



"Specializing in News on Taxation and Advocating Sensible Tax Reform"

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Senator Views Land Value Taxation

In the TV program "Close Up" of November 10, 1962, the following colloquy took place between Noah Alper, director of the Public Revenue Education Council in St. Louis, Missouri, and U. S. Senator Paul Douglas:

Mr. Alper: "Senator Douglas, my big interest is in the building industry and construction. I asked a working man the other day if he thought it would help people to get homes if we made the price of land higher, or if we taxed construction and materials. He said not. Now last year the House and Home Magazine (Aug. 1960), a TIME Inc., publication, had an 84 page article on LAND, in which they said that three out of four builders say the price of land is a basic problem. The Readers Digest re-produced this article in July of this year by an editorial digest of it. And I was delighted to see . . . that (Congressman) . . . Hon. Thomas B. Curtis of Missouri thought this Digest article so provocative and important that he read it into the Congressional Record. (Oct. 10, 1962). Now isn't it possible that—since the building trades account for 25% of our total economy—the rehabilitation and new construction, etc.—that we are absolutely operating a tax system to make it harder rather than easier—to make land high priced rather than low priced?"

"We have seen in the last number of years the State take over more functions formerly done by the local governments, and the national government doing the same. And, in all cases reducing the tax structure on property and using non-property taxes, such as sales, gasoline, income, excises, to support these governments. And even the city has done that. Now, isn't it possible that we are doing so much to harm our people—to

hurt them—that the government then has to step in and try to help them?"

Senator Douglas: "Well, as you know, eighty-five years ago, Henry George advocated the theory that land values—bare land values as such, as distinguished from improvements—should be taken by the community and that taxes should be taken off housing—houses as such and improvements. I think there is a great deal to commend this view, but in practice you could probably only take the increase in land values, you should not confiscate existing land values. And the increase in land values is not, in all cases, adequate to support local government. But you could take the increase to meet some of the expenses of government and correspondingly reduce the taxes on housing and buildings as such. This is a matter for local adjustment, fortunately for me. And one, which I, as a senator, I don't have to cope with. But, as a citizen, I would say that some experiments in this direction would be very helpful."

These days, by the time a family has acquired a nest egg, inflation has turned it into chicken feed.

Each year it seems it takes less time to fly across the ocean and longer to drive to work.

The reason many people don't live within their incomes is that they don't consider that living.

The way taxes keep going up, it won't be long before the next issue of postage stamps will carry a picture of a weeping taxpayer.

OUR LOP-SIDED TAXATION

Underneath all of our industrial and business life is a crooked, lop-sided method of taxation which poisons our economic system.

The situation is best explained by a concrete example: Two pieces of land, equally valuable, lie side by side. An enterprising capitalist buys and improves one of these lots erecting upon it a business block, or a factory, or a residence; and he thus employs labor in producing wealth. But a heavy load of taxation is instantly imposed upon the improvement; while, at the same time, a much lighter proportional tax continues to be levied upon the adjoining vacant land. Familiar as these facts are, they nevertheless imply a great, unrecognized economic tragedy which the general public has not yet glimpsed.

Taxation Tragedy

Here is the tragedy in a nut-shell: There is a heavy penalty upon the production of wealth and the employment of labor; while all the time there is an actual, effective premium upon holding the ground idle, so that encouragement is constantly given to speculation in the most essential necessity of life (since every human being must occupy ground or space before he can do anything else).

Ground rent is the meter measure of unearned land value due to the presence of population which constantly needs to occupy and use physical space. And yet this unearned space-value, arising from the mass-pressure of society, is taxed very lightly in comparison with the burdensome taxes on the value of improvements and merchandise created by labor and capital.

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OUR BEFUDDLED SYSTEM OF TAXATION

(Following is the first chapter of W. R. B. Willcox' book "Taxation Turmoil," published in 1938. The reason we bring this to our readers, is to show that another 25 years have passed by and still no effective answer or practical solution has been adopted for our taxation muddle.)

Taxation! Was there ever another instance of a forest so effectively obscured by the trees! Let it be granted that everything cannot be done in a minute, that the years which political economists, governmental authorities and others, have given to the study of the ramifications of taxation are as nothing figured in geologic periods of time. Let it be granted that the earth was not made in a day, and that, so far as scientists have been able to discern, human nature has not changed in essential character since Man's advent upon it. Still, it should not be regarded as inexcusably premature to inquire of these students, if their investigations do not yet warrant the hope of the discovery of some workable theory of public finance; such a hope as the average man might welcome as promising respite—at least for his great-great grandchildren—from the anxieties with which he so familiarly is beset.

