

# TAX FACTS

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## FOUND WANTING

If a plague were to sweep over the country and it became necessary for the governments, federal, state and local, to take charge of the situation as a matter of public safety, upon whom would these officials call for help? On the medical profession, wouldn't they? Why? Because these gentlemen have made the study and treatment of disease their life work. When President Roosevelt assumed office in Washington, he found the nation in a critical condition economically. The country was decidedly ill. Wasn't it perfectly natural for the President to look to those who had made political economy their life study, and ask them to give him aid? Then why all this crabbing because the President has called on professional economists for plans to aid the recovery of business?

Every college and university in the country maintains a department of political economy or social science. These professors and instructors devote their lives to that branch of learning. After all these years of study and research, if they don't know what ails the country and how to cure it, in Heaven's name who does? Why does the press feel called upon to censure the President because he turned to the one group of men who should have been best prepared to help him cope with these problems of national recovery?

So much for the criticism that is directed against the President for calling on the professional economists for aid. Now why has the "Brain Trust" laid itself open to criticism and ridicule? Whether they had been called upon specifically or not, this crisis in our economic life was the great opportunity for them to show how well they had mastered their subject. Instead of rising to the occasion with a clear-cut analysis of our social problems and a basic plan for solving them, these good gentlemen are having the embarrassing experience of being weighed and found wanting.

This situation is both serious and absurd. If the government wanted to build a dam or a bridge or a harbor, it wouldn't have the slightest hesitancy about calling on professional engineers, in or

out of the universities. It has a right to expect the various chairs of economics, not only to give assistance in a crisis, but to teach the fundamental principles of economics to their students and to the public so that the country would never have come to such a pass.

There are certain things the President might do that would be basic steps in the right direction, leading toward that much to be desired end, permanent prosperity. Apparently, he hasn't yet grasped the simple truth that is the key to the solution of our social problems. If he did, however, he would be unable to put it into operation. He would receive no support from his colleagues or from the country at large. People wouldn't want it because they don't understand it, and they don't understand it because these professors of political economy have simply fallen down on the job.

When any man is receiving more of this world's goods than he is producing it means that he is enjoying some kind of a racket. If every one of us could receive more than he produces, we would be rich indeed, but that is no more possible than for every player at a poker table to be a winner. Therefore, it behooves a student of political economy to find out why and wherefore some men receive more and some less than they produce.

Some of our largest, oldest and ablest schools are supported by endowments. These endowments come too often from members of the privileged class. Whenever the study of political economy leads toward the subject of privilege, the professors in these schools take it politely by the nose and lead it in the opposite direction. Since these men are very largely the pace-makers for all of the professional economists, the march of the whole group becomes a drowsy, circular movement that doesn't get anywhere. They are afraid that if they attack privilege, they will lose their jobs. It has happened.

There is another reason why they walk around in this dazed condition when they might be a real help in time of need—and might have prevented the need if they had never gone to sleep.

Facts relating to any science must be discovered and formulated by individuals. When those individuals are not, themselves, university men, the schools are reluctant to accept their findings. If they cannot show a union card in the shape of a first class diploma, how in the world can they discover God's truths?

More than fifty years ago, one of the world's most able thinkers set forth the principles of political economy so clearly and concisely that his theories have never been disproved nor his arguments answered. Yet he was not a professor, not even a graduate, of a university, and this has counted against him and his philosophy immeasurably.

In the early part of the nineteenth century, David Ricardo, an English economist, formulated, though he did not claim to have discovered, the law of rent. It is still called Ricardo's law of rent, and is generally accepted by the professional economists. It was true, but nobody seemed to know what to do with it. For years it wasn't anything but an ornament if it was that.

When Henry George looked at social problems and gave the world his answer in the latter part of the nineteenth century, he almost made the science of political economy a holy thing. He did not try to banish God from the universe, as the Communists would like to do, but saw all human relations in the light of a divine plan. He saw that God had created a beautiful world, a fruitful world, a world where there was plenty for all, He gave us the spark of intelligence, then left us to work out our own salvation.

When we come into the world, we bring nothing with us but desires and needs. If they are to be satisfied at all, if we are to have the things that will sustain life, and a few more things to make life happy and comfortable, we must make them for ourselves out of the materials that are part of the earth. Therefore, Henry George saw that the simplest division he could make as a starting point in political economy was to call all mankind *labor*, and everything else in its natural state, that is, before man has put his hand to it, *land*. Land and labor—human beings and the universe, or as much of it as we can reach—that is the beginning. Nothing strange or mysterious about that, is there?

Human labor applied to land produces the things we want, bread and butter, Easter bonnets, motion pictures and so on, and these things Henry George called *wealth*. In order to produce wealth, we must have two factors—land and labor. One without the other won't do. Land is absolutely essential to human beings, therefore, each one of us must have access to it in one way or another or we will die just as if the air were cut off. Obviously, if each human being has a right to life, he has a right to land. This thought, which Henry George expressed so

well, was a distinct contribution to the science of political economy. And do you know, with one or two exceptions, the professors of economics haven't sensed it yet? No wonder so much fun is poked at the Brain Trust! They are funny, tragically so.

