THE BULLETIN

Of The COMMITTEE OF MANUFACTURERS AND MERCHANTS ON FEDERAL TAXATION (Inc.)

VOL. I. CHICAGO. FEBRUARY 1922. No. 5.

THE SALES TAX NOT A MONEY GETTER

A Brief Analysis of Experience in the Dominion of Canada

By Francis A. Carman.

The Sales Tax has failed in Canada in what is after all the raison d'etre of taxation. It has proved itself a disappointment as a money-getter.

This is the second year which the Sales Tax has been in force in the Dominion. Last May the rates were raised from fifty to one hundred and fifty per cent; and just before those increases were made, friends of this method of taxation predicted that it would bring in $100,000,000.00. The results are now available for nine months of the second year of the tax—eight of them under the higher rates—and the result so far is only $45,000,000.00. Already the receipts from it have begun to decline; and the indications are that the full year will show less than $60,000,000.00.

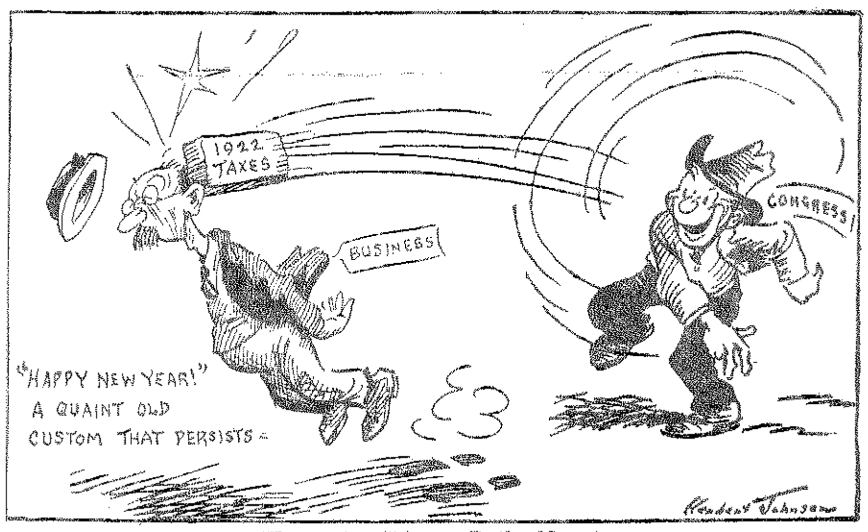
The prediction just referred to as to the revenue-raising powers of the Sales Tax was made last spring by the Canadian Reconstruction Association, a powerful friend of the "internal tariff," as this tax has well been called.

"If the Government," ran a statement issued by this organization, "decides not to re-enact the Business Profits War Tax, to abolish the income tax on corporations, to withdraw the tax on confectionery, and to depend upon an adjusted Sales Tax to provide the revenue required, it will probably be necessary to raise not less than $100,000,000 by such taxation."

The conditions laid down by the Reconstruction Association were all carried out except that the income tax on corporations was not dropped. The Government did not think it well, fortunately for the country, to rely entirely on the Sales Tax to secure the revenue needed, which, as it turned out, was much more than the $100,000,000.00 estimated by the Reconstruction Association; but placed higher taxes on alcoholic beverages to offset the falling off in excise revenue owing to the provincial prohibitory laws.

In order to secure the revenue of $100,000,000.00 from the Sales Tax the Reconstruction Association proposed three optional plans of revision. The first of these provided for the extension of the tax to cover all sales between the primary producer and the user, allowing for exemption on sales by the farmer or other primary producer and on sales up to a

HAPPY NEW YEAR!—BY HERBERT JOHNSON.



(From the Chicago Daily News)

minimum amount in a year. The second proposed to include in the scope of the sales tax real property, securities, brokerage transactions, "lands and services."

The third proposal, which was that adopted by the Government was to retain the tax practically in its existing form but to increase the rate.

The old rates were one per cent on all sales by manufacturer or wholesaler and on all importations, except that the rate was two per cent on sales by manufacturer direct to retailer or on direct importations by the retailer. The existing rates are one and one-half per cent on domestic sales, doubled for sales direct to retailers by manufacturers; while the sale tax on importations is raised to two and one-half per cent generally, with four per cent on direct import by retailers.

The general result of the revision is that the domestic tax has been raised fifty per cent; while the increase on imports varies from a hundred to one hundred and fifty per cent.

The effect on the revenue may best be seen by a tabular comparison of the receipts from the tax during the two fiscal years, the Canadian fiscal year ending March 31. June was the first month in which revenue was received from the tax in 1920; while April and part of May of 1921 were under the old rates. The table in thousands of dollars is as follows:

	1920-21	1921-22
April	$.....	$3,014
May	.....	4,185
June	1,906	4,476
July	3,684	5,416
August	4,129	5,859
September	4,916	5,466
October	5,020	6,075
November	4,497	5,616
December	4,202	5,306
January	3,276	.....
February	2,987	.....
March	3,404	.....
Total	$38,025	$45,418

The months which are strictly comparable in this table are those from July to December in the two years. (In June 1920, the system was just being got into operation.) The increase in the rate of taxation ranges from fifty to one hundred and fifty per cent, yet only once in these months (July) is even the lower percentage reached. From this month the percentage of increase begins to fall off, dropping down to twenty and in one case (September) almost to ten per cent.

