



"Specializing In News On Taxation, Advocating Sensible Tax Reform"

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## CITY INCOME TAX: IF OR WHEN

Because the voters have repeatedly refused to approve a tax base increase, Portland as well as other cities, supposedly, are beginning to look fondly at the city income tax as an answer to their mounting revenue problems.

In October, 1959, Mayor Terry Schunk asked for a resolution by the League of Oregon Cities requesting the legislature to pass a law permitting cities to impose an income tax. It was given a cool reception probably because this smacks of impinging upon a federal and state source of revenue. More recently, Portland's mayor has been sounding out labor and industrial leaders on this same idea with little published results.

The arguments for a city income tax are usually constructed around one premise, that people who work in the city and live outside should help pay the bill for the city's services and facilities which they enjoy. Apparently, the income tax for those workers employed in the city is the only solution to be looked at.

The arguments against such a proposal are many and, likely, emotional. Voters are paying an excessively high rate of property tax. There have been no hints, hardly to mention a promise, by income tax advocates that property tax would be proportionately reduced as tax from income becomes available. Even if this assurance were given, chances are that the voters would veto it simply because it places an awesome taxing power in the hands of a few and that history has proven adequately that any limitations presently set can be and usually are circumvented. Similarly, so tenacious becomes the hold that income tax laws are rarely repealed.

It can be logically assumed, then, the voters will not favor any form of income tax. However, this is dangerous complacency. The next step for income tax advocates can be easily predicted: the juggling of vague and general revenue producing measures in such a way that an income tax can be imposed without the consent of the voters. The state legislature is normally the means by which this can be done; it is the same

principle whereby a city can annex an area of property without the owners consent by simply encircling it. Without being facetious, military commanders have found the tactic of encirclement highly successful.

Since the sales tax has an unmistakable and unpleasant aroma here in Oregon (because of what our neighbors are experiencing in Washington State), it is a politically and economically suicidal issue. It places too much burden on the wage earner.

There is one aspect of producing revenue which has not been fully (if at all) investigated. That is to remove the tax upon improvements and place it squarely upon land. There is a chance it won't work or will prove to be inadequate. But, really, how can we tell, if we won't even look at it?

## COMMON MARKET CREATES FEAR

By Ralph Courtney

The fact that several European countries have combined to set up a Common market for themselves which England now proposes to join, is news that calls for action by the makers of American policy. For what would happen if it were found impossible, price-wise, for American goods to enter the Common Market area, or if Common Market products were to undersell those of the United States in the other markets of the world? The answer to this problem suggested by the President is that the American Executive should be given wide powers to reduce tariffs, so that, armed with such bargaining power, the United States would be able by tariff reductions on certain items, to buy its entry into markets from which it might otherwise be excluded.

The fear, of course, exists that by reducing American tariffs, the United

States would open itself to a flood of low-priced foreign products competing with American industries. Here the suggested answer again is that if imports should threaten the existence of American industries, the government would step in and keep them alive by means of subsidies. Presumably it is considered better, from the standpoint of foreign balances, to have the government spend dollars inside the country than to forego the receipt of foreign money that would be paid for the purchase of exports.

The real issue here is not so much the exchange of goods and money, but, rather, the question as to whether business realities or politics should determine where the tariff cuts are to be made. In economic matters voluntarism is always preferable to rules. Therefore, would it not be best to leave these cuts to the choice of those home manufacturers who would be willing to include the use of specific quantities of foreign parts or complete articles in their own lines of manufacturing and distribution. Relatively little harm would thus be done to the American economy as a whole, especially if, at the same time, the economy of the selling country were required, as part of the bargain, to buy a corresponding value in any other American products for shipment abroad. Brokers familiar with foreign market conditions should welcome the opportunity to arrange these value-for-value deals for a small commission.

In this way, American manufacturers, operating singly or with others, would make a profit on their imports. They would only order the specific quantities they could handle and thereby the American economy would be insured against "dumping." The labor that would be lost on imports would be compensated by the additional labor employed on exports. American industries would gradually adjust their manufacturing to meet these new conditions. In course of time, the American economy would operate as nearly as possible on a free trade basis and our balance of international payments would be preserved.

## TAX NEWS

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## To the Editor:

Reader Don E. Card, in his "Letter to the Editor" (March-April issue of the Digest) made several statements on which I would offer comment:

(1) "Taxes based solely on land valuation . . . are taxes on income just as surely as any income tax." Comment: These taxes fall on economic rent which, from the standpoint of the user of land, are outgo, not income. The receiver of rent, as such, produces neither wealth nor services, and so earns no income. He does not produce land; that is the gift of nature.