After the lapse of time during which men have borne, or broken under, systems of taxation too numerous and varied to mention, it would seem that it should not be too soon for these students to venture some fairly trustworthy prognostications of possibilities (to say nothing of probabilities) of conditions at the end of another two or three hundred years. Anything of the sort which they could say might afford some cheer to the present Mr. Taxpayer on his recurring visits to the tax office, and give some point to his financial sacrifices in the interest of the public welfare.

These particular distractions in the field of taxation have received a tremendous amount of consideration, such as it has been. Discussion has been constant and abundant, not only among a great array of distinguished authorities on the subject, but it has engaged the talents of citizens of all ages and occupations since time out of mind. Every shade of opinion on a thousand phases of the subject has been gone over and over by writers and speakers, qualified or otherwise. One need only consult the newspapers of the past few years to verify this statement. Yet, in all of this incessant Babel, there has been sounded but one note of accord, namely, and to put it mildly, that taxation is an exceedingly irritating factor in governmental adjustments.

It would be hard to find any one who would care to risk a reputation for sanity by denying that whoever knows that he pays taxes condemns taxation as an evil, even among the few who would prefer not to have it known that they profit by it. Nor would he deny that every one else would condemn it, if only they knew of the taxes which they also pay. Indeed, what good can be said of it, unless to speak well of it is to say that some forms of taxation are not so bad as some other forms,—or, like the toothache, that less is better than more.

There are some people who seem to think that the only ones who pay taxes are those who respond to the tax statements received from the sheriff's office. They are the people who plead for some kind of taxation which will make the supposedly tax-exempt citizen aware that he, too, has obligations to the government. Feeling their own grievances, they want the rest of the people to share their misery. They enunciate the principle that every citizen should be taxed in some fashion which, by hurting him, will make him mighty well aware of his citizenship status.

The awareness of all citizens of their citizenship status is a condition much to be desired, but the methods proposed for bringing this about seem unnecessarily inconsiderate, if not downright shabby. Why not leave to the poor deluded among the tax-payers such comforts as they can find in their fool's paradise? On second thought, if it seems best to "let the punishment fit the crime," this might not be so bad. It might shock this heedless half of the population, not only into a proper sense of its responsibilities to its government, but also, it might shock them into a "tax-conscious" state of mind in a big way, which would be wholesome. After all, the people who enunciate this principle are not making an argument for taxation, but for the education of the citizen, and the method which they propose, so they think, is the only way to effect it.

The old-fashioned poll tax met the specifications for that branch of popular education for many years, but it was hardly subtle enough to escape the successful opposition of the people, and now it has generally disappeared. To accomplish the same purpose (and happily, since it would raise more revenue) the so-called sales tax was conceived. In many states the people have been persuaded deliberately to vote to impose it upon themselves, on the slightly different but as plausible theory, that every one should contribute to the support of the government.

Of course, there always have been taxes imposed upon the purchaser of certain commodities. Beginning with what were listed as luxuries, one commodity after another was added to the list until it would seem that there were few things which could be added without arousing the opposition of certain groups which thought themselves specially aggrieved. Complaints of the latter were somewhat quieted by the argument that the tax could be "passed on" to that long-suffering individual, the "ultimate consumer."

The way this dodge has worked is indicated in the report of "a unique and exhaustive study" made by the "research department" of the Providence Journal, extending over a period of twelve months (September 1, 1935 to August 31, 1936) "under specially employed expert direction," of the tax situation of three thrifty New England families, none of which paid income taxes. Taxes on expenditures averaging \$380 out of average incomes of \$2,400 could not be traced, but of the average balance of \$2020, the count included 200 articles of "food, clothing and other household goods." The direct taxes of these three families averaged \$94.76. The indirect (concealed) taxes averaged \$170.18 (a cheerful item for people who think they pay no taxes), or a total average tax bill of \$264.96. Incidentally, the experts found that a loaf of bread carries 53, and petroleum products 201, different kinds of taxes.

The condition which this investigation reveals is tragic. But that is not the point to be considered here. Ignoring the tragedy for the moment, what could be more ludicrous than for a people presumably intelligent, supposedly educated, and prideful of a reputation for efficiency in business methods and accomplishments, to spend time fiddling with a method of raising public revenue so obviously incompetent that no one can know, or can possibly find out, the extent of the mischief it causes to individuals, to business and to the country?