Besides, after the month of October the revenue from the tax begins to fall off absolutely. This it will be noticed, was the case also last year, which suggests that the decline may be seasonal in its nature, and that it is likely to continue during the rest of the current fiscal year. From which it follows that the total revenue from the Sales Tax for the fiscal year is likely to be less than is indicated by the returns so far available. In other words, the figure given above for the full year ($60,000,000.00) is more apt to be above than below the total yield of the tax for the year.

Now, no doubt the disappointing yield of the increased Sales Tax is due in part to the general falling off in values, the customs receipts of Canada having also suffered heavily from this cause. But this will not explain the great disparity between the expectations held out for this fiscal source and its accomplishments. The disappointment is further heightened by certain circumstances in connection with the revision of the tax in the Canadian House of Commons. When the Finance Minister brought down his proposals, it was noticed that an attempt has been made to widen the basis of the tax slightly by narrowing the list of exceptions which had been made to it when it was introduced. This attempt at once attracted adverse attention, and the upshot was that the Minister had to restore the list of exceptions almost in its entirety. This suggests that the chance of overcoming the unsatisfactory yield of this tax by widening the range of articles included under it, is not likely to meet with much success

A similar inference is to be taken from the failure of the Government to accept the advice of the Reconstruction Association to materially widen the base. That body suggested very extensive additions to the articles subject to the impost—including even such separate classes as property sales and sales to the consumer by the retailer. Such a drastic broadening of the base the Ministry did not even attempt; and a mild effort to add some few articles soon made it necessary for the administration to execute a strategic movement to the rear.

This, however, is not very surprising. For an impost of this character the Canadian Sales Tax is high; and it is only its limitation within a narrow range which has made it bearable. It has been admitted by an American advocate of the Sales Tax, Dr. Henry A. E. Chandler (economist of the National Bank of Commerce, New York), that a "general commodity Sales Tax levied at a rate of 1 per cent would increase the burden upon the average family of five having an income of $2,800 by an amount equivalent to 900 per cent of the present (United States) income tax burden." Dr. Chandler indeed suggests a rate no higher than three-tenths of one per cent for a general commodity tax, which is only one-fifth of the Canadian rate.

It appears, then, that the disappointing character of the Sales Tax as a money getter in the Dominion is not due to the fact that the Canadian rate is low. The Canadian rate is high; and if the base were to be broadened, the rate would have to be lowered materially. Either way the advocate of the Sales Tax is in a dilemma. A high rate on a limited base is disappointing; and if he broadens his base, he must lower the rate, which would again, in all likelihood, be disappointing.

The fact is that, so far as Canadian experience is a guide, the Sales Tax is not a fertile source of revenue. Will it remain a part of the Canadian fiscal system? That is likely to remain a dark secret until after the new Finance Minister, Hon. W. S. Fielding, brings down his budget. No secrets are more carefully guarded than those relating to the fiscal policy of the Government. It is possible that it may be retained as a subsidiary source of income—Canada's financial burdens are very heavy at the present time and even sixty millions is not to be disregarded—but it can never be the main or one of the chief sources. These are likely to continue to be the income tax and the tariff—until the Dominion learns the wisdom of adopting the taxation of land values.

THE BULLETIN

of the Committee of Manufacturers and Merchants on Federal Taxation (Inc.)

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THE RENT BURDEN—HOW BIG?

In our January BULLETIN Mr. John Lord estimated the amount of wealth absorbed by the rent of land at 20%. A good many critics have written in to the office insisting that this estimate is much too low.

Mr. J. C. Lincoln President of the Lincoln Electric Co., of Cleveland, O., for instance, says:

"My belief is that the amount absorbed in rent is actually much greater than given in Mr. Lord's article—nearer 50% of production than 20%."

Likewise Mr. Bolton Hall, Counsellor at Law, 29 Broadway, New York, states:

"These, with the profits piled on each transfer, make the rent of land more likely double 19% than merely 20% which Mr. Lord allows."

In reply to the above it should be said, as was suggested in the article itself, that the figures published in the January BULLETIN with regard to the amount of wealth going to land, labor and capital respectively, were arrived at in a wholly arbitrary manner.

The Editor agrees with the above critics that the income of the landowner is much greater in the aggregate than 20% of the total wealth produced. However, Mr. Lord in his article, merely wished to call out discussion and he purposely made his figures as to the share of the landowner extremely low, so as to avoid all charges of overstatement.

SOLVING THE HOUSING PROBLEM

Now comes Chicago, and like practical New York City, proposes to exempt new dwellings from taxation for a period of years, as an inducement to start building operations. Fine. We hope it carries out its plan.

But in order not to make a botch-job of it, Chicago must be sure at the same time to place a heavier burden on the large area of idle land within its borders. The following news item just received from Mexico points the way:

MEXICO TAXES VACANT LOTS

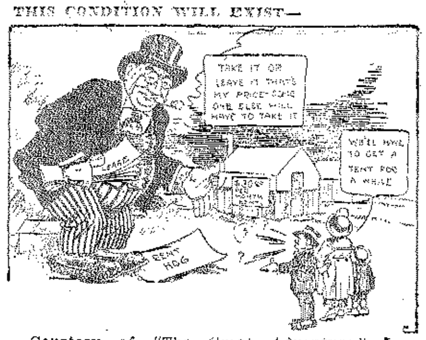
By J. H. Cornyn

(Chicago Tribune Foreign News Service)

MEXICO CITY—(By Mail)—In an effort to encourage the building of more dwellings in the federal district and to discourage the holding of vacant land within the city limits or those of the suburban towns, President Obregon has issued a decree placing an additional 2 per cent tax upon all vacant lots. This is the second tax in the last six months, and it is rumored that the tax will be raised still higher if the present decree does not have the desired effect.

