



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

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Merry Christmas

AND A

Happy New Year
to our Subscribers
and Friends



OPEN LETTER TO OUR CONGRESSMEN

Dear Congressman,

Concerning our Economy and Unemployment

This letter is not intended as a personal criticism in any way. I am quite aware of the immensity of the problems facing our congressmen in Washington, D. C., such as the persistent high rate of unemployment, dangers of inflation with full employment, social-economic problems connected with automation, management of money and of the public debt, gold reserves and the balance of payments, medical care for the aged, and yet many others.

I also realize that the various congressional committees make fullest use of the possibility to call on highly esteemed and competent men who as experts in their field testify as to their findings and views. The questions which our senators and representatives ask of these experts show consistently the deep concern with our problems as well as bear witness to their prolific experience in the many and varied fields of government and the economy.

In perusing the various publications issued by these congressional committees and subcommittees, there is, however, one baffling question which forces itself on my mind, and I have no doubt that there are many other persons with a similar experience.

Why have our economists and experts, be they consultants to manufacturing or trade organizations, or those pleading for the cause of labor, or even those we may call unattached and impartial scientists and educators from our universities or private research institutes, why, I ask, have they, one and all, consistently refused to consider, overlooked, or even perhaps intentionally left unsaid what appears on closer inspection and study one of the basic problems and difficulties of all Western economies?

The reference is, of course, to the problem "Land" — this term taken in the comprehensive meaning used in political economy—its distribution or allocation, its value, price, tax rate, usufruct, economic rent, etc. It appears clearly to be at the base of many of our vexing problems.

So many instances of involvement can be cited that one is in immediate danger of being called a simpleton or totally ignorant quack for advancing one single proposal which—if not final solutions, at least would bring about a substantial reduction in the size of the multitude of our difficulties by attention to the basic problem "Land."

If Land IS the basic problem, then the repetitiousness in suggesting a solution is no valid refutation. Are medical doctors called quacks because they found that varied ailments can be cured with penicillin?

Unemployment

In focusing attention on different facets of our economy in our attempt to discover what connection Land has with their adverse behavior, let us first look at unemployment. From my own state of Oregon I can cite a perfectly obvious

example: timber. The government timber auctions are, though somewhat sketchily, reported in our daily papers. Even on only cursory inspection of these data one is struck with the persistent overbidding by large and small operators of the government appraised values—as long as business is considered good and the market judged able and willing to absorb the price increases. This observation is substantiated by figures given for the four quarters of 1960 by the U. S. Forest Service in a letter dated February 1, 1961, addressed to Mr. H. O. Puhn, president of the Industrial Forestry Association.

The stumpage prices are in this way speculatively advanced to a point where the economy is neither willing nor able to absorb the increased costs, and consumer buying will lag.

Small operators entirely dependent on public sources of raw material, have to fold up. THEY are priced out of the market, in part by their own high bidding. Large operators usually can fall back on their own resources which may have been acquired at favorable turns of the market, and especially on those which are more accessible and less costly to harvest and to transport to the market. These operators can therefore take a price cut if necessary and stay in business even with a reduction in volume.

May I state here emphatically that I do not raise an accusing finger at the timber industry in particular, but merely point out the inadequacies in our economic system in general.

Through timber prices, the housing construction industry is directly affected. Increasing lumber costs act as a damper on this important industry. But this industry is also beset by an additional aggravating woe, and that is the constantly increasing price for the building site. Experts have estimated the percentage distribution of cost between land and construction to have been 10% to 12% ten years ago, and to be at present 16% to 18% of the total cost. Through this cost push-up the housing industry as one of the key industries is thrown into the doldrums, again with resultant serious unemployment in many of the connected fields.

With similar and often simultaneously occurring price increases for iron ore (which, however, shows up more in the prices for iron and steel products—see Dr. Gardiner C. Means: "Pricing Power and the Public Interest"), oil reserves, agricultural land, urban sites, and practically all other natural material resources, the lag in buying becomes a cumulative brake on manufacture and trade with widespread unemployment.

Inflation

With what has here been said about speculative price increases for our natural material resources, I have already touched upon the other facet: inflation. Of course, inflation
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(Continued from page 1)

cannot be incurred easily without the concomitant events taking place in the money and credit supply. But with the credit system under commercial banking practices, it can be shown that the money supply follows the increased demand for credit caused by higher prices for resources.

