the foregoing an uncomfortable suggestion of political cannibalism.

A common-sense remedy

To return to the principle presented in an earlier chapter, it is hoped that the reader will now fully recognize these unassailable truths:

The private collection of land rental, a publicly created revenue, is wrong.

The public confiscation of privately earned income is wrong.

Therefore, our remedy is summed up in these principles:

Publicly collect the true public revenue.

Leave privately earned income in the earner's hands.

When we learn this and adopt it for ourselves we will

be fitted to lead the world to a prosperous peace, but so long as we dignify, protect, and nurture an element in our economics which is *dead wrong*, we can dabble with our taxes, we can putter with our taxes, but we will never really get ahead. Ahead is where we should be, ahead in world comforts, ahead in business volume, and ahead in ideology as well.

Can it be that this principle (and its practice) is so repugnant to thinking Americans that they will continue to bring on their own destruction through acquiescence to the seizure of their rightful earnings rather than insist on at least a competent examination of the principle and practice of land-rental taxation?

Does the fact that this principle, put to work, lowers living and business operating costs and is in no way regressive convey no hint that, as a procedure, it is sane?

Is it possible that a dignified, fraud-proof, easily estimated, gradually enlarging, even-flowing public revenue system which is directly anti-inflationary because it has no means of raising the cost of living—is it possible that such a system holds no interest for the American people?

Does the ending of the intolerable hydra-headed and growing burden of reports that we must make on our journey toward complete state control make no appeal to common sense?

A common-sense plan

The United States of America is a group of states recognizing the need of federation to accomplish certain vital common ends. There is no institution in the world more potentially dignified than the United States of America. It is an association, and associations require operating funds. No responsible private association would establish an ineffectual, complicated, unbalanceable pseudo-system to pick the pockets of or levy whimsical assessments on its members—as in the case of our federation of fifty states—to the end of gaining a hodgepodge income, undignified, disproportionate, shaky, unpredictable, unfair, if not downright dishonest and fraudulent.

No private responsible association of prestige and importance would do this, yet that is precisely what our association, the United States of America, does do.

Membership in our association, the United States of America, is an invaluable privilege and boon to every member state. The cost of operating this association should, by all logic and justice, be sustained by its members in proportion to their potential income. Having established this principle, each state should appraise the land of all its counties. The counties should meet their own operating expenses from an agreed portion of the rental value of their area, the balance being paid to the state, which in turn should meet its expenses from an agreed portion and pay the balance as its "dues" to the association—the United States Government.

If this system did not bring sufficient revenue (and we will look at sufficiency later on) we could always reimpose some of the taxes we had hoped to abolish forever—the least harmful, if such there be—and still benefit to the extent that our progress toward socialism would have been slowed down.

Is it communistic or socialistic?

While to some the proposal here submitted may appear alarmingly radical, and while, in fact, it appears in Karl Marx's Communist Manifesto, it may be illuminating to refer briefly to that document. To set the framework of vehemence and immoderate vulgarity which color a large part of *Das Kapital*, we might first quote:

The Communists have no need to introduce community of women; it has existed from time immemorial. Our bourgeois, not content with having the wives and daughters of their proletarians at their disposal, not to speak of common prostitutes, take the greatest pleasure in seducing each other's wives. Bourgeois marriage is in reality a system of wives in common . . .

The Manifesto ascends to more moderate language when it offers ten points as the Communists' prescription for the common good, which Marx describes as "the proletariat organized as a ruling class"! Of the ten measures, the first is the "abolition of property in land, and application of all rents of land to public purposes." The second, "a heavy, progressive or graduated income tax." The third, "abolition of all right of inheritance."

Succeeding measures are of little interest until we arrive at the tenth: "Free education for all children in public schools. Abolition of children's factory labor in its present form." The last appears to be good, sound common sense and citizenship, and this it shares with part of Recommendation 1.

It is hard to determine why our tax-establishing bodies adopted Marx's Recommendation 2 (income tax) so heartily when the second part of Recommendation 1 (public collection of land rental) would have been so much more sensible; and why they virtually adopt the third recommendation (inheritance tax) without considering the difference between *the inheritance of rightful property* and *the inheritance of improper privilege*. Of course the first recommendation advocates two propositions, inasmuch as property in land and rents of land are separate things. In this sense, an owner could retain *property in land so long as he paid the rental*.

Nor is the public collection of land rental a socialist's idea, as the English socialists have shown us, for in the many years during which they were in power they made no suggestion of a move to collect the rental of the land.

Results of adoption

If the American people were to adopt the systematic collection of this publicly created source of revenue, the rental of the land, the following advantages could be reasonably expected.

The United States of America and its political subdivisions would receive a dignified, certain, and ample income. The *public income* would by definition be based on a tangible, known value proportionate to the general prosperity of the people, the competition for desirable location. The public income would fluctuate slowly and would be subject only to periodical adjustments. As the land-rental values of all areas would be published as an

open public record and the taxation on them—or land-rental collection of them—would be uniform in proportion to their desirability, there would be no opportunity for fraud or misrepresentation.