(2) "Someone must set these land values." Comment: Someone must ascertain them, not set them. They are set by the market.

(3) "Taxes on land values do not spur economic progress." Comment: They do. Economic progress is spurred by the availability of desirable land, and these taxes discourage the holding of such land idle in the hope of a higher price in the future.

(4) "Taxes on an income base do not tend to discourage economic growth any more than taxes on land values." Comment: They do, because they take from the results of individual action. The more is taken from the producer as a producer, the less he tends to produce. And it is the sum-total of individual producers acting under full incentive which results in economic growth, not the sum-total of landowners, whose only interest is to receive rent from producers—rent, with which they, as landowners, have nothing to do, EXCEPT that, by land speculation, they cause an artificial shortage of land.

Richard T. Hall  
Boston 15, Mass.

## TO THE EDITOR:

I read with interest the letter of Don B. Card, CPA, in your March-April 1962 issue. I would like to comment, if I may, on a number of points made by Mr. Card.

Mr. Card says, and I agree, that "taxation of property improvements is one of the causes of slums." But he says that while taxes based on land seem better, "taxes based on the value of either land or improvements will be unfair . . . because value as a base is dependent on appraisals, estimates and arbitrary determination." Experience has shown that, as in Denmark, a remarkable market accuracy can be assured in land value taxation since many sales are made at or near the appraisal. But when the element of "unfairness" is used to decry the land tax, Pandora's Box is

really opened wide. The use of the income tax as Mr. Card would have it, with no exemptions and deductions, and with like rates as in the property tax, would produce an amount of "tax-yelling" never heard in one chorus before. After all "ability to pay" is a little god of tax ethics in our day.

I would like to suggest that taxes are paid out of production rather than income, as Mr. Card puts it. Anything that represents a fair degree of economic science shows that production is distributed as Rent-of-land, Wages and Interest (wages). So it is not "income," as such, that counts most; it is what kind. It also happens that Rent-of-land, Wages and Interest (wages) are not only distributive shares, they are the possible sources of public revenue. Further, it happens, and it makes a whale of a difference, that the economic effects of using the publicly earned rental value of land and non-use of Wages and Interest (wages) increases production, and assures just distribution. This would result from a better use of land due to non-speculation in vacant or poor use of land, and to the greater accumulation of capital because it is, to the extent possible, untaxed. Mr. Card is wrong in saying that because RENT-of-land is also income that it makes no difference since "they subtract just as much in total form from the taxpayer's income as a tax on income to raise the same amount of revenue." He uses the CPA, not the economic science, analysis—and economic science is the citizen's science. When people earn and live from Wages and Interest (wages)—and honest capital and honest interest is meant here—they put in a value equal to what they take out when the economy is natural or honest: Titleholders of land as such—not as Labor or Capital owners—take out but do not put in; the land was always here and had no labor-cost of production. And that is why the "kind" of income—not lump thinking of income—is vital to people, as citizens. And natural law seems to support the idea of using RENT-of-land for government that does so much to create it, and let Wages and Interest (wages) flow to those who privately earn it, untaxed. Whereas taxes on produced things are shifted in higher prices; and taxes on incomes reduce production by reducing incentive, a tax levied on land value or on land rental is not passed on—and increases production and reflects in lower prices to consumers. When will we learn it is natural laws, not man-made laws we must look to? When will man-made laws work with and not against natural economic and moral law? When CPA's and citi-

zens generally know more about it, and how to work with rather than against it, if good of all is the aim.

Noah D. Alper,  
President,  
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705 Olive St.—Room 308,  
St. Louis 1, Mo.

Two men were lost on a desert island.  
"Don't worry," said one, "they'll find us.  
I haven't paid my income tax."

When you see a father and son having  
a man-to-man talk today, the one with  
the beard is the son.



The Taxpayers Digest is published bimonthly by Taxpayers Publications, Inc., a non-profit organization devoted to publishing tax news in the interest of the general taxpayer.

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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## Values From Obligations

A recent news item told of the taxi-cab licenses in New York. There was no mention of the annual fees on them, but it was stated that no new licenses have been added since 1937. The number of licenses thus is strictly limited, and since they are transferable a lively market for them has developed. A few years ago a license could be purchased for about \$10,000, but now the price tag is \$25,000 or more—because there are just not any more licenses available.