In saying this, I do not intend to imply a rejection of the principle of commercial banking if it is held to a sound basis. In this connection the colloquy between Senator Douglas and Mr. H. Christian Sonne on pp. 404-405 of the Review of the Report of the Commission on Money and Credit (published by the Joint Economic Committee, August 14-18, 1961) is entirely relevant and very interesting. (*)

On the aspect of wages as returns to labor generally this comment may be in place here: If we assume an "instantaneously fixed" amount of proceeds from our total production, i. e., GNP, to be divided between the factors of production, it would follow from the premise that prices for land and resources are steadily increasing, that the other factors beside land and resources would be under pressure to take a cut. However, wages are notoriously rigid in their downward trend, and therefore there develops a tremendous stress between the share going to land and that going to labor. The returns to finance capital in the form of interest are so intertwined with the return to land (i.e., rent) that with the customarily high return to land, finance capital does not usually suffer in this manner.

As a corollary to the indicated inflationary tendencies resulting from the speculative advance of prices for our so-called non-reproducible assets must be mentioned the high cost of highway construction. The enormous road building program undertaken by our government has brought with it a steadily increasing cost of land to be used for right-of-way. With this statement I do not even touch upon the increased cost resulting from the many illegal and unethical activities by a number of our fellow citizens as was brought to light in congressional investigations before the Special Subcommittee on the Federal-Aid Highway Program of the Committee on Public Works. Yet this writer had hoped that long before now this Special Subcommittee would have dealt with the problem of increased cost due to the rising price of land. The enormous windfall to some must be made up through additional taxes or burdens by all contributors to Federal and/or local government revenue.

Land Speculation

This brings us further to the pernicious problem of speculation in land and resources. Even if gambling by individuals were considered of no concern to the government, the situation as far as land speculation is concerned, presents itself largely as a gambling chance for gains the money for which having to be put up by ALL members of the community. I personally do not wish to engage in this kind of gambling, yet the gains—SOMEONE is ALWAYS gaining in land speculation even though some may occasionally lose THEIR stake—the gains have to be paid for with my involuntary contribution and without compensating returns or even a fair chance at winning a stake.

Another serious consequence of land speculation is faulty allocation of land and resources, thus increasing the entrance difficulties for small and beginning businesses, as well as bringing about grossly unequal opportunities.

Even the question of subsidies to farmers cannot be fully evaluated without taking notice of the land prices, since all agricultural subsidies are eventually capitalized into the selling price of the land, so that owners as owners, and not the operators are the final beneficiaries of the subsidies.

And as a further aside it may be noted that the meagre crop yields by so-called subsistence farming in underdeveloped

countries have their main reason in the fact that the land problem has not been solved there, i. e., where tenant farming is the prevailing system. However, distribution of agricultural land by sale alone cannot be considered a good solution, because either government restrictions must be put on the size of the holdings by individuals with resulting enforcement problems against attempts to circumvent such regulations, or such restrictive laws become impractical where large units are more economical to operate, such as sugar plantations, etc. Without restrictions, the natural course of events would soon cause the land to be concentrated again in a few hands.

Taxation

With this we come to taxation which in our days, and perhaps since Adam, is beset with the most controversial notions. However, it seems more or less established today that taxes on income are confiscatory, while taxes on property, especially on non-income producing property such as residential dwellings, are punitive—penalizing the industrious. One of the pernicious results of the latter form of taxation is the appearance of slum areas in our cities. Proper upkeep and maintenance of homes and businesses are punished by raised taxes. Slums are thus ACTUALLY created faster than urban renewal schemes can eradicate them. The tax leniency shown to slum landlords on their land is only aggravating a serious situation.

From this it is clear that the fight against city slums can be conducted without expensive and socially upsetting schemes and without creating another government bureaucracy, the planned Department of Urban Renewal and Development, by simply taxing away the high profits of slum landlords which in many cases are greater than the legitimate profits made by contractors. (See the Luce publication "House & Home", issue of August 1960.)

Taxes on land values must be based on the principle that such values are basically due to the expenditures on government services: police protection, paved roads, water mains, sewer trunks, street lighting, schools, parks, libraries, etc. Sound economic reasoning will promptly find that the proper judgement here requires the taxing away of the entire economic rent. As to the legality of the community collecting this publicly created value, see ruling by Supreme Court Chief Justice Marshall in the Providence Bank Case, 4. Pet. 514, 560.

Responsible advisors (see the report on money and credit) have strongly suggested that market power should be curbed. I would suggest that taxing away the increment in land and resource values would be the most effective curb. Others (Prof. Walter W. Heller) have suggested to apply a sliding tax scale in conformity with business activity, lower in depressions, higher in boom times. I would again suggest that land values are the best and almost automatically adjusted fulcrum to use for the tax lever, as these values will rise with brisk business activities and fall with recessions.