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It is utterly chaotic. And the scheming and guessing which is all that it is possible to do in connection with it, only prepare a more frightful chaos. Yet year after year, without a laugh from a populace which seems to be awed by their assumed profundity, legislators, with forefinger on furrowed brow, continue an obstinate resistance to reason. Calm submission to such unbelievable foolishness in the name of pub-

lic finance on the part of intelligent human beings is utterly inexplicable. Business men are foolish to assume that this "passing on" of taxes means no loss to them. They should not remain blind to the fact that the total of the taxes which are "passed on" to their own and their competitors' customers increases the cost of the purchases which these customers make; hence, by that much reduces the number or worth of all purchases made.

READER'S DEPT. . . .

To The Editor . . .

One point that seems to escape so many of those who are advocating the single tax on land values is that such a tax carried to its logical conclusion would contribute to the Karl Marx program of destroying property rights. Along with this, of course is the program of high graduated income taxation to prevent the accumulation of monetary resources.

Another point they seem to miss is that taxation should be for revenue only, not for penalizing anyone, successful or unsuccessful but simply and solely for the purpose of defraying the cost of orderly government.

It makes no difference what is used as a basis for taxes in the sense that all taxes are paid by final consumers, regardless of the basis or the method of calculation. They all are paid out of income, either current or accumulated. Land pays no taxes. Neither does any other property. Taxes are paid by individuals and only by individuals in the final analysis. Business or corporations pay no taxes as do individuals. They only exist to generate income for individuals and only individuals are finally affected.

The taxation of the value of buildings is one of the producers of slums. Not greedy landlords, but greedy tax collectors.

The only proper equitable basis for taxation is the income of individuals, including the income of business concerns and corporations as representatives of individual owners. The only equitable method of computing such tax on that basis is a uniform rate of tax so that there can be no juggling to get into a lower bracket. The net income is a matter of record and over a period of time it cannot be successfully understated and there would not be the motive to do so because a present understatement only means a subsequent increase in the future with no saving of tax at a uniform rate. Such a tax should be exclusively the prerogative of the individual States and if there should be any grants of aid they should be from the States to the Federal government and not the way they now are.

D. B. Card, CPA, Portland, Ore.

OUR LOPSIDED TAXATION

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The more we consider lop-sided taxation, the more grotesque and weird are the shapes that it assumes. Thus, before you can be productive and employ labor by putting up an apartment building, or a business block, or a factory, or a home, you must begin by paying a high purchase price for the location, or by contracting to pay a heavy annual ground rent, for the simple reason that some speculator who is doing nothing with the land, and who employs no labor on it, has been taxed so lightly that he is able to hold the ground vacant until somebody who wants to be productive and employ labor is willing to pay the speculator a high price for the opportunity. And then, after the building has been erected by human labor, in cooperation with capital, the labor value in the structure is taxed far more heavily in proportion than the ground rental value of the location is taxed.

Ground rent and taxation have now reached a point in the United States where both capital and labor are increasingly blockaded to such a degree that neither the building industry nor any other productive work can go on profitably. Millions of our people are inadequately housed. But so long as lop-sided taxation is practised, no remedy for the great and growing problem of the slums will be possible. Capital is piling up in the banks, and labor is idle or can obtain work only at insufficient wages.

Crooked taxes were put into force by the landed aristocracy of Great Britain and Europe when America was being settled by our colonial forefathers. There was no great difficulty at first, when taxes were low and there was a big western frontier of cheap land. But today the weight of taxation is enormous; and all vacant land (especially in and around our great centers of population) is held at prices and rentals which make industry a losing game.

To remedy the difficulty, the big city of Sydney, Australia, with a million inhabitants, has abolished all municipal taxes on business blocks, factories and homes, and is taxing the ground rent which land monopolists have been col-

lecting for private account. There is also a heavier tax on speculatively held vacant land; so that more land is thrown into the active market at lower prices.

This problem will have to be taken up by the American taxpayers sooner or later, the sooner the better for the entire economy. Readers of the Taxpayers Digest can help the country by bringing their minds to bear upon taxation from a new point of approach. The city of Pittsburgh has already shifted the tax from improvements to a higher rate of tax on land. The importance of this plan must become clear not only to large manufacturers but to all businessmen and homeowners.