As the land rental would furnish the public fund, there would be no necessity to make out any form of report—such as a report on furniture, securities, and other property, or on the conducting of a business and the income earned by it.

There would be no legalized snooping into the affairs of companies or individuals.

In the event that a person or group wished to engage in some activity, it would no longer be necessary to begin with an appropriation to secure a site for their project, and all of their capital could be used for construction and working capital.

As land rent would take the place of taxation, discontinuing the present duplication, the cost of living would naturally be reduced.

As it would be necessary to use land or relinquish it, building would immediately be stimulated, the land being either made available by abandonment by speculators or made profitable by building improvements. This, in turn, would introduce the factor of competition for tenants in the improvements and would therefore reduce rents—"rents" being used in this connection to indicate room rent, house rent, or office rent.

Corporations would be able to plow back much of their earnings in increased facilities.

Increased corporation earnings would make it possible

—and it would soon become obligatory—to increase the recompense of employees.

In the event of a public improvement being contemplated, there would be no advantage or profit, as at present, in buying up the land required for the improvement, to sell at an arbitrary—and unearned—gouge.

It would not be advantageous for a business concern to make contributions to an assessor's "campaign fund" with the expectation or hope of his setting, or winking at, a false valuation of its property.

Illustrative of some of the benefits is the following letter, published in the magazine *Land & Liberty*, and written by John Blythe, treasurer of the Sale's Ratepayers Association, from the town of Sale, Victoria, Australia, where the "Henry George Theory" is partially and very successfully applied.

Firstly we were all greatly heartened by the decision of J. J. Davies and Son to start manufacturing in Sale in what was the woolen mills. This industry was our first proof of the value of the new system, and as they hope to employ some 160 persons in the first year, their help to the city is by no means small.

There were several vacant blocks in prominent parts of the city, even in the main street. Two large blocks have changed hands in Raymond Street. On one will be erected a shop for Dalgety's, and on the other (a huge block) a new garage is planned. Both of these should be in the course of construction before the end of July.

Foster Street has shown marked improvement, both in the area near the Post Office (one new shop, two shops newly renovated extensively and three more proposed, Gutheridge House, in course of demolition

for additions to St. Anne's School), and the residential area facing the lake, where three new houses are in course of construction on blocks previously unobtainable.

Blocks in the area bounded by Raglan Street, Gutheridge Parade, Reeves Street, and Foster Street, have been sold and building commenced on land which had been held since Sale was first settled.

The Ambulance Service has secured land in Cunningham Street, close to the centre of town, and will build modern offices and residences almost at once; other buildings are proposed in other parts of the city by the Masonic Lodge and other organizations.

A new hall is being erected on the corner of Macalister and Pearson Streets and a new Presbyterian Church is pushing upward at the corner of Raymond and Macalister Streets.

An example nearer home for American readers can be found in the irrigation districts of California, of which there are 110 covering over four and a half million acres. Legislation adopted in 1887 empowers these districts to levy local taxes for their development and maintenance costs against land values only. Under this form of taxation the districts, and any cities within them subject to district land taxes, have flourished. "Flying over the Central Valley in California," says Harlan Trott, writing in *The Christian Science Monitor*, "one can 'see' land-value taxation at work. The district is dotted with 7,000 family-sized farms. The region adjoining its western boundary is sparsely settled and the towns are slummy."

The towns of Dinuba, located in an irrigation district,

and Arvin, which is not, have been compared by Dr. Walter R. Goldschmidt of the University of California in Los Angeles in a report made to the Special Senate Committee to Study Problems of American Small Business in 1946 (S. Res. 28). The study shows a number of interesting findings, among them the following:

Although the two communities have about the same population, Dinuba shows many more schools, churches, and stores than are in Arvin.

The percentage of home ownership was much greater in Dinuba, and there are many more family-sized farms.

The proportion of absentee farm ownership and the ratio of farm tenancy were much greater in Arvin.

Some of the irrigation districts in recent years have elected to finance themselves in whole or in part from the sale of electricity generated by their storage dams instead of altogether by land-value taxation. The Modesto irrigation district, which includes the city of Modesto, has taken this step and consequently, says Harlan Trott:

Speculators in land have moved back into Modesto, and today there is an auto junk yard decorating the main thoroughfare in the heart of the city. Land-value taxation transformed Modesto, in one generation, from a main drag without sidewalks and with seven saloons, one school, and two churches, into a modern Chamber of Commerce showcase. With the easing, and now the cessation, of land-value taxation, the town is lapsing into something less attractive than the Modesto of thirty years ago.