Capital Accumulation

Now after stating all this, I am ready to admit at once that in the past, large accumulations of finance capital accrued to landowners have served to supply the U. S. economy with large and ready amounts of purchasing power to invest in the productive facilities of the country. Today, these profits from the so-called administered (i.e. monopoly) price structures are more often than not used to over-invest, and incidentally, their accumulation and re-investment by corporations is a form of saving FORCED upon the community (see Robinson, Morton and Calderwood, "An Introduction to Economic Reasoning").

With land and resources being crowded by a steadily

increasing population and a steadily increasing per capita consumption, better solutions for capital formation must be found, solutions which are not only more effective but which also are on higher moral ground, or we shall increasingly see the saying come true: homo homini lupus lupus (man does to men what a wolf will do to wolves).

Emergency Measures Ineffectual

The various proposals by our government to alleviate serious economic situations, especially in regard to unemployment, must, with the foregoing firmly in mind, appear entirely inadequate for the reason that the basic problem Land is not touched by any of the stop-gap measures. As in the case of agricultural subsidies already mentioned, it can be shown that most government emergency expenditures have only the effect to maintain the high price of land and resources, because all subsidies are eventually capitalized into the price of land and resources. This is true for unemployment compensation as well as for oil depletion allowances etc., because no basic change in the cause of our economic troubles is brought about by them.

Social Aspects of Land

The solution to the problem "Land" which is suggested here, has also a bearing on another quite serious aspect of our social condition. If we can implement the precept that our land and its resources belong to all citizens alike, by simply asking those that want to use them, to pay to the community the equivalent of the benefit received, then all citizens can again have the certain conviction that the soil they are asked to defend in times of crisis is truly their own as common property. And by all agreeing to turn their equal share of the receipts over to the government for the defraying of its expenses, each is contributing an EQUAL share for its support. Can any tax base be more equal or more universal?

By reapportioning these taxes to the States on a per capita basis, each State would receive its just dues.

The chance of our soldiers then, if any of them may have the misfortune to fall into the hands of communistic enemies, be brainwashed by them would be remote in the extreme, because they would be able to proudly say that they are acknowledged co-owners of the land they defend. We then would have no problem with our General Walkers, because each soldier would be such a man without the need of lecturing to him.

The Aim

The Taxpayers Digest is endeavoring to give this matter of land value taxation the greatest possible educational publicity. The results which I confidently expect are twofold:

First, it will bring to the attention of a greater number of people the possibilities of making a fast buck by speculation in land and resources in a perfectly legal, though not in a moral way, and thus bring this whole situation to a faster breaking head.

And secondly, to arouse the conscience and the will of many other members of the community so they will apply the pressure of public opinion on our legislative bodies to make the long overdue change in basic tax thinking.

The Big Question

I now repeat here the question as I stated it in the beginning of this letter:

Why have our economists and experts, be they consultants to manufacturing or trade organizations, or those pleading for the cause of labor, or even those we may call unattached and impartial scientists and educators from our universities and private research institutes, why, I ask, have they, one and all, persistently refused to consider, overlooked, or even perhaps intentionally left unsaid what appears on closer inspection and study one of the basic problems and difficulties of all Western economies?

Respectfully,

ERICK S. HANSCH

* The following colloquy took place in the committee hearing:

Mr. Sonne: When we started the Federal Reserve Bank, the underlying idea was that under each banknote and under each deposit which the bank gave there should be loans that either had goods and services behind them or had in industry the expectation of having goods and services within 3 to 6 months . .

I would say that no commercial bank should be permitted to use its deposits and go out and give a 5 or 7-year loan against an industrial building, because that money ought to come from the savings bank. Here we fool ourselves. We think we have goods and services behind our dollar and have not.

Senator Douglas: In other words, you would say there should be a sharp distinction between commercial banking and investment banking?

Mr. Sonne: Yes. That is what savings are for.

Senator Douglas: And that investment banking should be financed by savings?

Mr. Sonne: Yes, sir.

Senator Douglas: Withdrawn from current income?

Mr. Sonne: That is right.

GOVERNOR LAWRENCE OF PENN. ENDORSES GRADED TAX

I am happy to provide the following information on the Pittsburgh Graded Tax Law. These observations come from my dual role as a life long citizen of Pittsburgh and as a former mayor. As you know, the law was made possible by the State Legislature back in 1913 and I am satisfied that since then it has proven to be a success.