Granted that the earth belongs to all of us, how are we going to divide it? In answering this question, Henry George made use of Ricardo's law of rent. In common usage, the term rent signifies payments for the use of improvements and labor products as well as for the use of land. "But in the economic meaning of rent, payments for the use of any of the products of human exertion are excluded, only that part is rent which constitutes the consideration for the use of the land. . . . Where owner and user are the same person, whatever part of his income he might obtain by letting the land to another is rent, while the return for his labor and capital are that part of his income which they would yield him did he hire instead of owning the land. . . . Rent, in short, is the share in the wealth produced which the exclusive right to the use of natural capabilities gives to the owner. . . . Until its ownership will confer some advantage, land has no value. . . . No matter what are its capabilities, land can yield no rent and have no value until some one is willing to give labor or the results of labor for the privilege of using it; and what anyone will thus give depends not upon the capacity of the land, but upon its capacity as compared with that of land that can be had for nothing. I may have very rich land, but it will yield no rent and have no value so long as there is other land as good to be had without cost. But when this other land is appropriated, and the best land to be had for nothing is inferior, either in fertility, situation, or other quality, my land will begin to have a value and yield rent. . . . Rent is the price of monopoly, arising from the reduction to individual ownership of natural elements which human exertion can neither produce nor increase."

The above quotations are from the chapter, "Rent and the Law of Rent", in *Progress and Poverty* by Henry George. He explains how rent is determined by natural law; how rent increases with the increase of population; how our present system of land ownership gives the land an inflated value; how it forces some men to work for others in order to use the earth at all; how wages and interest can be paid only after rent is taken out of production. "Thus where the value of land is low, there may be a small production of wealth, and yet a high rate of wages and interest, as we see in new countries. And, where the value of land is high, there may be a very large production of wealth, and yet a low rate of wages and interest, as we see in old countries. And, where productive power increases, as it is

increasing in all progressive countries, wages and interest will be affected, not by the increase, but by the manner in which rent is affected. If the value of land increases proportionately, all the increased production will be swallowed up by rent, and wages and interest will remain as before. If the value of land increases in greater ratio than productive power, rent will swallow up even more than the increase; and while the produce of labor and capital will be much larger, wages and interest will fall. It is only when the value of land fails to increase as rapidly as productive power, that wages and interest can increase with the increase of productive power. All this is exemplified in actual fact."

President Roosevelt feels that there is something wrong with the use we are making of farm land, but he does not understand that city folks living in furnished apartments also use land and that something should be done about the system of landholding as applied to all land. If he did understand this, he couldn't do anything about it because the general public doesn't understand it. The professional economists have had it in their power to explain this to people for the past fifty years, but they haven't done so, and the President might as well take the Brain Trust out on Mr. Astor's yacht and quietly drop it overboard for all the good it is likely to do humanity.

The professors of political economy have turned up their noses at Henry George, and have made a great pretence of being profound students of social problems. If they knew the truth, but were afraid to utter it during our prosperous years, surely, when the country settled farther and farther into the depression, they must have known that their great opportunity was come. If they cannot help us now, what earthly excuse is there for their going on with their work? They have been weighed in the balances and found wanting. The writing on the wall—is it to be seen in unprecedented droughts, huge public debts, long charity rolls, a gigantic crime wave? Mene, Mene, Tekel Upharsin!

### THE HIGHER BRACKETS

Practically everyone approves of the income tax except those who have to pay it. The smaller incomes are bearing about all they can stand now, but the great fortunes of the country are literally a rich field that always beckons the harassed and perplexed congressman who is trying to devise new means of raising taxes to balance the budget. This depression has been likened to a war, and in time of war we do not hesitate to conscript men and force them to risk their lives to serve their country. Surely a man's life is the most precious thing he owns. Rather odd that we should be so squeamish about conscripting men's wealth, isn't it?

The *Commonweal*, London, has some inter-

esting comments on the income tax.

"To overtax a rich man causes him a good deal of annoyance, but it ultimately leads to many persons being drawn out of employment." So writes the Bishop of Gloucester in his New Year message.

Dr. Headlam was Principal of King's College, London, from 1903 to 1912. He says: 'The dangers of the present time arise because newspaper people and Members of Parliament seem to be incapable of understanding economic conditions.' It is clear from his reference to overtaxing the rich that he is not sufficiently well up in economics to put the others right.