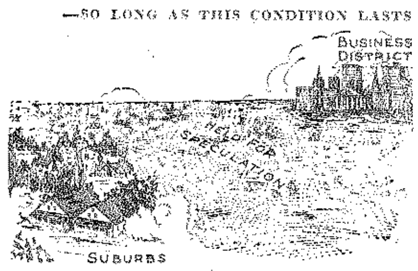
That's the right combination—less taxes on improvements, more taxes on vacant land. Otherwise—

THIS CONDITION WILL EXIST—



—Courtesy of "The Great Adventure," Los Angeles, Calif.

—SO LONG AS THIS CONDITION LASTS



AUDITOR'S REPORT FOR 1921

THE CHARLES A. JOSLYN AUDIT COMPANY (Not Inc.)
Public Accountants
Suite 1206 Masonic Temple
Chicago

Jan. 18, 1922.

Committee of Manufacturers and Merchants on Federal Taxation,
1346 Altgeld St.,
Chicago, Ill.

Mr. Otto Cullman, Chairman.

Dear Sir:

At your request, we have carefully audited and examined the records of your Committee, for the calendar year 1921, and for your information submit the following detailed reports, which we certify to be correct, insofar as our examination has extended.

Exhibit A. Condensed Statement of Cash Receipts and Disbursements for 1921 with explanatory notes.
" B. Analysis of Cash Receipts and Disbursements Jan. 1 to June 1, through F. H. Lawson, Treas., office.
" C. Analysis of Cash Receipts and Disbursements, May 6, 1921, to Dec. 31, 1921, through deposits and checks through Fullerton & Southport State Savings Bank.
" D. Reconciliation of Bank Account at December 31, 1921.
" E. Recommendations.

As you are aware, during the early part of 1921, the record of the account was kept in the General Ledger of the Cullman Wheel Co., and was so kept until in May 1921, when the Treasurer remitted the balance of the funds in his hands, which went to the credit of this account in Cullman Wheel Co., books and the account was balanced by charging Otto Cullman with th accrued balance.

We have shown this clearly in Exhibit B.

Since that time the account has been kept separate by Banking through the Fullerton & Southport Savings Bank and which is analyzed and shown in Exhibit C.

We believe that the condensed details shown in Exhibit A, are all that you will need to use in connection with your publication and possibly can eliminate the footnotes to that Exhibit.

From our examination we believe that proper care has been taken and that the records are satisfactory as far as they go.

In Exhibit E. we have made recommendation that, if carried out, will put the accounting in a more satisfactory state.

We thank you for the confidence reposed in us and await your further commands.

Respectfully submitted,
The Charles A. Joslyn Audit Co.
Pres. (Signed) Charles A. Joslyn.

EXHIBIT A.

Committee of Manufacturers and Merchants, Chicago.
Condensed Statement of Cash Receipts and Disbursements, Year 1921.

Jan. 1.	To Cash in Hands, F. H. Lawson, Treas.		$ 4,987.90	
Dec. 31.	To Cash Receipts, Membership Dues, Subscriptions, Donations and Sundry Sources		25,910.06	
	Total Cash Receipts			$30,897.96
	Cash Disbursements—			
Dec. 31.	By A. W. Ricker, 52 Wks. @ $75.00		3,900.00	
	By E. O. Jorgensen, 52 Wks. @ $50.00		2,600.00	
	By other Salaries and Wages	A	7,629.21	
	Total Salaries and Wages		$14,129.21	
	By Postage		4,086.48	
	By Printing and Stationery Supplies		6,125.38	
	By Educational Prom. and Service		1,869.85	
	By Traveling Expense		928.61	
	By Miscellaneous Advertising and Supplies		355.70	
	By Typewriter Rental and Supplies	B	241.85	
	By Petty Cash Disbursements		567.02	
	By Miscellaneous Expenses and Supplies	C	279.00	
	By Payments, Loan from O. Cullman	D	350.00	
	By Refund Cash Adv. from Cullman Wheel Co.	E	1,925.16	
	Total Cash Disbursements			30,858.26
1922—Jan. 1	To Cash Balance in Bank—Ex. D			$ 39.70

Notes—A. Includes Salary for Walter W. Liggett, Representative at Washington Bureau, $100.00 Wk.
B. Includes payments on 2 Typewriters which will become an Asset when fully paid for.
C. Includes Telephone, Telegrams, Drayage, etc.
D. Repayment on Acct. of $500.00 borrowed from Mr. Cullman July 6, 1921.
E. See Exhibit B for full explanation.

EXHIBIT B.

Committee of Manufacturers and Merchants, Chicago.
Analysis of Cash Receipts and Disbursements through F. H. Lawson, Treas., Jan. 1, 1921 to June 1, 1921.