The city tax rates for the year 1959 are \$37.00 per \$1,000 valuation on land and \$18.50 per \$1,000 on buildings. Under this law the City Council each year must fix a building tax rate just half that which is levied on land. It has been on this ratio since 1925.

There is no doubt in my mind that the Graded Tax Law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation and provides an incentive for building improvements. In the distribution of the tax burden it is particularly beneficial to the home owners.

Pittsburgh is now in the midst of a very extensive urban redevelopment program, and it is a matter of record that the owners of many of the fine office buildings, hotels, apartments and industrial plants that have been built in recent years are paying substantially lower taxes than they otherwise would pay because of the Pittsburgh tax plan which

encourages all private improvements on real estate by the lower tax rate on buildings.

The law is generally accepted in the community and there is no significant support for its repeal or modification; in fact many citizens believe that it should be extended and in 1951 the Pennsylvania Legislature enacted legislation giving our forty-seven third class cities the option to adopt similar Graded Tax measures if the city council saw fit to do so.

Governor, Commonwealth
of Pennsylvania

(Signed) David L. Lawrence,
Harrisburg, Pa., September 9, 1959

The Hardships Of Automation

In our perusal of publications issued by Congressional Committees in Washington, D. C., we came across a curious bit of information that we thought we'd share with our readers for the novelty of it. It concerns automation, which is perhaps allright when it involves the factory and its workers. But, . . . well, first, let us give you a little of the background.

Small banks which cannot afford to buy and install expensive modern bookkeeping and accounting machinery by themselves, want to band together into bank service corporations, with individual member banks contributing to the expense of acquiring such assets. So far so good. But now, a proposed law which is to extend Federal bank supervision to these service corporations, also contains the provision that such bank service corporations may take on up to 50% of their time in non-bank business.



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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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This is to say that banks could conceivably persuade some of their customers to have their accounting and billing work done by the service corporation of which the bank itself is a stockholding member. And here is where the National Society of Public Accountants becomes aroused in the interest of their over 10,000 independent members, with Mr. Martin J. Kaufman, as a representative of the society, testifying before the Committee on Banking and Currency of the U. S. Senate on August 30, 1962, briefly as follows:

"The provision of the proposed law (H. R. 8874) would allow these bank service corporations to perform the functions of bookkeeping and accounting and other services that are in the field of public accounting, which would result in a possible deterrent to the practice of public accounting and also would create a field of competition for the public accountant. I think that we would not be adverse to this bill, if section 4 were amended."

The amendment of section 4, as proposed by the accountants, read as follows:

"No bank service corporation may engage in any revenue-producing activity other than the performance of bank services for banks."

It all depends on whose ox is being gored.

While on the subject of automation, we recall another interesting item which we saw in a hearing report on the subject of automation itself. One witness testified that he knew of at least one case (in a British labor union) where a premium or lonesome-pay was asked in contract negotiations for workers who were stationed in automated factories where they would have no, or very restricted social contacts with fellow workers during their workshifts. From which one might be inclined to say that automation is not only an economic problem, but also a sociological one.

TAXPAYERS DIGEST

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PITTSBURGH REVITALIZED

The July 1962 issue of the Reader's Digest (p. 81) had an article, "Land Speculation, How to Stop It," which points out that because of Pittsburgh's graded tax, "Pittsburgh is the example of an American city that has revitalized itself, especially downtown." More and more newspaper and magazine articles are dealing with the subject of untaxing buildings and improvements and shifting the tax to land values, and more and more public officials, including planners and redevelopment people, are beginning to study it.

ERIE MOVES AHEAD

In November, 1961, the Erie, Pa., Junior Chamber of Commerce endorsed land value taxation for Erie, and the story made news in many parts of the country. It was the first Jaycee chapter to take up this important subject. Following the JC endorsement, a group of local businessmen organized and called themselves the Erie Land Tax Association. So far they have put on three tax seminars, made more than a dozen talks, gained much local publicity and new members, and made an appearance before a national conference in Pittsburgh. Now ELTA is planning a campaign to persuade the Erie city council to adopt land value taxation as a method of helping Erie's economy. It will be launched in the fall with publication of a new brochure. The ELTA address is 1112 Peach St., Erie, Pa.

McKEESPORT, CORRY INTERESTED

Businessmen and public officials in Corry, Pa., recently organized a group to study land value taxation for Corry, but have not yet given themselves a name. One speaker who received major publicity in the Corry paper for a talk on land value taxation is Bill Walker of Erie, secretary of ELTA. McKeesport Jaycees, because of the action of the Erie Jaycees in endorsing land value taxation, have decided to study the matter.