Administration

While it is generally agreed that a better tax system has long been needed, it is often claimed that no better plan has ever been proposed. As the plan here outlined has been proposed for eighty years and is in partial operation, to the entire satisfaction of the people using it in many parts of the world, this statement must be the result of ignorance or prejudice. It is a grave reflection on our professors of economics, many of whom, knowing its merits, derogate it through fear of the conservativeness of the Boards of Regents of their universities.

Enmeshed in a precarious economic pattern, we are living in a state of artificial and uncertain extravagance;

but if, over a suitable period which might be tentatively set at ten years, we were, in ten steps, to raise the collection of land rental to full value while lowering all other taxes (except those retained for punitive purposes) to extinction, we can be certain that we would achieve enormous substantial prosperity.

Such a change would not be readily accepted—it would be vociferously opposed. But practical results would soon win over many of the opponents.

While no constitutional amendment would be required, though it might be most desirable, nor any great change in our statutes other than to make plain our methods of assessment, there would be one point which might need definite pronouncement. There are many ground leases that include contractual provision that the lessee pay all the taxes, and legal provision would have to protect the lessee from the double burden of paying the land rental to the lessor and also to the state.

It is worth repeating that under this open, publicly scrutinizable system the national, state, and city-county administrations would have a dignified, certain, regular, and only slowly fluctuating income, with a minimum susceptibility to political or personal fraud.

It would be ridiculous to expect that we can rid ourselves of political hacks and bureaucrats. It is conceivable that a clique of political manipulators might conspire to advance land rentals above the economic or renter-competition level. There would, however, be the great deterrent that any such action would be sharply out in the open, involving plainly read values, printed on publicly available maps,

and, according to the ancient Chinese proverb: "Only a very sly man can shoot off a cannon quietly." It is obvious that the land-rental value system would wipe out a host of opportunities for falsification of values and tax records.

It is also quite conceivable that with tax-freed and consequently flourishing business hungry for more space, and building no longer discouraged by punitive taxation, land speculation would reappear as a result of the bidding up of land values. If this developed, it would be the immediate duty of the assessor to turn this flow into the public treasury. Whenever land developed a selling price, it would be evidence that it was insufficiently "taxed."

By virtue of the fact that the revenue would originate in the counties, their natural tendency would be to retain as much as possible for local requirements, and we might see a diminishing of that expensive evil, the "grant in aid." Local governing bodies such as state legislatures, it might be found, would gain in dignity, and the hat-in-hand leaning on a papa-knows-best Washington would lessen in volume, at the least.

No thoughtful student of this principle thinks of it as Utopia, a panacea, or a cure-all. It does, however, have values that are immediate and positive. In itself business-like, it can operate to clean up our present unwieldy and disorderly procedure, and it could indicate the value of getting our government out of innumerable businesses in which it has no valid reason for being, because they are, as Abraham Lincoln indicated, in no sense the proper province or function of government.

“For the land is mine”

Primarily the author has wished to present the convictions of a businessman who has done much thinking on a practical and material problem. But, inevitably, a larger and nobler purpose is served. Morals. Justice. Honesty. Ethics. All these words are interlaced. All would be served by recognizing land rental as the proper source of public revenue. And until our taxation practice and all our common activities conform to and can be described by these majestic words, Congress and all the committees in the country can putter and dabble as they will, and their monkeying will be valueless.

Within this book I have frequently referred to the desir-

ability of having the government live within its income, but might we not permit ourselves the stimulating thought that this income might grow to greater heights than is now possible?

Suppose that we were able to retain our earnings and spend or invest them to the full. Would there not be a tremendous increase in the scope of our living?

Suppose that all the restraining and stifling taxes were wiped off the cost of all the things that we would buy. No one would dare deny that prices of innumerable things we all want would drop at the same time that our ability to buy would be rising.

And suppose that land would become available without capital outlay, by simple assumption of the rental payments. What effect would this have? Would not keen competition push up the land values now frozen in speculators' hands?

And if the flood of business and of building did so increase location value as to yield a huge governmental return, might we not hope for great public improvement like the adorning of our cities, perhaps to look like Geneva or Paris or Nice; perhaps, too, to care more comfortably for our aged and unfortunate ones; perhaps to lessen the strain which proves too much for some of our weaker citizenry, causing them to yield to the temptation to commit crime! Perhaps transportation in our streets could be free, as one columnist has advocated, just as vertical transportation is free in buildings now. Our public income could be spent in our interest with a clear conscience because it would be recognized as justly ours and not a robbery

of Peter to grease Paul; and our government, of which we could be proud, would become dignified and serenely sure of its financing.

In closing, it might not be amiss to draw the reader's thought to the following passage from the Book of Leviticus (25:23-24):

Jehovah spake unto Moses and said: "And the land shall not be sold in perpetuity; for the land is Mine; for ye are strangers and sojourners with Me. And in all the land in your possession ye shall grant a redemption for the land."

It is safe to assume that no one believing in a just, kind, and merciful God would find it possible to believe that He planned that a favored few of His people should be in a position to exact tribute from the rest of His people for permission to live on His earth.