1921—Jan. 1	To Cash Balance on hand per Stmt. F. H. Lawson, Treas. (On Stmt.. Head F. H. Lawson & Co.)	$ 4,987.90	
May 25	To Cash Receipts Acct. Membership Fees, Subs. and Sundry Misc. Sources	10,417.62	
	Total Cash Receipts to May 25, 1921		$15,405.52
	(This shown in Acct. on Cullman Wheel Co. Books.)		
	Cash Disbursements (By Cullman Wheel Co. Checks.)		
May 25	By Salaries and Wages	$4,014.07	
	By Printing and Stationery Supplies	4,444.09	
	By Postage	2,354.56	
	By Miscellaneous Advertising	182.49	
	By Typewriter Rental and Supplies	67.00	
	By Petty Cash Disbursements	392.02	
	By Educ. Prom. and Service	843.63	
	By Miscellaneous Expense and Supplies	121.35	
	By A. W. Ricker Expense	160.65	
	Total Cash Disbursements		13,480.36
	Balance Unaccounted for—(Note A)		1,925.16

Note A.—The account up to this date was kept in the General Ledger of the Cullman Wheel Co., and this balance unaccounted for was absorbed into that account and the account was closed in June 1921, by charging to Otto Cullman, Personal $16,885.21, paid out for the Committee's activities to this date, more than had been received from all sources.

(Note by Editor: The contribution of Mr. Cullman above referred to has to do with the year 1920. Mr. Cullman's contribution since Jan. 1, 1921 has been $100 per month and the same amount personally has been pledged by Mr. Cullman for the year 1922.)

EXHIBIT C.

Committee of Manufacturers and Merchants, Chicago.
Analysis of Cash Receipts and Disbursements, May 6 to Dec. 31, 1921.

Dec. 31.	To Cash Received and Deposited in Fullerton & Southport State Savings Bank:		
	May 1921	$2,312.72	
	June 1921	1,698.88	
	July 1921	2,198.96	
	Aug. 1921	2,436.92	
	Sept. 1921	1,845.71	
	Oct. 1921	2,420.88	
	Nov. 1921	1,565.40	
	Dec. 1921	1,012.97	
	Total Net Receipts		$15,492.44
	Cash Disbursements,		
Dec. 31	By Salaries and Wages—Note A	$9,215.14	
	By Postage	1,731.62	
	By Typewriter Rental and Supplies	174.85	
	By Advertising, Miscellaneous	173.21	
	By Printing and Stationery Supplies	1,681.29	
	By Miscellaneous Expenses and Supplies—Note B	157.65	
	By Traveling Expense	767.76	
	By Educational Prom. and Service	1,026.22	
	By Petty Cash Items	175.00	
	By Payments on Bills Payable	350.00	
	Total Disbursements		15,452.74
Jan. 1, 1922	To Cash on Hand—(See Exhibit D)		$ 39.70

Note A. Includes A. W. Ricker, Director at $75.00 per week; E. O. Jorgensen, Statistician, $50.00 per week; W. W. Liggett, Washington Bureau.
Note B. Includes Telephone, Telegraph, etc.

THE PROFESSORS—WHAT THEY DON'T KNOW ABOUT ECONOMICS

By EMIL O. JORGENSEN

[This is the first of a series of twelve articles that Mr. Jorgensen will write especially for the BULLETIN during 1922 under the general title above given. Don't miss a single number. You'll regret it if you do.—Editor.]

"Bunk," "heresy," "false doctrine," "pseudo-discovery," "monumental mistake," "ridiculous," "unprovable"—these are some of the terms scornfully hurled at me by professors and educators in our leading colleges and universities for disputing their position that "economic rent is NOT a part of price."

I accept the challenge. I propose therefore in this article to prove that the professors and educators are wrong and that I am right. I propose to show beyond any further question of a doubt that economic rent IS a part of price, that is IS an element in the cost of production and that the current teaching of the professors to the contrary is not only unsound and illogical, but ridiculous in the extreme.

* * *

Before launching into the subject however a word of explanation as to how this controversy came to arise may not be out of place.

In the BULLETIN for December appeared an illustrated article written by me entitled "Land Values Crowding Industry to the Wall." In the following issue for January appeared another short article over my name entitled "An Unlimited Market—Where and How to Get It,"—an article elaborating to some extent what I had already said in the December issue.

In these two articles I undertook to analyze from a new angle the underlying cause of our industrial depression—undertook to show from a new point of view why our markets are dull, why our factories, mills and freight cars are idle, and why a vast and growing multitude of working men and women are out of employment.

* * *

But I did not stop with a mere analysis of the problem. I also pointed out the remedy. I showed how, by abolishing the taxes upon business, industry and agriculture—sales taxes of all kinds, income taxes, corporation taxes, personal property taxes, improvement taxes, etc.,—and raising the needed revenue from land values only (exclusive of all improvements), that the average price of all goods would fall, and that from $400 to $600 would be added annually to the purchasing power of each family in the nation.

I showed how this would enormously stimulate demand; how consumers in every nook and corner of the country would crowd the retail stores demanding more and better food, more and better clothing, more and better luxuries—in short more and better products of every conceivable kind. I showed how this again would fairly "swamp" the wholesalers, the manufacturers, the miners, the farmers and the lumbermen with additional orders for goods; how it would put every wheel of industry in motion; and how this in turn would call our growing army of unemployed men and women back to work. In a word, I demonstrated how, by merely changing our system of taxation, that our present state of stagnation could be turned into a state of commercial and industrial activity greater and more lasting than the nation had ever before known.