Tidewater Oil Co. now has a computer that will spot delinquent accounts, select one of 26 dunning letters, type it, sign it and mail it, all without human help.

Can You Improve Your Home Without Incurring Higher Taxes?

LAND . . .

and SPACE to GROW

14 minutes, 16 mm sound Motion Picture

Produced by the Robert Schalkenbach Foundation

"Land and Space to Grow" illustrates the theory of land value taxation. The principle is shown in practical application through the story of a young couple who buy land and build their dream home.

They find that each improvement on the house brings a corresponding increase in taxes. When taxes are confined to land values, punitive taxes on improvements can be eliminated.

The film can be obtained on a free loan basis, with only return postage to pay, from

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TAXMANSHIP

It is only logical for individuals and companies to plan their activities so as to avoid taxes by all available lawful means, just as a traveler lays out his route to avoid torn-up roads and traffic bottle-necks. There is no case—moral, legal or otherwise—against tax avoidance.

Taxmanship, a term sometimes applied to avoidance in its more intricate forms, might be called the active response to today's crushing tax burdens. It involves waste and irrationalities that may be as great a drag on growth as is the passive response of avoiding taxes by choosing not to earn to full capacity.

One business commentator has remarked that the tax collector sits in invisible attendance at every meeting of a corporation's board of directors. He had in mind the preoccupation with tax consequences that dominates so many business decisions. Illustrative is the prevalent concept of two kinds of dollars—before-tax and after-tax. To this type of thinking, minor savings in costs may not seem worth the pain and effort when it is pointed out that they are worth only 48 cents of the dollar. Conversely, expenditures look much less formidable when it is recalled that 52 per cent of the amount would be taken in federal income tax if the company decided against the expense.

Corporate financial practice is tailored to tax considerations in important ways. With earnings taxed at 52 per cent, and interest on debt deductible as a business expense while dividends must be paid from after-tax income, there is an immense predisposition to finance by debt rather than by the issue of new equity. Even in 1967, when price-earnings of common stocks were at or near all-time highs, and dividend yields were below bond yields in many cases, corporations raised only \$3.7 billions by stock issues and \$9.4 billions by bond and note flotations.

In its ultimate exaggeration—and extreme tax rates breed extreme avoidance—the corporate propensity for borrowing in preference to other means of raising capital is expressed in the so-called "thin" incorporation. The owners put up capital principally in the form of loans to the business rather than purchases of stock. The interest, provided certain tests are met, is a deductible expense to the business; it is, of course, taxable income to the lender, but it comes out of

the corporation free of the profits tax that would apply to earnings from which dividends would be paid. The avoidance is perfectly lawful and, in terms of tax law, eminently sensible. In terms of business practice it may or may not be sound, depending on specific circumstances; the dangerous thing is that, by structures may blur judgments as to proper balance among the sources of capital in a soundly based enterprise.

In combination, the high rates of corporate, personal and estate taxes have the effect of creating an all but irresistible "death wish" in the successful small, closely held company. The owner of such a company is likely to have as his principal concern, not how he can expand and ensure the continuity of the venture, but rather how he can most advantageously sell it out, liquidate it, or cut down his share of ownership—all in defense against potentially confiscatory taxes.

If the enterprise represents—as is likely—the bulk of the owners total means, he faces the prospect that on his death the business will be sold to pay the estate tax, which can be as high as 77 per cent. Since a sale is forced by such circumstances it might have to be made at well below a fair price, thus the owner is inclined to anticipate the event and put the company up for acquisition. He is further encouraged in this by the prospect of exchanging the operating profits of future years—taxable at the high rates applicable to ordinary income—for a present capital gain in the form of cash or stock received from the sell-out, taxable at a lower rate and in the case of stock perhaps not taxable at all until turned into cash. —Extracts from *The Morgan Guaranty Survey*, 1962.

Aerial photography proved profitable for one Illinois township. The assessor used it to locate 2401 garages, 22 swimming pools, 35 apartment buildings and 136 commercial structures that had escaped municipal notice.



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The *Taxpayers Digest* actively supports groups interested in problems of taxation and tax savings and provides a means by which such organizations may reach the general public. It holds that homes used as homesteads by the owners whose yearly income is less than \$3,000 should be tax exempt and that taxes should be placed where they will hurt the economy the least and from where they cannot be shifted.

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TAXPAYERS DIGEST

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