This news story brings to mind another incident where the Australian parliament was considering a drive-in theater license. An Australian friend of ours, Mr. Harold Ingus, wrote the article in the "Standard" of Sidney that we bring here as an instructive example of the problems connected with licensing and the resulting values from obligation.

"Immediately following the grant of such a license," writes our friend, "they acquire an enormous cash value, and the public naturally judges there is something wrong with an Act of Parliament that permits the enrichment of a few citizens overnight, citizens who have rendered no service to the community in exchange for these favors.

"The public is right, of course, for its reaction is based on an instinctive concept of justice. What is required to turn this instinctive reaction into positive action is the knowledge that there are two sources of value—value from production and value from obligation.

"Value from production inheres in the material results of man's productive efforts. Value from obligation, on the other hand, attaches not to the tangible products of industry but to rights arising from legal privileges, such rights usually being evidenced by licenses, certificates, franchises, patent grants or other evidences of title which enable the holders to exercise a lien on producers, a private tax upon the production of real wealth, i.e. upon things having value from production.

"This value from obligation has its source in some statute or charter conferring a privilege (privilegium means private law). Among such privileges conferred by law are taxi-plates, hotel licenses, drive-in theater licenses, bank charters, import licenses, leases of mineral deposits at less than the true annual rental, privileged income-boosting shares of companies enjoying tariff protection and import restrictions, freehold tenure of commercial sites, etc. All these have value from obligation.

"Their value is merely the purchase (Continued on page 4, Col. 1)

## COMMON ENEMY IS 2300 YEARS OLD

"The good government would not make war against other countries, but against the common enemy—poverty, for it is out of poverty and ignorance that crime and disorder come. To punish men for crimes committed as the result of a lack of opportunities offered them for employment is a dastardly trap to set for the people.

"A government is responsible for the welfare of its people and should regulate economic processes accordingly. It should tax chiefly the ground rent, rather than what is built or done on the land; it should abolish all tariffs, and should develop universal and compulsory education as the soundest basis of civilized development: 'good laws are not equal to winning the people by good instruction.'"

This bit of politico-economic philosophy is some 2300 years old. It was promulgated by the Chinese philosopher, Mencius, writing at the end of the 4th century B.C. The quoted paragraph is a summation of the ancient sage's work which appears on page 480 of Will Durant's "The Story of Civilization," vol. 1.

## Love Thy Neighbor, Even If He Is Rich

We were fascinated with the splendid idea expressed in a four-line stanza which we found in the April 1962 issue of the Freeman, a monthly publication of the Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y.

In the department "Ideas on Liberty" there was this poem which we want to share with our readers (with permission):

### DON'T KNOCK THE RICH

Why should you grudge another

The fortunes he does reap?

Bless him! He's one brother

That you don't have to keep.

Packy McCrory

As we sat back and meditated upon the economic scene around us and saw the dividends and interest and land-profits—like those in Massachusetts—being paid out (no man of our acquaintance ever got rich by just working), we were possessed by the diabolical thought to give this little ditty a somewhat different twist by just changing the two little innocuous words "you don't" to "we all."

But perish the thought in these here U.S.A., the Land of the Free. Packy, we hope you'll forgive us.

## Goldberg Pushes Arts Subsidies

Secretary of Labor Arthur Goldberg continued his campaign to put one car in every garage, two chickens in every pot, a hi-fi set in every home and a picture on every wall.

Speaking on behalf of the art at an arts luncheon of the Women's National Press Club, Goldberg declared artists generally are underpaid and suggested special tax relief for them.

"If we give depletion allowances for oil, let's give them to the arts, too," he said.

In the recent Metropolitan Opera dispute which he helped to settle, Goldberg said, "I did not award the musicians what they really deserve." "I could not," he explained, because of "the financial condition of the Metropolitan."

As an outgrowth of the Metropolitan Opera situation, the secretary has made a public plea for more financial support for the arts from private benefactors, corporations, labor unions and the federal government.

His mail shows strong support for the general idea of helping the arts, he maintained, but added many people oppose federal assistance, mainly because of a fear of political censorship.

Goldberg did not specify which arts and neither did he explain how industrial corporations could be expected to shell out more cash when the Administration he is connected with has put a ceiling on profits.

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## VALUES FROM OBLIGATIONS

(Continued from page 3)

price of the annual "rake-off" or monopoly rent, or what is termed the capitalized value of such unearned incomes.

"The public with its instinctive sense of justice, quite naturally is revolted by the fact that it is possible for a group of men to dispose of a "drive-in" license for over \$100,000 without having contributed one farthing's worth of production in the process. If, however, the public saw clearly the mechanism by which such things are made possible such a system would not be tolerated a day longer.