It is with no small degree of pride that I am able to say that so far not a single economist—either professional or lay—has been able to find a flaw in the reasoning as laid down in these two articles.* On the contrary scholars and thinkers from all parts of the country have hailed them as a most important contribution to economic literature and urged that reprints be made for general distribution.

* * *

But now the fun begins. A letter was sent out by Mr. Otto Cullman, Chairman of the Committee of Manufacturers and Merchants on Federal Taxation to the members of the American Economic Association disclosing how these articles came to be written from this point of view. In this letter it was stated that after eight years of intense study of the fundamental principles upon which the science of economics has been built I had reached the conclusion that one of the most important of these principles is absolutely wrong,—that economic rent DOES form a part of the cost of production, that it DOES enter into the price of commodities and that the current doctrine to the contrary that has been taught in our colleges and universities for 140 years is not only utterly false in theory, but wholly insupportable in fact!†

Had a match been applied to a powder magazine the explosion could have been no greater! From all parts of the country came letters from the professors, many of them it is only fair to say, expressing their belief that I was right, but most of them, from A. W. Taylor, Dean of the Graduate School of Business Administration of New York University, on down to the ordinary college graduate who had just got his first job as a high school teacher, sweeping aside my conclusion as "pure bunk" and referring to me in the most contemptuous manner.

* * *

Now this opinion of so many noted professors and educators cannot be ignored. For if the professors are right in saying that my premises are wrong, then my conclusions as laid down in the articles referred to, and with which no economist has as yet disagreed, must ALSO be wrong. If my conclusions are right then my premises must ALSO be right. Both propositions either stand or fall together. I therefore now propose to prove that my premises are equally as correct as my conclusions and that the current doctrine as taught in our institutions of learning that "rent is NOT included in the price of goods," that "it is NOT a part of the expense of production" is as unsound, illogical and absurd a doctrine as ever found lodgment in the human mind.

* * *

In the following analysis I shall use the terms "land," "labor," and "capital," and the terms "rent" "wages" and "interest" in exactly the same sense as they are used in political economy, and in which sense they are familiar to all students of the subject.

When I use the term "poorest land" I mean that land which lies at the "margin"—that land which is the least productive, the most inferior, the worst located and consequently the lowest in price—in other words, that land which is theoretically free, whether it be agricultural land timber land, coal land, mineral land, city land or any other land.

When I use the term "best land" I mean that land which lies at the center of population—that land which is the most productive, the most superior, the best located and consequently the highest in price, whether it be agricultural land, timber land, coal land, mineral land, city land or land of any other variety.

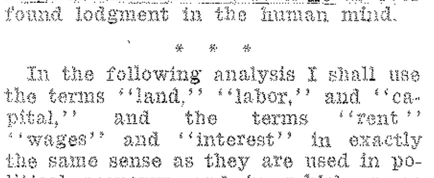
I kindly ask the reader to bear these terms carefully in mind, as only by doing so we can avoid any slip in reaching a correct and definite conclusion.

* * *

Now there are two reasons, say the professors, why rent does NOT enter into the price of goods.

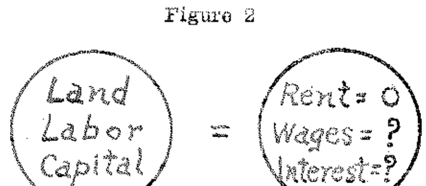
The first reason is because at the "margin of production"—the poorest land in use—there is no rent to enter into price. Land has no value. Wages and interest therefore divide the whole product. Thus:

Figure 1



But this analysis is absurd. By what system of logic can three factors join in production and only two join in division? Certainly none that I have ever heard of. If land, labor and capital join in production then by all laws of reasoning, rent, wages and interest must also join in division. In other words, if you eliminate rent as an element in distribution, you must also logically eliminate land as an element in production; if you include land as an element in production then you must also logically include rent as an element in distribution. There is no arguing against this. For each factor in production there must be a complementary factor in distribution. True the rent of land at the margin is zero. But this makes no difference. Rent is as much an integral part of price at the margin as if the amount were a thousand or a million above zero. I submit then as proof that rent IS a part of price at the margin or on the poorest land in use:

Figure 2



The second reason, say the professors, that economic rent does NOT enter into the price of goods, but that wages and interest alone enter into it, is because goods cost no more on the best, or highest-priced land, than they do on the poorest, or lowest priced land. This would not be the case, they say, if rent were included in price. For, if rent were included in price, then goods would cost vastly more on the best, or highest-priced land, than they cost on the poorest, or lowest-priced land. Thus:

without stumbling and the majority of those who acquiesce in it are influenced by the great writers to whom they pay deference, and whose judgment they follow."

Like the little boys who play "follow your leader"—jumping where the leader jumps, and falling where the leader falls,—the professors have therefore plainly accepted this colossal mistake as a fundamental truth without either thought or question.