Taxation is a transfer of wealth. Wealth cannot be transferred from him who hath it not. Wealth may be transferred (taxed) from a rich man, but if that rich man has not produced that wealth by his own labour or service it must follow that, before it can be transferred from him, he must first have been able to transfer it to himself from those whose labour brought the wealth into being. So we get down to this fundamental truth of economics that it is only the producers of wealth who can pay any tax. When Government taxes the rich it merely shares with them in their plunder of the producer, and that's why most actual producers are poor.

This is not the first time we have had to comment upon the Bishop's peculiar economic fallacies."

"The 510 political units in the State of California expended \$40,931,888 more than they received in revenues during the fiscal year ending June 30, 1932, according to figures released yesterday by the Bureau of Census of the Department of Commerce in Washington. Governmental costs were \$671,980,753, revenues \$631,048,865.

"The survey also shows that the per capita public indebtedness of all units increased by \$43.34 in the decade between 1922 and 1932, and increased by \$131.14 in the twenty years between 1912 and 1932.

"The bureau's summary covers the State government, the fifty-eight counties, 278 cities and towns, 3531 school districts and 1442 other civil divisions."—*Los Angeles Times*.

"Unemployment is employment prevented—usually because the landowners' terms are prohibitive. When by means of the taxation of land values it has been made impossible to prevent employment, the Land-Lords will lose their dole, but they will share the common right to earn a good living by honest toil."—*Porcupine*, Manchester, England.

The Methodist conference decided not to fire its Cannon.—*Dallas News*.

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## PROPERTY OWNER

Unemployment and reduced wages during the last few years have made it difficult for many, and impossible for some, to pay their taxes. Any cry of reduced taxes is a welcome sound to these harrassed home owners. The real estate organizations are taking advantage of this situation to glorify the "property owner", and throw considerable dust in his eyes. He is made to feel that he is the only one who pays any taxes; that the bill he receives from the assessor is excessive; that if the tax burden on real estate could be lightened, he would be in clover.

A radio speaker of the Property Owners Division recently stated that it was absurd for a taxpayer to think that he was getting a dollar's worth of service for every dollar he paid in taxes. That, of course, would always be a matter of taste and opinion.

It is the owner of vacant land who is particularly desirous of having the burden on real estate lightened. So much money is needed, or at least demanded, by the government of every community. As the tax is lightened on land, it must fall more heavily on something else, and that means on improvements and personal property, on sales and incomes and anything else that occurs to the politicians. As a matter of fact, land is the only thing that is benefited by the services of government, and therefore, is the only thing that should pay for them.

The vacant lot is made more valuable by government and increasing population quite as much as the improved lot. Houses deteriorate, become oldfashioned and grow less and less valuable from year to year. The selling price of any lot will rise and fall with the booms and depressions, but the real value always steadily advances in a growing community simply because more people will want to use it.

As taxes are shifted from land to improvements and labor products, the owner of the vacant lot will escape his just share of the cost of government. Every other citizen in the community, whether his name appears on the assessor's books or not, will pay his own share and a part of that which should be paid by the vacant lot owners.

Don't think, Mr. Property Owner, that if your tax bill is reduced, you are really paying less taxes. If it is reduced because the tax on land has been lightened, you are making up for it by paying more taxes on other things. Taxes on industry are always a detriment. They increase the price of commodities without increasing wages with which to buy labor products. The government gets this increase in price.

There is now being circulated a petition in behalf of a proposed constitutional amendment which would limit the tax rate on land values. Land is not now assessed at its full valuation as the Constitution of the State of California says it shall be. The lighter we make the taxes on land, the easier we make it for speculators to hold land idle, the more we hold land out of use, the more difficult it will be for men to find work.

The law in Los Angeles requires the owners of vacant lots to clear off the weeds once a year because dry grass and weeds constitute a fire hazzard in this dry country. Sometimes the owners do it themselves, more often they hire men to do it for them, and that is the only time in the whole year that the vacant lots of this city afford employment.

The homeowner must keep in mind that the realtor's interests are directly opposed to his own. Idle land means idle men, and idle men mean low wages for those who are working. Lots thrown on the market at low prices mean more home builders, the quickening of trade all along the line and the consequent absorption of unemployed men. Certainly that is a thing greatly to be desired, more employment and higher wages.

This is very difficult for the professional economist to understand. Dr. Richard T. Ely of the Institute for Economic Research says: "My recommendations are that you should give up the general property tax altogether; that you should tax land upon its annual use value, say 30 per cent. This would reduce the tax on real estate probably at least one half." Dr. Ely believes that a system of licenses and fees could be made to carry a large part of the burden now resting on real estate.

We are now wrestling with the problem of added licenses and fees for the business men of Los Angeles—and the business men don't like it, most decidedly not. They know, if Dr. Ely doesn't, that it would be a tremendous handicap to business. The business men cannot afford to pay it themselves, and if they pass it on to their customers, buying will slow down, and it isn't very speedy now.

When we talk about reducing taxes and about tax relief, we should mean reducing and finally abolishing the taxes on improvements and personal property and all labor products.