"I am opposed to privilege of any kind. The proper scope of the law is the provision and protection of the public good, and if governments find it prudent to exclude competitors from any pursuit then such privileged business should not be allowed to turn into private gain a law meant for the public good. In all justice, a group granted such a privilege should be called upon to compensate the State to the full extent of the annual income thus enjoyed solely from the protection of the law.

"I hold that one principle should rule in all cases where the State confers a (legal) privilege. Then the citizen who has to pay the monopoly prices would at least know that his money is going to the State, where it rightly belongs, which would thus have the means to relieve him of taxation. He would be paying one tax instead of, as at present, a double one.

"Another bad aspect of the granting of special privileges should be borne in mind: By granting such privilege the State saddles itself with the possibility of having to compensate the ultimate owners of the shares of the protected business should it at some future time decide to withdraw its protection. That is to say, it will be expected to compensate those shareholders who paid money for the privilege not to the people, but to the "early birds" who "got in on the ground floor" purely for the speculative profits obtained from dealing in licenses.

We should, therefore, adopt as a general principle (illustrated by this example of drive-in theater licenses) the taxation of things having value from obligation, and the corresponding relief from taxation of those who produce the things which possess value from production. In

other words, tax the taxers of production; don't tax the producers!"

Right here at home we see another gigantic struggle coming up over the privileged position of tariff-protected industries. The government is called upon to compensate the business firms and corporations for the loss of value from obligations which resulted from the tariff protection. We not only gave certain numerous industries tariff privileges which these companies capitalized into ownership, but these industries have the temerity to expect the taxpayers to compensate them now for the eventual loss of such capitalized value from obligation.

—E. S. Hansch

ERIE FORMS  
TAX ASSOCIATION

Businessmen in Erie, Pa., have formed the Erie Land Tax Association for the purpose of organizing to have the city of Erie adopt land value taxation, according to Charles Hall, president of ELTA.

Pennsylvania cities, with the exception of Philadelphia, are permitted to use land value taxation, and Pittsburgh and Scranton have been using it on a modified basis for many years. In those two cities buildings are taxed at only one-half the tax rate on land.

Erie and 47 other Pennsylvania cities are permitted under state law to entirely exempt buildings and improvements from local property taxation, and shift the tax to land. The Erie Land Tax Association (ELTA) hopes to persuade the Erie city council to do this.

On April 7 ELTA held an all-day tax seminar on the Erie campus of Pennsylvania State University, attended by 40 persons. Principal speaker was Canadian economist, Harry Pollard, director of the School of Economic Science, Toronto, who told the group that using tax pressure to bring available land into operation would solve the major economic problems of today.

## TAXPAYERS DIGEST

P.O. Box 2506, Portland 3, Oregon

Canadian Writers Slap  
NW Lumber Producers

According to two Canadian writers, the northwest lumber producers are running and whining to President Kennedy for special favors in order to settle a problem of their own making.

C. Norman Senior, Victoria, answers charges that Canadian lumber is produced by cheap labor. "The same union," says Senior, "International Woodworkers, dominates the forest on both sides of the line." He maintains that the greater fringe benefits enjoyed by Canadian woodworkers helps to balance the wage difference between Canadian and American union members.

The Vancouver Sun was more candid. "The Pacific NW lumber industry," says the Sun, "has talked fine words about free enterprise. Now it's running to the government asking that a protective fence be built around it." The British Columbia newspaper maintains that sales increases occurred before the devaluation of the Canadian dollar and sales since have actually slowed in the Atlantic area. It says that the U.S. Jones act should be repealed because it keeps shipping costs high. "They (the Pacific NW lumber people) are clamoring to be protected no matter who gets hurt or what damage is done to Canadian-U.S. trade. If this is the measure," the editorial continues, "of enterprise in that industry's management, it may explain some of their present difficulties."

Senior adds a single significant point in the verbal duel. "A very large part of the B.C. lumber industry is American owned. The Canadian left hand of the Zellerbach, Bloedel and Weyerhaeuser interests is presumed to be taken legitimate advantage of freight, dollar and wage fluctuations, causing some people on the sidelines to wonder how serious these same people are when they raise their American right hands in protest."

## NO TAXSAVERS MEETINGS

The Portland Taxsavers meetings have been cancelled for the summer months, Harvey Akeson, president, recently announced. Plans call for resumption in the fall.

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