* * *

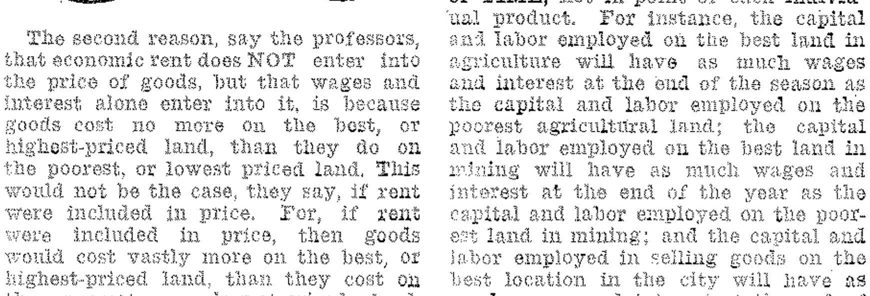
What are the errors as stated in the above argument and as indicated in the diagram?

Briefly they are as follows:

In the first place wages and interest are shown to be equal per unit of production on all lands from the poorest to the best. This is not true. Wages and interest are not EQUAL per unit of production, but UNEQUAL—that is to say, they are LESS on each article produced on the best land (see correct delimiation in figure 4) than they are on each article produced on the poorest land.

Wages and interest are EQUAL on lands of different grades only in point of TIME, not in point of each individual product. For instance, the capital and labor employed on the best land in agriculture will have as much wages and interest at the end of the season as the capital and labor employed on the poorest agricultural land; the capital and labor employed on the best land in mining will have as much wages and interest at the end of the year as the capital and labor employed on the poorest land in mining; and the capital and labor employed in selling goods on the best location in the city will have as much wages and interest at the end of a month or a year as the capital and

Figure 3—Incorrect

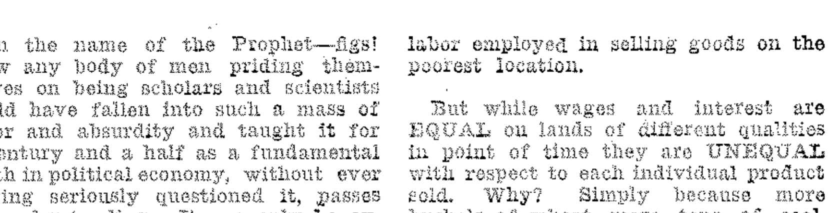


In the name of the Prophet—figs! How any body of men priding themselves on being scholars and scientists could have fallen into such a mass of error and absurdity and taught it for a century and a half as a fundamental truth in political economy, without ever having seriously questioned it, passes all understanding. It can only be explained on the theory that the professors themselves are little different from other people—that they "swallow" the knowledge handed to them much as a patient swallows the pills prescribed by a doctor.

labor employed in selling goods on the poorest location.

But while wages and interest are EQUAL on lands of different qualities in point of time they are UNEQUAL with respect to each individual product sold. Why? Simply because more bushels of wheat, more tons of coal, more barrels of oil, more feet of lumber, or more pairs of shoes can be produced and sold within a certain period of time on the superior lands than can be produced and sold, within the same period of time, on the inferior lands.

Figure 4—Correct



No less a man than Buckle, the great historian, has pointed out this same fact regarding this same identical thing. In his "History of Civilization" (Brisbane Edition, Vol. II, Chap. VI) he gives David Hume the honor for having made the "great discovery" that rent is NOT a part of price but that wages and interest are the ONLY parts. "This discovery," he goes on to say, "is the corner stone of political economy; but it is established by an argument so long and so refined, that most minds are unable to pursue it

Look at it from another point of view. If wages and interest were EQUAL per product on all lands, as the professors say, then the capital and labor working on the better lands and producing many times as much goods in the same length of time as the capital and labor working on the poorer lands, would have many times as much wages and interest at the end of the year as the capital and labor working on the poorer lands. Such a chaotic condition of course does not exist and is unthinkable in a competitive society.

* Since this was written an attack by Prof. Frank A. Fetter of Princeton University comes to my desk. Prof. Fetter however cautiously avoids attacking the fundamental principles in my December article, but confines himself to finding fault with my illustrations of these principles, and on such thin and flimsy grounds he makes—think of it!—the astonishing request that I publicly "retract the conclusions that have been presented in this article!"

† This doctrine has of course frequently been disputed, but has never been successfully overthrown.

But this is not all. If wages and interest were equal per unit of production on lands of different grades, as it is argued, then any tax such as a land value tax, which places a heavy burden on the best land and none at all on the poorest land, would inevitably do one of two things: either it would bear down upon wages and interest on the superior lands or it would raise the price of goods to the consumer on these lands.

But as all fundamental economists well know such a tax will do nothing of the kind. Though the burden be heaviest on the best land and lightest on the poorest land, it will nowhere press down upon wages and interest, nor will it anywhere raise the price of commodities to the consumer.

Without question, then, wages and interest are not **EQUAL** on all lands per unit of production, but **UNEQUAL**—that is to say they are much **LESS** per product on the superior lands than they are on the inferior.

* * *

Suppose now, it be true, as the professors state, that economic rent is **NOT** a part of price. Then goods of like kind and quality, would not everywhere be uniform in price but would present, as it were, a sliding scale—being dearest on the poorest land and cheapest on the best land. (See Fig. 4.) Then a tenant farmer growing wheat on 40-bushel land would be able, after paying wages and interest, to sell his wheat at about one-fourth of what a tenant farmer growing wheat on 10-bushel land could sell it for. Then a mine operator producing coal or iron from a rich and convenient deposit would be able, after paying wages and interest, to sell his coal or iron at a mere fraction of what a mine operator extracting the same products from a lean and inconvenient deposit could sell it for. Then a merchant selling shoes on the best location in the city would be able, after paying wages and interest, to sell these shoes at a mere trifle of what a merchant occupying the poorest location could sell them for. In short, then all goods produced or sold on the most superior lands—whether agricultural, mineral, timber, coal, waterpower or urban—would cost the consumer only a small part of what the same goods would cost him that were produced on the most inferior lands in use!

Needless to say such an unthinkable condition nowhere exists. Though the wages and interest are far less per unit of production in the goods produced on the best lands than they are in the goods produced on the poorest lands, yet the goods cost the consumer as much in the one case as in the other. (See Fig. 4.) Why? Simply because economic rent **IS** a part of price. Simply because economic rent, which measures the difference that the best land will yield over what the poorest land will yield, **ENTERS INTO** the cost of production and is **INCLUDED** in the price of the goods sold.

* * *

If we turn from abstract theory to the concrete facts of every day life we find on all sides overwhelming evidence that the above reasoning is correct. There is not a tenant farmer in this broad nation of ours who does not pay his landlord out of the products he sells. There is not a mine operator or a lumberman who does not do the same thing. There is not a merchant or a manufacturer who does not figure in his rent as a part of the cost of doing business, and who does not get back the rent in the price of his goods.

Turn the proposition any way you like, look at it from any angle that you will, and you will be brought to the same conclusion. The idea that "rent forms NO part of the cost of production," that "it is NOT an element in the price of commodities" and that "it does NOT come out of the pockets of the consumer" is a pure chimera of the imagination. It is an idea that is scorned by the masses, pooh-poohed by the business man, laughed at by the bookkeeper and the accountant and seriously believed in only by a few university professors and college graduates. It has no basis either in theory or in fact. It is not only scientifically unsound and illogical; it is the choicest bit of economic fallacy of which the annals of human history have any record; the rarest piece of humbug and nonsense without question that has ever tormented the minds of intelligent men!

* * *

One more word before closing. If, in this discussion, I have seemed to be severe with the professors in our colleges and universities I desire it to be clearly understood that I have intended to be so only with some of them and not with all. My fire has been directed not against the major part of the teaching fraternity, but only against those who are the leaders, the spokesmen—in particular, those who write the text-books for our students of economics.

Having been a college man myself I know that no finer and truer set of men and women can be found anywhere, generally speaking, than among the instructors and assistant professors in our institutions of learning. They are, with rare exceptions, open-minded and public spirited with a keen sense of responsibility. If they make mistakes they are only such mistakes as any mortal may make and if they blunder seriously their blunders are traceable in nearly every instance to the fallacies handed down to them by their "superiors" and accepted without question.

* * *

But these "superiors," these writers of economic text-books, these "molders" and "trainers" of the youthful mind—they stand in a class by themselves. If the mischief they caused were not so serious, their performances would be positively comical. When they write they write mostly in polysyllables, with a sprinkling of foreign words—French, Latin and Hebrew. They seem to delight in stating the simplest propositions in the most difficult language and in executing the easiest tasks in the hardest manner. Logic and science are something that they talk about, but do not practice. Moreover, they love to flatter one another and to see themselves called nice names in print. In their books and journals they give the largest space to the most trifling matters and devote the smallest space to the great and important principles that govern the affairs of men. I have had occasion during the past eight years, to examine with considerable care, several hundred economic text books and treatises that have been thrust upon the student body of the land, and so full have I found them of inconsequential things, so loaded down with errors and misleading statements and so empty of worthwhile information and practical knowledge that I seriously question if more than half a dozen of them are worth the paper upon which they are printed!*

* * *

But this is not the worst of it. Few students—I was about to say no student—can plow through these ponderous volumes without doing their minds positive injury. Before they get through their capacity for clear and original thinking will be seriously impaired, if not almost destroyed. Schopenhauer never said a truer thing of the German philosopher Hegel than can be said of most of those who have written our economic text-books:

"If one should wish to make a bright young man so stupid as to become incapable of real thinking the best way would be to commend to him a diligent study of these works."

Or as George A. Schilling has well put it:

"The sad fact is that if the young men graduating from our universities, stuffed with these economic heresies, wish to make a distinctive mark in life, they must unlearn much of the truck they were lumbered down with during their college days."

Yet these professors take themselves so seriously. Like the small rooster in the drama called "Chanticleer" who thought that the sun wouldn't rise unless he crowed in the morning, they think that unless they denounce any truth promulgated outside of their own little group that the heavens will fall! They believe that they alone are the anointed "high priests" of economic science, the exalted judges of what is right and what is wrong, and that the student body and the common people ought to sneeze whenever they take snuff!

One sometimes wonders if the noted American humorist Josh Billings, didn't have the average professor of economics in mind when he penned his famous aphorism:

"It's better not to know so much as to know so much that ain't so."

* Three or four of these however are worth a good deal MORE than the paper they are printed on, while one of them at least is worth its weight in gold. This is "The Taxation of Unearned Incomes" (Missouri Book Company, Columbia, Mo., 1921) written by Harry G. Brown, Professor of Economics in the University of Missouri. Professor Brown's book ought to be, not only in the hands of every college student in the nation, but in the hands of every American citizen who believes in the principles of good business, good morals and good government. As a scientific treatise on taxation and economics it is by far the best book that has ever come out of any university.

The Greatest Fallacy Ever Taught Within University Walls

"Rent forms no part of the cost of production."—Prof. E. B. Andrews, "Institutes of Economics," Chap. II, Sec. 103.

"Rent is not an element in the price of products."—Prof. A. T. Hadley, "Economics," p. 470.

"Rent does not really form any part of the expenses of production."—John S. Mill, "Principles of Political Economy," Vol. I, Bk. II, Ch. XVI, Sec. 6.

"(Rent is not) a factor in the marginal cost of production upon which the normal price of commodity depends."—Prof. C. J. Bullock, "The Elements of Economics," Sec. 195.

"Rent forms no part of the expenses of production which affect price."—Prof. F. W. Taussig, "Principles of Economics," Vol. II, Chap. 42, p. 56.

"We hear a great deal about the incomes of landlords and the immense sums paid to them by tenants. The sums are no doubt very great; but rent does not affect the price of products in the least."—Prof. J. L. Laughlin, "The Elements of Political Economy," Chap. XXII, p. 252.

"Rent is not a part of the cost of production. Wages and interest alone constitute the cost of production."—Prof. Charles Gide, "Principles of Political Economy," p. 587.

"The essential fact in regard to rent is that it does not enter into the cost of production."—Prof. F. A. Walker, "Discussion in Economics and Statistics," Vol. I, p. 423.

"The normal selling price of any article tends to be such as will yield the wages and interest involved in the expenses of production. . . . Rent forms no part of such expense therefore it forms no part of the price of the whole market supply."—Palgrave's "Dictionary of Political Economy," Vol. III, p. 284; Vol. I, p. 439.

What The Professors Say About Mr. Jorgensen

NEW YORK UNIVERSITY
90 Trinity Place, New York

Gentlemen:

I have your circular letter regarding the accuracy of economic conclusions, and while I have not the time to go into what I should like to say, and therefore, perhaps ought not to say what I shall say, I have rarely seen a more unmitigated piece of bunk in all my life.

Whoever Mr. Jorgensen may be, he surely is relieved from all responsibility as an economist. . . . I have the pleasure of reciprocating the same scorn for Mr. Jorgensen as Mr. Jorgensen does for the economist.

(Signed) A. W. Taylor, Dean,
Graduate School of Business Administration.

UNIVERSITY OF NORTH DAKOTA
Grand Forks, N. D.

Gentlemen:

Received your circular letter, "Have the Professors been mistaken?" and a copy of the Bulletin for December, 1921. I have just been reading them. It looks as if Mr. Jorgensen has the "professors" on the run. This may look bad for me, since I am a professor, but not of the particular breed mentioned in the letter. I am willing to think that professors may sometimes be wrong, and always stand ready to let anything I publish be tested out by an appeal to facts. I am glad that you are putting this matter of prices and rent on a factual basis. It is very illuminating and hope that this line of study will be continued.

(Signed) J. M. Gillette,
Department of Sociology.

NEW YORK TENEMENT HOUSE COMMISSION
105 East 22nd St.,
New York

Gentlemen:

Your letter "Have the Professors Been Mistaken" received. There is not a fundamental economist in the country who will not disagree with Mr. Jorgensen's conclusion. For my part, I have studied it on and off for twenty-five years. . . . Mr. Jorgensen is deceived by superficial appearances. . . . If I thought there was any doubt on this subject, I would not talk dogmatically, but if I am mistaken on this point, I shall have to concede that I do not know anything at all.

(Signed) John J. Murphy.

PRINCETON UNIVERSITY
Princeton, N. J.

Gentlemen:

" . . . If these are samples of Mr Jorgensen's method, he would not be able to pass the elementary course in statistics in any reputable college. . . . "

(Signed) Frank A. Fetter,
Dep't of Economics and Social Institutions.

MIDDLEBOROUGH
Mass.

Gentlemen:

I am greatly impressed with Mr. Jorgensen's article in the December Bulletin entitled "Land Values Crowding Industry to the Wall." It is the most illuminating short article that has, as yet, appeared on this subject. It will provoke no end of thought and discussion among the people. You have struck twelve with that document!

(Signed) A. W. Littlefield, LL. D.

COLUMBIA UNIVERSITY
in the City of New York

Gentlemen:

I am one of those Professors who, according to Mr. Jorgensen, is teaching a doctrine that "is not only unsound and illogical, but ridiculous in the extreme!"

I am not interested in taking your Bulletin. However, when Mr. Jorgensen's articles are printed separately, kindly inform me as to the price of them for I may wish to purchase. You know, we Professors are extremely anxious to keep in touch with the writings and new economic discoveries of the bright and shining lights of the Age.

(Signed) Asher Hobson,
School of Business.

UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Management and Farm Economics
Washington, D. C.

Gentlemen:

I am very much interested in the articles on land values and prices, by your statistician (Mr. Jorgensen) beginning in the Bulletin, Vol. I, Number 3. I hope you will print the proposed articles in some convenient form. Please advise me how a copy may be obtained when it is ready for distribution.

I, too, think many of the Professors have been mistaken.

(Signed) O. C. Stine,
Agricultural Economist.